

AIG INSURANCE NEW ZEALAND LIMITED

(formerly known as Chartis Insurance New Zealand Limited)

ANNUAL REPORT

For the financial period ended 31 December 2012

AIG INSURANCE NEW ZEALAND LIMITED
(formerly known as Chartis Insurance New Zealand Limited)

ANNUAL REPORT
For the financial period ended 31 December 2012

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AIG INSURANCE NEW ZEALAND LIMITED
(formerly known as Chartis Insurance New Zealand Limited)

DIRECTORS' REPORT

The directors present their report together with the audited financial statements of AIG Insurance New Zealand Limited (referred to hereafter as the 'Company'), for the thirteen months ended 31 December 2012.

Directors

The following persons were directors of the Company during the whole of the financial year and up to the date of this report:

| | |
|--------------|---|
| C E Knell | (appointed 15 November 2010) |
| T E Elisara | (appointed 15 November 2010) |
| G R Bunkall | (appointed 15 November 2010; resigned 17 February 2012) |
| D E Wilson | (appointed 17 February 2012) |
| C G Townsend | (appointed 17 February 2012; resigned 8 May 2012) |
| C H Stobo | (appointed 1 December 2012) |
| J M McPhee | (appointed 1 December 2012) |

Nature of operations and principal activities

The principal activities of the Company during the year were the underwriting of various classes of general insurance and reinsurance of risks.

Dividends

No dividends were paid or declared for the period ended 31 December 2012.

Review and result of operations

The operating profit after tax of the Company for the period ended 31 December 2012 was \$6,139k (2011: Operating profit after tax of \$5k).

Significant changes in the state of affairs

AIG Insurance New Zealand Limited was incorporated in November 2010 as part of the global restructuring activities within the AIG Group. The insurance business of American Home Assurance – NZ Branch ("AHAC-NZ") was transferred to this Company effective 1 December 2011. There are no changes to any policy terms or conditions for any of the AHAC-NZ's policyholders. The transfer involves all of the assets and liabilities of AHAC-NZ.

Significant events after the reporting date

There has not been any matter or circumstance that has arisen since the end of the financial period that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations, or the state of affairs of the Company in subsequent financial years.

Directors' use of company information

During the reporting period the Board received no notices from Directors of the Company requesting to use Company information received in their capacity as Directors, which would not otherwise have been available to them.

AIG INSURANCE NEW ZEALAND LIMITED
(formerly known as Chartis Insurance New Zealand Limited)

DIRECTORS' REPORT

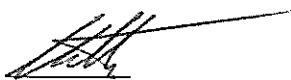
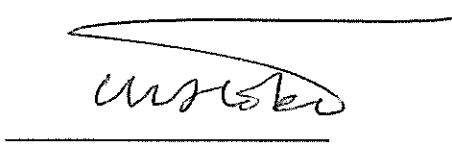
Disclosures

Pursuant to Section 211 (3) of the Companies Act 1993, the shareholder has agreed that the annual report of the Company need not comply with Sections 211 (1) (e) to (h) and (j) of the Companies Act 1993.

Auditor

PricewaterhouseCoopers were appointed to undertake the audit of the financial statements for the period ended 31 December 2012.

This report is made in accordance with a resolution of the directors.


C E Knell
Director
C Stobo
Director

Auckland
30 April 2013



Independent Auditors' Report

to the shareholders of AIG Insurance New Zealand Limited (formerly known as Chartis Insurance New Zealand Limited)

Report on the Financial Statements

We have audited the financial statements of AIG Insurance New Zealand Limited on pages 7 to 46, which comprise the statement of financial position as at 31 December 2012, statement of comprehensive income and the statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation of these financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal controls relevant to the Company's preparation of financial statements that give a true and fair view of the matters to which they relate, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

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

Other than in our capacity as auditors we have no relationship with, or interests in, AIG Insurance New Zealand Limited.



Independent Auditors' Report

AIG Insurance New Zealand Limited (formerly known as Chartis Insurance New Zealand Limited)

Opinion

In our opinion, the financial statements on pages 7 to 46:

- (i) comply with generally accepted accounting practice in New Zealand;
- (ii) comply with International Financial Reporting Standards; and
- (iii) give a true and fair view of the financial position of the Company as at 31 December 2012, and its financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 31 December 2012:

- (i) we have obtained all the information and explanations that we have required; and
- (ii) in our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records.

Restriction on Distribution or Use

This report is made solely to the Company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

A handwritten signature in dark ink, appearing to read 'PricewaterhouseCoopers'.

Chartered Accountants
1 May 2013

Auckland

AIG INSURANCE NEW ZEALAND LIMITED
(formerly known as Chartis Insurance New Zealand Limited)

STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 31 DECEMBER 2012

| | Note | 31 Dec 2012 \$000's | 30 Nov 2011 \$000's |
|---|------|------------------------|------------------------|
| Gross premiums written | | 181,987 | - |
| Outwards reinsurance expense | | (106,217) | - |
| Net premium revenue | | 75,770 | - |
| Movement in net unearned premium reserve | | (1,888) | - |
| Net earned premium | | 73,882 | - |
| Claims expense | | (165,668) | - |
| Reinsurance and other recoveries revenue | | 93,266 | - |
| Reinsurance commission income | | 19,046 | - |
| Operating expenses | 8 | (24,310) | - |
| Acquisition costs | 14 | (14,987) | - |
| Underwriting result | | (18,771) | - |
| Net investment income | 6 | 9,986 | 7 |
| Other income | 10 | 17,144 | - |
| Foreign exchange losses | | (2,243) | - |
| Profit before taxation | | 6,116 | 7 |
| Income tax benefit/(expense) | 9 | 23 | (2) |
| Profit after taxation and total comprehensive income | | 6,139 | 5 |

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

AIG INSURANCE NEW ZEALAND LIMITED
(formerly known as Chartis Insurance New Zealand Limited)

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2012

| | Note | 31 Dec 2012 \$000's | 30 Nov 2011 \$000's |
|---|------|------------------------|------------------------|
| ASSETS | | | |
| Cash and cash equivalents | 11 | 40,489 | 59,444 |
| Trade and other receivables | 12 | 68,743 | - |
| Reinsurance recoverables | 13 | 16,456 | - |
| Deferred acquisition costs | 14 | 14,347 | - |
| Financial assets at fair value through profit or loss | 15 | 203,339 | 550 |
| Property, plant and equipment | 16 | 2,250 | - |
| Provision for reinsurance unearned premiums | 17 | 49,507 | - |
| Provision for reinsurance on outstanding claims | 18 | 376,583 | - |
| Deferred tax asset | 19 | 127 | - |
| Other receivables | 20 | 4,568 | 13 |
| TOTAL ASSETS | | 776,409 | 60,007 |
| LIABILITIES | | | |
| Trade and other payables | 21 | 23,478 | - |
| Deferred reinsurance commissions | 14 | 10,348 | - |
| Provision for gross unearned premiums | 17 | 100,367 | - |
| Provision for gross claims outstanding | 18 | 538,672 | - |
| Provision for taxation | | 2,871 | 2 |
| TOTAL LIABILITIES | | 675,736 | 2 |
| NET ASSETS | | 100,673 | 60,005 |
| EQUITY | | | |
| Share capital | 23 | 158,250 | 60,000 |
| Acquisition reserve | 24 | (63,721) | - |
| Retained earnings | | 6,144 | 5 |
| TOTAL EQUITY | | 100,673 | 60,005 |

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

AIG INSURANCE NEW ZEALAND LIMITED
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STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 31 DECEMBER 2012

| | Note | Share Capital | Other Reserves | Retained Earnings | Total Equity |
|-----------------------------|------|---------------|----------------|-------------------|--------------|
| Balance at 1 December 2010 | | - | - | - | - |
| Profit after taxation | | - | - | 5 | 5 |
| Other comprehensive income | | | | | - |
| Total comprehensive income | | - | - | 5 | 5 |
| Issue of ordinary shares | | 60,000 | - | - | 60,000 |
| Balance at 30 November 2011 | 23 | 60,000 | - | 5 | 60,005 |
| Balance at 1 December 2011 | 23 | 60,000 | - | 5 | 60,005 |
| Profit after taxation | | - | - | 6,139 | 6,139 |
| Other comprehensive income | | - | - | - | - |
| Total comprehensive income | | - | - | 6,139 | 6,139 |
| Issue of ordinary shares | 23 | 98,250 | - | - | 98,250 |
| Acquisition reserve | 24 | - | (63,721) | - | (63,721) |
| Balance at 31 December 2012 | | 158,250 | (63,721) | 6,144 | 100,673 |

