CHARTIS INSURANCE NEW ZEALAND LIMITED

INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 MAY 2012

CHARTIS INSURANCE NEW ZEALAND LIMITED

STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE SIX MONTHS ENDED 31 MAY 2012

	Note	31 May 2012 NZ$000	31 May 2011 NZ$000
Premium Revenue		70,183	-
Outwards reinsurance expense		(39,114)	-
Net premium revenue		31,069	-
Movement in unearned premium reserve		806	-
Net operating income from underwriting		**31,875**	**-**
Reinsurance commission income		8,105	-
Net investment income		5,105	-
Operating revenue		**45,086**	**-**
Claims expense		(33,387)	-
Reinsurance and other recoveries revenue		17,033	-
Net claims incurred		(16,354)	-
Acquisition Costs		(6,381)	-
Operating Expenses		(13,188)	-
Foreign Exchange Losses		(1,718)	-
Fair value gains/(losses) on investments at fair value through profit or loss		7	-
Profit before taxation		**7,451**	**-**
Income tax expense		-	-
Profit after taxation		**7,451**	**-**
Total comprehensive income for the period attributable to owners of the Company		**7,451**	**-**

CHARTIS INSURANCE NEW ZEALAND LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 31 MAY 2012

	Note	Share Capital NZ$000	Other Reserves NZ$000	Retained Earnings NZ$000	Total Equity NZ$000
Balance at 1 December 2010		-	-	-	-
Net profit and total comprehensive income for the period		-	-	-	-
Balance at 31 May 2011		**-**	**-**	**-**	**-**
Balance at 1 December 2011		60,000	-	5	60,005
Issue of ordinary shares	**10**	83,000			83,000
Transfer of assets from AHAC-NZ	**5**	-	(63,721)		(63,721)
Net profit and total comprehensive income for the six months ended 31 May 2012		-	-	7,451	7,451
Balance at 31 May 2012		**143,000**	**(63,721)**	**7,456**	**86,735**

CHARTIS INSURANCE NEW ZEALAND LIMITED

STATEMENT OF FINANCIAL POSITION
FOR THE PERIOD ENDED 31 MAY 2012

	Note	31-May 2012 NZ$000	31 May 2011 NZ$000
ASSETS			
Cash and cash equivalents		106,926	-
Trade & other receivables		51,198	-
Reinsurance recoverables		14,214	-
Deferred acquisition costs		3,948	-
Financial assets at fair value through profit or loss		121,122	-
Property plant & equipment	**6**	296	-
Software & Intangibles	**7**	84	-
Provision for reinsurance unearned premiums		36,888	
Provision for reinsurance on outstanding claims	**8**	418,659	-
Other receivables		3,867	-
TOTAL ASSETS		**757,202**	**-**
LIABILITIES			
Trade & other payables		16,952	-
Provision for gross unearned premiums		85,054	-
Provision for gross claims outstanding	**8**	566,892	-
Deferred tax liability		168	-
Provision for taxation		1,401	-
TOTAL LIABILITIES		**670,467**	**-**
NET ASSETS		**86,735**	**-**
EQUITY			
Share capital	**10**	143,000	-
Acquisition reserve	**10**	(63,721)	-
Retained Earnings		7,456	-
TOTAL EQUITY		**86,735**	**-**

