

# AIG INSURANCE NEW ZEALAND LIMITED

## ANNUAL REPORT

*For the financial year ended 31 December 2014*

## **AIG INSURANCE NEW ZEALAND LIMITED**

### **ANNUAL REPORT**

*For the financial year ended 31 December 2014*

# **Contents**

|                                   | Page |
|-----------------------------------|------|
| Directors' Report                 | 3    |
| Independent Auditor's Report      | 5    |
| Statement of Comprehensive Income | 7    |
| Statement of Financial Position   | 8    |
| Statement of Changes in Equity    | 9    |
| Statement of Cash Flows           | 10   |
| Notes to the Financial Statements | 11   |

## **AIG INSURANCE NEW ZEALAND LIMITED**

*For the financial year ended 31 December 2014*

### **DIRECTORS' REPORT**

---

The directors of AIG Insurance New Zealand Limited (the "Company") present their report to the shareholder together with the audited financial statements of the Company for the financial year ended 31 December 2014.

#### **Directors**

The directors of the Company in office at the date of this report are as follows:

|                 |  |
|-----------------|--|
| N E Condon      | (appointed 30 July 2014)                           |
| J A Dawson      | (appointed 1 July 2013)                            |
| S K Farquharson | (appointed 26 August 2013)                         |
| C J Ryan        | (appointed 1 July 2013)                            |
| C H Stobo       | (appointed 1 December 2012)                        |
| C E Knell       | (appointed 15 November 2010; resigned 10 Jun 2014) |
| J M McPhee      | (appointed 1 December 2012; resigned 30 July 2014) |

#### **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 year ended 31 December 2014 (2013: Nil).

#### **Review and result of operations**

The operating profit after tax of the Company for the year ended 31 December 2014 was \$26.3m (2013: \$5.4m). According to the register of directors' shareholdings, none of the directors holding office at the end of the financial year had any interest in the shares or debentures of the Company or its related corporations, except as follows:

#### **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.

#### **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 year ended 31 December 2014.

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

In the opinion of the directors,

- (a) the statement of financial position of the Company as set out on page 8 are drawn up so as to give a true and fair view of the state of affairs of the Company as at 31 December 2013 and of the results of the business, changes in equity and cash flows of the Company for the financial year then ended; and

## AIG INSURANCE NEW ZEALAND LIMITED

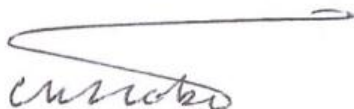
For the financial year ended 31 December 2014

### DIRECTORS' REPORT

---

- (b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the directors



---

C H Stobo  
Chairman

26 March 2015



---

J/A Dawson  
Chair of Audit Committee



## ***Independent Auditors' Report***

to the shareholders of AIG Insurance New Zealand Limited

### ***Report on the Financial Statements***

We have audited the financial statements of AIG Insurance New Zealand Limited ("the Company") on pages 7 to 55, which comprise the balance sheet as at 31 December 2014, the 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 for the Company.

### ***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.

We are independent of the Company. Other than in our capacity as auditors and providers of other related assurance services we have no relationship with, or interests in, the Company.







### ***Opinion***

In our opinion, the financial statements on pages 7 to 55:

- (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 2014, 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 2014:

- (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 Use of our Report***

This report is made solely to the Company's shareholders, as a body, in accordance with 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.

Chartered Accountants  
26 March 2015

Auckland





**AIG INSURANCE NEW ZEALAND LIMITED***For the financial year ended 31 December 2014***STATEMENT OF COMPREHENSIVE INCOME**

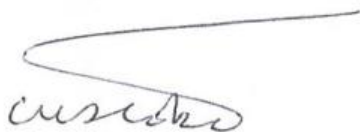
| \$ '000   | Notes | Year ended<br>31 Dec 2014 | Year ended<br>31 Dec 2013 |
|---|-------|---------------------------|---------------------------|
| <b>Income</b>   |       |                           |                           |
| Insurance premium revenue                                   | 4     | 168,569                   | 174,773                   |
| Insurance premium ceded to reinsurers                       | 4     | (113,585)                 | (112,714)                 |
| Net earned insurance premium revenue                        | 4     | 54,984                    | 62,059                    |
| Fee and commission income                                   | 5     | 26,087                    | 29,175                    |
| Net investment income                                       | 6     | 11,332                    | 11,681                    |
| Other net gains/( losses)                                   | 7     | 437                       | (3,384)                   |
| Other income  | 8     | 1,349                     | 159                       |
| <b>Total income</b>   |       | <b>94,189</b>             | <b>99,690</b>             |
| <b>Expenses</b>   |       |                           |                           |
| Insurance claims  | 9     | (113,274)                 | (146,809)                 |
| Insurance claims recovered from reinsurers                  | 9     | 103,179                   | 97,555                    |
| Net insurance claims  | 9     | (10,095)                  | (49,254)                  |
| Acquisition costs   |       | (21,678)                  | (20,824)                  |
| Net operating expenses                                      | 10    | (25,670)                  | (21,095)                  |
| <b>Total expenses</b>                                       |       | <b>(57,443)</b>           | <b>(91,173)</b>           |
| <b>Profit before tax</b>                                    |       | <b>36,746</b>             | <b>8,517</b>              |
| Income tax expense  | 11    | (10,456)                  | (3,073)                   |
| <b>Profit and total comprehensive income for the period</b> |       | <b>26,290</b>             | <b>5,444</b>              |

*The accompanying notes form an integral part of these financial statements.*

**AIG INSURANCE NEW ZEALAND LIMITED***For the financial year ended 31 December 2014***STATEMENT OF FINANCIAL POSITION**

| \$ '000   | Notes | As at<br>31 Dec 2014 | As at<br>31 Dec 2013 |
|---|-------|----------------------|----------------------|
| <b>ASSETS</b>   |       |                      |                      |
| Cash and cash equivalents                             | 12    | 27,606               | 83,105               |
| Trade and other receivables                           | 14    | 70,410               | 56,082               |
| Other receivables                                     | 18    | 4,944                | 4,516                |
| Reinsurance recoverables                              | 15    | 12,642               | 5,640                |
| Deferred tax assets                                   | 22    | 1,462                | 934                  |
| Financial assets at fair value through profit or loss | 13    | 184,573              | 182,556              |
| Deferred acquisition costs                            | 16    | 11,623               | 15,859               |
| Provision for reinsurance on unearned premiums        | 20    | 59,122               | 66,071               |
| Provision for reinsurance on outstanding claims       | 21    | 307,961              | 342,821              |
| Property, plant and equipment                         | 17    | 2,765                | 2,008                |
| <b>Total assets</b>                                   |       | <b>683,108</b>       | <b>759,592</b>       |
| <b>LIABILITIES</b>                                    |       |                      |                      |
| Trade and other payables                              | 19    | 28,089               | 37,778               |
| Deferred reinsurance commission                       | 16    | 13,975               | 14,419               |
| Current tax liabilities                               |       | 6,582                | 3,070                |
| Provision for gross unearned premiums                 | 20    | 99,636               | 106,683              |
| Provision for gross claims outstanding                | 21    | 402,419              | 491,038              |
| Deferred tax liabilities                              | 22    | -                    | 487                  |
| <b>Total liabilities</b>                              |       | <b>550,701</b>       | <b>653,475</b>       |
| <b>EQUITY</b>   |       |                      |                      |
| Share capital   | 24    | 158,250              | 158,250              |
| Acquisition reserves                                  | 25    | (63,721)             | (63,721)             |
| Retained earnings                                     |       | 37,878               | 11,588               |
| Equity attributable to owners of the company          |       | 132,407              | 106,117              |
| Non-controlling interest                              |       | -                    | -                    |
| <b>Total equity</b>                                   |       | <b>132,407</b>       | <b>106,117</b>       |
| <b>Total liabilities and equity</b>                   |       | <b>683,108</b>       | <b>759,592</b>       |

On behalf of the directors


C H Stobo  
Chair

J A Dawson  
Chair of Audit Committee

26 March 2015

*The accompanying notes form an integral part of these financial statements.*

**AIG INSURANCE NEW ZEALAND LIMITED***For the financial year ended 31 December 2014***STATEMENT OF CHANGES IN EQUITY**

| \$ '000  | Notes     | Share capital  | Other reserves  | Retained earnings | Total          |
|--|-----------|----------------|-----------------|-------------------|----------------|
| <b>At 1 December 2012</b>                        | <b>24</b> | <b>158,250</b> | <b>(63,721)</b> | <b>6,144</b>      | <b>100,673</b> |
| Total comprehensive income                       |           |                |                 |                   |                |
| Profit for the period                            |           | -              | -               | 5,444             | 5,444          |
| Other comprehensive income for the period        |           | -              | -               | -                 | -              |
| <b>Total comprehensive income for the period</b> |           | <b>-</b>       | <b>-</b>        | <b>5,444</b>      | <b>5,444</b>   |
| <b>At 31 December 2013</b>                       |           | <b>158,250</b> | <b>(63,721)</b> | <b>11,588</b>     | <b>106,117</b> |
| Total comprehensive income                       |           |                |                 |                   |                |
| Profit for the year                              |           | -              | -               | 26,290            | 26,290         |
| Other comprehensive income for the year          |           | -              | -               | -                 | -              |
| <b>Total comprehensive income for the year</b>   |           | <b>-</b>       | <b>-</b>        | <b>26,290</b>     | <b>26,290</b>  |
| <b>At 31 December 2014</b>                       |           | <b>158,250</b> | <b>(63,721)</b> | <b>37,878</b>     | <b>132,407</b> |