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

AIG INSURANCE NEW ZEALAND LIMITED
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STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 31 DECEMBER 2012

| CASH FLOWS FROM OPERATING ACTIVITIES | Note | 31 Dec 2012 \$000's | 30 Nov 2011 \$000's |
|---|------|------------------------|------------------------|
| Premiums received | | 179,629 | - |
| Reinsurance and other recoveries received | | 178,240 | - |
| Interest received | | 12,038 | - |
| Claims paid | | (260,042) | - |
| Outwards reinsurance premiums paid | | (107,319) | - |
| Net commission income received | | 4,009 | - |
| Income tax paid | | 2,765 | - |
| Subvention payment received | 10 | 17,144 | - |
| Underwriting and other operating expenses paid | | (30,019) | - |
| Net cash outflow from operating activities | 29 | (3,555) | - |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of financial assets | | (141,452) | (556) |
| Proceeds from sale or maturities of financial assets | | 22,000 | - |
| Proceeds from sale of plant and equipment | | 11 | - |
| Cash transferred from transfer of Insurance portfolio | | 91,127 | - |
| Purchases of property, plant, equipment and software | | (2,336) | - |
| Net cash outflow from investing activities | | (30,650) | (556) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from issuance of ordinary shares | 23 | 15,250 | 60,000 |
| Net cash inflow from financing activities | | 15,250 | 60,000 |
| Net (decrease)/increase in cash held | | (18,955) | 59,444 |
| Cash at beginning of period | | 59,444 | - |
| Cash and deposits at end of period | 12 | 40,489 | 59,444 |

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

AIG INSURANCE NEW ZEALAND LIMITED
(formerly known as Chartis Insurance New Zealand Limited)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2012

1. GENERAL INFORMATION

AIG Insurance New Zealand Limited ("the Company") is a limited liability company incorporated on 15 November 2010 under the name of Chartis New Zealand Limited and domiciled in New Zealand. The company changed its name to Chartis New Zealand Insurance Limited on 1 December 2011. On 30 November 2012 the Company changed its name to AIG Insurance New Zealand Limited. The sole shareholder of the Company is AIG Asia Pacific Insurance Pte Ltd (formerly 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 nature of the operations and principal activities are outlined in the directors' report.

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

The financial statements have been authorised for issue by the Board of Directors on 30 April 2013. The directors do not have the power to amend these financial statements after issue.

2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice equivalents to International Financial Reporting Standards ("NZIFRS") and International Financial Reporting Standards ("IFRS") as appropriate for profit oriented entities. The Company is registered under the Companies Act 1993. The Company is classified as an issuer under the Insurance (Prudential Supervision) Act 2010 and the Financial Reporting Act 1993. The financial statements comply with the requirements of the Companies Act 1993 and the Financial Reporting Act 1993. They have been prepared under the historical cost convention, as modified by the revaluation of certain assets as identified in specific accounting policies below. AIG Insurance New Zealand Limited is a profit oriented entity.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company'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 are disclosed in note 4.

These financial statements have been prepared for a thirteen month period covering 1 December 2011 through to 31 December 2012 to align the balance date with the parent company, AIG Asia Pacific Insurance Pte Ltd. The comparatives presented are for the period from incorporation on 15 November 2010 to 30 November 2011.

All amounts in the financial statements and notes are shown in thousands of New Zealand dollars, rounded to the nearest thousand, unless otherwise stated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied across the period, unless otherwise stated.

a) Premium Revenue

Direct and inwards reinsurance premiums comprise amounts charged to the policyholder, excluding fire service and earthquake levies collected on behalf of statutory bodies. The earned portion of premiums received and receivable, including unclosed business is recognised on a straight line basis as revenue. Premium revenue is treated as earned from the date of attachment of risk over the period of the contract for direct business and over the period of indemnity for reinsurance contracts. Premiums on unclosed business, known as pipeline premiums, are brought to account by reference to historic patterns of premium processing delays, with due allowance for any changes in the pattern of new business and renewals.

The pattern of recognition of revenue over the policy or indemnity periods is based on time, which closely approximates the patterns of risks underwritten. The proportion of premiums received and receivable not earned in the Statement of Comprehensive Income at the reporting date is recognised in the Statement of Financial Position as an Unearned Premium

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FOR THE PERIOD ENDED 31 DECEMBER 2012

Liability. The unearned portion of commissions and other acquisition costs are also deferred and are shown as Deferred Acquisition Costs in the Statement of Financial Position.

b) Investment Income

Interest income and expenses for all interest-bearing financial instruments including financial instruments measured at fair value through profit or loss, are recognised within investment income in the Statement of Comprehensive Income using the effective interest rate method. When a receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

c) Commission Income

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. Commission income is received from reinsurers for the placement of this reinsurance and is recorded as reinsurance commission income and is recognised in the Statement of Comprehensive Income.

The unearned portions of commissions are deferred and are shown as Deferred Acquisition Costs and Deferred Reinsurance Commissions in the Statement of Financial Position.

d) Outwards Reinsurance Premium 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 are recorded as an outward reinsurance expense and recognised in the Statement of Comprehensive Income in accordance with the indemnity period of the relevant reinsurance contract.

e) Direct Claims Expense

Claims expense represents payment for claims, claims related expenses and the movement in outstanding claims liabilities. Claims represent the benefits paid or payable to the policyholder on the occurrence of an event giving rise to a loss or accident according to the terms of the policy. Claims expenses are recognised in the Statement of Comprehensive Income as losses are incurred, which is the point in time when the event giving rise to the claim occurs.

f) Reinsurance and Other Recoveries Revenue

Reinsurance and other recoveries received or receivable on paid claims and on outstanding claims (notified and not yet notified) are recognised as income. Reinsurance and other recoveries receivable on outstanding claims are measured as the present value of the expected future receipts calculated on the same basis as the outstanding claims liability. Reinsurance does not relieve the originating insurer of its liabilities to policyholders and is presented separately on the Statement of Financial Position.

g) Net Acquisition Costs

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

h) Operating Expenses

Operating expenses are included in the Statement of Comprehensive Income and are recognised on an accrual basis.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2012

i) Employee Benefits

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.

i) *Wages, Salaries and Annual Leave*

Wages, salaries and annual leave is expected to be settled within one year after the end of the reporting date. A liability and expense is recognised for the amount expected to be paid, based on current salary rates.

ii) *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.

iii) *Long Service Leave*

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of the payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to salary levels and years of service.

j) 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.

Lease incentives relating to the agreement of a new operating lease are recognised as an integral part of the net consideration agreed for the use of the leased asset. Operating lease incentives received are initially recognised as a liability and are presented as trade and other payables, and are subsequently reduced through recognition in the profit or loss as an integral part of the total lease expense (lease incentives are allocated between rental expense and a reduction of the liability) on a straight line basis over the period of the lease.

k) Foreign Currency Translation

i) *Functional and Presentation Currency*

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates ('the functional currency'). The financial statements are presented in New Zealand dollars, which is the Company's functional and presentation currency.

ii) *Translation of Foreign Currency Transactions*

Foreign currency transactions are translated into the functional currency using the rate of exchange prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at reporting date are translated to the functional currency using the rate of exchange on reporting date. Resulting exchange differences are recognised in the profit and loss component of the Statement of Comprehensive Income.

l) Taxation

i) *Current Tax*

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

ii) *Deferred Tax*

Deferred tax is provided in full, using the balance sheet method in respect of temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items. Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2012

the assets are recovered or liabilities settled, based on the tax rates enacted or substantively enacted at the time. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of the other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

A deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

iii) Goods and Services Tax ("GST")

Revenue, expenses and assets are recognised net of the amount of goods and services tax ("GST"), unless the GST incurred is not recoverable from the Inland Revenue Department. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of GST. The net amount of GST recoverable from, or payable to, the Inland Revenue Department is included as other receivables or other payables in the Statement of Financial Position.

m) Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term (having a maturity of 90 days or less from the date of acquisition) highly liquid investments which are readily convertible to cash on hand and bank overdrafts.

n) Trade and Other Receivables

Trade and other receivables are initially recognised at fair value, being the amounts due and generally have credit terms of 30-90 days. They are subsequently measured at amortised cost using the effective interest rate method, less provision for impairment.

A provision for doubtful debts is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of the estimated future cash flows. The impairment charge is recognised in the profit and loss component of the Statement of Comprehensive Income.

When there is objective evidence that an impairment loss has been incurred, the carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit and loss component of the Statement of Comprehensive Income. Any subsequent recoveries of amounts previously written off against the allowance account are credited against other expenses in the profit and loss component of the Statement of Comprehensive Income.

o) Deferred Acquisition Costs

A portion of acquisition costs relating to premiums written in the year is deferred and recognised as an asset where it can be reliably measured and it is probable that it will give rise to a future benefit in subsequent periods. Included in deferred acquisition costs is deferred commission provision.