CHARTIS INSURANCE NEW ZEALAND LIMITED

STATEMENT OF CASHFLOWS
FOR THE SIX MONTHS ENDED 31 MAY 2012

	Note	31 May 2012 NZ$000	31 May 2011 NZ$000
CASH FLOWS FROM OPERATING ACTIVITIES			
Premiums received		63,157	-
Outwards reinsurance paid		(11,912)	-
Claims paid		(108,221)	-
Reinsurance an dother recoveries received		50,505	-
Repatriation of funds withheld		9,982	-
Other expenses paid		(17,300)	-
Interest and dividends received		6,506	-
Income tax paid		(72)	-
Net cash outflow from operating activities		**(7,356)**	**-**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of financial assets		(40,974)	-
Proceeds from sale or maturities of financial assets		5,000	-
Investment expenses paid		(11)	-
Purchases of property, plant, equipment and software		(304)	-
Net cash outflow from investing activities		**(36,289)**	**-**
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash and cash equivalents transferred from insurance business on 1 December	**5**	91,127	**-**
Proceeds from issuance of ordinary shares		-	-
Net cash inflow from financing activities		**91,127**	-
Net increase in cash held		**47,482**	**-**
Cash at beginning of period		59,444	**-**
Cash and deposits at end of period		**106,926**	**-**

1. NATURE OF OPERATIONS

The Company's principal activity is the underwriting of general insurance and the investment of funds.

2. GENERAL INFORMATION AND BASIS OF PREPARATION

The condensed interim financial statements are for the six months ended 31 May 2012 and are presented in New Zealand Dollars, which is the functional currency of the Company. They have been prepared in accordance with IAS 34 Interim Financial Reporting. They do not include all of the information required in annual financial statements in accordance with IFRS.

The registered office of the Company is level 19, AIG Building, 41 Shortland Street, Auckland.

The sole shareholder of the Company is Chartis Singapore Insurance Pte Ltd incorporated in Singapore. The ultimate parent company is American International Group Inc, ("AIG") is registered in the state of Delaware, USA.

The interim financial statements have been approved for issue by the Board of Directors on 25th October 2012.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The interim financial statements have been prepared in accordance with the accounting policies adopted in the Company's first annual financial statements for the year ended 30 November 2011. AS the annual accounts at November 2011 were the Company's' first set of financial statements further disclosures around our accounting policies are as follows:

a) Recognition and measurement of insurance liabilities

Premium revenue
Both direct premium and inward reinsurance premium comprise amounts charged to the policyholders, excluding taxes and levies collected on behalf of third parties. The earned portion of premiums received and receivable, including unclosed business, is recognised as revenue. Premiums are earned from the date of attachment of risk, over the indemnity period based on the pattern of risks underwritten. Premiums earned are net of reinsurance premiums ceded.

The recognition of revenue on unclosed business, known as pipeline premiums, is based on an estimate of the earned portion of premium written relating to business, which has been accepted but not yet advised to us. This is recorded as revenue in the statement of comprehensive income.

Unearned premium provisions
The provision for unearned premium represents the proportion of premiums written in the current year relating to cover provided in a subsequent period, calculated separately for each insurance contract using the 365ths method for constant risks on annual contracts or in line with the risk profile of the contract for uneven risks.

Outward reinsurance expense
Reinsurance contracts are entered into during the normal course of business for the purpose of limiting net loss potential through the diversification of risk. Reinsurance arrangements do not affect direct obligations to policyholders. Premium ceded to reinsurers is recognised as an expense in accordance with the indemnity period of the relevant reinsurance contract.

Claims
Claims incurred consist of claims and claims handling expenses paid during the financial year together with the movement in the provision for outstanding claims.

The provision for outstanding claims represents estimates of payments to be made on individual claims which have been incurred and reported, and estimates of claims which have occurred but have not yet been reported. Claims outstanding also include future claims handling costs attributable to outstanding claims and reflect the effects of discounting of the reserves. Reinsurance recoverable is considered in such estimates. Reserves and the discounting of these reserves are calculated in accordance with Professional Standard 300 issued by the Actuaries of Australia which is consistent with Professional Standard No.4 of the New Zealand Society of Actuaries.

Net acquisition costs
Net acquisition costs comprises all brokerage payable to brokers, on premium revenue and all commissions due from reinsurers, on ceded premiums.

