



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

**Financial Report
for the Financial Year ended
31 December 2021**

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DIRECTORS' REPORT

The Directors present their report together with the annual financial report for the financial year ended 31 December 2021 and the auditor's report thereon. The New Zealand Branch (the branch) is a foreign operation of General Reinsurance Life 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 1 July 2020)
 James Louw (commenced 6 May 2020)
 John Nesbitt (commenced 1 December 2018, resigned 17 November 2021)

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 31 years' experience in the finance and business management industry. She is a director of Astro Japan Property Group Limited and General Reinsurance Life Australia Ltd. She holds a Master of Business Administration degree and held the position of Principal of a major management consulting firm up to 2002. Director since August 2006 and a member of the Board Audit Committee since November 2006. She was appointed as Chair of the Board effective 19 August 2016.

Keith Scott

FAICD, FCII, MA (Cantab)
 - Non-Executive Director
 - Chair of Board Risk Committee
 - Chair of Board Remuneration
 Committee
 - Member of Board Audit Committee

Mr Scott has over 20 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 28 years has included consulting for a diverse range of industries including banking, capital markets, retail and consumer products, superannuation, insurance, and chartered accounting. He has held many roles in the Audit and Assurance function of Ernst & Young, the last 5 years of that time as Asia Pacific Financial Services Accounts Leader - Deputy Managing Partner. He was appointed to the Board on 18 November 2021 and is the chair of the Board Audit Committee. Mr Ferguson currently also holds Director roles at Bank Australia, Parkinson's Australia Inc, and is CFO for a Not-For-Profit organisation BackTrack Youth Works helping vulnerable youth find opportunities in learning, training, and employment.

Andrew Gifford

B.A., JD

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

DIRECTORS' REPORT (continued)

Directors (continued)

James Louw

BSc, FIA – Managing Director

Mr Louw has worked for the Gen Re Group since 2001 in various capacities. He joined Gen Re Life Australia in 2008, and was previously the Regional Chief Actuary for GRLA. He was appointed to the Board as Managing Director effective 6 May 2020.

John Nesbitt

FCA, F Fin, GAICD

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

Mr Nesbitt's executive experience over a period of 41 years has spanned a diverse range of industries including investment and asset management, banking, superannuation, insurance, property, construction, infrastructure, technology and chartered accounting. He held senior finance and executive roles including positions as CFO and CEO. The last 7 years of his executive career were with Suncorp Group Limited where his final role was CEO of Suncorp Bank which followed a period of 4 years as Group CFO. He was appointed to the Board on 1 December 2018 and was the chair of the Board Audit Committee before his resignation on 17 November 2021.

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 2021 are:

| Director | Directors' Meetings | | Board Audit Committee | | Board Remuneration Committee | | Board Risk Committee | |
|------------------|---------------------|---|-----------------------|---|------------------------------|---|----------------------|---|
| | A | B | A | B | A | B | A | B |
| Kathryn J McCann | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 |
| Keith Scott | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 |
| John Nesbitt | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 |
| James Louw | 4 | 4 | - | - | - | - | - | - |
| Andrew Gifford | 4 | 4 | - | - | - | - | - | - |
| Stephen Ferguson | - | - | - | - | - | - | - | - |

A - The number of meetings attended.

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

Company secretaries

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

Scott Unterrheiner (appointed 14 November 2017)

Name and qualifications

Scott Unterrheiner
B.Com, CA

Experience and special responsibilities

Mr Unterrheiner has been employed by Gen Re for 9 years. He is currently the Chief Financial Officer for Australia and New Zealand, and previously held roles as the Asia Pacific Chief Risk Officer, and Finance Manager for Australia and New Zealand. Prior to joining Gen Re he worked in various roles within the financial services industry in both Sydney and London.

DIRECTORS' REPORT (continued)

Principal activities

The principal activity of the branch is reinsurance underwriting.

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

Review of operations

Operating Results

The net profit of the branch for the year, after provision for income tax, amounted to \$8,614,000 compared with the 2020 profit of \$510,000.

State of affairs

General Reinsurance Life Australia Limited - New Zealand Branch is committed to the New Zealand market and continues to support our clients' long-term success. We have and will leverage our balance sheet strength through a disciplined approach to business opportunities. New Zealand continues to be impacted by the COVID-19 event, and we continue to implement our strategy to selectively participate in the market with that disciplined approach.

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

Indemnification of officers and auditors

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

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

DIRECTORS' REPORT (continued)

Likely developments

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

Environmental regulation

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

Disclosures

No disclosure has been made in respect of s211(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 a resolution of the Directors made pursuant to Section 211(1)(k) of the Companies Act 1993.

On behalf of the Directors:


K J McCann
Chair


J. Loew
Managing Director

Sydney, 25 March 2022

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

| | Note | 2021 \$'000 | 2020 \$'000 |
|---|-------|-----------------|-----------------|
| Premium revenue | | 70,498 | 68,916 |
| Outwards reinsurance expense | | (2,433) | (2,383) |
| Net premium revenue | 5(a) | 68,065 | 66,533 |
| Claims expense | | (47,956) | (60,439) |
| Reinsurance and other recoveries | | - | 12,568 |
| Net claims incurred | 5(c) | (47,956) | (47,871) |
| Change in life insurance contract policy liabilities | 13(a) | (6) | (16,929) |
| Policy acquisition costs | 5(d) | (712) | (2,112) |
| General and administration expenses | 5(b) | (4,506) | (4,424) |
| Net underwriting profit/(loss) | | 14,885 | (4,803) |
| Interest income | | 976 | 1,973 |
| Net investment gains/(losses) | | (3,047) | (403) |
| Investment expenses | | (106) | (104) |
| Net investment (loss)/income | 5(e) | (2,177) | 1,466 |
| Profit/(loss) before income tax | | 12,708 | (3,337) |
| Income tax (expense on profit)/benefit on loss | 6(a) | (4,094) | 3,847 |
| Profit/(Loss) after income tax | 7 | 8,614 | 510 |
| Items that may be reclassified subsequently to profit/loss | | - | - |
| Items that will not be reclassified subsequently to profit/loss | | - | - |
| Other comprehensive income | | - | - |
| Total comprehensive Income/(Loss) for the year attributable to the shareholders of the company | | 8,614 | 510 |

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 2021

| | Head Office Account | Retained Earnings | Total |
|--|------------------------|----------------------|---------------|
| | \$'000 | \$'000 | \$'000 |
| For the financial year ended 31 December 2021 | | | |
| Balance at 1 January | 532 | 51,490 | 52,022 |
| Transfers from Australian statutory fund | - | - | - |
| Total comprehensive income for the year | - | 8,614 | 8,614 |
| Balance at 31 December | 532 | 60,104 | 60,636 |
| For the financial year ended 31 December 2020 | | | |
| | \$'000 | \$'000 | \$'000 |
| Balance at 1 January | 532 | 50,980 | 51,512 |
| Transfers from Australian statutory fund | - | - | - |
| Total comprehensive loss for the year | - | 510 | 510 |
| Balance at 31 December | 532 | 51,490 | 52,022 |

All retained earnings are attributable to the shareholder. Shareholder's access to the retained profits and shareholder's capital is restricted to the extent these monies within the Statutory Funds are required to meet solvency and capital adequacy requirements under the Australian Life Insurance Prudential Standards.