Deferred acquisition costs are amortised over the financial years expected to benefit from the expenditure. The provision has been calculated to represent the proportion of brokerage paid net of commission's receivable for treaty and facultative reinsurance contracts unexpired at year end.

p) Financial Assets

The Company classifies its financial assets into the following categories: financial assets at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at the initial recognition and re-evaluates this designation at every reporting date. Financial assets are classified as current assets if they are expected to be settled within 12 months, otherwise they are classified as non-current.

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FOR THE PERIOD ENDED 31 DECEMBER 2012

Financial assets at fair value through profit or loss

Financial assets are designated at fair value through profit or loss in accordance with NZ IAS 39 when they are deemed to be backing the insurance liabilities of the Company, as set out under NZ IFRS 4. Purchases and sales of investments are recognised on trade date - the date on which the Company commits to purchase or sell the asset. Unrealised gains and losses arising from changes in the fair value of securities are recognised in the profit or loss component of the Statement of Comprehensive Income.

For financial instruments traded in active markets, the determination of fair values of financial assets is based on quoted market prices or dealer price quotations.

Financial assets at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the profit and loss component of the Statement of Comprehensive Income. They are subsequently carried at fair value.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured initially at fair value plus transaction costs and subsequently carried at amortised cost using the effective rate of interest method, less provision for impairment. A provision for impairment is established when there is objective evidence that the Company will not be able to collect all amounts due as to their original terms.

Impairment of financial assets

The Company assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired.

If there is objective evidence that an impairment loss has been incurred on loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the profit and loss component of the Statement of Comprehensive Income.

q) Property Plant and Equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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 over the estimated useful life of the assets 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 amount is written down 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, and are included in the profit and loss component of the Statement of Comprehensive Income.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2012

r) Intangible Assets

i) *Computer Software*

Acquired computer software licences 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. The expected useful life is 5 years.

ii) *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 expenditures 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 estimated useful life and amortisation method is reviewed at the end of each annual reporting period. The expected useful life is 5 years.

The assets' residual values and useful lives are reviewed at each balance date and adjusted if appropriate.

An asset's carrying amount is written down 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, and are included in the profit and loss component of the Statement of Comprehensive Income.

s) Impairment of Non-Financial Assets

The Company reviews at each reporting date the carrying amounts of its tangible and intangible assets to determine whether there is any indication that an asset may be impaired. If any such indication exists, an impairment loss is recognised for the amount by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

An impairment loss is recognised in the profit and loss component of the Statement of Comprehensive Income whenever the carrying amount of the asset exceeds its recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying value does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised in the profit and loss component of the Statement of Comprehensive Income.

t) Trade and Other Payables

Trade and other payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method. 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 non interest bearing. Trade payables are normally settled within 30 days of recognition for unrelated creditors and within 90 days for related parties.

u) Unearned Premium Liability (Liability Adequacy Test)

Liability adequacy testing is performed in order to recognise any deficiencies in the profit and loss component of 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.

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v) Outstanding Claims

The liability for outstanding claims is measured as the central estimate of the present value of expected future claim payments and related settlement costs against claims incurred at the reporting date under general insurance contracts issued by the Company, with an additional risk margin to allow for the inherent uncertainty in the central estimate.

The expected future payments include those in relation to claims reported but not yet paid, claims incurred but not reported ('IBNR'), claims incurred but not enough reported ('IBNER') and their associated allocated costs as well as anticipated claims handling costs.

Claims handling costs include those costs that cannot be directly associated with individual claims, such as claims administration costs.

The expected future payments are discounted to present value using a risk free rate.

Actuarial assumptions and methods used in determining the liability for outstanding claims at year end are detailed in note 4.

w) Assets Backing Insurance Business

The Company has determined that all assets are held to back insurance liabilities, with the exception of property, plant and equipment.

x) Changes in Accounting Policies

There have been no changes in accounting policies during the period.

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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 a 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 may 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, and 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 AIG Australia Limited. Eric Lew is our appointed actuary pursuant to the Insurance (Prudential Supervision) Act 2010.

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:

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| | As at 31 Dec 2012 | As at 30 Nov 2011 |
|---|---|-------------------|
| Weighted average term to settlement | 1.8 years | 1.8 years |
| 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 | 3.20% | 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.

Methodology

The methodology is based on the paper ‘A Framework for Assessing Risk Margins’, as presented to the 2008 Australian Institute of Actuaries General Insurance Seminar which considers the following components of risk explicitly:

- Independent risk reflects uncertainty associated from purely random effects.
- Systemic risk – Internal refers to uncertainty stemming from the actuarial valuation model’s imperfect representation of the insurance process.
- Systemic risk – External refers to the uncertainty arising from non-random risks external to the actuarial modelling process. It covers future episodes of systemic risk e.g. from unexpected economic inflation or the emergence of new classes of claims.

Risk margin classes

For this current valuation, risks have been grouped broadly into six risk margin classes so each class contains sufficient data.

Adaptive reserve modelling system software (“ARMs”)

In the assessment of independent risk management uses the Adaptive Reserve Modelling System software (ARMs). This tool fits Generalized Linear Models (GLMs) to the paid and incurred claim ladder models. In the previous year’s valuation, a stochastic chain ladder model was used.

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.

The following correlation effects need to be considered for each risk category for the following relationships:

- Between valuation classes; and
- Between premium liabilities and outstanding claims liabilities for a particular valuation class.

Based on the correlation structure assumed, this year’s valuation assumes a total diversification benefit of approximately 20% gross and 17% net of reinsurance.

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5. INSURANCE CONTRACTS – RISK MANAGEMENT POLICIES AND PROCEDURES

The Company's operations are exposed to a number of key risks including insurance risk and financial risk. The Company's risk management framework includes policies and procedures in respect of managing these risks which are set out below.

a) INSURANCE RISK

The managed acceptance of risk is fundamental to the Company's insurance business model. The Company's risk management framework seeks to effectively manage, rather than eliminate, the risks the Company faces.

In accordance with the Insurance (Prudential Supervision) Act 2010, the Company has developed and implemented a prudent Risk Management Strategy ('RMS').

The objective of the RMS is to 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. Quarterly, the Company certifies to the Board that adequate strategies have been put in place to monitor those risks, that the Company has systems in place to ensure compliance with legislative and prudential requirements, and that the Board has satisfied itself as to compliance with the RMS.

The Company's RMS has been developed in accordance with AIG's global approach to the management of risk. As such, the RMS aligns with the key global risk management policies and strategies per the AIG risk management framework, and are formulated to take account of the local legislative, regulatory and business environment.

The Company's risk management framework requires all operations to establish processes for identifying, evaluating and managing the key risks faced by the organisation. The risk management framework has evolved in recent years and encompasses an established risk governance structure with clear oversight and assignment of responsibility for the monitoring and management of financial, operational and strategic risks.

The Audit and Risk Committees oversee the risk management framework and process. It also ensures the implementation of the RMS, and the reporting of outcomes to the Board of Directors.

The RMS has been approved by the Board. The Company's underlying underwriting philosophy is designed to ensure underwriters address all aspects of a risk before offering terms including rating, deductible level, extent of coverage, the insured's risk management/loss control practices, financial condition and prior loss experience. Key aspects of the processes embedded within the business to mitigate risk arising from insurance contracts include:

- The maintenance and use of appropriate management information systems, which provide up to date reliable data, thus ensuring integrity of data to management and financial models.
- Formally delegated authorities and documented guidelines are followed for underwriting and accepting insurance risks.
- Reinsurance is used to limit the Company's exposure to large scale single claims and catastrophes. When selecting a reinsurer only those companies that provide high security are considered. Procedures are in place to ensure that all reinsurers are approved and that authorised liability limits are adhered to.
- Comprehensive documented claims guidelines and procedures are followed, supported by training and workshops on regulatory and legal requirements.
- The Company's investment strategy is governed by Board approved investment guidelines, reflecting a low appetite for investment risk. The mix of assets in which the Company invests is driven by the nature and term of the insurance liabilities. The management of assets and liabilities is closely monitored to broadly align the maturity dates of assets compared to the expected pattern of claim payments.

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Terms and conditions of insurance and inwards reinsurance business

The terms and conditions attaching to insurance contracts affect the level of insurance risk accepted by the Company. The majority of direct insurance contracts and inwards reinsurance business written are entered into on a standard form basis. Any non-standard terms and conditions are signed off by appropriately experienced underwriters within a framework, which includes delegated authorities, in line with the RMS.