*The accompanying notes form an integral part of these financial statements.*

**AIG INSURANCE NEW ZELAND LIMITED***For the financial year ended 31 December 2014***STATEMENT OF CASH FLOWS**

| \$ '000  | Notes     | Year ended<br>31 Dec 2014 | Year ended<br>31 Dec 2013 |
|--|-----------|---------------------------|---------------------------|
| Cash flow from operating activities:                         |           |                           |                           |
| Premiums received  |           | 157,863                   | 185,144                   |
| Reinsurance claim recoveries                                 |           | 131,037                   | 142,133                   |
| Interest received  |           | 10,061                    | 11,769                    |
| Claims paid  |           | (201,893)                 | (194,443)                 |
| Outwards reinsurance premiums paid                           |           | (128,550)                 | (112,405)                 |
| Net commission income received                               |           | 8,173                     | 10,910                    |
| General operating expenses                                   |           | (18,650)                  | (14,868)                  |
| Income tax   |           | (11,471)                  | (3,393)                   |
| <b>Net cash (used in) / provided by operating activities</b> | <b>27</b> | <b>(53,430)</b>           | <b>24,847</b>             |
| Cash flow from investing activities:                         |           |                           |                           |
| Purchase of financial assets                                 |           | (90,990)                  | (110,637)                 |
| Maturities and disposal of financial assets                  |           | 90,032                    | 22,000                    |
| Purchases of property, plant, equipment and software         |           | (1,111)                   | (102)                     |
| <b>Net cash (used in) / provided by investing activities</b> |           | <b>(2,069)</b>            | <b>17,769</b>             |
| Cash flow from financing activities:                         |           |                           |                           |
| Proceeds from issuance of ordinary shares                    |           | -                         | -                         |
| <b>Net cash provided by financing activities</b>             |           | <b>-</b>                  | <b>-</b>                  |
| Cash and cash equivalents:                                   |           |                           |                           |
| <b>Beginning of year</b>                                     | <b>12</b> | <b>83,105</b>             | <b>40,489</b>             |
| Net (decrease)/increase in cash and cash equivalents         |           | (55,499)                  | 42,616                    |
| <b>End of year</b>   | <b>12</b> | <b>27,606</b>             | <b>83,105</b>             |

*The accompanying notes form an integral part of these financial statements.*

# **AIG INSURANCE NEW ZEALAND LIMITED**

*For the financial year ended 31 December 2014*

## **NOTES TO THE FINANCIAL STATEMENTS**

---

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

### **1 General information**

AIG Insurance New Zealand Limited ("the Company") is a limited liability company and is domiciled in New Zealand. The Company is rated "A" (strong) by Standard & Poors. 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 26 March 2015. The directors do not have the power to amend these financial statements after issue.

### **2 Significant accounting policies**

#### **2.1 Basis of preparation**

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 NZ 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 3.

These financial statements have been prepared for a twelve month period covering 1 January 2014 through to 31 December 2014.

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

#### **2.2 New standards and interpretations adopted**

No new standards have been adopted by the Company for the first time that have a material impact on the Company.

**NOTES TO THE FINANCIAL STATEMENTS**

---

**2 Significant accounting policies (continued)**

New standards and interpretations not yet adopted

The following are new standards, amendments and interpretations issued but which are not effective for the financial year beginning on 1 January 2014 and have not been adopted early by the Company are listed below:

**NZ IFRS 15: Revenue from contracts with customers**

NZ IFRS 15 addresses recognition of revenue from contracts with customers. It replaces the current revenue recognition guidance in NZ IAS 18 Revenue and NZ IAS 11 Construction Contracts and is applicable to all entities with revenue. It sets out a five step model for revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The effective date of this standard is 1 January 2017.

This standard is not expected to significantly impact the Company

**NZ IFRS 9: Financial Instruments**

NZ IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9, was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised costs, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the "hedged ratio" to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but it is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. The Company is yet to assess NZ IFRS 9's full impact.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.



**NOTES TO THE FINANCIAL STATEMENTS**

---

**2 Significant accounting policies (continued)**

**2.3 Premiums earned**

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 Reserve.

**2.4 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. Premiums 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.

**2.5 Commission income**

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.

**2.6 Deferred acquisition costs (DAC)**

Policy acquisition costs represent those costs, including commissions, premium taxes and other underwriting expenses that vary with and are primarily related to the acquisition of new and renewal insurance contracts.

Policy acquisition costs are deferred and amortised over the period in which the related premiums written are earned. DAC is grouped consistent with the manner in which the insurance contracts are acquired, serviced and measured for profitability and is reviewed for recoverability based on the profitability of the underlying insurance contracts.

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

The unearned portions of commission income are deferred and shown as Deferred Reinsurance Commissions in the Statement of Financial Position.

**NOTES TO THE FINANCIAL STATEMENTS**

---

**2 Significant accounting policies (continued)**

**2.7 Net 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.

**2.8 Net realised gains/(losses)**

Net realised gains and losses are determined by specific identification of individual investments sold. The net realised gains and losses are generated primarily from the following sources:

- Sales of investments, and other invested assets.
- Exchange gains and losses resulting from foreign currency transactions.

**2.9 Insurance claims**

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.

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.

**2.10 Net operating expenses**

Net operating expenses includes salaries, depreciation, amortisation of deferred acquisition costs, costs of employee retention awards, impairment of non-financial assets and other operating expenses. Net operating expenses are included in the Statement of Comprehensive Income and are recognised on an accrual basis.

**2.11 Taxation**

**Current Tax**

Current income tax for current and prior periods is recognised at the amount expected to be paid to or recovered from the tax authorities, using tax rates and tax laws that have been enacted or substantively enacted by the 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).

**NOTES TO THE FINANCIAL STATEMENTS**

---

**2 Significant accounting policies (continued)**

**2.11 Taxation (continued)**

**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 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.

**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.

**2.12 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.

**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.

**Receivables**

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. 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.

**NOTES TO THE FINANCIAL STATEMENTS**

---

**2 Significant accounting policies (continued)**

**2.13 Cash and cash equivalents**

Cash and cash equivalents comprises cash on hand and demand deposits with banks together with short-term highly liquid investments that are readily convertible into known amounts of cash and that are not subject to a significant risk of a change in value. Such investments are classified as cash equivalents where they have maturity dates of three months or less from the date of acquisition.

The Company has applied the indirect method for preparing the Statement of cash flows. This statement shows the movement in cash and cash equivalents for the period including bank overdrafts.

**2.14 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 net operating expenses in the profit and loss component of the Statement of Comprehensive Income.

Other receivables include accrued investment income, prepaid expenses and third party claim floats.

**2.15 Reinsurance recoverables**

Reinsurance recoverables include the balances due from reinsurance and insurance companies under the terms of the Company's reinsurance agreements for unpaid claims, claim adjustment expenses and prepaid reinsurance premiums.

**2.16 Properties, plant and equipment**

Properties, plant and equipment is 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 of property, plant and equipment.

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. Expenditures for repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

**NOTES TO THE FINANCIAL STATEMENTS**

---

**2 Significant accounting policies (continued)**

**2.16 Properties, plant and equipment (continued)**

Depreciation is calculated on a straight line basis over the estimated useful life of the assets as follows:

- Leasehold improvement      over the term of the lease
- Furniture and fittings      5 years
- Office equipment      5 years
- Computer equipment      3 years

The assets' residual values, length of the economic lives and depreciation methods applied are reviewed on a regular basis, and at least at every reporting date, and adjusted as 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 included in profit or loss and are determined by comparing proceeds with carrying amount.

**2.17 Intangible assets**

Intangible assets include capitalised software costs.

Capitalised software costs represent costs directly related to obtaining, developing or upgrading internal use software. Such costs are capitalised and amortised on a straight-line method over the software's useful life which is a period generally not exceeding five years.

**2.18 Impairment of assets**

**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 loss is recognised in the profit and loss component of the Statement of Comprehensive Income.

**NOTES TO THE FINANCIAL STATEMENTS**

---

**2 Significant accounting policies (continued)**

**2.18 Impairment of assets (continued)**

**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.

**2.19 Insurance liabilities**

Insurance liabilities comprise of a provision for outstanding claims and a provision for unearned premiums.

Claims and claims adjustment expenses are charged to income as incurred. The provision for outstanding claims represents the accumulation of estimates for unpaid reported claims and loss adjustment expenses and includes provisions for claims incurred but not reported.

The liability for outstanding claims is measured as the central estimate of expected future claim payments and related settlement costs against claims incurred at the reporting date under general insurance contracts issued by the Company.

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 methods of determining such estimates and establishing resulting reserves are regularly reviewed and updated. If the existing liability is determined to be inadequate or redundant, the liability is adjusted and the increase or decrease is reflected in income in the period in which the estimates are changed.

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



**NOTES TO THE FINANCIAL STATEMENTS**

---

**2 Significant accounting policies (continued)**

**2.20 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.

**2.21 Provisions and contingent liabilities**

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. A provision is measured at the best estimate that the Company would pay to settle the obligation or transfer it to a third party.

A contingent liability is an obligation where it is not more likely than not that an outflow of resources will be required or the amount of the obligation cannot be reasonably estimated. Contingent liabilities are disclosed if there is more than a remote possibility that an outflow of resources will be required to settle the obligation.

In many cases, it is not possible to determine whether a liability has been incurred or to estimate the ultimate or minimum amount of that liability until years after the contingency arises, in which case, no accrual is made until that time.

**2.22 Foreign currency translation**

**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.

**Translation of foreign currency transactions and balances**

Foreign currency transactions during the year are translated into the functional currency using the rates of exchange prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rates of exchange ruling at the reporting date. Non-monetary assets and liabilities are translated into functional currency at the rates of exchange prevailing at the date of the transaction or most recent date of valuation where they are held at fair value.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and the translation of foreign currency denominated monetary assets and liabilities at year end exchange rates are recognised in the Statement of Comprehensive Income.

**NOTES TO THE FINANCIAL STATEMENTS**

---

**2 Significant accounting policies (continued)**

**2.23 Employee benefits and share-based payments**

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.

**Short-term employee benefits**

Short-term employee benefits, including compensated absences, are benefits to be paid within one year after the end of the reporting period in which the related services are rendered. A liability and expense are recognised for the undiscounted amount expected to be paid for short-term employee benefits in the period in which the employee renders services in exchange for the benefits.

**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.

**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.

**2.24 Operating leases**

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Operating lease payments, where the lessors effectively retain substantially all of the risk and benefits of ownership of the leased items, are recognised as an expense in the Statement of Comprehensive income on a straight line basis over the lease term. Any lease incentives, such as rent free periods, are amortised on a straight line basis over the lease term.

The cost of improvements to or on leasehold property is capitalised, disclosed as leasehold improvements, and amortised over the unexpired period of the lease.

**NOTES TO THE FINANCIAL STATEMENTS**

---

**2 Significant accounting policies (continued)**

**2.25 Liability adequacy**

At each reporting date, the Company assesses whether the unearned premium liability is sufficient to cover all expected future cash flows relating to future claims covered by current insurance contracts. This assessment is referred to as the liability adequacy test and is performed at a portfolio level of contracts that are subject to broadly similar risks and managed together as a single portfolio.