A portion of acquisition costs relating to unearned premium is deferred in recognition that it represents a future benefit. Deferred acquisition costs are amortised over the financial years expected to benefit from the expenditure. Included in deferred acquisition costs is deferred commission provision. This provision has been calculated to represent the proportion of brokerage paid net of commissions' receivable for treaty and facultative reinsurance contracts unexpired at year end. The provision has been calculated on the 365ths basis of the gross premiums written.

Liability adequacy testing
Liability adequacy testing is performed in order to recognise any deficiencies in the statement of comprehensive income arising from the carrying amount of the unearned premium liability less any related deferred acquisition costs and intangible assets not meeting the estimated future claims under current insurance conditions. Liability adequacy is performed at a portfolio level of contracts that are subject to broadly similar risks and are managed together as a single portfolio. Liability adequacy testing is conducted at each reporting date.

b) Assets backing insurance liabilities

As part of the investment strategy, the Company actively manages its investment portfolio to ensure that investments mature in accordance with the expected pattern of future cashflows arising from general insurance liabilities. The Company has determined that all cash and short term deposits are held to back general insurance liabilities therefore these assets have been valued at fair value through the statement of comprehensive income.

Initial recognition is at cost in the statement of financial position and subsequent measurement is at fair value with any resultant fair value gains or losses recognised in the statement of comprehensive income.

c) Commission expense

Commissions paid in respect of general insurance activities are capitalised as deferred acquisition costs and are amortised systematically in accordance with the expected pattern of the incidence of risk under the general insurance contracts to which they relate.

d) Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the obligation.

e) Employee entitlements

The costs associated with employee benefits for services rendered during the reporting period are recognised in the statement of comprehensive income. An associated liability is recognised to the extent that any amount of employee benefit remains unpaid at balance date.

Wages, salaries and annual leave
Liabilities for wages, salaries and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables and are measured at the amounts expected to be paid, based on current salary rates.

Bonus plans
Bonuses awarded in respect of service in the past, are spread over the period of services rendered to the vesting date. Guaranteed bonuses awarded in respect of services to be provided in the future, are expensed over the vesting period.

f) Leases

Finance leases
Leases in which the Company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding.

The corresponding rental obligations, net of finance charges are included in other long term payables. The interest element of the finance cost is charged to the statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Property, plant and equipment acquired under a finance lease are depreciated over the shorter of the asset's useful life and the lease term.

Operating leases
Leases under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Operating lease payments (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease. The Company leases certain property, plant and equipment.

g) Foreign currency translation

Foreign currency transactions are converted into New Zealand dollars using the rate of exchange ruling at the date of transaction. Profits and losses on exchange during the year, both realised and unrealised, are recognised in the period in which they occur by a credit or charge in the profit and loss component of the statement of comprehensive income.

h) Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment losses. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the profit and loss component of the statement of comprehensive income during the financial period in which they are incurred.

All assets are depreciated on a straight line basis so as to write off the cost or valuation of the fixed assets to their estimated residual value over their expected economic lives, as follows:

Leasehold improvements	Term of lease
Furniture and fittings	5 years
Office equipment	5 years
Computer equipment	3 years

The assets' residual values and useful lives are reviewed at each balance date and adjusted if appropriate. An asset's carrying value is written down immediately to its recoverable amount if the asst's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These are included in the statement of comprehensive income.

i) Intangible assets

Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Costs are recorded at cost less accumulated amortisation and impairment and are amortised on the basis of the expected useful life, using the straight line method.

Software	5 years

Capitalised software development costs

Capitalised software development costs are directly attributable costs associated with the design, testing and development of software products for internal use. Directly attributable costs include employee costs and an appropriate portion of directly attributable overheads. Other development expenses that do not meet the criteria of an intangible asset are recognised as an expense when incurred.