Transfers are made between the New Zealand branch statutory fund and the Australian company statutory fund in order to maintain capital requirements and aid in liquidity of either fund. The transfer between funds is a permitted distribution.

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 2021

| | Note | 2021 \$'000 | 2020 \$'000 |
|--|------|----------------|----------------|
| Assets | | | |
| Cash and cash equivalents | | 29,134 | 14,073 |
| Investments | 18 | 169,006 | 164,826 |
| Receivables | 8 | - | 497 |
| Other assets | 10 | 9,355 | 927 |
| Reinsurance recoverable | 9 | - | 12,613 |
| Life insurance contract policy liabilities ceded under reinsurance | 13 | 41 | 41 |
| Current tax assets | | - | 685 |
| Total assets | | 207,536 | 193,662 |
| Liabilities | | | |
| Outstanding claims | 11 | 3,400 | 4,683 |
| Reinsurance payables | 9 | 1,479 | - |
| Other payables | 12 | 3,728 | 2,758 |
| Current tax liabilities | | 3,760 | - |
| Deferred tax liabilities | 6(b) | 5,827 | 5,499 |
| Life insurance contract policy liabilities | 13 | 128,706 | 128,700 |
| Total liabilities | | 146,900 | 141,640 |
| Net assets | | 60,636 | 52,022 |
| Equity | | | |
| Head office account | | 532 | 532 |
| Retained earnings | | 60,104 | 51,490 |
| Total equity | | 60,636 | 52,022 |

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 2021

| | Note | 2021 \$'000 | 2020 \$'000 |
|---|------|-----------------|-----------------|
| Cash flows from operating activities | | | |
| Premiums received | | 72,176 | 69,328 |
| Outwards reinsurance paid | | (2,383) | (2,378) |
| Claims paid | | (49,239) | (63,118) |
| Reinsurance recoveries received | | 14,092 | 5,102 |
| Policy acquisition costs paid | | (711) | (2,112) |
| Other payments (to)/from employees, suppliers and related parties | | (12,513) | 12,473 |
| Interest received | | 8,161 | 7,958 |
| Investment expenses paid | | (106) | (104) |
| Income tax received/(paid) | | (4) | - |
| Net cash (used in)/provided by operating activities | 17 | 29,473 | 27,149 |
| Cash flows from investing activities | | | |
| Payments for purchase of investments | | (174,717) | (70,339) |
| Proceeds from sale/maturity of investments | | 160,305 | 33,770 |
| Net cash provided by/(used in) investing activities | | (14,412) | (36,569) |
| Cash flows from financing activities | | | |
| Capital transfer from Australian statutory fund | | - | - |
| Net cash provided by financing activities | | - | - |
| Net increase/(decrease) in cash and cash equivalents during the financial | | 15,061 | (9,420) |
| Cash and cash equivalents at beginning of financial year | | 14,073 | 23,493 |
| Cash and cash equivalents at end of financial year | | 29,134 | 14,073 |

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 2021

1 SUMMARY OF ACCOUNTING POLICIES

Statement of compliance

These general purpose financial statements cover General Reinsurance Life 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 Financial Markets Conduct 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 ('NZ IFRS') and other applicable Financial Reporting Standards as appropriate for profit-oriented entities. 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 2021 and comparative information presented in these financial statements for the financial year ended 31 December 2020.

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 Life 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 and its debts may result in claims against assets not appearing

The financial statements were authorised for issue by the Directors on 25 March 2022.

Basis of preparation

The financial report has been prepared in accordance with the historical cost convention, except for assets backing insurance liabilities which are stated at fair value and provisions for outstanding claims and life insurance contract liabilities which have been inflation adjusted and discounted as required by the relevant standard.

Summary of significant accounting policies

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

(a) Principles of Life Insurance contract business

The life insurance operations of the branch are reported in the Statement of Profit or Loss and Other Comprehensive Income, Statement of Financial Position and Statement of Changes in Equity of the branch. The life insurance operations of the branch comprise the selling and administration of reinsurance of life insurance contracts.

Life insurance contracts involve the acceptance of significant insurance risk. Insurance risk is defined as significant if and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (i.e. have no discernible effect on the economics of the transaction). Insurance contracts include those where the insured benefits are payable on the occurrence of a specified event such as death, injury or disability caused by accident or illness.

The company has a stop loss retrocession in place with the parent entity, which utilises the market return on investments held by the company in the period, with the intent to offset the effects of changes in market discount rate on policy liabilities. Life insurance contract business written by the branch is non-participating and all profits and losses are allocated to the Shareholders. All products sold meet the definition of a life insurance contract.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2021

1 SUMMARY OF ACCOUNTING POLICIES (continued)

(b) Outstanding claims

Provision is made for the estimated cost of unsettled lump sum claims.

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

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

Reserves for claims incurred but not reported and claims considered likely to arise are included in the actuarial valuation of policy liabilities as discussed in Note 3.

(c) Basis of expense apportionment

Expenses are incurred in relation to the acquisition and maintenance of life insurance policies.

Policy acquisition costs are the fixed and variable costs of acquiring new business. They include commission and similar distribution costs. The actual acquisition costs incurred are recorded in Note 5(d).

Expenses of the company have been apportioned to the branch as follows:

- Expenses directly identifiable with the branch have been recorded as incurred.
- On a predetermined rate based on the estimated time spent on matters relating to the branch.

(d) Policy liabilities

Policy liabilities consist of life insurance contract liabilities.

The value of the majority of life insurance contract liabilities is calculated using the Margin on Services methodology. Under this methodology, planned profit margins and an estimate of future liabilities are calculated separately for each related product group using best estimate assumptions at each reporting date. Profit margins are released over each reporting period in line with the services that have been provided. The balance of the planned profits is deferred by including them in the value of policy liabilities. Further details of the actuarial assumptions used in these calculations are set out in Note 3.

(e) Assets backing policy liabilities

The branch has determined that all assets held are assets backing policy liabilities on the basis that all assets of the branch are available for the settlement of claims if required. All assets of the branch are managed under the company's Risk Management Strategy and Framework on a fair value basis and are reported to the Board on this basis.