If the present value of the expected future cash flows relating to future claims plus an additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned premium liability less the related deferred acquisition costs, future reinsurance premium and prepaid reinsurance expense then the unearned premium liability is deemed to be deficient.

The deficiency is recognised immediately in the Statement of Comprehensive Income. The deficiency is recognised first by writing down any related deferred acquisition costs, with any excess being recorded in the statement of financial position as an unexpired risk liability.

**2.26 Offsetting of financial assets and liabilities**

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

**2.27 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.

**2.28 Changes in accounting policies**

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

**NOTES TO THE FINANCIAL STATEMENTS**

---

**3. 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:

**3.1 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, including 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.

**3.2 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.

**3.3 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 and is satisfied as to the nature, sufficiency and accuracy of the data used to determine the outstanding claims liability.

## NOTES TO THE FINANCIAL STATEMENTS

### 3. Critical accounting estimates and judgements (continued)

#### 3.3 Actuarial assumptions (continued)

The outstanding claims liability has been determined in accordance with Professional Standard No. 4.1 of the New Zealand Society of Actuaries and NZ IFRS 4: Insurance Contracts issued by the NZ Accounting Standards Board of the XRB pursuant to section 24 (1)(a) of the Financial Reporting Act 1993 and incorporates the following assumptions:

|   | As at 31 Dec 2014                       | As at 31 Dec 2013 |
|---|---|-------------------|
| Weighted average term to settlement                 | 1.1 years                               | 1.5 years         |
| Discount rate for succeeding and subsequent years   | 3.52%                                   | 3.33%             |
| 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                  | 5.5%                                    | 3.40%             |
| Probability of sufficiency                          | 75.00%                                  | 75.00%            |

#### 3.4 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.

#### 3.5 Methodology

The methodology for determining risk margins 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.

#### 3.6 Risk margin classes

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

#### 3.7 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.

#### 3.8 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:

Based on the correlation structure assumed, this year's valuation assumes a total diversification benefit of approximately 21% gross and 17% net of reinsurance (2013: 21% gross and 17% net of reinsurance).

**AIG INSURANCE NEW ZEALAND LIMITED***For the financial year ended 31 December 2014***NOTES TO THE FINANCIAL STATEMENTS****4 Net earned insurance premium revenue**

| \$ '000   | Year ended<br>31 Dec 2014 | Year ended<br>31 Dec 2013 |
|---|---------------------------|---------------------------|
| <b>Premium revenue from insurance contracts issued:</b>                   |                           |                           |
| Gross written premium in the year   | 161,522                   | 181,089                   |
| Change in unearned premium provision                                      | 7,047                     | (6,316)                   |
|   | <b>168,569</b>            | <b>174,773</b>            |
| <b>Premium revenue ceded to reinsurers on insurance contracts issued:</b> |                           |                           |
| Premium ceded to reinsurers in the year                                   | (106,636)                 | (129,278)                 |
| Change in unearned premium provision                                      | (6,949)                   | 16,564                    |
|   | <b>(113,585)</b>          | <b>(112,714)</b>          |
| <b>Net earned insurance premium revenue</b>                               | <b>54,984</b>             | <b>62,059</b>             |

**5 Fee and commission income**

| \$ '000                          | Year ended<br>31 Dec 2014 | Year ended<br>31 Dec 2013 |
|----------------------------------|---------------------------|---------------------------|
| Reinsurance commission income    | 26,087                    | 29,175                    |
| <b>Fee and commission income</b> | <b>26,087</b>             | <b>29,175</b>             |

**6 Net investment income**

| \$ '000  | Year ended<br>31 Dec 2014 | Year ended<br>31 Dec 2013 |
|--|---------------------------|---------------------------|
| Cash and fixed interest securities interest income | 11,396                    | 11,720                    |
| Investment expenses                                | (64)                      | (39)                      |
| <b>Net investment income</b>                       | <b>11,332</b>             | <b>11,681</b>             |

**7 Other net gains/(losses)**

| \$ '000   | Year ended<br>31 Dec 2014 | Year ended<br>31 Dec 2013 |
|---|---------------------------|---------------------------|
| Financial assets at fair value through profit or loss |                           |                           |
| - Fair value losses                                   | (1,667)                   | (3,160)                   |
| - Fair value gains                                    | 1,693                     | 248                       |
| Foreign exchange gains/(losses)                       | 411                       | (472)                     |
| <b>Other net gains/( losses)</b>                      | <b>437</b>                | <b>(3,384)</b>            |



**AIG INSURANCE NEW ZEALAND LIMITED***For the financial year ended 31 December 2014***NOTES TO THE FINANCIAL STATEMENTS****8 Other income**

| \$ '000             | Year ended<br>31 Dec 2014 | Year ended<br>31 Dec 2013 |
|---------------------|---------------------------|---------------------------|
| Other fee income    | 1,349                     | 159                       |
| <b>Other income</b> | <b>1,349</b>              | <b>159</b>                |

Other income relates to amounts received from subsidiary companies for the reimbursement of expenses relating to regionally and globally hosted staff.

**9 Net insurance claims**

Claims and claim liabilities include loss adjustment expenses and provision for loss adjustment expenses.

| \$ '000   | Year ended<br>31 Dec 2014 | Year ended<br>31 Dec 2013 |
|---|---------------------------|---------------------------|
| <b>Insurance claims</b>                           |                           |                           |
| Gross claims incurred                             | 105,065                   | 145,294                   |
| Discount movement                                 | 8,208                     | 1,515                     |
|   | <b>113,273</b>            | <b>146,809</b>            |
| <b>Insurance claims recovered from reinsurers</b> |                           |                           |
| Reinsurance recoveries                            | 99,782                    | 95,244                    |
| Discount movement                                 | 3,396                     | 2,311                     |
|   | <b>103,178</b>            | <b>97,555</b>             |
| <b>Net insurance claims</b>                       | <b>10,095</b>             | <b>49,254</b>             |

**2014 Incurred claims**

\$'000

|                                  | 2014    | 2013 & prior | Total   |
|----------------------------------|---------|--------------|---------|
| Gross claims incurred            | 52,162  | 52,903       | 105,065 |
| Discounted claims incurred       | 50,423  | 62,850       | 113,273 |
| Less: discount movement          | (1,739) | 9,947        | 8,208   |
| Reinsurance and other recoveries | 23,895  | 75,887       | 99,782  |
| Discounted claims incurred       | 22,758  | 80,420       | 103,178 |
| Less: discount movement          | (1,137) | 4,533        | 3,396   |
| Net claims incurred (undisc)     | 28,267  | (22,894)     | 5,283   |
| Net claims incurred (disc)       | 27,665  | (17,570)     | 10,095  |

**NOTES TO THE FINANCIAL STATEMENTS**

**9 Net insurance claims (continued)**

**2013 Incurred claims**

\$'000

|                                  | <b>2013</b> | <b>2012 &amp; prior</b> | <b>Total</b> |
|----------------------------------|-------------|-------------------------|--------------|
| Gross claims incurred            | 60,422      | 84,872                  | 145,294      |
| Discounted claims incurred       | 58,087      | 88,722                  | 146,809      |
| Less: discount movement          | (2,335)     | 3,850                   | 1,515        |
| Reinsurance and other recoveries | 28,194      | 67,050                  | 95,244       |
| Discounted claims incurred       | 26,553      | 71,002                  | 97,555       |
| Less: discount movement          | (1,641)     | 3,952                   | 2,311        |
| Net claims incurred (undisc)     | 32,228      | 17,822                  | 50,050       |
| Net claims incurred (disc)       | 31,534      | 17,720                  | 49,254       |

**10 Net operating expenses**

| <b>\$ '000</b>   | <b>Year ended<br/>31 Dec 2014</b> | <b>Year ended<br/>31 Dec 2013</b> |
|--|-----------------------------------|-----------------------------------|
| Employee benefits expenses (see below)                         | 14,001                            | 13,702                            |
| Operating lease rentals  | 1,159                             | 978                               |
| Depreciation of furniture, fittings and leasehold improvements | 320                               | 269                               |
| Depreciation of computer and office equipment                  | 34                                | 75                                |
| Auditors' remuneration – audit services only                   | 182                               | 162                               |
| Auditors' remuneration – solvency return review                | 18                                | 16                                |
| Auditors' remuneration – taxation services                     | 25                                | -                                 |
| Bank charges   | 89                                | 104                               |
| AIG Group service fees   | 7,378                             | 5,883                             |
| Other expenses   | 2,463                             | (94)                              |
| <b>Net operating expenses</b>                                  | <b>25,670</b>                     | <b>21,095</b>                     |

| <b>\$ '000</b>                    | <b>As at<br/>31 Dec 2014</b> | <b>As at<br/>31 Dec 2013</b> |
|-----------------------------------|------------------------------|------------------------------|
| Wages and salaries                | 11,271                       | 11,609                       |
| Superannuation                    | 585                          | 486                          |
| Other employee benefit expenses   | 2,145                        | 1,607                        |
| <b>Employee benefits expenses</b> | <b>14,001</b>                | <b>13,702</b>                |

**AIG INSURANCE NEW ZEALAND LIMITED***For the financial year ended 31 December 2014***NOTES TO THE FINANCIAL STATEMENTS****11 Income tax**

| \$ '000                             | Year ended<br>31 Dec 2014 | Year ended<br>31 Dec 2013 |
|-------------------------------------|---------------------------|---------------------------|
| Current income tax                  | (41)                      | -                         |
| Current income tax                  | (11,429)                  | (3,393)                   |
| <b>Total current tax</b>            | <b>(11,470)</b>           | <b>(3,393)</b>            |
| Prior period adjustment             | (104)                     | (662)                     |
| Deferred tax                        | 1,118                     | 982                       |
| <b>Total deferred tax (note 22)</b> | <b>1,014</b>              | <b>320</b>                |
| <b>Income tax expense</b>           | <b>(10,456)</b>           | <b>(3,073)</b>            |

| \$ '000                                | Year ended<br>31 Dec 2014 | Year ended<br>31 Dec 2013 |
|--|---------------------------|---------------------------|
| <b>Profit before tax</b>               | <b>36,746</b>             | <b>8,517</b>              |
| Tax calculated at the current rate 28% | (10,289)                  | (2,384)                   |
| Effects of:                            |                           |                           |
| Non deductible expenses                | (22)                      | (27)                      |
| Prior period adjustment                | (145)                     | (662)                     |
| <b>Income tax expense</b>              | <b>(10,456)</b>           | <b>(3,073)</b>            |

**12 Cash and cash equivalents**

| \$ '000                          | As at<br>31 Dec 2014 | As at<br>31 Dec 2013 |
|----------------------------------|----------------------|----------------------|
| Cash in hand and at bank         | 12,606               | 16,156               |
| Deposits at call                 | 15,000               | 66,949               |
| <b>Cash and cash equivalents</b> | <b>27,606</b>        | <b>83,105</b>        |

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. Cash and cash equivalents are all expected to be realised within 12 months of the reporting period.