Costs are recorded at cost less accumulated amortisation and impairment and are amortised on the basis of the expected useful life, using the straight line method. The estimate useful life and amortisation method is reviewed at the end of each annual reporting period. Expected useful lives are as follows:

Capitalised software development costs	5 years

The asset's residual values and useful lives are reviewed at each balance date and adjusted if appropriate. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These are included in the statement of comprehensive income.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In preparing the financial statements, the Company makes estimates and assumptions that affect the reported amounts of certain assets and liabilities. These estimates and judgements are continually assessed and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The major areas where such estimates and assumptions are applied are as follows:

Liability arising from claims made under insurance contracts
At the end of the year provision is made for the estimated cost of claims incurred but not paid at balance date, as well as the cost of claims incurred but not reported (IBNR) to the Company.

The estimation of outstanding claims incurred but not paid takes into account all expected future gross claim payments and associated claim handling costs. The Company takes all reasonable steps to ensure that it has the most appropriate and up-to-date information available when making these estimates. However, whilst the Company considers that the provision for outstanding claims is fairly stated on the basis of information currently available to them, the ultimate liability will vary as a result of subsequent information and events and may result in significant adjustments to the amounts provided.

When estimating the future claims liability each class of business is examined separately and some or all of the following will be considered in the projections:

- Previous periods claims statistics
- Impact of large losses
- Inflationary measures
- Changes in regulatory environment
- Historical and likely future trends of recoveries from third parties
- Relevant industry data

The estimation of claims IBNR is generally subject to a higher degree of uncertainty than those claims already notified. IBNR claims may not be apparent to the insured until many years after the event that gave rise to the claims.

In estimating the liability for IBNR the Company makes use of models. Through analysis of all available past experience with respect to numbers of claims, claim payments and changes in estimates of outstanding liabilities, patterns can be detected. Using these patterns and past experiences, future payments on outstanding claims can be projected. Data is examined for potential distortions of any abnormal losses, where abnormal losses do exist these are assessed separately to relieve any possible distortive effect from the projections.

Assets arising from contracts with reinsurers
Assets arising from contracts with reinsurers are determined using the same methods described above. Impairment is recognised when there is objective evidence that the Company may not receive amounts due to it, and these amounts can be measured reliably.

Actuarial Assumptions
The actuarial services for the valuation of the outstanding claims were provided by Eric Lew B.Com (Hons.) LLB (Hons.) FIAA, Actuary, employed within the regional actuarial department of Chartis Australia Insurance Limited.

The outstanding claims liability has been determined in accordance with Professional Standard 300 issued by the Actuaries of Australia, and is consistent with Professional Standard No. 4 of the New Zealand Society of Actuaries and NZ IFRS 4: Insurance Contracts issued by the Financial Reporting Standards Board of the New

Zealand Institute of Chartered Accountants and incorporates the following assumptions:

	May 2012	Nov 2011
Discount rate for succeeding and subsequent years	2.53%	2.53%
Claim inflation for succeeding and subsequent years	Implicit based on historical experience	
Risk margins were applied by line ranging	12%-24%	12% - 24%
Indirect claim management expenses	3.50%	3.50%
Probability of sufficiency	75.00%	75.00%

Probability of sufficiency

The statistical estimates of outstanding claims are "central estimates". Risk margins over and above the central estimates have been included, such that there is a 75% level of probability that the resulting estimates will be sufficient to meet the eventual insurance liabilities.

Risk margins

The risk margin is a technical provision that is an excess over the central estimate of outstanding claims. It is usually expressed as a percentage of the central estimate.

For this current valuation, risk margins were calculated for all classes where there were sufficient data. For classes with insufficient data, selected risk margins were based on those calculated for similar larger classes.

To be consistent with the methods chosen for projecting the central estimate, the stochastic chain ladder method was used to determine appropriate risk margins. For all classes other than Travel and Warranty, the stochastic projection was based on incurred claims. Paid claims were used for the Travel and Warranty classes, as for the central estimate projections.

Diversification benefits were also determined, to allow for the less than perfect correlation between different classes (i.e., the overall risk margin will not be equal to the sum of the individual risk margins). The diversification benefits calculated were then apportioned between different classes as a percentage of the corresponding risk margins.