Restrictions on assets

Investments held in the life insurance statutory funds can only be used within the restrictions imposed under the Australian Life Insurance Act 1995 (the Life Act). The main restrictions are that the assets in a fund can only be used to meet the liabilities and expenses of that fund, to acquire investments to further the business of the fund, or as distributions.

(f) Outwards reinsurance

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

(g) Reinsurance and other recoveries receivable

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

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2021

1 SUMMARY OF ACCOUNTING POLICIES (continued)

(h) Premiums

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

Refunds of premiums arising under contractual obligations are accounted for as a reduction in premium income.

(i) Unearned premiums

Unearned premium represents the portion of premium that relates to the unexpired terms of contracts. Unearned premiums are earned during the period to which the premiums relate.

(j) Investments

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

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

(k) Deferred acquisition costs

The branch adopts the practice of deferring to the following accounting periods, expenses and levies directly related to premium income. The costs incurred in acquiring specific life insurance contracts include commission payments and similar distribution costs. The policy liabilities takes into account the deferral and future recovery of acquisition costs, resulting in policy liabilities being lower than otherwise determined, with those costs being amortised over the period that they will be recoverable. The deferred amounts are recognised in the Statement of Financial Position as a reduction in life contract policy insurance liabilities and are amortised through Profit or Loss over the expected duration of the relevant policies.

The acquisition costs deferred are determined as the lesser of actual costs incurred and the allowance for the recovery of those costs from the premiums or policy charges (as appropriate for each policy class), subject to an overall limit that the value of future profits at inception cannot be negative (acquisition losses are recognised at inception to the extent the latter situation arises).

(l) 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.

(m) 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.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2021

1 SUMMARY OF ACCOUNTING POLICIES (continued)

(n) Receivables and revenue recognition

Receivables are recognised as follows:

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

(o) Other payables

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

(p) Impairment of financial assets

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

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

(q) Goods and services tax

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

- 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
- 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.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2021

1 SUMMARY OF ACCOUNTING POLICIES (continued)

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

At the date of authorisation of the financial report, the following Standards and Amendments, including those Standards or Amendments 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.

| <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> |
|--|---|--|
| NZ IFRS 17 'Insurance Contracts' | 1 January 2023 | 31 December 2023 |
| Annual Improvement to NZ IFRS 2018-2020 | 1 January 2022 | 31 December 2022 |
| Amendments to NZ IAS 1 and IFRS Practice Statement 2 | 1 January 2023 | 31 December 2023 |
| Amendments to NZ IAS 8 - Definition of Accounting Estimates | 1 January 2023 | 31 December 2023 |
| Amendments to NZ IAS 12 - Deferred Tax related to Assets and Liabilities arising from a Single | 1 January 2023 | 31 December 2023 |

The branch expects to adopt this standard where applicable for the annual reporting periods beginning on or after the operative dates set out above.

NZ IFRS 17 'Insurance Contracts'

In August 2017, the NZA SB issued NZ IFRS 17 Insurance Contracts ('NZ IFRS 17'), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, NZ IFRS 17 will replace NZ IFRS 4 Insurance Contracts ('NZ IFRS 4') that was issued in 2005. NZ IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of NZ IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. The core of NZ IFRS 17 is the general model, supplemented by:

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

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

Implementation progress

An implementation project has been established globally to which local involvement is focused on items relevant to the Australian and New Zealand markets. Specific accounting policies determined and implemented into the data transition, calculation engines, and reporting tools have been selected. The Company is responding to all requests for information from regulators as required.

Financial impact

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

While many of the impacts expected from the change in accounting standards are known and understood in principle, final communication from regulators, industry bodies, and taxation authorities is required to quantify their impact. The company is currently working through such assessments as information is received, any identified risk areas will be addressed prior to implementation. Therefore, the financial impact of NZ IFRS17 cannot be reasonably estimated at this time.

Annual Improvement to NZ IFRS 2018-2020

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

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

It is expected that these amendments will not have any material impact on the financial statements.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2021

1 SUMMARY OF ACCOUNTING POLICIES (continued)

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

Amendments to NZ IAS 1 and IFRS Practice

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.

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 of 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, but it is expected the total impact on net assets will not be material.

2 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The branch makes estimates and assumptions in respect of certain key assets and liabilities. Estimates and judgments are

(a) Life insurance contract liabilities

Life insurance contract liabilities are computed by suitably qualified personnel on the basis of actuarial methods, with due regard to relevant actuarial principles as required by the Australian Prudential Regulatory Authority ("APRA") and the New Zealand Society of Actuaries. The methodology takes into account the risks and uncertainties of the particular classes of life insurance business written.

The key factors that affect the estimation of these liabilities and related assets are:

- the level of expenses of the branch
- mortality and morbidity experience on life insurance products
- discontinuance experience, which affects the company's ability to recover the cost of acquiring new business over the lives of the contracts
- future interest rates
- delays in notification of claim events

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2021

2 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

(b) Assets arising from reinsurance contracts

Assets arising from reinsurance contracts are also computed using the above methods where applicable. 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.

3 ACTUARIAL ASSUMPTIONS AND METHODS

Paul Drysdale, the Company's Appointed Actuary, is a Fellow of the Institute of Actuaries of Australia. Mr Drysdale is satisfied as to the accuracy of the data upon which policy liabilities have been determined.

The amount of policy liabilities has been determined in accordance with the methods and assumptions disclosed in this financial report and are in compliance with the Insurance (Prudential Supervision) Act 2010.

(a) Policy liabilities

The policy liabilities have been determined in accordance with applicable accounting and actuarial standards. Policy liabilities for life insurance contracts are valued in accordance with NZ IFRS4 Insurance Contracts Appendix C and APRA Prudential Standard LPS 340 Valuation of Policy Liabilities.

Life insurance contract liabilities have been calculated in a way that allows for the systematic release of planned margins as services are provided to policyholders and premiums are received, referred to as the Margin on Services method. Under this method, policy liabilities equal the amount, which together with future premiums and investment earnings will:

- (i) meet the expected payment of future benefits and expenses; and
- (ii) provide for the systematic release of profit as policy services are provided and income is received or recognised.

The major product groups are individual lump sum risk business and individual disability income business. There is also a small volume of group business and catastrophe business. The profit carrier used in order to achieve the systematic release of planned margins was inforce premium.

Policy liabilities for the majority of the business have been calculated on a projection basis, with the residual business being calculated by the accumulation method as permitted under NZ IFRS4. The result of using this method rather than the projection method required under NZ IFRS4 is not materially different and achieves the principles of the standard.

Policy liabilities under the accumulation method have been calculated as the sum of the provisions for:

- (i) Unearned premium,
- (ii) Level premium reserves for policies written on a level premium basis,
- (iii) Surrender values for policies that provide a surrender value,
- (iv) Capitalised losses, where applicable,
- (v) Plus/minus a provision which adjusts the policy liability to give effect to the requirement for the systematic release of planned surplus and mostly represents recoverable deferred first and/or second year policy costs not matched by the corresponding premium income.

