AIG INSURANCE NEW ZEALAND LIMITED

ANNUAL REPORT

For the financial year ended 31 December 2016

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Contents

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 2016.

Directors

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

C H Stobo	
J A Dawson	
C J Ryan	
N E Condon	
M R Raines	
D A Wilson	(appointed 16 September 2016)
S Farquharson	(resigned 09 May 2016)

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 2016 (2015: Nil).

Review and result of operations

The operating profit after tax of the Company for the year ended 31 December 2016 was $6.0m (2015: $22.3m). 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.

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 2016.

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 is drawn up so as to present fairly in all material respects, the state of affairs of the Company as at 31 December 2016 and of the results of the business, changes in equity and cash flows of the Company for the financial year then ended; and

(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
Director

J A Dawson
Director

20 March 2017

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Independent auditor's report

To the shareholder of AIG Insurance New Zealand Limited

AIG Insurance New Zealand Limited's financial statements comprise:

- the statement of financial position as at 31 December 2016;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion the financial statements of AIG Insurance New Zealand Limited (the Company), present fairly, in all material respects, the financial position of the Company as at 31 December 2016, its financial performance and its cash flows for the year then ended in accordance New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

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

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

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

Our firm carries out other services for the Company in the areas of agreed procedures on regulatory reporting and tax advice and compliance services. The provision of these other services has not impaired our independence.

Information other than the financial statements and auditor's report

The Directors are responsible for the annual report. Our opinion on the financial statements does not cover the other information included in the annual report and we do not express any form of assurance conclusion on the other information.

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

Independent auditor's report

AIG Insurance New Zealand Limited

Responsibilities of the Directors for the financial statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

https://xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page6.aspx

Who we report to

This report is made solely to the Company's shareholder. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's 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 shareholder, for our audit work, for this report or for the opinions we have formed.

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
20 March 2017

Auckland

STATEMENT OF COMPREHENSIVE INCOME

$ '000	Notes	Year ended 31 Dec 2016	Year ended 31 Dec 2015
Income			
Insurance premium revenue	5	177,309	170,587
Insurance premium ceded to reinsurers	5	(118,819)	(116,338)
Net earned insurance premium revenue	5	58,490	54,249
Reinsurance commission income		35,125	35,082
Net investment income	6	6,826	8,837
Other net (losses)/gains	7	(970)	949
Total income		**99,471**	**99,117**
Expenses			
Insurance claims	8	(213,391)	(95,585)
Insurance claims recovered from reinsurers	8	176,729	79,821
Net insurance claims	8	(36,662)	(15,764)
Acquisition costs		(24,299)	(23,608)
Net operating expenses	9	(29,894)	(28,692)
Total expenses		**(90,855)**	**(68,064)**
Profit before tax		**8,616**	**31,053**
Income tax expense	10	(2,592)	(8,724)
Profit and total comprehensive income for the year		**6,024**	**22,329**

STATEMENT OF FINANCIAL POSITION

$ '000	Notes	As at 31 Dec 2016	As at 31 Dec 2015
ASSETS			
Cash and cash equivalents	11	49,317	64,120
Trade and other receivables	13	95,216	78,380
Other receivables	18	3,041	3,657
Reinsurance recoverables	14	3,464	9,516
Financial assets at fair value through profit or loss	12	98,860	142,703
Deferred acquisition costs	15	19,510	14,539
Current tax assets		3,810	-
Provision for reinsurance on unearned premiums	20	79,703	73,678
Provision for reinsurance on outstanding claims	21	221,332	273,744
Property, plant and equipment	16	1,063	1,397
Deferred tax assets	22	2,077	2,234
Intangible assets	17	5,087	4,725
Total assets		**582,480**	**668,693**
LIABILITIES			
Trade and other payables	19	63,788	60,774
Deferred reinsurance commission	15	24,466	18,845
Current tax liabilities		-	2,716
Provision for gross unearned premiums	20	117,577	111,863
Provision for gross claims outstanding	21	268,889	319,759
Total liabilities		**474,720**	**513,957**
EQUITY			
Share capital	24	105,250	158,250
Retained earnings		2,510	(3,514)
Total equity attributable to owners of the company		**107,760**	**154,736**
Total liabilities and equity		**582,480**	**668,693**

On behalf of the directors

C H Stobo
Chair

J A Dawson
Director

20 March 2017

STATEMENT OF CHANGES IN EQUITY

$ '000	Note	Share capital	Other reserves	Retained earnings	Total
At 1 January 2015		**158,250**	**(63,721)**	**37,878**	**132,407**
Total comprehensive income					
Profit for the year		-	-	22,329	**22,329**
Transfer of retained earnings to acquisition reserve		-	63,721	(63,721)	**-**
Total comprehensive income for the year			**63,721**	**(41,392)**	**22,329**
At 31 December 2015		**158,250**	**-**	**(3,514)**	**154,736**
Total comprehensive Income					
Profit for the year		-	-	6,024	**6,024**
Total comprehensive income for the year		**-**	**-**	**6,024**	**6,024**
Capital Reduction	24	(53,000)	-	-	(53,000)
At 31 December 2016		**105,250**	**-**	**2,510**	**107,760**