**AIG INSURANCE NEW ZEALAND LIMITED***For the financial year ended 31 December 2014***NOTES TO THE FINANCIAL STATEMENTS****13 Financial assets at fair value through profit or loss**

The Company's financial investments are summarised by measurement category in the table below.

At 31 December

| \$ '000  | As at<br>31 Dec 2014 | As at<br>31 Dec 2013 |
|--|----------------------|----------------------|
| At fair value through profit or loss                         |                      |                      |
| Fixed interest securities                                    | 113,287              | 99,367               |
| Floating rate notes  | 41,286               | 28,189               |
| Long term cash deposits                                      | 30,000               | 55,000               |
| <b>Financial assets at fair value through profit or loss</b> | <b>184,573</b>       | <b>182,556</b>       |

There are no financial assets held for trading.

Changes in fair value of financial assets at fair value through profit or loss are recorded in net other gains/(losses).

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

| \$ '000  | Year ended<br>31 Dec 2014 | Year ended<br>31 Dec 2013 |
|--|---------------------------|---------------------------|
| Balance at the beginning of the period                       | 182,556                   | 203,339                   |
| Purchases  | 90,990                    | 110,637                   |
| Disposals and maturities                                     | (88,999)                  | (128,508)                 |
| Fair value net gains/(losses)                                | 26                        | (2,912)                   |
| <b>Financial assets at fair value through profit or loss</b> | <b>184,573</b>            | <b>182,556</b>            |

**14 Trade and other receivables**

At 31 December

| \$ '000   | As at<br>31 Dec 2014 | As at<br>31 Dec 2013 |
|---|----------------------|----------------------|
| Premium debtors receivables                         | 46,927               | 52,551               |
| Less: Provision for impairment from premium debtors | (41)                 | -                    |
| Amount due from related parties                     | 14,076               | 3,280                |
| Less: Provision for impairment from related parties | -                    | -                    |
| Sundry debtors                                      | 9,448                | 251                  |
| Less: Provision for impairment for sundry debtors   | -                    | -                    |
| <b>Trade and other receivables</b>                  | <b>70,410</b>        | <b>56,082</b>        |

Trade receivables and sundry debtors 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. The fair value of trade and other receivables does not differ from their amortised cost.

**AIG INSURANCE NEW ZEALAND LIMITED***For the financial year ended 31 December 2014***NOTES TO THE FINANCIAL STATEMENTS****15 Reinsurance recoverables**

At 31 December

| \$ '000                                       | As at<br>31 Dec 2014 | As at<br>31 Dec 2013 |
|---|----------------------|----------------------|
| Due from reinsurers                           | 12,642               | 5,640                |
| Less: Provision for impairment for reinsurers | -                    | -                    |
| <b>Total reinsurance recoverables</b>         | <b>12,642</b>        | <b>5,640</b>         |

**16 Deferred acquisition costs**

| \$ '000  | Year ended<br>31 Dec 2014 | Year ended<br>31 Dec 2013 |
|--|---------------------------|---------------------------|
| Opening deferred acquisition costs               | 15,859                    | 14,347                    |
| Effect of change in assumptions                  | (6,927)                   | -                         |
| Acquisition costs deferred                       | 21,866                    | 15,859                    |
| Amortisation charged to income                   | (19,175)                  | (14,347)                  |
| <b>Deferred acquisition costs at 31 December</b> | <b>11,623</b>             | <b>15,859</b>             |

At 31 December

| \$ '000  | As at<br>31 Dec 2014 | As at<br>31 Dec 2013 |
|--|----------------------|----------------------|
| Opening deferred reinsurance commissions           | 14,419               | 10,348               |
| Effect of change in assumptions                    | (4,007)              | -                    |
| Reinsurance commission costs deferred              | 26,877               | 14,419               |
| Amortisation charged to income                     | (23,314)             | (10,348)             |
| <b>Reinsurance commission costs at 31 December</b> | <b>13,975</b>        | <b>14,419</b>        |

A more detailed approach has been taken in assessing acquisition and related costs resulting in the deferral of these costs being limited to incremental and direct costs of successful new or renewal business only. Costs that are being deferred relate directly to the contract transaction. Such costs are then subjected to idle time and successful effort calculations. This change in estimates has resulted in a net increased charge to the Statement of Comprehensive Income of \$2.9m. (Gross \$6.9m; Reinsurance \$4.0m).

**AIG INSURANCE NEW ZEALAND LIMITED***For the financial year ended 31 December 2014***NOTES TO THE FINANCIAL STATEMENTS****17 Properties, plant and equipment**

Movements in the properties, plant and equipment assets are as follows:

| \$ '000                         | Computer<br>Software | Furniture &<br>Fittings &<br>Leasehold<br>Improvements | Office<br>Equipment | Total          |
|---------------------------------|----------------------|--|---------------------|----------------|
| <b>Cost</b>                     |                      |  |                     |                |
| Balance 1 January 2013          | 239                  | 2,135  | 310                 | 2,684          |
| Additions                       | -                    | 36   | 66                  | 102            |
| Disposals                       | -                    | -  | -                   | -              |
| <b>At 31 December 2013</b>      | <b>239</b>           | <b>2,171</b>   | <b>376</b>          | <b>2,786</b>   |
| Additions                       | 1,084                | 5  | 22                  | 1,111          |
| Transfers                       | 111                  | 242  | (353)               | -              |
| <b>At 31 December 2014</b>      | <b>1,434</b>         | <b>2,418</b>   | <b>45</b>           | <b>3,897</b>   |
| <b>Accumulated Depreciation</b> |                      |  |                     |                |
| Balance 1 January 2013          | (203)                | (93)   | (138)               | (434)          |
| Depreciation charge             | (18)                 | (269)  | (57)                | (344)          |
| Disposals                       | -                    | -  | -                   | -              |
| <b>At 31 December 2014</b>      | <b>(221)</b>         | <b>(362)</b>   | <b>(195)</b>        | <b>(778)</b>   |
| Depreciation charge             | (19)                 | (292)  | (43)                | (354)          |
| Transfers                       | (106)                | (108)  | 214                 | -              |
| <b>At 31 December 2014</b>      | <b>(346)</b>         | <b>(762)</b>   | <b>(24)</b>         | <b>(1,132)</b> |
| <b>Carrying Amount</b>          |                      |  |                     |                |
| At 1 December 2012              | 36                   | 2,042  | 172                 | 2,250          |
| At 31 December 2013             | 18                   | 1,809  | 181                 | 2,008          |
| <b>At 31 December 2014</b>      | <b>1,088</b>         | <b>1,656</b>   | <b>21</b>           | <b>2,765</b>   |



**NOTES TO THE FINANCIAL STATEMENTS**

**18 Other receivables**

|   |                      |                      |
|---|----------------------|----------------------|
| At 31 December                            |                      |                      |
| \$ '000                                   | As at<br>31 Dec 2014 | As at<br>31 Dec 2013 |
| Accrued investment income                 | 3,071                | 2,771                |
| Prepayments                               | 126                  | 98                   |
| Third party administration – claim floats | 1,747                | 1,647                |
| <b>Other receivables</b>                  | <b>4,944</b>         | <b>4,516</b>         |

**19 Trade and other payables**

|                                 |                      |                      |
|---------------------------------|----------------------|----------------------|
| At 31 December                  |                      |                      |
| \$ '000                         | As at<br>31 Dec 2014 | As at<br>31 Dec 2013 |
| Trade payables                  | 4,814                | 6,812                |
| Reinsurance payables            | 1,614                | 3,390                |
| Amount due to related companies | 17,785               | 20,421               |
| Withholding taxes               | 3,010                | 6,315                |
| Provision for holiday pay       | 866                  | 840                  |
| <b>Trade and other payables</b> | <b>28,089</b>        | <b>37,778</b>        |

**20 Provision for net unearned premium**

|   |                           |                           |
|---|---------------------------|---------------------------|
| \$ '000   | Year ended<br>31 Dec 2014 | Year ended<br>31 Dec 2013 |
| Gross unearned premium reserve                      | 99,636                    | 106,683                   |
| Less: Reinsurance unearned premium reserve          | (59,122)                  | (66,071)                  |
| <b>Provision for net unearned premium</b>           | <b>40,514</b>             | <b>40,612</b>             |
| Unearned premium at beginning of year               | 40,612                    | 50,860                    |
| Deferral of premiums on contracts written in period | 31,151                    | 30,409                    |
| Earning of premiums written in previous period      | (31,249)                  | (40,657)                  |
| <b>Provision for net unearned premium</b>           | <b>40,514</b>             | <b>40,612</b>             |

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 2014. The process for determining the overall risk margin, including the way in which diversification of risks has been allowed for, is discussed in note 3.8.

## AIG INSURANCE NEW ZEALAND LIMITED

For the financial year ended 31 December 2014

### NOTES TO THE FINANCIAL STATEMENTS

---

#### 20 Provision for net unearned premium (continued)

The application of the liability adequacy test in respect of the net premium liabilities identified a surplus at December 2014.

For the purposes of the liability adequacy test, the present value of expected future cash flows for future claims (including risk margin) is equal to \$33.7 million, made up as follows:

- Discounted central estimate (net of reinsurance) of \$25.3 million;
- Indirect claims expense provision of \$4.2 million; and
- Risk margins at the 75th percentile probability of sufficiency (after allowing for diversification benefit) of \$4.2 million.