The amortisation of these costs was established by financial model projections of representative policy portfolios, allowing for

In addition to the policy liabilities calculated under the projection and accumulation method were reserves for:

- (i) Incurred but not reported claims (IBNR),
- (ii) Accumulated experience rebates, where applicable,
- (iii) Reserves for expected future payments on reported disability income claims.

Reserving assumptions have been adjusted to allow for the potential short term claims impacts from COVID-19 and the associated economic consequences. The main assumption impacted is termination rates for claims in payment.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2021

3 ACTUARIAL ASSUMPTIONS AND METHODS (continued)

(b) Regulatory capital requirements

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

The methods and bases adopted for determining the solvency requirements are in accordance with licensing conditions imposed by the Reserve Bank of New Zealand.

(c) Disclosure of assumptions

(i) Discount rates

Allowance for future interest rates of 2.35% pa (2020: 1.50%) is assumed.

Policy liabilities are determined on the basis of using risk-free discount rates based on government bond rates and consideration of the term of the liabilities.

(ii) Inflation rates

Allowance for future inflation of 2.00% pa (2020: 1.50%) is assumed.

Some contract terms set a minimum level of policy indexation and this is used to index policy benefits where it exceeds the assumed inflation rate.

(iii) Future expenses and indexation

The allowance for future expenses was based on the branch's experience in 2021, with allowance for one-offs and anticipated changes in business volumes in 2022, as the best available estimate for 2022. Expenses are assumed to remain a stable percentage of in-force premiums over the life of the business. Benefits and premiums are assumed to increase by the rate of inflation, or by some other factor, where specified for the policies being reinsured. A 0.5% expense margin is applied to the disability income claims payments.

(iv) Rates of taxation

Policy liabilities have been calculated gross of tax given that the business is taxed on a profits basis.

(v) Mortality and morbidity

Mortality: Tables derived from the NZ10 Insured Lives Tables with allowance for subsequent improvements in mortality, subdivided into smoker and non-smoker classes and adjusted to the classes of life insurance written.

Disability: Tables derived from the ADI14-18 tables with adjustments to incidence rates and termination rates of claim.

Trauma: Trauma claims were derived from various studies of the incidence of the individual trauma conditions.

Adjustments made to the base table are made after consideration of the:

- (i) type of product being written (policy terms, underwriting/claims approach, target market), and
- (ii) actual experience investigations undertaken by the branch.

(vi) Rate of discontinuance

Future rates of discontinuance for the major classes of business vary by policy duration and age. Overall they are assumed to be in the order of:

| | |
|--------------------|--|
| Lump-sum Risk: | 5% - 50% per annum (2020: 5% - 50% per annum) |
| Disability Income: | 5% - 45% per annum (2020: 5% - 45% per annum) |

Rates are based on actual branch experience and market data as obtained from client companies.

(vii) Surrender values

There are currently no policies that provide a surrender value.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2021

3 ACTUARIAL ASSUMPTIONS AND METHODS (continued)

(c) Disclosure of assumptions (continued)

(viii) Claim Delay

Significant delays are incurred between the date of the event resulting in a claim and the claim being reported to the branch. The branch establishes IBNR reserves to estimate the cost of these claims based on the expected level of claims and the average delay in reporting. Overall they are assumed to be in the order of:

| | | |
|--------------------|---------------|-----------------------|
| Lump Sum Risk: | 4 – 25 months | (2020: 3 – 25 months) |
| Disability Income: | 6 months | (2020: 5 months) |

The above is based on actual experience of the branch, and other data obtained from client companies.

(d) Sensitivity analysis

The policy liability is derived based on the best estimate of various variables – interest rates, inflation rates, expenses, mortality and morbidity and discontinuance rates. The movement in any assumption can have an impact on the policy liability, profit and shareholder equity positions.

| Variable | Impact of movement in underlying variable |
|-----------------|--|
| Interest rates | A reduction in interest rates would result in an increase in policy liabilities and an increase in the value of assets backing those policy liabilities. As the assets currently have a shorter average duration than the liabilities a reduction in interest rates would decrease profit and shareholder equity. In the event of a loss and a retrocession recovery, both positive and negative movements in real interest rates of 1% or more would lead to a reduction in the loss due to offsetting changes in the retrocession recovery. This is not applicable in 2021 as there was a profit for the financial year. |
| Inflation rates | An increase in inflation rates would result in an increase in policy liability and therefore a reduction in profit and shareholder equity. To the extent that higher inflation will be accompanied by higher interest rates, the policy liabilities will reduce, there will be a decrease in the value of assets backing those policy liabilities and there would be a reduction in profit and shareholder equity. |
| Expense rates | Expenses as a proportion of inforce premium are relatively small and therefore any reasonable deviation on the level of expenses have little impact on profit and shareholder equity. |
| Mortality rates | Higher mortality rates would lead to increase claim costs/policy liabilities, reducing profit and shareholder equity. Lower mortality rates would increase profit and shareholder equity. |
| Morbidity rates | Higher incidence and duration of claim would lead to increased claim costs/policy liabilities, reduced profit and shareholders equity. Lower morbidity incidence rates would increase profit and shareholder equity. Lower morbidity termination rates would lead to increased claim costs/policy liabilities, reduced profit and shareholders equity. Higher morbidity incidence rates would decrease profit and shareholder equity. |
| Discontinuance | Higher discontinuance rates may impact on the recoverability of deferred acquisition costs and therefore would impact on profit and shareholder equity if deferred acquisition costs were required to be written down to what would be recoverable. Lower discontinuance rates would increase profit and shareholder equity if there are capitalised losses that can be recovered, otherwise they will have no impact on profit or shareholder equity. |

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2021

3 ACTUARIAL ASSUMPTIONS AND METHODS (continued)

(d) Sensitivity analysis (continued)

To the extent that future profit margins can absorb the effect of higher claims costs and premium rates are reviewable, then changes in assumptions have little, if any, impact on the policy liability apart from IBNR reserves. Retrocession arrangements can also suppress or distort the impact that changes in assumptions may have

The table below illustrates how changes in key assumptions would have impacted the reported profit and retained earnings of the branch as at year end (after tax and retrocession).

| | Profit \$'000 | Retained Profits \$'000 |
|----------------------------|------------------|----------------------------|
| Current value | 8,614 | 60,104 |
| Real Interest Rate +1% | 13,890 | 65,380 |
| Real Interest Rate -1% | 2,032 | 53,522 |
| Inflation rates +1% * | 10,361 | 61,851 |
| Inflation rates -1% * | 6,863 | 58,353 |
| Expenses +10% | 8,570 | 60,060 |
| Expenses -10% | 8,658 | 60,148 |
| Mortality/Incidence +10% | (3,501) | 47,989 |
| Mortality/Incidence -10% | 10,730 | 62,220 |
| Termination Rates +10% | 2,899 | 54,389 |
| Termination Rates -10% | 11,565 | 63,055 |
| Discontinuance Rates +10% | 8,614 | 60,104 |
| Discontinuance Rates -10% | 8,614 | 60,104 |
| Claim Reporting Delay +10% | 6,498 | 57,988 |
| Claim Reporting Delay -10% | 10,730 | 62,220 |

* It has been assumed this will be accompanied by an increase/decrease in interest rates of +/-1%.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2021

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, market risk, credit risk, liquidity risk, compliance risk and operational risk. Notes on the company's policies and procedures in respect of managing these risks are set out in this note.