Stochastic chain ladder model

The Stochastic Chain Ladder Model is a simulation model which has a structure similar to the traditional chain ladder method. Based on the derived development factors and volatilities of the factors, future cumulative payments are simulated repeatedly, say N times. The mean and the 75th percentile of the total outstanding claims are then estimated from the 1,000 simulated samples.

Development factors and volatilities of the factors were derived from the past data and from the general nature and volatilities of the class under investigation. Development factors were assumed to be Log-Normally distributed, because of the relative simplicity of this distribution and its due allowance for a right skew (tail characteristics).

Based on the results of the stochastic chain ladder for the larger classes, risk margins were selected. For the smaller classes, selected margins were based on the comparable larger class.

Diversification benefits

As the correlations between different classes of business are less than perfect, i.e. the correlation coefficients are less than 1, the risk margin for all classes as a total will be less than the sum of the risk margin for each class. The diversification benefit allows for this reduction in the overall risk margin.

Correlation matrix
For the current valuation, correlations between different classes based on gross payments were investigated empirically. In addition, general behaviour regarding correlations (e.g. a short-tail class is more likely to be correlated to another short-tail rather than a long-tail class, and vice versa) was also considered.

Diversification benefits – results
Using the correlations, the standard deviation of the classes in total is estimated to be 77% of the sum of the standard deviation of each class individually. This implies a total diversification benefit of approximately 23% of the sum of each class's risk margin when computing the risk margin for all classes as a whole.

Based on the above, the diversification benefit selected for this current valuation is 20%. This is consistent with the previous year's valuation.

5. SIGNIFICANT EVENTS AND TRANSACTIONS

On 1 December 2011 the operations of American Home Assurance Company New Zealand Branch (the "Branch") was transferred to the Company. The Branch is a branch of American Home Assurance Company ("AHAC"), a company incorporated in the state of New York in the United States of America. AHAC is a member entity in the American International Group, Inc ("AIG"). In exchange for the business of the Branch, the Company issued a Promissory Note to the Branch for the purchase price of $83m. An external independent firm was engaged to provide a fair value for the business as at 30 November 2011. The Company received the Promissory Note as a capital contribution from its immediate parent company, thereby extinguishing the Promissory Note.

All the insurance contracts, insurance rights, insurance liabilities, business assets and business liabilities on the branch were transferred to Company as a going concern. The Company assumes all of the Branch's obligations and there is no recourse to the Branch or AHAC.

These acquisitions are business combinations under common control. It has been accounted for by the Group prospectively from the date of obtaining the ownership interest. The difference between the cost of the acquisition (i.e., the fair value of the consideration paid), and the amounts at which the assets and liabilities have been recorded is recognised in the acquisition reserve.

TRANSFER OF INSURANCE BUSINESS

Assets:	NZ$000
Cash and cash equivalents	91,127
Trade and other receivables	61,709
Deferred acquisition costs	12,236
Investments	85,758
Intangible assets	108
Provision for reinsurance unearned premiums	41,133
Provision for reinsurance and other recoveries	470,135
Total Assets	**762,206**
Liabilities:	
Trade and other payables	16,670
Deferred reinsurance commissions	8,288
Provision for gross unearned premiums	90,105
Provision for gross claims outstanding	627,864
Total Liabilities	**742,927**
Total identifiable net assets	19,279
Acquisition Reserve	63,721
Total purchase consideration	**83,000**