#### 21 Provision for net claims outstanding

The Company establishes claim reserves, which are estimates of future payments of reported and unreported claims for claims and claim adjustment expenses, with respect to insured events that have occurred. Reserving is a complex process dealing with uncertainty, requiring the use of informed estimates and judgments. Any changes in estimates or judgments are reflected in the results of operations in the period in which estimates and judgments are changed.

Significant delays may occur in the notification and settlement of claims, and a substantial measure of experience and judgment is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty as of the financial position date. The reserves for claims and claims adjustment expenses are determined on the basis of information currently available; however, it is inherent in the nature of the business written that the ultimate liabilities may vary as a result of subsequent developments.

| \$ '000                                       | 2014           | 2013           |
|---|----------------|----------------|
| Central estimate                              | 360,277        | 443,033        |
| Undiscounted risk margin                      | 54,319         | 69,154         |
| Undiscounted indirect expenses                | 3,915          | 3,151          |
| Outstanding claims reserve                    | 418,511        | 515,338        |
| Discount to present value                     | (16,092)       | (24,300)       |
| <b>Provision for gross outstanding claims</b> | <b>402,419</b> | <b>491,038</b> |

|   |                |                |
|---|----------------|----------------|
| At 31 December                                      |                |                |
| \$ '000   | 2014           | 2013           |
| Gross reinsurance and other recoveries              | 320,426        | 358,682        |
| Less: discount to present value                     | (12,465)       | (15,861)       |
| <b>Provision for reinsurance outstanding claims</b> | <b>307,961</b> | <b>342,821</b> |
| <b>Net outstanding claims</b>                       | <b>94,458</b>  | <b>148,217</b> |

# AIG INSURANCE NEW ZEALAND LIMITED

For the financial year ended 31 December 2014

## NOTES TO THE FINANCIAL STATEMENTS

### 21 Provision for claims outstanding (continued)

Reconciliation of movements in discounted outstanding claims liability

As at 31 December

| NZD '000   | 2014     |             |         | 2013     |             |         |
|--|----------|-------------|---------|----------|-------------|---------|
|  | Gross    | Reinsurance | Net     | Gross    | Reinsurance | Net     |
| Balance brought forward                                | 491,038  | 342,821     | 148,217 | 538,672  | 376,583     | 162,089 |
| Unwind of interest                                     | 13,452   | 9,257       | 4,195   | 15,715   | 11,110      | 4,605   |
| Claims incurred in the current year                    | 47,936   | 22,827      | 25,109  | 58,331   | 26,980      | 31,351  |
| Claims cost paid during the year                       | -197,058 | -138,038    | -59,020 | -188,774 | -131,318    | -57,456 |
| Claims handling expenses during the year               | -4,441   | 0           | -4,441  | -2,908   | 0           | -2,908  |
| Total effect of change in assumptions:                 | 585      | -689        | 1,274   | -6,139   | -3,891      | -2,248  |
| - indirect claims expenses                             | 1,471    | 0           | 1,471   | -176     | 0           | -176    |
| - interest rate  | -886     | -689        | -197    | -5,963   | -3,891      | -2,072  |
| - risk margin  | 0        | 0           | 0       | 0        | 0           | 0       |
| - methodology  | 0        | 0           | 0       | 0        | 0           | 0       |
| Development on prior year outstanding claims liability | 50,514   | 71,783      | -21,269 | 73,380   | 63,357      | 10,023  |
| Fx differences   | 393      | 0           | 393     | 2,761    | 0           | 2,761   |
| Balance carried forward                                | 402,419  | 307,961     | 94,458  | 491,038  | 342,821     | 148,217 |

### Policy Liability Maturity profile

|                                | 1 year or less | 1 to 3 years | 3 to 5 years | Over 5 years | Total   | Carrying Amount |
|--------------------------------|----------------|--------------|--------------|--------------|---------|-----------------|
|                                | \$'000         | \$'000       | \$'000       | \$'000       | \$'000  | \$'000          |
| <b>Gross Policy liability</b>  |                |              |              |              |         |                 |
| Outstanding claims liabilities | 222,337        | 165,325      | 7,209        | 7,548        | 402,419 | 402,419         |
| Unearned premium liabilities   | 49,345         | 39,414       | 9,186        | 1,691        | 99,636  | 99,636          |
| <b>RI Policy liability</b>     |                |              |              |              |         |                 |
| Outstanding claims liabilities | 170,079        | 125,922      | 5,037        | 6,923        | 307,961 | 307,961         |
| Unearned premium liabilities   | 28,393         | 24,555       | 5,035        | 1,139        | 59,122  | 59,122          |
| <b>Net Policy liability</b>    |                |              |              |              |         |                 |
| Outstanding claims liabilities | 52,258         | 39,403       | 2,172        | 625          | 94,458  | 94,458          |
| Unearned premium liabilities   | 20,952         | 14,859       | 4,151        | 552          | 40,514  | 40,514          |

**NOTES TO THE FINANCIAL STATEMENTS**

**21 Provision for claims outstanding (continued)**

Net undiscounted ultimate claims costs for the nine most recent accident years from 2006 to 2014

As at 31 December

| November<br>Y.E.  | Nov 2006 | Nov 2007 | Nov 2008 | Nov 2009 | Nov 2010 | Nov 2011 | Dec 2012 | Dec 2013 | Dec 2014 | Cumulative<br>net<br>payments to<br>date | Net undiscounted<br>outstanding claims for<br>the nine most recent<br>accident years<br>(inflated,<br>undiscounted, without<br>margins) |
|---|----------|----------|----------|----------|----------|----------|----------|----------|----------|--|---|
| 2006  | 15,325   | 14,465   | 14,376   | 12,703   | 16,142   | 18,946   | 25,118   | 37,135   | 27,177   | 19,703                                   | 7,474   |
| 2007  |          | 23,284   | 18,385   | 18,635   | 20,846   | 27,861   | 53,664   | 54,643   | 54,618   | 28,161                                   | 26,457  |
| 2008  |          |          | 29,454   | 47,252   | 73,631   | 95,273   | 99,007   | 95,940   | 91,287   | 89,278                                   | 2,009   |
| 2009  |          |          |          | 20,624   | 29,630   | 19,965   | 18,619   | 18,670   | 18,409   | 17,583                                   | 826   |
| 2010  |          |          |          |          | 48,018   | 51,248   | 55,512   | 63,703   | 72,011   | 47,036                                   | 24,975  |
| 2011  |          |          |          |          |          | 20,446   | 20,701   | 21,520   | 20,843   | 17,734                                   | 3,109   |
| 2012  |          |          |          |          |          |          | 8,779    | 8,061    | 7,710    | 5,833                                    | 1,877   |
| 2013  |          |          |          |          |          |          |          | 8,703    | 6,926    | 5,384                                    | 1,542   |
| 2014  |          |          |          |          |          |          |          |          | 6,861    | 3,021                                    | 3,840   |
| <b>Total</b>  |          |          |          |          |          |          |          |          |          | <b>72,109</b>                            |   |
| <b>From prior years</b>   |          |          |          |          |          |          |          |          |          | <b>1,129</b>                             |   |
| <b>Travel</b>   |          |          |          |          |          |          |          |          |          | <b>2,328</b>                             |   |
| <b>Warranty</b>   |          |          |          |          |          |          |          |          |          | <b>371</b>                               |   |
|   |          |          |          |          |          |          |          |          |          | <b>75,937</b>                            |   |
| <b>Net undiscounted outstanding claims for the 2014/12 loss month</b> |          |          |          |          |          |          |          |          |          | <b>2,545</b>                             |   |
| <b>Effect of discounting</b>  |          |          |          |          |          |          |          |          |          | <b>-2,857</b>                            |   |
| <b>Net discounted outstanding claims (without margins)</b>            |          |          |          |          |          |          |          |          |          | <b>75,625</b>                            |   |
| <b>Indirect expenses</b>  |          |          |          |          |          |          |          |          |          | <b>3,729</b>                             |   |
| <b>Risk margins</b>   |          |          |          |          |          |          |          |          |          | <b>15,104</b>                            |   |
| <b>Net discounted outstanding claims (with margins)</b>               |          |          |          |          |          |          |          |          |          | <b>94,458</b>                            |   |

Please note the net undiscounted ultimate claims costs above do not include the Travel and Warranty classes since these classes are characterised by claims that are typically resolved within one year.

**22 Deferred tax**

| '\$ '000                          | As at<br>31 Dec 2014 | As at<br>31 Dec 2013 |
|-----------------------------------|----------------------|----------------------|
| Provision for doubtful debts      | 11                   | -                    |
| Provision for bonus payments      | 439                  | 404                  |
| Provision for holiday pay         | 242                  | 235                  |
| Deferred acquisition costs        | 659                  | -                    |
| Fixed assets                      | 17                   | -                    |
| Accruals not currently deductible | 94                   | 295                  |
| <b>Deferred tax assets</b>        | <b>1,462</b>         | <b>934</b>           |

| '\$ '000                        | As at<br>31 Dec 2014 | As at<br>31 Dec 2013 |
|---------------------------------|----------------------|----------------------|
| Other                           | -                    | (84)                 |
| Deferred acquisition costs      | -                    | (403)                |
| <b>Deferred tax liabilities</b> | <b>-</b>             | <b>(487)</b>         |

## AIG INSURANCE NEW ZEALAND LIMITED

For the financial year ended 31 December 2014

### NOTES TO THE FINANCIAL STATEMENTS

---

#### 23 Contingencies and commitments

In the normal course of business, various commitments and contingent liabilities are entered into by the Company or asserted by third parties.

##### Litigation and Investigations

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 significant losses. The Company and Civic had a dispute over the application of a per risk cap in the reinsurance agreement, and the dispute was submitted to arbitration. On 1 August 2014, the arbitration panel announced an award adopting Civic's interpretation of the reinsurance contract, ruling that the cap applies per asset, property or location. Total losses are yet to be quantified to the Company, however any changes to reserves will have minimal impact as a result of the reinsurance structure in place.

##### Capital Commitments

The Company has capital commitments of \$3.6m for IT development costs as at 31 December 2014 (31 December 2013: \$7.1m).