Concentration of insurance risk

Concentration of insurance risk can be a cause of elevated claims volatility risk and refers to the possibility of significant financial losses arising from a lack of diversification, either geographical or by product type, of the Company's portfolio. Certain events may give rise to higher levels of adverse development and exhibit geographical concentrations.

The Company's exposure to concentration of insurance risk is mitigated by a diverse portfolio of business written across a broad range of locations and industries. Concentrations of risk are managed within each market through the monitoring of product sales and size of the in-force book by product.

The Company has a specific concentration risk associated with natural catastrophes. The Company mitigates this risk by adhering to underwriting and claims management policies and procedures that have been developed based on extensive historical experience. Reinsurance is used to help reduce concentration risk.

b) FINANCIAL RISK

The Company's operations are exposed to a variety of financial risks including credit risk, liquidity risk and market risk. The Company manages its exposure to key financial risks in accordance with the Company's RMS. The RMS focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Company.

The Company's principal financial instruments comprise cash and cash equivalents, financial assets at fair value through profit or loss, premiums receivable, interest receivable, reinsurance recoveries on paid claims, trade payables and other payables.

| | Financial liabilities at amortised cost \$000's | Fair value through profit or loss \$000's | Total \$000's |
|------------------------------|---|---|------------------|
| 31 December 2012 | | | |
| Financial Liabilities | | | |
| Trade payables | 6,326 | - | 6,326 |
| Reinsurance payables | 6,655 | - | 6,655 |
| Related party payables | 9,842 | - | 9,842 |
| Total | 22,823 | - | 22,823 |
| 30 November 2011 | | | |
| Financial Liabilities | | | |
| Trade payables | - | - | - |
| Reinsurance payables | - | - | - |
| Related party payables | - | - | - |
| Total | - | - | - |

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| | Financial assets at amortised cost \$000's | Fair value through profit or loss \$000's | Total \$000's |
|--|--|---|------------------|
| 31 December 2012 | | | |
| Financial Assets | | | |
| Cash and cash equivalents | 40,489 | - | 40,489 |
| Premiums receivable | 51,049 | - | 51,049 |
| Related party recoverables | 11,880 | - | 11,880 |
| Other receivables | 1,807 | - | 1,807 |
| Reinsurance recoverables | 16,456 | - | 16,456 |
| Investments in debt securities | - | 116,881 | 116,881 |
| Long term cash deposits | - | 86,458 | 86,458 |
| Accrued income | 2,820 | - | 2,820 |
| Total | 124,502 | 203,339 | 327,841 |
| 30 November 2011 | | | |
| Financial Assets | | | |
| Cash and cash equivalents | 59,444 | - | 59,444 |
| Investments in fixed interest securities | - | 550 | 550 |
| Accrued income | 13 | - | 13 |
| Total | 59,457 | 550 | 60,007 |

The following financial risks are considered and addressed as part of the Company's financial risk management policies and procedures.

Credit risk

Credit risk is the risk of loss from a counterparty failing to meet their financial obligations. The significant areas of the Company exposed to credit risk are:

- Reinsurer's share of insurance liabilities;
- Amounts due from reinsurers in respect of claims already paid;
- Amounts due from insurance contract holders;
- Amounts due from insurance intermediaries;
- Amounts due from loans and receivables;
- Amounts due from money market and cash positions.

The maximum exposure to credit risk as at reporting date is the carrying amounts of the receivables on the Statement of Financial Position.

All credit exposures are subject to AIG's global limits and requirements. The RMS outlines the framework and procedures in place to ensure an adequate and appropriate level of monitoring and management of credit quality throughout the Company.

Most premium revenue is derived from brokers operating in the New Zealand market who are subject to industry credit terms. Credit risk arising from reinsurance recoveries is managed by collecting the majority of reinsurance recoveries within 90 days following payment by the Company of the direct claim, and monitoring the credit rating of reinsurers on a continual basis.

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Reinsurance is used to manage insurance risk. This does not however discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Company remains liable for the full payment to the policyholder.

Through a centralised process AIG worldwide identifies, approves and monitors all credit exposures relating to reinsurance through its Reinsurance Security Department. The primary function of the Reinsurance Security Department is to review the financial stability of the reinsurance companies that AIG uses in both its treaty and facultative programmes. This is achieved through analysis of financial information gathered on both the industry and the reinsurer. Information is gathered through rating agencies and other reliable publicly available sources.

Using this information AIG compiles a list of approved reinsurers and a list of approved reinsurance intermediaries which must be adhered to by all AIG offices around the world. Reinsurance placements must be confirmed by the underwriter against these lists before binding. If an underwriter wishes to use a reinsurer or reinsurance intermediary that is not on the list, they must seek approval from the Reinsurance Security Department before binding the reinsurance.

The Company further manages its exposure to credit risk by accepting business from intermediaries that meet the Company's corporate guidelines. New intermediaries are accepted on a case by case basis and are only accepted after having gone through an internal screening process. All intermediaries are subject to the Company's credit terms.

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Liquidity risk

Liquidity risk is concerned with the risk of there being insufficient cash resources to meet payment obligations as they fall due. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities to settle insurance and reinsurance obligations.

The Company's cash position is monitored daily and funding requirements are managed through a structured investment portfolio that allows flexibility in funding and includes suitable floats of readily realisable assets. Liquidity risk controls include regular actuarial reviews of insurance reserves, matching asset and liability duration and cash flow monitoring.

A maturity analysis of the Company's financial liabilities and financial assets is provided below.

At December 2012

| | Maturing In | | | | Total \$000's | Carrying Amount \$000's |
|--------------------|------------------------------|----------------------------|-------------------------|----------------------------|------------------|-------------------------------|
| | 1 year or less \$000's | 1 to 3 years \$000's | 3 to 5 years \$000's | Over 5 years \$000's | | |
| Liabilities | | | | | | |
| Insurance payables | 16,878 | 104 | 137 | - | 17,119 | 17,119 |
| Other payables | 4,852 | 1,507 | - | - | 6,359 | 6,359 |
| Total | 21,730 | 1,611 | 137 | - | 23,478 | 23,478 |

At November 2011

| | Maturing In | | | | Total \$000's | Carrying Amount \$000's |
|--------------------|------------------------------|----------------------------|-------------------------|----------------------------|------------------|-------------------------------|
| | 1 year or less \$000's | 1 to 3 years \$000's | 3 to 5 years \$000's | Over 5 years \$000's | | |
| Liabilities | | | | | | |
| Insurance payables | - | - | - | - | - | - |
| Other payables | - | - | - | - | - | - |
| Total | - | - | - | - | - | - |

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| At December 2012 | Maturing In | | | | | |
|--|-----------------------------|---------------------------|------------------------|---------------------------|-----------------|------------------------------|
| | 1 year or less \$'000 | 1 to 3 years \$'000 | 3 to 5 years \$'000 | Over 5 years \$'000 | Total \$'000 | Carrying Amount \$'000 |
| Assets | | | | | | |
| Cash and cash equivalents | 40,489 | - | - | - | 40,489 | 40,489 |
| Trade and other receivables | 68,724 | 19 | - | - | 68,743 | 68,743 |
| Accrued income | 2,820 | - | - | - | 2,820 | 2,820 |
| Reinsurance recoverables | 16,451 | 5 | - | - | 16,456 | 16,456 |
| Financial assets at fair value through profit or loss | 114,721 | 79,676 | 5,434 | 3,508 | 203,339 | 203,339 |
| Total | 243,205 | 79,700 | 5,434 | 3,508 | 331,847 | 331,847 |

| At November 2011 | Maturing In | | | | | |
|--|-----------------------------|---------------------------|------------------------|---------------------------|-----------------|------------------------------|
| | 1 year or less \$'000 | 1 to 3 years \$'000 | 3 to 5 years \$'000 | Over 5 years \$'000 | Total \$'000 | Carrying Amount \$'000 |
| Assets | | | | | | |
| Cash and cash equivalents | 59,444 | - | - | - | 59,444 | 59,444 |
| Trade and other receivables | - | - | - | - | - | - |
| Accrued income | 13 | - | - | - | 13 | - |
| Reinsurance recoverables | - | - | - | - | - | - |
| Financial assets at fair value through profit or loss | - | - | 550 | - | 550 | 550 |
| Total | 59,457 | - | 550 | - | 60,007 | 59,994 |

Market risk

Market risk represents the risk that the fair value or cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk reflects interest rate risk, foreign currency risk and other price risks. The extent of the Company's exposure to market risk is mitigated by the formulation of, and adherence to, strict investment guidelines, as approved by the Board of Directors and the utilisation of appropriately qualified and experienced personnel to manage the Company's portfolio.