6. PROPERTY, PLANT AND EQUIPMENT

	31-May 2012 NZ$000	31-May 2011 NZ$000
Furniture, fittings and leasehold improvements		
Cost	-	-
Balance at beginning of year	-	-
Transfer of insurance business at 1 December	980	-
Additions	-	-
Disposals	-	-
Balance at end of year	**980**	**-**
Accumulated depreciation	-	-
Balance at beginning of year	-	-
Transfer of insurance business at 1 December	980	-
Depreciation charge	-	-
Disposals	-	-
Balance at end of year	**980**	-
Closing net book value	**-**	**-**
Computer and office equipment		
Cost		
Balance at beginning of year	-	-
Transfer of insurance business at 1 December	49	-
Prior period adjustment	106	
Additions	148	-
Disposals	-	-
Balance at end of year	303	-
Accumulated depreciation		
Balance at beginning of year	-	-
Transfer of insurance business at 1 December	49	-
Prior period adjustment	106	
Depreciation charge	8	-
Disposals	-	-
Balance at end of year	163	-
Work in Progress		
Additions	156	-
Balance at end of year	156	-
Closing net book value	**296**	**-**
Total net book value of property, plant and equipment	**296**	**-**

7. SOFTWARE & INTANGIBLES

	31-May 2012 NZ$000	31-May 2011 NZ$000
Computer software and capitalised software development costs		
Cost		
Balance at beginning of year		
Transfer of insurance business at 1 December	498	-
Additions	-	-
Disposals	-	-
Balance at end of year	498	-
Accumulated amortisation and impairment losses		
Balance at beginning of year	-	-
Transfer of insurance business at 1 December	390	-
Depreciation charge	24	-
Disposals	-	-
Balance at end of year	414	-
Closing net book value	**84**	-

8. PROVISION FOR NET OUTSTANDING CLAIMS

	31-May 2012 NZ$000	31-May 2011 NZ$000
Central estimate of expected value of future payments	513,745	-
Discounted risk margin	68,834	-
Discounted indirect expenses	3,710	-
Outstanding claims reserve	586,289	-
Less discount to present value of future claim payments	(19,397)	-
	566,892	-
Gross reinsurance and other recoveries	432,811	-
Less discount to present value	(14,153)	-
	418,659	-
Net outstanding claims	**148,233**	-

The mean term to settlement is: 1.8 years

9. RELATED PARTY BALANCES AND TRANSACTIONS

The Company is owed and owes money from and to a number of related AIG affiliated companies located overseas for premiums and claims. In addition, the Company shared certain IT related costs with its related parties. These transactions have been undertaken in the normal course of business are detailed below.

In addition to the above transactions, the Company reinsures certain policies with related AIG affiliated companies located overseas, for which premiums are paid and commissions are received and the Company owes AIG for Treaty Reinsurance premiums.

	31-May 2012 NZ$000	31-May 2011 NZ$000
Related party balances		
Amounts due to related parties		
American Home Assurance Company	6,872	
Other related parties	238	-
Total due to related parties	**7,110**	-
Receivables from related parties		
American Home Assurance Company	10,110	-
Chartis Australia Insurance Limited	6	-
Chartis Hong Kong Limited	525	
Other related parties	537	
Total receivables due from related parties	**11,178**	-

10. EQUITY

On 1 December 2011, 83,000,000 shares were issued to extinguish the promissory note (refer note 5) following the transfer of the insurance operations of American Home Assurance Company New Zealand Branch.

	31-May 2012 NZ$000	31-May 2011 NZ$000
Opening balance	60,000	-
Issue of shares on 1 December 2011 to Chartis Singapore Pte Ltd	83,000	-
Total share capital	**143,000**	-

As at 31 May 2012, the Company had 143,000,001 authorised ordinary shares that were issued for par value $1 per share. All shares are fully paid. There is one class of ordinary shares. All shares issued carry equal voting rights.

11. SUBSEQUENT EVENTS

Due to deterioration of a legacy financial lines claim from 2007, under our capital maintenance agreement with AIG, Chartis Insurance New Zealand Limited received sufficient capital to meet our agreed solvency rate with the Reserve Bank of New Zealand. As a result of this 15,250,000 shares were issued to Chartis Singapore Pte Ltd on 5 October 2012.