##### 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.

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

\$ '000

| At 31 December                                    | As at<br>31 Dec 2014 | As at<br>31 Dec 2013 |
|---|----------------------|----------------------|
| Not later than one year                           | 1,159                | 1,159                |
| Later than one year and not later than five years | 3,943                | 3,987                |
| Later than five years                             | 1,901                | 2,779                |
| <b>Total</b>                                      | <b>7,003</b>         | <b>7,925</b>         |

## AIG INSURANCE NEW ZEALAND LIMITED

For the financial year ended 31 December 2014

### NOTES TO THE FINANCIAL STATEMENTS

---

#### 24 Share capital

As at 31 December 2013 and 2014, the Company had 158,250,001 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.

#### Movement in Issued share capital

\$ '000

|                     |         |
|---------------------|---------|
| At 1 December 2013  | 158,250 |
| At 31 December 2014 | 158,250 |

#### 25 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.

#### 26 Ownership and transactions with related parties

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.

## AIG INSURANCE NEW ZEALAND LIMITED

For the financial year ended 31 December 2014

### NOTES TO THE FINANCIAL STATEMENTS

#### 26 Ownership and transactions with related parties (continued)

##### Service and Expense Agreements:

The Company receives a number of services from AIG Group, which include:

- Consulting and other services associated with restructuring programs
- Corporate wide services related to marketing and information systems
- Legal services
- Facilities Management
- 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 Group have been directly charged or allocated to the Group, using methods management believes are reasonable, and are included in other expenses in 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.

##### Reinsurance:

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

##### Related party transactions

| \$ '000                                      | Year ended<br>31 Dec 2014 | Year ended<br>31 Dec 2013 |
|--|---------------------------|---------------------------|
| Expenses with parent                         |                           |                           |
| - AIG (services provided for NZ operations)  | (7,165)                   | (5,883)                   |
| Income/(expenses) with other related parties |                           |                           |
| - Chartis Overseas Association               | 97,821                    | 119,095                   |
| - Chartis Overseas Association               | (127,140)                 | (116,161)                 |
| - National Union Fire Insurance Co Ltd       | 2,326                     | -                         |
| - National Union Fire Insurance Co Ltd       | (733)                     | -                         |
| - AIG Australia Insurance Ltd                | (1,957)                   | (758)                     |
| - AIG Asia Pacific Pte Ltd                   | 1,200                     | (521)                     |
| - AIG Global Claims                          | (590)                     | -                         |
| - AIG Shared Services                        | (853)                     | -                         |
| - AIG Travelguard                            | (226)                     | (206)                     |
| - AIG Global Services (web billing services) | (360)                     | (518)                     |
| - Other                                      | (178)                     | 17                        |
| <b>Related party transactions</b>            | <b>(37,855)</b>           | <b>(4,935)</b>            |



**AIG INSURANCE NEW ZEALAND LIMITED***For the financial year ended 31 December 2014***NOTES TO THE FINANCIAL STATEMENTS****26 Ownership and transactions with related parties (continued)**Key Management Compensation

At 31 December

| \$ '000   | Year ended<br>31 Dec 2014 | Period ended<br>31 Dec 2013 |
|---|---------------------------|-----------------------------|
| Salaries and other short-term employee benefits | 1,704                     | 1,725                       |
| Post-employment benefits                        | -                         | -                           |
| Other long-term benefits                        | 65                        | 38                          |
| <b>Total</b>                                    | <b>1,769</b>              | <b>1,763</b>                |

Loans to directors

No loans were advanced to directors or key management personnel during the year, (2013: nil).

Other related party balances receivable

| \$ '000                                 | As at<br>31 Dec 2014 | As at<br>31 Dec 2013 |
|---|----------------------|----------------------|
| Chartis Overseas Association            | 12,744               | 2,781                |
| National Union Fire Insurance Co        | 424                  | -                    |
| AIUI Japan                              | 2                    | -                    |
| AIU Malaysia                            | 77                   | -                    |
| Insurance Company State of Pennsylvania | 13                   | -                    |
| AIG Asia Pacific Pte Ltd                | 130                  | -                    |
| AIG Thailand                            | -                    | 2                    |
| AIG Global Reinsurance Operations       | -                    | 82                   |
| AIG Europe UK                           | 179                  | 2                    |
| AIG Global Services                     | 12                   | -                    |
| AIG Inc                                 | 79                   | -                    |
| Chartis Global Claims Services          | 23                   | -                    |
| AIG other                               | 4                    | -                    |
| Chartis Worldwide Source                | 389                  | 413                  |
| <b>Related party receivables</b>        | <b>14,076</b>        | <b>3,280</b>         |

Other related party balances payable

At 31 December

| \$ '000                           | As at<br>31 Dec 2014 | As at<br>31 Dec 2013 |
|-----------------------------------|----------------------|----------------------|
| Chartis Overseas Association      | 15,564               | 20,137               |
| National Union Fire Insurance Co  | 1,528                | -                    |
| AIG Australia Insurance Ltd       | 51                   | 79                   |
| AIG Shared Services               | 255                  | -                    |
| AIG Europe UK                     | 2                    | 2                    |
| AIG Global Reinsurance Operations | 123                  | 127                  |
| AIG Global Services               | 40                   | 59                   |
| Chartis International LLC Inc     | 222                  | 17                   |
| <b>Related party payables</b>     | <b>17,785</b>        | <b>20,421</b>        |

**AIG INSURANCE NEW ZEALAND LIMITED***For the financial year ended 31 December 2014***NOTES TO THE FINANCIAL STATEMENTS**

---

**26 Ownership and transactions with related parties (continued)**

All balances are unsecured, non-interest bearing and repayable on demand in local currency.

**27 Reconciliation of profit after tax to net cash flows from operating activities**

At 31 December

| \$ '000  | As at<br>31 Dec 2014 | As at<br>31 Dec 2013 |
|--|----------------------|----------------------|
| Operating profit after income tax                        | 26,290               | 5,444                |
| Investment revenue – net changes in market value         | (1,059)              | 2,912                |
| Depreciation expense                                     | 354                  | 344                  |
| <b>Change in operating assets and liabilities</b>        |                      |                      |
| (Increase) / decrease in trade and other receivables     | (11,879)             | 17,661               |
| (Increase) / decrease in other receivables               | (9,878)              | 5,868                |
| Decrease in reinsurance and other recoveries             | 34,862               | 33,762               |
| (Decrease) / increase in deferred reinsurance premiums   | 6,949                | (16,564)             |
| (Decrease) / increase in net deferred acquisition costs  | 3,792                | 2,559                |
| Increase in net deferred tax asset                       | (1,015)              | (320)                |
| (Decrease) / increase in trade and other payables        | (9,692)              | 11,299               |
| Increase in tax liability                                | 3,512                | 3,200                |
| (Decrease) / increase in provision for unearned premiums | (7,047)              | 6,316                |
| Decrease for provision in gross claims outstanding       | (88,619)             | (47,634)             |
| <b>Net cash (out)/in flow from operating activities</b>  | <b>(53,430)</b>      | <b>24,847</b>        |

**NOTES TO THE FINANCIAL STATEMENTS**

**28 Fair value measurement**

The Company classifies all financial assets as either financial assets are fair value through profit or loss or loans and receivables.

The following tables present the estimate fair values of the Company's financial assets and financial liabilities.

| \$ '000   | Amortised<br>cost | Fair value     | Carrying<br>value | Fair value     |
|---|-------------------|----------------|-------------------|----------------|
| <b>At 31 December 2014</b>                            |                   |                |                   |                |
| Cash and cash equivalents                             | 27,606            | -              | 27,606            | 27,606         |
| Trade and other receivables                           | 70,410            | -              | 70,410            | 70,410         |
| Financial assets at fair value through profit or loss | 30,000            | 154,573        | 184,573           | 184,573        |
| Reinsurance recoverable                               | 12,642            | -              | 12,642            | 12,642         |
| Accrued income  | 3,071             | -              | 3,071             | 3,071          |
| <b>Financial assets</b>                               | <b>143,729</b>    | <b>154,573</b> | <b>298,302</b>    | <b>298,302</b> |
| Insurance payables                                    | 19,399            | -              | 19,399            | 19,399         |
| Other payables  | 8,690             | -              | 8,690             | 8,690          |
| <b>Financial liabilities</b>                          | <b>28,089</b>     | <b>-</b>       | <b>28,089</b>     | <b>28,089</b>  |

| \$ '000   | Amortised<br>cost | Fair value     | Carrying<br>value | Fair value     |
|---|-------------------|----------------|-------------------|----------------|
| <b>At 31 December 2013</b>                            |                   |                |                   |                |
| Cash and cash equivalents                             | 83,105            | -              | 83,105            | 83,105         |
| Trade and other receivables                           | 56,082            | -              | 56,082            | 56,082         |
| Financial assets at fair value through profit or loss | 55,000            | 127,556        | 182,556           | 182,556        |
| Reinsurance recoverable                               | 5,640             | -              | 5,640             | 5,640          |
| Accrued income  | 2,771             | -              | 2,771             | 2,771          |
| <b>Financial assets</b>                               | <b>202,598</b>    | <b>127,556</b> | <b>330,154</b>    | <b>330,154</b> |
| Insurance payables                                    | 23,811            | -              | 23,811            | 23,811         |
| Other payables  | 13,967            | -              | 13,967            | 13,967         |
| <b>Financial liabilities</b>                          | <b>37,778</b>     | <b>-</b>       | <b>37,778</b>     | <b>37,778</b>  |

The carrying amount of assets included in the above tables represents the maximum credit exposure. The carrying value of financial instruments expected to be settled within 12 months (after taking into account impairments, where applicable) is not considered to be materially different from the fair value.

## **NOTES TO THE FINANCIAL STATEMENTS**

---

### **28 Fair value measurement (continued)**

#### Fair value measurements on a recurring basis

The Company carries certain of its financial instruments at fair value. The fair value of a financial instrument is the amount that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between willing, able and knowledgeable market participants at the measurement date.

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.

The following methods and assumptions were used by the Company to estimate the fair value of financial instruments.

#### **Valuation Methodology**

##### Cash and cash equivalents

The carrying amount of cash and cash equivalents approximates its fair value.

##### Debt securities at fair value through profit or loss

- **Fixed Maturity Securities**

Whenever available, the Company obtains quoted prices in active markets for identical assets at the financial position date to measure fixed maturity securities at fair value in its available-for-sale portfolio. Market price data is generally obtained from dealer markets.