(i) Interest rate risk

The Company's exposure to interest rate risk relates primarily to the impact of market interest rates on the market value of financial assets at fair value through profit or loss and on interest earned on cash and cash equivalents and these financial assets.

Interest rate risk exposure arises mainly from investment in interest-bearing securities and from ongoing valuation of insurance liabilities. The investment portfolios hold significant interest-bearing securities in support of corresponding outstanding claims liabilities and are invested in a manner consistent with the expected duration of claims payments. The Company manages its exposure to interest rate risk primarily through investing funds in securities with maturity dates which are appropriate to the liabilities.

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The sensitivity of profit or loss after tax and equity to movements in interest rates in relation to interest-bearing financial assets held at the reporting date is shown in the table below. The analysis is based on the assumption that the movement in interest rates had increased/decreased by 1% (absolute change) with all other variables held constant. It is assumed that all residual exposures for the shareholder after tax are included in the sensitivity analysis, that the percentage point change occurs at the reporting date and there are concurrent movements in the interest rates and parallel shifts in yield curves.

| Change in interest rate % | 2012 | |
|------------------------------|-----------------------------------|------------------|
| | Profit (Loss) after tax \$'000 | Equity \$'000 |
| +1% | 927 | 927 |
| -1% | (735) | (735) |

(ii) Foreign currency risk

Foreign currency risk is the risk of the Company's asset values changing as a result of changes in currency exchange rates. The Company may be exposed to foreign currency risk as a result of premium collection, claim payment, reinsurance payment and recovery and intercompany expense transactions.

The Company seeks to mitigate its exposure to foreign currency risk by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency, where there is material exposure to currency movements.

A sensitivity analysis showing the impact on profit or loss after tax and equity for changes in foreign exchange rate for exposure as at the reporting date is shown below. The analysis is based on the assumption that the movement in foreign currencies had increased/(decreased) by 10% with all variables held constant. The Company's exposure to other foreign exchange movements is not material.

| Change in FX rate % | Profit (Loss) after tax \$'000 | Equity \$'000 |
|------------------------|-----------------------------------|------------------|
| +10% | (352) | (352) |
| -10% | 352 | 352 |

* There were no foreign currency denominated assets or liabilities held by the Company at 30 November 2011.

(iii) Price risk

Price risk is the risk of loss resulting from the decline in prices of equity securities or other assets. Price risk is managed through diversification of the investment portfolio in accordance with investment guidelines established under the governance of the various investment committees which the Company operates locally and reports into at regional and global levels.

The Company has minimal exposure to price risk as the investment portfolio does not currently include equity securities. (2011: Nil).

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c) FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The degree of judgement used in measuring the fair value of financial instruments generally correlates with the level of observable valuation inputs. Financial instruments with quoted prices in active markets generally have more pricing observability and less judgment is used in measuring fair value. Conversely, financial instruments traded in other than active markets or that do not have quoted prices have less observability and are measured at fair value using valuation models or other pricing techniques that require more judgement.

An active market is one in which transactions for the asset or the liability being valued occurs with sufficient frequency and volume to provide pricing information on an on-going basis. An other than active market is one in which there are few transactions, the prices are not current, price quotations vary substantially either over time or among market makers, or in which little information is released publicly for the asset or liability being valued. Pricing observability is affected by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established, and the characteristics specific to the transaction, liquidity and general market conditions.

Assets and liabilities recorded at fair value in the Statement of Financial Position are measured and classified in a hierarchy for disclosure purposes consisting of three "levels" based on the observability of inputs available in the market place used to measure the fair values as discussed below:

- Level 1: Fair value measurements that are quoted prices (unadjusted) in active markets that the Company has the ability to access for identical assets or liabilities. Market price data generally is obtained from exchange or dealer markets. The Company does not adjust the quoted price for such instruments.
- Level 2: Fair value measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals.
- Level 3: Fair value measurements based on valuation techniques that use significant inputs that are unobservable. Both observable and unobservable inputs may be used to determine the fair values of positions classified in Level 3. These measurements include circumstances in which there is little, if any, market activity for the asset or liability. Therefore, the Company must make certain assumptions as to the inputs a hypothetical market participant would use to value that asset or liability. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgement. In making the assessment, the Company considers factors specific to the asset or liability.

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The following table presents information about assets carried at fair value and indicates the level of the fair value measurement based on the levels of the input used:

| At December 2012 | Fair Value Hierarchy | | | |
|---|----------------------|----------------|----------|----------------|
| | Level 1 | Level 2 | Level 3 | Fair Value |
| Financial assets at fair value through profit or loss | | | | |
| Debt securities | - | 116,881 | - | 116,881 |
| Long term deposits | - | 86,458 | - | 86,458 |
| Total | - | 203,339 | - | 203,339 |

| At November 2011 | Fair Value Hierarchy | | | |
|---|----------------------|----------|----------|------------|
| | Level 1 | Level 2 | Level 3 | Fair Value |
| Financial assets at fair value through profit or loss | | | | |
| Debt securities | 550 | - | - | 550 |
| Long term deposits | - | - | - | - |
| Total | 550 | - | - | 550 |

The fair values of other financial assets and financial liabilities are the same as their carrying amounts.

There was a transfer between level 1 and level 2 during this financial period relating to the debt securities held at 30 November 2011.

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6. INVESTMENT INCOME

| | Period ended 31 Dec 2012 \$000's | Period ended 30 Nov 2011 \$000's |
|---|--|--|
| Cash and fixed interest securities interest income | 12,537 | 9 |
| Investment expense | (128) | - |
| Fair value losses on investments at fair value through profit or loss | (2,423) | (2) |
| Total investment income | 9,986 | 7 |

7. NET CLAIMS INCURRED

| | Period ended 31 Dec 2012 \$000's | Period ended 30 Nov 2011 \$000's |
|-----------------------------------|--|--|
| Gross claims incurred | 172,176 | - |
| Discount movement | (6,508) | - |
| Discounted gross claims incurred | 165,668 | - |
| Reinsurance and other recoveries | 99,621 | - |
| Discount movement | (6,355) | - |
| Discounted reinsurance recoveries | 93,266 | - |
| Net claims incurred | 72,402 | - |

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8. OPERATING EXPENSES

| | Period ended 31 Dec 2012 \$000's | Period ended 30 Nov 2011 \$000's |
|---|--|--|
| Auditors' remuneration - audit services only | 197 | - |
| Depreciation - furniture, fittings and leasehold improvements | 93 | - |
| Depreciation - computer and office equipment | 79 | - |
| Rent expense related to operating leases | 1,929 | - |
| Employee benefits expenses (see below) | 12,960 | - |
| Head office charges (note 22) | 4,011 | - |
| Bank charges | 124 | - |
| Other expenses | 4,917 | - |
| Total operating expenses | 24,310 | - |
| Wages and salaries | 10,739 | - |
| Superannuation expenses | 410 | - |
| Other employee benefit expenses | 1,810 | - |
| Employee benefits expenses | 12,960 | - |

9. INCOME TAX

| | Period ended 31 Dec 2012 \$000's | Period ended 30 Nov 2011 \$000's |
|--|--|--|
| Current taxes on income for the reporting period | - | (2) |
| Current taxes referring to previous periods | (104) | - |
| Total current tax | (104) | (2) |
| Deferred tax (note 19) | 127 | - |
| Total deferred tax | 127 | - |
| Income tax benefit/(expense) | 23 | (2) |
| Profit before income tax | 6,116 | 7 |
| Income tax at the current rate - 28% | (1,712) | (2) |
| Effects of: | | |
| Non deductible expenses | (25) | - |
| Deductible claims reserve adjustment on transfer | 44,213 | - |
| Non taxable subvention income from other related party | 4,800 | - |
| Loss offset to other related party | (17,551) | - |
| Tax losses not recognised during the period | (29,598) | - |
| Other | (104) | - |
| Total income tax benefit/(expense) | 23 | (2) |

The tax losses not recognised during the period represent tax losses that have been lost due to a breach in shareholder continuity.

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10. OTHER INCOME

| | Period ended 31 Dec 2012 \$000's | Period ended 30 Nov 2011 \$000's |
|--|--|--|
| Subvention payment received for net operating losses | 17,144 | - |
| Other income | 17,144 | - |

On 30 August 2012 AIG New Zealand Limited received \$17,143,922 from American Home Assurance Company - New Zealand Branch for compensation of tax losses.

11. CASH AND CASH EQUIVALENTS

| | As at 31 Dec 2012 \$000's | As at 30 Nov 2011 \$000's |
|--------------------------|---------------------------------|---------------------------------|
| Cash on hand and at bank | 18,729 | 444 |
| Deposits at call | 21,760 | 59,000 |
| Total | 40,489 | 59,444 |

Cash at bank earns interest at floating rates based on daily deposit rates. Cash deposits are made for varying periods of between one day and 90 days and earn interest at the respective short term deposit rates.