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

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

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

The ICAAP is reviewed on an annual basis, unless circumstances necessitate a more frequent review.

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 and ICAAP, 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 is used to limit the company's exposure to negative claims experience.
- The branch's investment portfolio is prudently managed with respect to key criteria such as the average duration and credit quality.
- The mix of assets in which the 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 as the underlying policy liabilities, the balance of investments being held in cash assets. This significantly reduces any currency, credit and liquidity risk that the branch may incur. The remaining interest rate risk that remains due to mismatches in duration between investments and policy liabilities is managed in terms of the capital management plan of the company.

(a) Liquidity risk

Underwriting reinsurance contracts exposes the branch to liquidity risk through the obligation to make payments of unknown amounts on unknown dates. The assets backing insurance liabilities consist of government securities and other quality securities which can generally be readily sold or exchanged for cash.

The branch also has the option to request additional capital injections from the Parent, General Reinsurance AG (GRAG), following board approval.

(b) 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 branch 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.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2021

4 RISK MANAGEMENT POLICIES AND PROCEDURES (continued)

(c) 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, except for related party transactions.

(d) Terms and conditions of reinsurance business

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

(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 (individual and group) written out of New Zealand. The portfolio is controlled and monitored through the company's Risk Management Strategy and Framework. This includes identifying and mitigating the concentrations of insurance risk by reviewing the type of insured event and also the geographical area of the risk.

Non-financial risks

Non-financial risks are controlled through the use of:

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

5 PROFIT FROM ORDINARY ACTIVITIES

(a) Revenues from operating activities

| | 2021 \$'000 | 2020 \$'000 |
|------------------------------|----------------------|----------------------|
| Premium revenue | | |
| Gross written premiums | 70,498 | 68,916 |
| Outwards reinsurance expense | <u>(2,433)</u> | <u>(2,383)</u> |
| Net premium revenue | <u>68,065</u> | <u>66,533</u> |

(b) Included in general and administration expenses are:

| | | |
|---|-----------------------|-----------------------|
| - Expenses of management - policy maintenance | (4,414) | (4,100) |
| - Net foreign exchange losses | <u>(92)</u> | <u>(324)</u> |
| | <u>(4,506)</u> | <u>(4,424)</u> |

(c) Net claims incurred

| | | |
|---|------------------------|------------------------|
| Gross claims incurred - death and disability* | (47,956) | (60,439) |
| Reinsurance recoveries - death and disability | <u>-</u> | <u>12,568</u> |
| | <u>(47,956)</u> | <u>(47,871)</u> |

* Movements in Disability Income (individual and group) claims reserves are excluded from gross claims incurred and disclosed in note 13(a).

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2021

5 PROFIT FROM ORDINARY ACTIVITIES (continued)

| | 2021 \$'000 | 2020 \$'000 |
|---|----------------|----------------|
| (d) Policy acquisition costs | | |
| Policy acquisition costs | <u>(712)</u> | <u>(2,112)</u> |
| (e) Net investment (loss)/income | | |
| Interest income | 976 | 1,973 |
| Investment expenses | (106) | (104) |
| Net investment gain | | |
| - Changes in fair values | (3,047) | (403) |
| - Realised gain | - | - |
| Investment (loss)/gain | <u>(3,047)</u> | <u>(403)</u> |
| | <u>(2,177)</u> | <u>1,466</u> |

(f) 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

(a) Income tax expense

Tax expense comprises:

| | | |
|--|----------------|--------------|
| Current tax expense relating to current year | (3,766) | - |
| Current tax expense relating to prior years | - | (6) |
| Deferred tax expense relating to temporary differences | <u>(328)</u> | 3,853 |
| Income tax benefit/(expense) relating to gain from ordinary activities | <u>(4,094)</u> | <u>3,847</u> |

The prima facie income tax expense on the pre-tax accounting profit reconciles to the income tax expense shown in the financial statements, as follows:

| | | |
|--|----------------|----------------|
| Profit/(Loss) before income tax | <u>12,708</u> | <u>(3,337)</u> |
| Income tax benefit/(expense) calculated at 28% (2020: 28%) of operating profit | (3,558) | 934 |
| Permanent Differences | (536) | 2,919 |
| Prior year under provision | - | (6) |
| Total income tax benefit/(expense) | <u>(4,094)</u> | <u>3,847</u> |

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2021

6 INCOME TAX (continued)

| | 2021 \$'000 | 2020 \$'000 |
|---|----------------|----------------|
| (b) Deferred tax | | |
| At 31 December the deferred tax liability comprises: | | |
| Temporary differences | <u>5,827</u> | <u>5,499</u> |

The tax balances and reconciliation above are based on the current corporate tax rates of 28% in New Zealand on taxable profits under New Zealand Income Tax Law.

| | Opening balance \$'000 | * Movement during Year \$'000 | Closing balance \$'000 |
|-----------------------------------|------------------------------|-------------------------------------|------------------------------|
| 2021 Temporary differences | | | |
| Tax losses carried forward | 400 | (400) | - |
| Insurance provisions | <u>(5,899)</u> | <u>72</u> | <u>(5,827)</u> |
| | <u>(5,499)</u> | <u>(328)</u> | <u>(5,827)</u> |
| 2020 Temporary differences | | | |
| Tax losses carried forward | 2,480 | (2,080) | 400 |
| Insurance provisions | <u>(6,062)</u> | <u>163</u> | <u>(5,899)</u> |
| | <u>(3,582)</u> | <u>(1,917)</u> | <u>(5,499)</u> |

No losses of General Reinsurance Australia Ltd. - New Zealand Branch were transferred to General Reinsurance Life Australia Ltd. - New Zealand Branch during the year (2020: \$5,770,000).

* Movement during the year excludes transfer of income tax losses between income tax consolidated entities that were not charged to the profit and loss.