Management is responsible for the determination of the value of the investments carried at fair value and the supporting methodologies and assumptions. The Company employs independent third-party valuation service providers to gather, analyze, and interpret market information and derive fair values based upon relevant methodologies and assumptions for individual instruments.

Valuation service providers typically obtain data about market transactions and other key valuation model inputs from multiple sources and, through the use of widely accepted valuation models, provide a single fair value measurement for individual securities for which a fair value has been requested under the terms of service agreements. The inputs used by the valuation service providers include, but are not limited to, market prices from recently completed transactions and transactions of comparable securities, benchmark yields, interest rate yield curves, credit spreads, currency rates, quoted prices for similar securities and other market-observable information, as applicable. The valuation models take into account, among other things, market-observable information as of the measurement date as well as the specific attributes of the security being valued, including its term, interest rate, credit rating, industry sector, and when applicable, collateral quality and other security or

**NOTES TO THE FINANCIAL STATEMENTS**

---

**28 Fair value measurement (continued)**

Debt securities at fair value through profit or loss (continued)

issuer-specific information. When market transactions or other market observable data is limited, the extent to which judgment is applied in determining fair value is greatly increased.

Receivables

The carrying amount of amounts receivable from policyholders, agents, broker, intermediaries and reinsurer is not considered materially different to their fair value.

Other financial liabilities

The fair value of other unquoted liabilities is estimated by discounting expected future cash flows using current market rates applicable to their yield, credit quality and maturity, except for those with no stated maturity, where the carrying value approximates the fair value.

Fair Value Hierarchy

Financial 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 characteristic of inputs available in the marketplace that are used to measure the fair values as noted 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.

**NOTES TO THE FINANCIAL STATEMENTS**

**28 Fair value measurement (continued)**

Fair Value Hierarchy (continued)

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

| \$ '000                    | Fair value hierarchy |                |         | Total          |
|----------------------------|----------------------|----------------|---------|----------------|
|                            | Level 1              | Level 2        | Level 3 | Fair value     |
| <b>At 31 December 2014</b> |                      |                |         |                |
| Debt securities            | -                    | 154,573        | -       | 154,573        |
| Long term deposits         | -                    | 30,000         | -       | 30,000         |
| <b>Total</b>               | -                    | <b>184,573</b> | -       | <b>184,573</b> |
| <b>At 31 December 2013</b> |                      |                |         |                |
| Debt securities            | -                    | 127,556        | -       | 127,556        |
| Long term deposits         | -                    | 55,000         | -       | 55,000         |
| <b>Total</b>               | -                    | <b>182,556</b> | -       | <b>182,556</b> |

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

## **NOTES TO THE FINANCIAL STATEMENTS**

---

### **29 Risk management framework**

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.

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.



**NOTES TO THE FINANCIAL STATEMENTS**

---

**30 Insurance risk**

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.

Claims volatility risk

Claims volatility refers to the possibility that the frequency or severity of claims arising from insurance contracts exceeds the level assumed when the products were priced.

Insurance liabilities are difficult to predict and may exceed the related reserves for losses and loss expenses. Although the Company regularly reviews the adequacy of the established liability for unpaid claims and claims adjustment expense and conduct an extensive analysis of reserves at each year end, there can be no assurance that our loss reserves will not develop adversely and have a material adverse effect on our results of operations. Estimation of ultimate net losses, loss expenses and loss reserves is a complex process for long-tail lines of business, which include excess liability, D&O, professional liability, medical malpractice, workers' compensation, general liability, products liability and related classes. Generally, actual historical loss development factors are used to project future loss development. However, there can be no assurance that future loss development patterns will be the same as in the past.

The Company seeks to mitigate claims volatility risk by conducting regular experience studies reviewing internal and external data, and considering the impact of these on product design, pricing and reinsurance needs. As a result of the Company's history and scale, a substantial volume of experience data has been accumulated which assists in evaluation and pricing of insurance risk.

Key assumptions

The principal assumption underlying the liability estimates is that the Company's future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and claim number for each accident year. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example: one-off occurrence, changes in market factors such as public attitude to claiming, economic conditions, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgement is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

Other key circumstances affecting the reliability of assumptions include variation in interest rates, delays in settlement and changes in foreign currency rates.

## AIG INSURANCE NEW ZEALAND LIMITED

For the financial year ended 31 December 2014

### NOTES TO THE FINANCIAL STATEMENTS

---

#### 30 Insurance Risk (continued)

##### Sensitivity Analysis

A sensitivity analysis has been performed on the outstanding claims liabilities.

The impact of the changes net of tax in key outstanding claims variables are summarised below. Each change has been calculated in isolation of the other changes and each change shows the relevant impact assuming that there is no change to any other variables.

| Variables            | Movement in variables | Impact | Financial impact Profit/(Loss) NZD '000 |
|----------------------|-----------------------|--------|---|
| Discount rates       | +1%                   | 956    | 688                                     |
|                      | -1%                   | -975   | -702                                    |
| Inflation rates      | +1%                   | -975   | -702                                    |
|                      | -1%                   | 956    | 688                                     |
| Claims expense ratio | +1%                   | -806   | -580                                    |
|                      | -1%                   | 806    | 580                                     |
| Duration             | +0.5 year             | 1,622  | 1,168                                   |
|                      | -0.5 year             | -1,650 | -1,188                                  |

#### 31 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.

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

##### Credit risk

Credit risk arises from the possibility of financial loss arising from default by borrowers and transactional counterparties and the decrease in the value of financial instruments due to deterioration in credit quality. The key areas where the Company is exposed to credit risk include repayment risk in respect of:

- Cash and cash equivalents
- Financial assets at fair value through profit or loss
- Trade and other receivables
- Reinsurance recoverables

## AIG INSURANCE NEW ZEALAND LIMITED

For the financial year ended 31 December 2014

### NOTES TO THE FINANCIAL STATEMENTS

#### 31 Financial risk (continued)

The maximum exposure of credit risk for cash and cash equivalents, financial assets at fair value through profit or loss, trade and other receivables and reinsurance recoverables is the carrying value (net of allowances) in 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.

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.

#### Credit exposure

The table below shows the maximum exposure to credit risk for the components of the statement of financial position and items such as future commitments. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting or collateral agreements.

| As 31 December  | As at<br>31 Dec 2014 | As at<br>31 Dec 2013 |
|---|----------------------|----------------------|
| \$ '000   |                      |                      |
| <b>Assets:</b>  |                      |                      |
| Cash and cash equivalents                             | 27,606               | 83,105               |
| Financial assets at fair value through profit or loss | 184,573              | 182,556              |
| Trade and other receivables                           | 70,410               | 56,082               |
| Reinsurance recoverables                              | 12,642               | 5,640                |
| <b>Total</b>  | <b>295,231</b>       | <b>327,383</b>       |

**AIG INSURANCE NEW ZEALAND LIMITED***For the financial year ended 31 December 2014***NOTES TO THE FINANCIAL STATEMENTS****31 Financial risk (continued)**

As 31 December 2014

| \$ '000   | Neither past-due<br>nor impaired | Past-due but<br>not impaired | Past-due<br>and impaired | Total          |
|---|----------------------------------|------------------------------|--------------------------|----------------|
| <b>Assets:</b>  |                                  |                              |                          |                |
| Cash and cash equivalents                             | 27,606                           | -                            | -                        | 27,606         |
| Financial assets at fair value through profit or loss | 184,573                          | -                            | -                        | 184,573        |
| Trade and other receivables                           | 69,849                           | 529                          | 32                       | 70,410         |
| Reinsurance recoverables                              | 9,546                            | 3,096                        | -                        | 12,642         |
| <b>Total</b>  | <b>291,574</b>                   | <b>3,625</b>                 | <b>32</b>                | <b>295,231</b> |

As 31 December 2013

| \$ '000   | Neither past-due<br>nor impaired | Past-due but<br>not impaired | Past-due<br>and impaired | Total          |
|---|----------------------------------|------------------------------|--------------------------|----------------|
| <b>Assets:</b>  |                                  |                              |                          |                |
| Cash and cash equivalents                             | 83,105                           | -                            | -                        | 83,105         |
| Financial assets at fair value through profit or loss | 182,556                          | -                            | -                        | 182,556        |
| Trade and other receivables                           | 55,121                           | 961                          | -                        | 56,082         |
| Reinsurance recoverables                              | 5,098                            | 542                          | -                        | 5,640          |
| <b>Total</b>  | <b>325,880</b>                   | <b>1,503</b>                 | <b>-</b>                 | <b>327,383</b> |

Age analysis of financial assets past due but not impaired

As 31 December 2014

| \$ '000                     | 0 - 90<br>days | 91 - 180<br>days | 181 - 360<br>days | > 1 year  | Total past-due<br>but not impaired |
|-----------------------------|----------------|------------------|-------------------|-----------|------------------------------------|
| <b>Assets:</b>              |                |                  |                   |           |                                    |
| Trade and other receivables | -              | 529              | -                 | -         | 529                                |
| Reinsurance recoverables    | -              | 2,084            | 997               | 15        | 3,096                              |
| <b>Total</b>                | <b>-</b>       | <b>2,613</b>     | <b>997</b>        | <b>15</b> | <b>3,625</b>                       |

**NOTES TO THE FINANCIAL STATEMENTS**

**31 Financial risk (continued)**

Age analysis of financial assets past due but not impaired (continued)

As 31 December 2013

| \$ '000                     | 0 - 90<br>days | 91 - 180<br>days | 181 - 360<br>days | > 1 year  | Total past-due<br>but not impaired |
|-----------------------------|----------------|------------------|-------------------|-----------|------------------------------------|
| <b>Assets:</b>              |                |                  |                   |           |                                    |
| Trade and other receivables | -              | 663              | 215               | 83        | 961                                |
| Reinsurance recoverable     | -              | 391              | 148               | 3         | 542                                |
| <b>Total</b>                | -              | <b>1,054</b>     | <b>363</b>        | <b>86</b> | <b>1,503</b>                       |

The tables below provide information regarding the credit risk exposure of the Company at 31 December 2013 by classifying assets according to Standard and Poor's equivalent credit rating of the counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as speculative grade.