12. TRADE AND OTHER RECEIVABLES

| | As at 31 Dec 2012 \$000's | As at 30 Nov 2011 \$000's |
|--|---------------------------------|---------------------------------|
| Premium debtors receivable | 51,050 | - |
| Less provision for impairment from premium debtors | (1) | - |
| Receivables from premium debtors | 51,049 | |
| Receivables from related parties | 11,889 | - |
| Less provision for impairment from related parties | (9) | - |
| Sundry Debtors | 5,814 | - |
| Trade and other receivables | 68,743 | - |
| Current | 68,724 | - |
| Non current | 19 | - |
| Total | 68,743 | - |

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Trade receivables are non-interest bearing and are generally on 30-90 day credit terms. An allowance for doubtful debts is made when there is objective evidence that a trade receivable is impaired.

13. REINSURANCE RECOVERABLES

| | As at 31 Dec 2012 \$000's | As at 30 Nov 2011 \$000's |
|---|---------------------------------|---------------------------------|
| Due from reinsurers | 16,460 | - |
| Less provision for impairment from reinsurers | (4) | - |
| Total reinsurance recoverables | 16,456 | - |
| Current | 16,451 | - |
| Non current | 5 | - |
| Total | 16,456 | - |

14. DEFERRED ACQUISITION COSTS

| | As at 31 Dec 2012 \$000's | As at 30 Nov 2011 \$000's |
|--|---------------------------------|---------------------------------|
| Deferred acquisition costs as at 1 December 2011 | - | - |
| Transfer of insurance business at 1 December 2011 | 12,236 | - |
| Acquisition costs deferred | 14,347 | - |
| Amortisation charged to income | (12,236) | - |
| Deferred acquisition costs as at 31 December 2012 | 14,347 | - |
| Deferred reinsurance commissions as at 1 December 2011 | - | - |
| Transfer of insurance business at 1 December 2011 | 8,288 | - |
| Reinsurance commission costs deferred | 10,348 | - |
| Amortisation charged to income | (8,288) | - |
| Reinsurance commission costs as at 31 December 2012 | 10,348 | - |
| Net deferred acquisition costs | 3,999 | - |
| Current | 3,999 | - |
| Non current | - | - |
| Total | 3,999 | - |

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15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | As at 31 Dec 2012 \$000's | As at 30 Nov 2011 \$000's |
|--|---------------------------------|---------------------------------|
| At fair value through profit or loss | | |
| Corporate bonds | 88,507 | - |
| NZ Government/local authority securities | 28,374 | 550 |
| Long term cash deposits | 86,458 | - |
| Total Investments | 203,339 | - |
| Current | 114,722 | - |
| Non current | 88,617 | 550 |
| Total | 203,339 | 550 |

There are no non-derivative financial assets held for trading.

The movement in the Company's financial assets at fair value through profit or loss are summarised in the table below by measurement category.

| | Fair value through profit or loss | Total |
|--|--------------------------------------|----------------|
| As at 15 November 2010 | - | - |
| Additions | 552 | 552 |
| Fair value net losses | (2) - | 2 |
| As at 30 November 2011 | 550 | 550 |
| Transfer of insurance business 1 December 2011 | 85,758 | 85,758 |
| Additions | 54,996 | 54,996 |
| Additions - long term deposits | 86,458 | 86,458 |
| Disposals and maturities | (22,000) | (22,000) |
| Fair value net losses | (2,423) | (2,423) |
| As at 31 December 2012 | 203,339 | 203,339 |

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The following analysis illustrates the credit rating of financial assets at fair value through profit or loss as at the end of the reporting period using S & P rating:

| | 31-Dec 2012 | 30-Nov 2011 |
|----------------|----------------|----------------|
| AAA or AA | 126,257 | - |
| A | 71,809 | - |
| BBB or unrated | 5,273 | - |
| Total | 203,339 | - |

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16. PROPERTY PLANT AND EQUIPMENT

| | As at 31 Dec 2012 \$000's | As at 30 Nov 2011 \$000's |
|--|---------------------------------|---------------------------------|
| Furniture, fittings and leasehold improvements | | |
| <u>Cost</u> | | |
| Balance at 1 December 2011 | - | - |
| Transfer of insurance business at 1 December 2011 | 980 | - |
| Additions | 2,060 | - |
| Disposals | (980) | - |
| Balance at 31 December 2012 | 2,060 | - |
| <u>Accumulated depreciation</u> | | |
| Balance at 1 December 2011 | - | - |
| Transfer of insurance business at 1 December 2011 | 980 | - |
| Depreciation charge | 93 | - |
| Disposals | (980) | - |
| Balance at 31 December 2012 | 93 | - |
| Closing net book value | 1,967 | - |
| Computer and office equipment | | |
| <u>Cost</u> | | |
| Balance at 1 December 2011 | - | - |
| Transfer of insurance business at 1 December 2011 | 546 | - |
| Additions | 277 | - |
| Disposals | (199) | - |
| Balance at 31 December 2012 | 624 | - |
| <u>Accumulated depreciation</u> | | |
| Balance at 1 December 2011 | - | - |
| Transfer of insurance business at 1 December 2011 | 438 | - |
| Depreciation charge | 79 | - |
| Disposals | (176) | - |
| Balance at 31 December 2012 | 341 | - |
| Closing net book value | 283 | - |
| Total net book value of property, plant and equipment | 2,250 | - |

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17. PROVISION FOR UNEARNED PREMIUM

| | As at 31 Dec 2012 \$000's | As at 30 Nov 2011 \$000's |
|--|---------------------------------|---------------------------------|
| Gross unearned premium reserve | 100,367 | - |
| Less: Reinsurance unearned premium reserve | (49,507) | - |
| Provision for net unearned premiums | 50,860 | - |
| Unearned premium at 1 December 2011 | - | - |
| Transfer of insurance business at 1 December 2011 | 48,972 | - |
| Deferral of premium on contracts written in period | 41,356 | - |
| Earning of premiums written in previous period | (39,468) | - |
| Unearned premium at 31 December 2012 | 50,860 | - |
| Current | 29,810 | - |
| Non current | 21,050 | - |
| Total | 50,860 | - |

The liability adequacy test is used to assess the sufficiency of the unearned premium liability to cover all expected future cash flows relating to future claims against in-force insurance contracts. The liability adequacy test is applied at a level of portfolios of contracts that are subject to broadly similar risks and that are managed together as a single portfolio.

As with outstanding claims, the overall risk margin is intended to achieve a 75% probability of adequacy in 2012. The process for determining the overall risk margin, including the way in which diversification of risks has been allowed for, is discussed in Note 4.

The application of the liability adequacy test in respect of the net premium liabilities identified a surplus at 31 December 2012.

| Portfolio groups | Total unexpired risk reserves (net of reinsurance) | Net UEPR @ 31/12/2012 | DAC | Net UEPR less DAC | Difference | Premium deficiency |
|------------------|---|--------------------------|------------------|-------------------|---------------------|-----------------------|
| Consumer lines | 21,776,955 | 32,864,365 | 5,457,197 | 27,407,168 | (5,630,213) | - |
| Commercial lines | 9,268,645 | 17,996,041 | (1,509,312) | 19,505,353 | (10,236,708) | - |
| | 31,045,600 | 50,860,406 | 3,947,885 | 46,912,521 | (15,866,921) | - |

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18. PROVISION FOR OUTSTANDING CLAIMS

| | As at 31 Dec 2012 \$000's | As at 30 Nov 2011 \$000's |
|--|---------------------------------|---------------------------------|
| Net outstanding claims | | |
| Central estimate | 485,944 | - |
| Undiscounted risk margin | 75,531 | - |
| Undiscounted indirect expenses | 3,013 | - |
| Outstanding claims reserve | 564,488 | - |
| Discount to present value | (25,816) | - |
| | <u>538,672</u> | <u>-</u> |
| Gross reinsurance and other recoveries | 394,756 | - |
| Less discount to present value | (18,173) | - |
| | <u>376,583</u> | <u>-</u> |
| Net outstanding claims | <u>162,089</u> | <u>-</u> |