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STATEMENT OF CASH FLOWS

$ '000	Notes	Year ended 31 Dec 2016	Year ended 31 Dec 2015
Cash flow from operating activities:			
Premiums received		174,046	180,124
Reinsurance claim recoveries		227,749	141,261
Interest received		6,898	10,050
Claims paid		(264,262)	(178,246)
Outwards reinsurance premiums paid		(122,555)	(131,030)
Net commission income received		11,476	13,428
General operating expenses		(35,023)	(28,791)
Income tax		(2,302)	(9,496)
Net cash used in operating activities	4	**(3,973)**	**(2,700)**
Cash flow from investing activities:			
Purchase of financial assets		-	(23,397)
Maturities and disposal of financial assets		43,328	66,507
Purchases of property, plant, equipment and software		(1,158)	(3,896)
Net cash provided by investing activities		**42,170**	**39,214**
Cash flow from financing activities:			
Capital Reduction	24	(53,000)	-
Net cash (used in)/provided by financing activities		**(53,000)**	**39,214**
Cash and cash equivalents:			
Beginning of year	11	**64,120**	**27,606**
Net (decrease)/increase in cash and cash equivalents		(14,803)	36,514
End of year	11	**49,317**	**64,120**

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 (2015: "A" strong). The sole shareholder of the Company is AIG Asia Pacific 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 of the Company during the year were the underwriting of various classes of general insurance and reinsurance risks.

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 20 March 2017. 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 financial statements comply with the Financial Markets Conduct Act 2013 and the Companies 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 2016 through to 31 December 2016.

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 has a material impact on the Company.

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 2016 and have not been adopted early by the Company.

NZ IFRS 9: Financial Instruments

NZ IFRS 9 "Financial Instruments" (effective from 1 January 2018) addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. NZ IFRS 9 replaces the multiple classification and measurement models in NZ IAS 39 "Financial Instruments: Recognition and Measurement" with a single model that has only two classification categories: amortised cost and fair value. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, part of the fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than profit or loss, unless this creates an accounting mismatch. The Company is assessing the impact of NZ IFRS 9 "Financial Instruments" on its financial statements.

NZ IFRS 16: Leases

NZ IFRS 16 "Leases" (effective from 1 January 2019). It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

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 Insurance contracts

An insurance contract is defined as a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (insured event) adversely affects the policyholders.

Insurance contracts involve the acceptance of significant insurance risk. Insurance risk is defined as significant if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (i.e. have no discernible effect on the economics of the transaction).

Insurance contracts include those where the insured benefit is payable on the occurrence of a specified event or loss. The insured benefit is either not linked or only partly linked to the market value of the investment held by the insurer, and the financial risks are substantially borne by the insurer.

2.5 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.

2.6 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.

2.7 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 of existing 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.

2.8 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.

2.9 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 Significant accounting policies (continued)

2.10 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.

2.11 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.

2.12 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).

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 Significant accounting policies (continued)

2.13 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 the profit and loss when they are deemed to be backing insurance liabilities of the Company. Regular purchases and sales of investments are recognised on the trade date – the date on which the company commits to purchase or sell the investment. Transaction costs are expensed as incurred in the statement of comprehensive income.

Subsequent to initial recognition, all financial assets and financial liabilities at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the 'financial assets or financial liabilities at fair value through profit or loss' category are presented in the Statement of Comprehensive Income within other net changes in fair value of financial assets and liabilities at fair value through profit or loss in the period in which they arise.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of financial assets and liabilities traded in active markets are based on quoted market prices at the close of trading. The fair value of financial assets and liabilities that are not traded in an active market (for example, fixed interest securities) is determined using valuation techniques.

The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions the company holds. Valuations are therefore adjusted, where appropriate, to allow for additional factors including model risk, liquidity risk and counterparty risk.

The fair value hierarchy has the following levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

2 Significant accounting policies (continued)

2.13 Financial assets

The Company uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Valuation techniques used include:

Debt securities at fair value through profit or loss: 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 uses market information and derives fair values based upon relevant methodologies and assumptions for individual instruments.

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.

- The fair value of financial instruments that are not traded in an active market is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

The Company recognises all debt securities and long term deposits at Level 2.

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.

2.14 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 Significant accounting policies (continued)

2.15 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.

2.16 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.

2.17 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.