7 COMPONENTS OF PROFITS

Components of profit related to the movement in life insurance contract policy liabilities

| | 2021 \$'000 | 2020 \$'000 |
|---|----------------|----------------|
| Planned margins of revenue over expenses released | 3,089 | 3,622 |
| Difference between actual and assumed experience | 5,907 | (3,240) |
| Investment earnings/(losses) on assets in excess of life insurance policy liabilities | <u>(382)</u> | <u>128</u> |
| Profit for the year | <u>8,614</u> | <u>510</u> |

The difference between actual and assumed experience includes a reserve established for COVID-19 impacts. The profit impact of the COVID-19 reserve was nil after retrocession.

8 RECEIVABLES

| | | |
|------------------------------------|----------|------------|
| Premiums receivable | - | 497 |
| Less: Provision for doubtful debts | <u>-</u> | <u>-</u> |
| | <u>-</u> | <u>497</u> |

All balances are expected to be realised within 12 months.

9 REINSURANCE RECOVERABLE/PAYABLE

| | | |
|-------------------------|----------------|---------------|
| Reinsurance recoverable | <u>(1,479)</u> | <u>12,613</u> |
|-------------------------|----------------|---------------|

All balances are expected to be realised within 12 months.

10 OTHER ASSETS

| | | |
|--|--------------|------------|
| Sundry assets | 147 | 4 |
| Due from related parties: | | |
| - General Reinsurance Life Australia Limited | 7,602 | 194 |
| - General Reinsurance Australia Limited | <u>1,606</u> | <u>729</u> |
| Other assets | <u>9,355</u> | <u>927</u> |

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2021

| 11 OUTSTANDING CLAIMS | 2021 \$'000 | 2020 \$'000 |
|------------------------------------|----------------|----------------|
| Outstanding claims | | |
| Balance as at 1 January | 4,683 | 7,361 |
| Claims paid | (33,825) | (47,330) |
| Reported new claims | 33,542 | 46,525 |
| Other change in outstanding claims | (1,000) | (1,873) |
| | <u>3,400</u> | <u>4,683</u> |

All balances are expected to be realised within 12 months.

| 12 OTHER PAYABLES | | |
|---------------------|--------------|--------------|
| Accruals | 142 | 402 |
| Other payables* | 2,406 | 2,356 |
| Premiums in advance | 1,180 | - |
| | <u>3,728</u> | <u>2,758</u> |

All balances are expected to be realised within 12 months.

* For amounts owing to related parties see note 16 below.

| 13 LIFE INSURANCE CONTRACT LIABILITIES | | |
|--|----------------|----------------|
| (a) Reconciliation of movements in life insurance contract policy liabilities | | |
| Life insurance contract policy liabilities | | |
| Gross life insurance contract policy liabilities at 1 January | 128,700 | 111,766 |
| Change in life insurance contract policy liabilities reflected in the statement of profit or loss and other comprehensive income | 6 | 16,934 |
| Gross life insurance contract policy liabilities at 31 December | <u>128,706</u> | <u>128,700</u> |
| Reinsurer's share of life insurance liabilities | | |
| Opening balance at 1 January | (41) | (36) |
| Change in life insurance contract policy liabilities ceded under reinsurance reflected in the statement of profit or loss and other comprehensive income | - | (5) |
| Reinsurer's share of life insurance liabilities at 31 December | <u>(41)</u> | <u>(41)</u> |
| Change in net life insurance contract policy liabilities reflected in the statement of profit or loss and other comprehensive income | 6 | 16,929 |
| Total net life insurance contract policy liabilities | <u>128,665</u> | <u>128,659</u> |
| Maturity profile of net policy liabilities at 31 December | | |
| 1 year or less | 1,418 | 2,558 |
| Within 1 to 5 years | 25,578 | 29,367 |
| Over 5 years | 101,669 | 96,734 |
| | <u>128,665</u> | <u>128,659</u> |

| (b) Components of net life insurance contract policy liabilities | | |
|--|----------------|----------------|
| Future policy benefits | 768,544 | 810,351 |
| Future expenses | 57,422 | 73,179 |
| Future charges for acquisition costs | (12,312) | (12,232) |
| Future premiums in excess of charges for acquisition costs | (695,033) | (777,209) |
| Best estimate liability | <u>118,621</u> | <u>94,089</u> |
| Shareholder profit margins | 10,044 | 34,570 |
| Gross insurance contract liabilities | 128,706 | 128,700 |
| Policy liabilities ceded under reinsurance | (41) | (41) |
| Total net life insurance contract policy liabilities | <u>128,665</u> | <u>128,659</u> |

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2021

14 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 against the impact of fluctuations and unexpected adverse experience on the

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

The company is required to maintain its APRA solvency margin and to notify the RBNZ if it carries on insurance business in New Zealand that is not reinsurance.

The company is required to maintain its APRA solvency margin to meet the requirements of APRA and the Reserve Bank of New Zealand. The company has complied with all externally imposed capital requirements throughout the year.

The following information refers to APRA's capital adequacy requirements. The calculation of capital and some other balances are based on different methodologies from those used to prepare these financial statements. The column labelled "Statutory Fund 1" represents the Australian statutory fund and the New Zealand Branch is reflected in the column labelled "Statutory Fund 2".

2021

| | Statutory Fund 1 | Statutory Fund 2 | Shareholder Fund | Total |
|--|------------------|------------------|------------------|----------------|
| | AUD'000 | AUD'000 | AUD'000 | AUD'000 |
| Capital base/Common Equity Tier 1 Capital | | | | |
| Tier 1 Capital | 222,509 | 57,374 | 238 | 280,121 |
| Premium liability deficit net of tax | (108,699) | (14,386) | - | (123,085) |
| Excess deferred tax assets over deferred tax liabilities | (1,492) | - | - | (1,492) |
| | 112,318 | 42,988 | 238 | 155,544 |
| Prescribed Capital Amount (PCA) | | | | |
| Asset Risk Charge | 6,250 | 2,844 | 6 | 9,100 |
| Insurance Risk Charge | - | - | - | - |
| Asset Concentration Risk Charge | - | - | - | - |
| Operational Risk Charge | 14,250 | 2,723 | - | 16,973 |
| Aggregation Benefit | - | - | - | - |
| Combined Stress Scenario Adjustment | - | - | - | - |
| | 20,500 | 5,567 | 6 | 26,073 |
| Capital in excess of PCA | 91,818 | 37,421 | 232 | 129,471 |
| PCA coverage ratio | 5.4789 | 7.7219 | 39.6667 | 5.9657 |

General Reinsurance Life Australia Ltd has a "AA+" credit rating from Standard & Poor's as at 31 December 2021 (2020: AA+).