Reconciliation of movements in undiscounted outstanding claims liability

| NZD '000 | Gross | 31 Dec 2012 Reinsurance | Net |
|--|----------------|----------------------------|----------------|
| Transfer of insurance business at 1 December 2011 | 627,864 | 470,135 | 157,729 |
| Unwind of interest | 18,706 | 14,150 | 4,556 |
| Claims incurred in the current year | 59,196 | 22,841 | 36,355 |
| Claims cost paid during the year | (255,618) | (186,817) | (68,801) |
| Claims handling expenses during the year | (2,745) | - | (2,745) |
| Total effect of change in assumptions: | 5,376 | 4,815 | 561 |
| - indirect claims expenses | (270) | - | (270) |
| - interest rate | - | - | - |
| - risk margin | 5,645 | 4,815 | 831 |
| - methodology | - | - | - |
| Development on prior year outstanding claims liability | 86,652 | 51,459 | 35,194 |
| Fx differences | (759) | - | (759) |
| Balance carried forward | <u>538,672</u> | <u>376,583</u> | <u>162,089</u> |

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Reconciliation of movements in net discounted outstanding claims liability (with margins)

| \$'000 | after discounting | before discounting | Impact of discounting |
|--|-------------------|--------------------|-----------------------|
| Gross central estimate (excluding margins) | 463,727 | 485,944 | 22,217 |
| Indirect expenses | 2,875 | 3,013 | 138 |
| Risk margin | 72,070 | 75,531 | 3,461 |
| Gross outstanding claims provision (including margins) | 538,672 | 564,488 | 25,816 |

| \$'000 | after discounting | before discounting | Impact of discounting |
|--|-------------------|--------------------|-----------------------|
| Net central estimate (excluding margins) | 131,646 | 137,847 | 6,201 |
| Indirect expenses | 2,875 | 3,013 | 138 |
| Risk margin | 27,568 | 28,872 | 1,304 |
| Net outstanding claims provision (including margins) | 162,089 | 169,731 | 7,642 |

Net undiscounted ultimate claims cost for the nine most recent accident years from 2005 to 2012

| Inflated value | Nov 2005 | Nov 2006 | Nov 2007 | Nov 2008 | Nov 2009 | Nov 2010 | Nov 2011 | Dec 2012 | Cumulative net payments to date | Net undiscounted outstanding claims for the nine most recent accident years (Inflated, undiscounted, without margins) |
|----------------|----------|----------|----------|----------|----------|----------|----------|----------|--|---|
| 2004 | 17,041 | 20,662 | 20,441 | 19,518 | 18,579 | 18,318 | 17,912 | 18,141 | 17,969 | 272 |
| 2005 | 18,297 | 15,906 | 15,072 | 13,523 | 13,152 | 13,544 | 12,478 | 12,505 | 12,078 | 427 |
| 2006 | | 15,325 | 14,465 | 14,376 | 12,703 | 16,142 | 12,946 | 25,118 | 13,226 | 11,892 |
| 2007 | | | 23,284 | 18,385 | 18,635 | 20,846 | 27,861 | 53,664 | 27,607 | 26,057 |
| 2008 | | | | 29,454 | 47,252 | 73,631 | 95,273 | 99,007 | 49,646 | 49,361 |
| 2009 | | | | | 20,624 | 29,630 | 19,965 | 18,619 | 16,106 | 2,511 |
| 2010 | | | | | | 48,018 | 51,248 | 55,512 | 27,775 | 27,737 |
| 2011 | | | | | | | 20,446 | 20,701 | 14,207 | 6,494 |
| 2012 | | | | | | | | 8,779 | 3,240 | 5,539 |
| | | | | | | | | | Total | 130,290 |
| | | | | | | | | | From prior years | 999 |
| | | | | | | | | | Travel | 3,951 |
| | | | | | | | | | Warranty | 64 |
| | | | | | | | | | | 135,304 |
| | | | | | | | | | Net undiscounted outstanding claims for the 2012/12 loss month | 2,543 |
| | | | | | | | | | Effect for discounting - | 6,201 |
| | | | | | | | | | Net discounted outstanding claims (without margins) | 131,646 |
| | | | | | | | | | Indirect expenses | 2,875 |
| | | | | | | | | | Risk margins | 27,568 |
| | | | | | | | | | Net discounted outstanding claims (with margins) | 162,089 |

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19. DEFERRED TAX

| | As at 31 Dec 2012 \$000's | As at 30 Nov 2011 \$000's |
|--|---------------------------------|---------------------------------|
| Deferred tax assets at 31 December relate to the following: | | |
| Accrued expenses | 698 | - |
| Other | 4 | - |
| Employee entitlements | 559 | - |
| | <u>1,261</u> | <u>-</u> |
| Deferred tax liabilities at 31 December relate to the following: | | |
| Other | (14) | - |
| Deferred acquisition costs | (1,120) | - |
| | <u>(1,134)</u> | <u>-</u> |
| Net deferred assets | <u>127</u> | <u>-</u> |

20. OTHER RECEIVABLES

| | As at 31 Dec 2012 \$000's | As at 30 Nov 2011 \$000's |
|--|---------------------------------|---------------------------------|
| Accrued Income | 2,820 | 13 |
| Prepayments | 101 | - |
| Third party administration - claims floats | 1,647 | - |
| | <u>4,568</u> | <u>13</u> |
| Current | 2,921 | 13 |
| Non current | 1,647 | - |
| Total | <u>4,568</u> | <u>13</u> |

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21. TRADE AND OTHER PAYABLES

| | As at 31 Dec 2012 \$000's | As at 30 Nov 2011 \$000's |
|---------------------------------------|---------------------------------|---------------------------------|
| Trade payables | 6,326 | - |
| Reinsurance payables | 6,655 | - |
| Payables to relates parties | 9,842 | - |
| Provision for holiday pay | 655 | - |
| Total trade and other payables | 23,478 | - |
| Current | 21,719 | - |
| Non current | 1,759 | - |
| Total | 23,478 | - |

22. RELATED PARTY BALANCES

The parent entity of the Company is AIG Asia Pacific Insurance Pte Ltd, incorporated in Singapore. The ultimate controlling entity is American International Group Inc, ("AIG"), incorporated in the State of Delaware, USA.

The Company is party to various cost sharing arrangements with entities within the AIG Group. Generally, these agreements provide for the allocation of corporate costs based upon a proportional allocation of costs to all AIG entities. AIG performs certain services including legal, tax, investment management and investment accounting. In addition, the Company has transactions within the AIG group such as claims management services and information management services.

The Company was party to transactions relating to the portfolio transfer (note 9, 10, 23 and 24).

Service and expense arrangement:

The Company receives a number of services from AIG and entities within the AIG Group which include:

- Corporate wide services to marketing and information systems
- Financial advisory services including tax consulting, treasury, financial reporting and risk management
- Investment portfolio management
- Computer and communications services
- Corporate stewardship services, which include public relations, internal audit and executive services

The costs of these services and other costs incurred by AIG have been directly charged or allocated to the Company, using methods management believes are reasonable, and are included in other expenses in the profit and loss component of the Statement of Comprehensive income. These methods include various measures of direct usage and corporate formulas involving proportionate measures of assets, revenues and employee headcount.

Amounts expensed and paid by the Company for these services and costs were \$4,011,234 for the period ended 31 December 2012.

Reinsurance

In the ordinary course of business, the Company reinsurers certain risks with affiliated entities, predominately Chartis Overseas Association. Such arrangements serve to limit the Company's maximum loss on catastrophes and other large and unusually hazardous risks. The Company has also assumed written premiums generated by affiliated entities of AIG and for these reinsurance transactions they have agreement related to reinsurance, cost sharing, administrative services and marketing.

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| | Period ended 31 Dec 2012 \$000's | Period ended 30 Nov 2011 \$000's |
|--|--|--|
| Related party transactions | | |
| Expenses with parent | | |
| AIG (services provided for NZ operations) | (4,011) | - |
| Expenses with other related parties | | |
| Chartis Overseas Association | (70,841) | - |
| Provision for impairment | (9) | |
| AIG Australia Insurance Ltd (services on shared costs basis) | (928) | - |
| Other (web billing services) | (297) | - |
| Other - claims handling and survey fee income | 101 | |
| Other | (567) | - |
| | <u>(76,552)</u> | <u>-</u> |
| Key management compensation | | |
| | Period ended 31 Dec 2012 \$000's | Period ended 30 Nov 2011 \$000's |
| Salaries and other short-term employee benefits | 1,680 | - |
| Post-employment benefits | - | - |
| Other long-term benefits | 28 | - |
| Share-based payments | - | - |
| | <u>1,708</u> | <u>-</u> |