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 Significant accounting policies (continued)

2.18 Intangible assets

Intangible assets include capitalised software costs work in progress.

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.

Work in Progress represents development costs for internal software and is stated at historical cost. No depreciation is charged for assets in this category. The costs will be transferred from work in progress to capitalised software costs once the software is in use and depreciation will be charged.

2.19 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.

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 **Significant accounting policies** (continued)

2.20 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.

2.21 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.

2.22 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 Significant accounting policies (continued)

2.23 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.

2.24 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 Significant accounting policies (continued)

2.25 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.

2.26 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.

2.27 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.

2.28 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.

2.29 Changes in accounting policies

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

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.

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 2016	As at 31 Dec 2015
Weighted average term to settlement	1.1 years	1.0 years
Discount rate for succeeding and subsequent years	1.95%	2.60%
Claim inflation for succeeding and subsequent years	Implicit based on historical experience	
Risk margins were applied by line ranging	11-21%	11-21%
Indirect claim management expenses	6.0%	7.5%
Probability of sufficiency	75.00%	75.00%

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.

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 'A Framework for Assessing Risk Margins', as issued 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 valuation risks have been grouped broadly into six risk margin classes so each class contains sufficient data. These classes are Accident & Health, Casualty, Financial Lines, Other Commercial Lines, Other Consumer Lines and Property and Energy.

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3. Critical accounting estimates and judgements (continued)

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. In the previous year's valuation, a stochastic chain ladder model was used:

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

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 30% (2015: 30%) for outstanding claims liabilities (gross and net) and 40% (2015: 40%) for premium liabilities (gross and net).

3.9 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.

2016

Variables	Movement in variables	Impact	Financial impact Profit/(Loss) NZD '000
Discount rates	+1%	494	356
	-1%	-504	-363
Inflation rates	+1%	-504	-363
	-1%	494	356
Claims expense ratio	+1%	-671	-483
	-1%	671	483
Duration	+0.5 year	459	330
	-0.5 year	-463	-334

2015

Variables	Movement in variables	Impact	Financial impact Profit/(Loss) NZD '000
Discount rates	+1%	440	316
	-1%	-448	-323
Inflation rates	+1%	-448	-323
	-1%	440	316
Claims expense ratio	+1%	-901	-648
	-1%	901	648
Duration	+0.5 year	587	423
	-0.5 year	-595	-428

4. Reconciliation of profit after tax to net cash flows from operating activities

At 31 December

$ '000	Year ended 31 Dec 2016	Year ended 31 Dec 2015
Operating profit after income tax	6,024	22,329
Investment revenue – net changes in market value	514	(1,240)
Depreciation expense	1,130	539
Change in operating assets and liabilities		
(Increase) in trade and other receivables	(10,798)	(13,789)
Decrease / (increase) in other receivables	634	10,232
Decrease in reinsurance and other recoveries	52,412	34,217
(Increase) / decrease in deferred reinsurance premiums	(6,026)	(14,556)
Decrease in net deferred acquisition costs	650	1,954
Increase in net deferred tax asset	157	(772)
Increase / (decrease) in trade and other payables	3,012	32,685
Decrease in tax liability	(6,526)	(3,866)
Increase / (decrease) in provision for unearned premiums	5,714	12,227
Decrease for provision in gross claims outstanding	(50,870)	(82,660)
Net cash out flow from operating activities	**(3,973)**	**(2,700)**

5 Net earned insurance premium revenue

$ '000	Year ended 31 Dec 2016	Year ended 31 Dec 2015
Premium revenue from insurance contracts issued:		
Gross written premium in the year	183,023	182,814
Change in unearned premium provision	(5,714)	(12,227)
	177,309	**170,587**
Premium revenue ceded to reinsurers on insurance contracts issued:		
Premium ceded to reinsurers in the year	(124,844)	(130,894)
Change in unearned premium provision	6,025	14,556
	(118,819)	**(116,338)**
Net earned insurance premium revenue	**58,490**	**54,249**

6 Net investment income

$ '000	Year ended 31 Dec 2016	Year ended 31 Dec 2015
Cash and fixed interest securities interest income	6,862	9,186
Investment expenses	(36)	(349)
Net investment income	**6,826**	**8,837**

7 Other net (losses)/gains

$ '000	Year ended 31 Dec 2016	Year ended 31 Dec 2015
Financial assets at fair value through profit or loss		
- Fair value losses	(2,525)	(2,146)
- Fair value gains	1,592	2,714
Foreign exchange gains	(37)	381
Other net (losses)/gains	**(970)**	**949**