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2021

14 APRA CAPITAL ADEQUACY (continued)

2020

| | Statutory Fund 1 | Statutory Fund 2 | Shareholder Fund | Total |
|--|------------------|------------------|------------------|----------------|
| | AUD'000 | AUD'000 | AUD'000 | AUD'000 |
| Capital base/Common Equity Tier 1 Capital | | | | |
| Tier 1 Capital | 224,918 | 48,480 | 236 | 273,634 |
| Premium liability deficit net of tax | (116,290) | (15,532) | - | (131,822) |
| Excess deferred tax assets over deferred tax liabilities | - | - | - | - |
| | 108,628 | 32,948 | 236 | 141,812 |
| Prescribed Capital Amount (PCA) | | | | |
| Asset Risk Charge | 8,984 | 2,702 | 5 | 11,691 |
| Insurance Risk Charge | - | - | - | - |
| Asset Concentration Risk Charge | - | - | - | - |
| Operational Risk Charge | 14,316 | 2,718 | - | 17,034 |
| Aggregation Benefit | - | - | - | - |
| Combined Stress Scenario Adjustment | - | - | - | - |
| | 23,300 | 5,420 | 5 | 28,725 |
| Capital in excess of PCA | 85,328 | 27,528 | 231 | 113,087 |
| PCA coverage ratio | 4.6621 | 6.0790 | 47.2000 | 4.9369 |

15 CONTINGENT ASSETS, COMMITMENTS AND CONTINGENT LIABILITIES

There were no outstanding contingencies at the end of the year (2020: NIL).

16 RELATED PARTIES

Ultimate controlling entity

The ultimate controlling entity is Berkshire Hathaway Inc., incorporated in the United States of America.

Parent entity

The immediate parent entity is General Reinsurance AG ('GRAG'), incorporated in Germany.

Directors

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

| | |
|------------------|----------------|
| Kathryn J McCann | James Louw |
| Keith Scott | Andrew Gifford |
| Stephen Ferguson | John Nesbitt |

| | 2021 \$'000 | 2020 \$'000 |
|--|----------------|----------------|
| Related party balances (owing)/receivable at reporting date | | |
| General Reinsurance AG | (2,406) | (2,356) |
| General Reinsurance Australia Ltd | 1,606 | 729 |

Head Office:

| | | |
|--|-------|-------|
| General Reinsurance Life Australia Ltd - other payables | 7,602 | 194 |
| General Reinsurance Life Australia Ltd - head office account | (532) | (532) |

Management charges paid to related entities

| | | |
|--|-------|-------|
| General Reinsurance Life Australia Ltd | 4,255 | 3,961 |
| New England Asset Management, Inc. | 81 | 62 |

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2021

16 RELATED PARTIES (continued)

Retrocessions

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

| | 2021 \$'000 | 2020 \$'000 |
|--|----------------|----------------|
| Related party: General Reinsurance AG | | |
| Reinsurance premiums | (2,433) | (2,383) |
| Reinsurance recoverable | - | 12,568 |

Intercompany balances are at no interest and are due on demand.

17 NOTES TO THE STATEMENT OF CASH FLOWS

Reconciliation of net operating cash flows to net profit

| | | |
|--|--------|-------|
| Net Profit/(Loss) after income tax | 8,614 | 510 |
| Loss on sale of investments | - | - |
| Unrealised movement in fair value of investments | 10,861 | 6,696 |

Change in operating assets and liabilities

| | | |
|--|---------|----------|
| Decrease in receivable | 1,677 | 412 |
| Decrease/(increase) in reinsurance recoverable | 14,092 | (12,613) |
| (Decrease)/increase in payables and provisions | (1,861) | 2,560 |
| (Decrease) in outstanding claims | (1,284) | (2,678) |
| (Decrease)/increase in amount owing to head office | (7,408) | 13,418 |
| Increase in life insurance contract policy liabilities | 8 | 16,929 |
| Movement in tax accounts | 4,774 | 1,915 |

Net cash provided by operating activities

| | |
|---------------|---------------|
| 29,473 | 27,149 |
|---------------|---------------|

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 company's exposure to interest rate risk and the effective weighted average interest rate for each class of financial assets and liabilities is set out below in section (j).

(c) Net fair value of financial assets and liabilities

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

(d) Significant accounting policies

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

(e) Capital risk management

The company manages its capital to ensure that while maximising the return to stakeholders through the optimisation of equity, it will continue operating as a going concern.

The capital structure of the branch consists of cash and cash equivalents (as disclosed in the Statement of Financial Position) 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.

The capital management strategy through the ICAAP Summary Statement is currently being reviewed. These changes are designed to further strengthen the capital and retrocession support of the company.

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2021

18 FINANCIAL INSTRUMENTS (continued)

| (f) Categories of financial instruments | | 2021 \$'000 | 2020 \$'000 |
|--|-------------|----------------|----------------|
| Financial assets | Note | | |
| Cash and cash equivalents | | 29,134 | 14,073 |
| Financial assets at fair value through profit or loss (i) | | | |
| Fixed interest securities | | 169,006 | 164,826 |
| Loans and receivables | | | |
| Other assets | 10 | 9,355 | 927 |
| Financial liabilities | | | |
| Amortised cost | | | |
| Payables | 12 | 3,728 | 2,758 |

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

(g) Financial risk management objectives

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

As part of the overall governance framework the Board and senior management of the branch have developed, implemented and maintain a sound and prudent RMS. The RMS identify the branch'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 branch.

(h) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the branch. The branch has adopted the policy of only dealing with creditworthy cedants and bondholders as a means of mitigating the risk of financial loss from defaults. The branch's overall strategy in respect of credit risk management remains unchanged from 2020.

| | Note | 2021 \$'000 | 2020 \$'000 |
|--|------|----------------|----------------|
| Financial assets | | | |
| Cash and cash equivalents | | 29,134 | 14,073 |
| Financial assets at fair value through profit or loss | | | |
| Fixed interest securities | | 169,006 | 164,826 |
| Loans and receivables | | | |
| Other assets | 10 | 9,355 | 927 |
| | | <u>207,495</u> | <u>179,826</u> |

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2021

18 FINANCIAL INSTRUMENTS (continued)

(i) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting its obligations under the reinsurance contracts it has entered into. Ultimate responsibility for liquidity risk management rests with the Board of directors, which has implemented appropriate liquidity risk management framework for the management of the branch's short, medium and long-term funding and liquidity management requirements. The branch manages liquidity risk by maintaining appropriate levels of financial assets that are readily realisable and by continuously monitoring forecast and actual cash flows in order to match the maturity profiles of assets and liabilities. The company has developed and implemented a Risk Management Strategy. The company's overall strategy in liquidity risk management remains unchanged from 2020.

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 company can be required to pay.