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| | As at 31 Dec 2012 \$000's | As at 30 Nov 2011 \$000's |
|--|---------------------------------|---------------------------------|
| Related party balances | | |
| Amounts due to other related parties | | |
| Chartis Overseas Association | 9,584 | - |
| AIG Australia Insurance Limited | 55 | - |
| Chartis Memsa UAE | 2 | - |
| AIG Europe UK | 10 | - |
| AIG Global Reinsurance Operations | 73 | - |
| Chartis Bermuda | 67 | - |
| AIG Global Services | 23 | - |
| Chartis International LLC, Inc. | 28 | - |
| Total due to related parties | 9,842 | - |
| Receivables from other related parties | | |
| Chartis Overseas Association | 11,181 | - |
| Less provision for impairment - Chartis Overseas Association | (9) | - |
| AIUI Japan | 2 | - |
| AIG Hong Kong Limited | 174 | - |
| AIG Global Reinsurance Operations | 204 | - |
| AIG Europe UK | 11 | - |
| Chartis Worldwide Source | 317 | - |
| Total receivables due from related parties | 11,880 | - |

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23. SHARE CAPITAL

| | As at 31 Dec 2012 \$000's | As at 30 Nov 2011 \$000's |
|---|---------------------------------|---------------------------------|
| Opening balance at 1 December 2011 | 60,000 | - |
| Issue of shares on 30 November 2011 to AIG Asia Pacific Insurance Pte Ltd | - | 60,000 |
| Issue of shares on 1 December 2011 to AIG Asia Pacific Insurance Pte Ltd | 83,000 | - |
| Issue of shares on 5 October 2012 to AIG Asia Pacific Insurance Pte Ltd | 15,250 | - |
| Total share capital | 158,250 | 60,000 |

On 1 December 2011, 83,000,000 shares were issued for \$1 consideration per share to extinguish the promissory note (refer note 24) following the transfer of the insurance operations of American Home Assurance Company - New Zealand Branch.

On 5 October 2012, 15,250,000 shares were issued \$1 consideration per share to AIG Asia Pacific Insurance Pte Ltd.

As at 31 December 2012, the Company had 158,250,001 authorised ordinary shares that were issued for \$1 per share. All shares are fully paid. There is one class of ordinary shares. All shares issued carry equal voting rights.

24. ACQUISITION RESERVE

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") group of companies.

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. A true up payment of the purchase price was structured by Promissory Note. The Promissory Note was distributed to the respective owners of AHAC. 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. As the Branch and Company are entities under common control of AIG, the transfer of the business will be accounted for using the predecessor values method.

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The following assets and liabilities were transferred to the Company at the Branch's carrying values on 1 December 2011 as follows:

| 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 |

25. CAPITAL COMMITMENTS

(a) Capital commitments

The Company had no capital commitments for leasehold improvement or furnishings as at 31 December 2012 (30 November 2011: Nil).

(b) Operating lease commitments

The Company has property and equipment subject to lease arrangements. There are two operating leases for commercial premises in Auckland and Wellington. The Auckland lease is for a period of 10 years with an option to terminate the lease on the seventh anniversary. There is no right of renewal. The Wellington lease is for a period of 3 years with a right of renewal for a further 3 years.

Future operating non-cancellable lease commitments on the arrangements are as follows:

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

| | As at 31 Dec 2012 \$000's | As at 30 Nov 2011 \$000's |
|--|---------------------------------|---------------------------------|
| No later than 1 year | 967 | - |
| Later than 1 and no later than 5 years | 3,464 | - |
| Later than 5 years | 3,114 | - |
| | 7,545 | - |

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26. CONTINGENT LIABILITIES

The Company provides reinsurance support to Civic Assurance ("Civic"), insurer of local councils throughout New Zealand. The Company has assumed 32.5% of Civic's risk for certain named Councils. As a result of the Canterbury earthquake of 22 February 2011, Civic's client, Christchurch City Council has suffered losses that could go as high as \$750 million. The Company for its part has capped its liability for any single event at \$97.5 million per Council. Civic has contested this position, and maintains that the Company is liable to pay its 32.5% share of all losses on the Christchurch City Council's claim without limit. Civic has sought resolution of this dispute via contractually-mandated arbitration, and the two companies are at present addressing the procedural aspects of this arbitration. The difference in the respective positions is approximately \$145m gross for the Company's reinsurance share. The net impact would be nil to the Company.

27. CREDIT RATING

On 1 December 2012, The Company's financial strength rating of A- was reconfirmed by rating agency Standard and Poor's (Australia) Pty Ltd in accordance with the Insurance Companies Ratings and Inspections Act 1994.

28. CAPITAL ADEQUACY

The Company manages its capital to ensure that it will be able to continue to operate as a going concern and comply with capital requirements imposed by the relevant legislation, Insurance (Prudential Supervision) Act 2010, and the industry regulator the Reserve Bank of New Zealand.

The Company maintains a capital management policy that provides guidance on the level of capital maintained in accordance with regulatory requirements and is approved by the Directors. The objective of this policy is to hold sufficient levels of capital that is commensurate with the Company's overall risk profile and to maintain a level of capital that enables efficient use of the capital.

The capital objectives are achieved through ongoing management of the Statement of Financial Position and capital mix. The Company uses a range of strategies to effectively manage capital including continual refinement of business plans, ongoing reviews of solvency levels based on actuarial analysis, movement in asset valuations and profitability and capital planning in conjunction with budget and financial projections. The Company works with the regulator and monitors regulatory developments across its operations to assess their potential impact on its ability to meet solvency and other requirements.

The unaudited capital adequacy ratio of the Company at the reporting date is as follows:

| | \$000's |
|---|-----------|
| • Actual solvency capital | \$100,639 |
| • Minimum solvency capital | \$60,699 |
| • Solvency margin | \$39,940 |
| • Solvency margin expressed as a percentage | 166% |

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29. RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH OUTFLOWS FROM OPERATING ACTIVITIES

| | \$000's | \$000's |
|---|----------------|----------|
| Operating profit after income tax | 6,139 | 5 |
| <i>Investment revenue - net changes in market value</i> | 2,423 | - |
| Loss on disposal of plant and equipment | 11 | - |
| Depreciation & amortisation expense | 172 | - |
| <i>Change in operating assets and liabilities</i> | | |
| Increase in trade and other receivables | (34,099) | - |
| Decrease/(increase) in other receivables | 6,657 | (3) |
| Decrease in reinsurance and other recoveries | 93,552 | - |
| Increase in deferred reinsurance premiums | (8,374) | - |
| Increase in deferred acquisition expenses | (51) | - |
| Increase in net deferred tax asset | (127) | - |
| Increase in trade and other payables | 6,203 | - |
| Increase/(decrease) in current tax liability | 2,869 | (2) |
| Increase in provision for unearned premiums | 10,262 | - |
| Decrease in provision for gross claims outstanding | (89,192) | - |
| <i>Net cash flow from operating activities</i> | <u>(3,555)</u> | <u>-</u> |

Significant non cash movements include the extinguishment of the promissory note (note 23) and the portfolio transfer (note 24).

30. SUBSEQUENT EVENTS

There has been no matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may significantly affect the Company's operations, or state of affairs in future financial years.

INSURANCE (PRUDENTIAL SUPERVISION) ACT 2010

(“Act”)

APPOINTED AUDITOR’S REPORT

Pursuant to section 78 of the Act

Name of Licensed Insurer: **AIG Insurance New Zealand Limited**

I, Eric Hans Soo Lew of Melbourne in the state of Victoria, Australia report as follows:

1. I am the Appointed Actuary of the Licensed Insurer (*Actuary*).
2. This report is given in accordance with section 78 of the Act and relates to my review of the actuarial information contained in, or used in the preparation of, the financial statements of the Licensed Insurer for the 13 months ending 31 November 2012 (*Review*).
- 2.1 The Work done by me in relation to the Review was:
 - (i) The Premium Liabilities as defined in the Standard;
 - (ii) The Net Outstanding Claims Liability as defined in the Standard;
 - (iii) The reinsurance and any other recovery asset(s) relevant to the Reinsurance Recovery Risk Capital Charge; and
 - (iv) Application of the Liability Adequacy Test and any deferred acquisition cost or deferred fee revenue relevant to the Premium Liabilities.
- 2.2 The Scope and Limitations of the Review was: None
- 2.3 There is no relationship (other than that of actuary) that I have with, or any interests that I have in, the Licensed Insurer
- 2.4 I have obtained all information and explanations that I have required.
- 2.5 In my opinion and from an actuarial perspective:
 - (i) The actuarial information contained in the financial statements has been appropriately included in those statements;
 - (ii) The actuarial information used in the preparation of the financial statements has been used appropriately.
- 2.6 In my opinion and from an actuarial perspective the Licensed Insurer is maintaining the solvency margin that applies under a condition imposed under section 21(2)(b) of the Act (as at the balance date of the Licensed Insurer).

Dated: 7 June 2013



Signed: Eric Hans Soo Lew