As 31 December 2014

| \$ '000                        | AAA           | AA             | A             | BBB        | BB       | Not rated     | Total          |
|--------------------------------|---------------|----------------|---------------|------------|----------|---------------|----------------|
| <b>Assets:</b>                 |               |                |               |            |          |               |                |
| Cash and cash equivalents      | -             | 27,606         | -             | -          | -        | -             | 27,606         |
| Financial assets at fair value | 24,784        | 118,195        | 40,479        | 807        | -        | 308           | 184,573        |
| Trade and other receivables    | -             | -              | -             | -          | -        | 70,410        | 70,410         |
| Reinsurance recoverable        | -             | -              | -             | -          | -        | 12,642        | 12,642         |
| <b>Total</b>                   | <b>24,784</b> | <b>145,801</b> | <b>40,479</b> | <b>807</b> | <b>-</b> | <b>83,360</b> | <b>295,231</b> |

As 31 December 2013

| \$ '000                        | AAA           | AA             | A             | BBB          | BB       | Not rated     | Total          |
|--------------------------------|---------------|----------------|---------------|--------------|----------|---------------|----------------|
| <b>Assets:</b>                 |               |                |               |              |          |               |                |
| Cash and cash equivalents      | -             | 83,105         | -             | -            | -        | -             | 83,105         |
| Financial assets at fair value | 10,150        | 148,513        | 14,544        | 9,349        | -        | -             | 182,556        |
| Trade and other receivables    | -             | -              | -             | -            | -        | 56,082        | 56,082         |
| Reinsurance recoverable        | -             | -              | -             | -            | -        | 5,640         | 5,640          |
| <b>Total</b>                   | <b>10,150</b> | <b>231,618</b> | <b>14,544</b> | <b>9,349</b> | <b>-</b> | <b>61,722</b> | <b>327,383</b> |

**AIG INSURANCE NEW ZEALAND LIMITED***For the financial year ended 31 December 2014***NOTES TO THE FINANCIAL STATEMENTS****31 Financial risk (continued)****Liquidity risk**

Liquidity risk primarily refers to the possibility of having insufficient cash available to meet the payment obligations to counterparties when they become due.

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.

As 31 December 2014

| \$<br>'000   | Due in 1<br>year or<br>less | Due after<br>1 year<br>through 5<br>years | Due after<br>5 years<br>through<br>10 years | Due after<br>10 years | Total          | Carrying<br>Amount |
|--|-----------------------------|---|---|-----------------------|----------------|--------------------|
| <b>Financial assets:</b>                                 |                             |   |   |                       |                |                    |
| Cash and cash equivalents                                | 27,606                      | -   | -   | -                     | 27,606         | 27,606             |
| Trade and other receivables                              | 70,410                      | -   | -   | -                     | 70,410         | 70,410             |
| Accrued income   | 1,867                       | 1,139                                     | 65  | -                     | 3,071          | 3,071              |
| Reinsurance recoverables                                 | 12,627                      | 15  | -   | -                     | 12,642         | 12,642             |
| Financial assets at fair value through<br>profit or loss | 66,147                      | 102,304                                   | 16,122                                      | -                     | 184,573        | 184,573            |
| <b>Total</b>   | <b>178,657</b>              | <b>103,458</b>                            | <b>16,187</b>                               | <b>-</b>              | <b>298,302</b> | <b>298,302</b>     |
| <b>Financial liabilities:</b>                            |                             |   |   |                       |                |                    |
| Insurance payables                                       | 19,376                      | 23  | -   | -                     | 19,399         | 19,399             |
| Other payables   | 6,746                       | 1,944                                     | -   | -                     | 8,690          | 8,690              |
| <b>Total</b>   | <b>26,122</b>               | <b>1,967</b>                              | <b>-</b>                                    | <b>-</b>              | <b>28,089</b>  | <b>28,089</b>      |

**AIG INSURANCE NEW ZEALAND LIMITED***For the financial year ended 31 December 2014***NOTES TO THE FINANCIAL STATEMENTS**

---

**31 Financial risk (continued)**

As 31 December 2013

| \$<br>'000   | Due in 1<br>year or<br>less | Due after<br>1 year<br>through 5<br>years | Due after<br>5 years<br>through<br>10 years | Due after<br>10 years | Total          | Carrying<br>Amount |
|--|-----------------------------|---|---|-----------------------|----------------|--------------------|
| <b>Financial assets:</b>                                 |                             |   |   |                       |                |                    |
| Cash and cash equivalents                                | 83,105                      | -   | -   | -                     | 83,105         | 83,105             |
| Trade and other receivables                              | 55,979                      | 103                                       | -   | -                     | 56,082         | 56,082             |
| Accrued income   | 2,771                       | -   | -   | -                     | 2,771          | 2,771              |
| Reinsurance recoverables                                 | 5,637                       | 3   | -   | -                     | 5,640          | 5,640              |
| Financial assets at fair value through<br>profit or loss | 98,182                      | 79,574                                    | 4,800                                       | -                     | 182,556        | 182,556            |
| <b>Total</b>   | <b>245,674</b>              | <b>79,680</b>                             | <b>4,800</b>                                | <b>-</b>              | <b>330,154</b> | <b>330,154</b>     |
| <b>Financial liabilities:</b>                            |                             |   |   |                       |                |                    |
| Insurance payables                                       | 23,795                      | 16  | -   | -                     | 23,811         | 23,811             |
| Other payables   | 7,053                       | 6,477                                     | -   | 437                   | 13,967         | 13,967             |
| <b>Total</b>   | <b>30,848</b>               | <b>6,493</b>                              | <b>-</b>                                    | <b>437</b>            | <b>37,778</b>  | <b>37,778</b>      |

**AIG INSURANCE NEW ZEALAND LIMITED***For the financial year ended 31 December 2014***NOTES TO THE FINANCIAL STATEMENTS****31 Financial risk (continued)****b. Liquidity risk (continued)**

| As 31 December  | <u>2014</u>    |                |                | <u>2013</u>    |               |                |
|---|----------------|----------------|----------------|----------------|---------------|----------------|
|   | Current        | Non-current    | Total          | Current        | Non-current   | Total          |
| \$ '000   |                |                |                |                |               |                |
| <b>Assets:</b>  |                |                |                |                |               |                |
| Cash and cash equivalents                             | 27,606         | -              | 27,606         | 83,105         | -             | 83,105         |
| Trade and other receivables                           | 70,410         | -              | 70,410         | 55,979         | 103           | 56,082         |
| Accrued income  | 1,868          | 1,204          | 3,072          | 2,771          | -             | 2,771          |
| Reinsurance recoverables                              | 12,627         | 15             | 12,642         | 5,637          | 3             | 5,640          |
| Financial assets at fair value through profit or loss | 66,147         | 118,426        | 184,573        | 99,856         | 82,700        | 182,556        |
| Deferred tax assets                                   | -              | 1,462          | 1,462          | -              | 934           | 934            |
| <b>Total</b>  | <b>178,658</b> | <b>121,107</b> | <b>299,765</b> | <b>247,348</b> | <b>83,740</b> | <b>331,088</b> |
| <b>Liabilities:</b>                                   |                |                |                |                |               |                |
| Trade and other payables                              | 27,118         | 971            | 28,089         | 30,848         | 6,930         | 37,778         |
| Deferred reinsurance commissions                      | 13,975         | -              | 13,975         | 14,419         | -             | 14,419         |
| Current tax liabilities                               | 6,932          | -              | 6,932          | 3,070          | -             | 3,070          |
| Deferred tax liabilities                              | -              | -              | -              | -              | 487           | 487            |
| <b>Total</b>  | <b>48,025</b>  | <b>971</b>     | <b>48,996</b>  | <b>48,337</b>  | <b>7,417</b>  | <b>55,754</b>  |



**NOTES TO THE FINANCIAL STATEMENTS**

---

**31 Financial risk (continued)****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.

**Foreign exchange rate 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 net open position at balance date in AUD is \$587k (2013: \$684k) and USD is \$2.8m (2013: \$5.9m). Other foreign currency movements are not material.

**2014**

| Change in FX Rate % | Profit (Loss) after tax \$'000 | Equity \$'000 |
|---------------------|--------------------------------|---------------|
| +10%                | (403)                          | (403)         |
| -10%                | 403                            | 403           |

**2013**

| Change in FX Rate % | Profit (Loss) after tax \$'000 | Equity \$'000 |
|---------------------|--------------------------------|---------------|
| +10%                | (377)                          | (377)         |
| -10%                | 377                            | 377           |

**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.

## AIG INSURANCE NEW ZEALAND LIMITED

For the financial year ended 31 December 2014

### NOTES TO THE FINANCIAL STATEMENTS

---

#### 31 Financial risk (continued)

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 1.75% (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.

##### 2014

| Change in interest rate % | Profit (Loss) after tax \$'000 | Equity \$'000 |
|---------------------------|--------------------------------|---------------|
| +1.75%                    | 2,258                          | 2,258         |
| -1.75%                    | (2,007)                        | (2,007)       |

##### 2013

| Change in interest rate % | Profit (Loss) after tax \$'000 | Equity \$'000 |
|---------------------------|--------------------------------|---------------|
| +1.75%                    | 1,010                          | 1,010         |
| -1.75%                    | (1,102)                        | (1,102)       |

#### 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. (2013: Nil).

#### Operational risk

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risk can cause damage to reputation, have legal or regulatory implications or can lead to financial loss. The Company cannot expect to eliminate all operational risks, but by initiating a rigorous control framework and by monitoring and responding to potential risks the Company is able to manage the risks. Controls include effective segregation of duties, access controls, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit. Business risks such as changes in environment, technology and the industry are monitored through the Group's strategic planning and budgeting process.

**NOTES TO THE FINANCIAL STATEMENTS**

---

**32 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 audited capital adequacy ratio of the Company at the reporting date is as follows:

| \$ '000                 | Year ended<br>31 Dec 2014 | Year ended<br>31 Dec 2013 |
|-------------------------|---------------------------|---------------------------|
| Actual solvency capital | 130,659                   | 105,653                   |
| Minimum solvency        | 47,472                    | 56,503                    |
| Solvency margin         | 83,187                    | 49,149                    |
| <b>Solvency ratio</b>   | <b>2.75</b>               | <b>1.87</b>               |

**33 Events occurring after balance sheet date**

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 ACTUARY’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 12 months ending 31 December 2014 (*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: 19 March 2015



Signed: Eric Hans Soo Lew