The tables below include both interest and principal cash flows.

| | Weighted average interest rate | Less than 1 year | 1-5 years | 5+ years | Total |
|------------------------------|--------------------------------|------------------|-----------|----------|--------------|
| | % | \$'000 | \$'000 | \$'000 | \$'000 |
| 2021 | | | | | |
| Financial liabilities | | | | | |
| Non-interest bearing: | | | | | |
| Payables | - | 3,728 | - | - | 3,728 |
| Outstanding claims | - | 3,400 | - | - | 3,400 |
| | | <u>7,128</u> | <u>-</u> | <u>-</u> | <u>7,128</u> |
| 2020 | | | | | |
| Financial liabilities | | | | | |
| Non-interest bearing: | | | | | |
| Payables | - | 2,758 | - | - | 2,758 |
| Outstanding claims | - | 4,683 | - | - | 4,683 |
| | | <u>7,441</u> | <u>-</u> | <u>-</u> | <u>7,441</u> |

(j) Market risk

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

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

| | Weighted average interest rate | Less than 1 year | 1-5 years | 5+ years | Total |
|--|--------------------------------|------------------|----------------|----------|----------------|
| | % | \$'000 | \$'000 | \$'000 | \$'000 |
| 2021 | | | | | |
| Non-interest bearing: | | | | | |
| Receivables | - | 9,355 | - | - | 9,355 |
| Variable interest rate instruments: | | | | | |
| Cash | 0.05 | 29,134 | - | - | 29,134 |
| Fixed interest rate instruments: | | | | | |
| New Zealand Government | 1.62 | - | 169,006 | - | 169,006 |
| | | <u>38,489</u> | <u>169,006</u> | <u>-</u> | <u>207,495</u> |

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2021

18 FINANCIAL INSTRUMENTS (continued)

(j) Market risk (continued)

| | Weighted average interest rate | Less than 1 year | 1-5 years | 5+ years | Total |
|--|-----------------------------------|---------------------|----------------|----------|----------------|
| | % | \$'000 | \$'000 | \$'000 | \$'000 |
| 2020 | | | | | |
| Non-interest bearing: | | | | | |
| Receivables | - | 923 | - | - | 923 |
| Variable interest rate instruments: | | | | | |
| Cash | 0.01 | 14,073 | - | - | 14,073 |
| Fixed interest rate instruments: | | | | | |
| New Zealand Government | 0.19 | 51,595 | 113,231 | - | 164,826 |
| | | <u>66,591</u> | <u>113,231</u> | <u>-</u> | <u>179,822</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 | |
|--|---------|--------|---------|--------|
| | 2021 | 2020 | 2021 | 2020 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Effect of 100 basis point increase or decrease on profit (+/-) | (1,939) | (563) | 1,974 | 568 |

Foreign currency risk management

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

The branch's financial assets are primarily denominated in the same currencies as its reinsurance contract liabilities which mitigates the foreign currency exchange risk. The branch's overall strategy in respect of foreign currency risk management remains unchanged from 2020.

Foreign currency sensitivity

There is no significant foreign currency exposure and accordingly no foreign currency sensitivities have been disclosed.

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

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:

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2021

18 FINANCIAL INSTRUMENTS (continued)

(j) Market risk (continued)

- Level 1 – Inputs represent unadjusted quoted prices for identical assets or liabilities exchanged in active markets.
- Level 2 – Inputs include directly or indirectly observable inputs other than Level 1 inputs such as quoted prices for similar assets prices for similar assets or liabilities exchanged in active or inactive markets; quoted prices for identical assets or liabilities exchanged in inactive markets; other inputs that are considered in fair value determinations of the assets or liabilities, such as interest rates and yield curves that are observable at commonly quoted intervals; volatilities, prepayment speeds, loss severities, credit risks and default rates and inputs that are derived principally from or corroborated by observable market data by correlation or other means. Fair values for the company's investments in fixed maturity securities are primarily based on market prices and market data available for instruments with similar characteristics since active markets are not common for many instruments. Pricing evaluations are based on yield curves for instruments with similar characteristics such as credit rating, estimated duration and yields for other instruments of the issuer or entities in the same industry sector.
- Level 3 – Inputs include 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 2021 and 2020 and are summarized 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 |
|--|-------------------|-------------------|-------------------|-----------------|
| 2021 | | | | |
| Fixed maturity bonds | | | | |
| Obligations of the New Zealand Government | 169,006 | - | - | 169,006 |
| There were no transfers between Level 1 and Level 2 during the period. | | | | |
| 2020 | | | | |
| Fixed maturity bonds | | | | |
| Obligations of the New Zealand Government | 164,826 | - | - | 164,826 |

19 ADDITIONAL COMPANY INFORMATION

Principal Place of Business and Registered Office

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

Type of Company

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

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

Opinion

We have audited the financial statements of General Reinsurance Life Australia Ltd. - New Zealand Branch (the "Branch") which comprise the statement of financial position as at 31 December 2021, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies as set out on pages 11 to 16.

In our opinion, the accompanying financial statements present fairly, in all material respects, the Branch's financial position as at 31 December 2021 and its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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

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

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

Emphasis of Matter – New Zealand Branch

The New Zealand branch is part of General Reinsurance Life 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 Life 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><i>Valuation of policy liabilities</i></p> <p>As at 31 December 2021 Valuation of policy liabilities total NZ\$ 128,706 (<i>in thousands</i>).</p> <p>Refer to notes 1(d), 3 and 13 to the financial statements, which also disclose the elements that make up the balance.</p> <p>The valuation of policy liabilities which are continually evaluated and are based on historical experience, involves a complex estimation process by management including:</p> <ul style="list-style-type: none"> • interest rates; • inflation rates; • mortality and morbidity incidences; and • morbidity termination rates. <p>This was a key audit matter due to the size of the balance (being 87.6% of total liabilities), and the specific audit and actuarial expertise required to evaluate the judgemental actuarial methodologies and assumptions.</p> | <p>Our audit procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • testing the design and implementation of relevant controls put in place by the management over the claims reserving process; • assessing the appropriateness of estimates and judgement, valuation methodologies, processes and models with respect to actuarial and relevant accounting standards; • assessing key actuarial assumptions such as interest rates, inflation rates, expenses, mortality and morbidity incidences, morbidity termination rate by comparing them to experience studies performed by management and with our expectations based on our own industry knowledge; • testing valuation spreadsheet calculations on a sample basis; • testing underlying data of valuation spreadsheets on a sample basis; • assessing documentation of model integrity reconciliations; and • assessing the appropriateness of the disclosures in the notes to the financial statements. |

Other Information

The Directors on behalf of the Branch are responsible for the other information. The other information comprises the information included in the Directors' report for the year ended 31 December 2021, but does not include the financial statements and our auditor's report thereon.

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

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

Responsibilities of the Directors for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Branch's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

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

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

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

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

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



DELOITTE TOUCHE TOHMATSU



Max Murray
Partner
Chartered Accountants
Sydney, Australia

25 March 2022



The people behind the promise.

General Reinsurance Life Australia Ltd.

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