8 Net insurance claims

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

$ '000	Year ended 31 Dec 2016	Year ended 31 Dec 2015
Insurance claims		
Gross claims incurred	223,302	83,639
Discount movement	(9,911)	11,946
	213,391	**95,585**
Insurance claims recovered from reinsurers		
Reinsurance recoveries	186,688	70,268
Discount movement	(9,959)	9,553
	176,729	**79,821**
Net insurance claims	**36,662**	**15,764**

2016 Incurred claims

$'000

	2016	**2015 & prior**	**Total**
Gross claims incurred	219,516	3,786	223,302
Discounted claims incurred	207,216	6,175	213,391
Discount movement	(12,300)	2,389	(9,911)
Reinsurance and other recoveries	175,951	10,737	186,688
Discounted claims incurred	164,238	12,491	176,729
Discount movement	(11,713)	1,754	(9,959)
Net claims incurred (undiscounted)	43,565	(6,951)	36,614
Net claims incurred (discounted)	42,978	(6,316)	36,662

2015 Incurred claims
$'000

	2015	2014 & prior	Total
Gross claims incurred	71,830	11,809	83,639
Discounted claims incurred	70,769	24,816	95,585
Discount movement	1,061	(13,007)	(11,946)
Reinsurance and other recoveries	35,784	34,484	70,268
Discounted claims incurred	35,208	44,613	79,821
Discount movement	(576)	10,129	9,553
Net claims incurred (undiscounted)	36,046	(22,675)	13,371
Net claims incurred (discounted)	35,561	(19,797)	15,764

9 Net operating expenses

$ '000	Note	Year ended 31 Dec2016	Year ended 31 Dec 2015
Employee benefits expenses (see below)		13,053	12,779
Operating lease rentals		1,288	1,172
Depreciation of property, plant and equipment	16	322	322
Amortisation of intangible assets	17	808	218
Auditors' remuneration – audit services only		172	149
Auditors' remuneration – solvency return review		17	17
Auditors' remuneration – taxation services		32	25
Auditors' remuneration – other services		-	3
Bank charges		78	74
Third party service providers		3,640	3,131
AIG Group service fees	25	5,689	8,752
AIG Shared services charges	25	1,745	1,316
AIG Global services charges	25	604	422
Other expenses		2,446	312
Net operating expenses		**29,894**	**28,692**

$ '000	As at 31 Dec 2016	As at 31 Dec 2015
Wages and salaries	10,463	10,303
Superannuation	540	587
Other employee benefit expenses	2,050	1,889
Employee benefits expenses	**13,053**	**12,779**

10 Income tax

$ '000	Year ended 31 Dec 2016	Year ended 31 Dec 2015
Current income tax	(2,454)	(9,496)
Total current tax	**(2,454)**	**(9,496)**
Deferred tax	(138)	772
Total deferred tax	**(138)**	**772**
Income tax expense	**(2,592)**	**(8,724)**

$ '000	Year ended 31 Dec 2016	Year ended 31 Dec 2015
Profit before tax	**8,615**	**31,053**
Tax calculated at the current rate 28%	(2,412)	(8,695)
Effects of:		
Non deductible expenses	-	(29)
Under provision from prior year	(180)	-
Income tax expense	**(2,592)**	**(8,724)**

Imputation Credits

$ '000	Year ended 31 Dec 2016	Year ended 31 Dec 2015
Imputation credits available for use in subsequent reporting periods	29,505	23,081

The above amounts represent the balance of the imputation account as at the end of the reporting period, adjusted for:

- Imputation credits that will arise from the payment of the amount of the provision for income tax
- Imputation debits that will arise from the payment of dividends recognised as a liability at the reporting date; and
- Imputation credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

11 Cash and cash equivalents

$ '000	As at 31 Dec 2016	As at 31 Dec 2015
Cash in hand and at bank	24,317	44,120
Deposits at call	25,000	20,000
Cash and cash equivalents	**49,317**	**64,120**

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.

12 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 31 Dec 2016	As at 31 Dec 2015
At fair value through profit or loss		
Fixed interest securities	86,817	101,511
Floating rate notes	12,043	41,192
Financial assets at fair value through profit or loss	**98,860**	**142,703**

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 31 Dec 2016	Year ended 31 Dec 2015
Balance at the beginning of the year	142,703	184,573
Purchases	-	23,397
Disposals and maturities	(42,910)	(65,835)
Fair value net gains	(933)	568
Financial assets at fair value through profit or loss	**98,860**	**142,703**

13 Trade and other receivables

At 31 December

$ '000	Note	As at 31 Dec 2016	As at 31 Dec 2015
Premium debtors receivables		68,077	58,286
Less: Provision for impairment from premium debtors		(253)	-
Amount due from related parties	25	26,905	19,590
Sundry debtors		487	504
Trade and other receivables		**95,216**	**78,380**

Trade receivables and sundry debtors are non-interest bearing and are generally on 90-120 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.

14 Reinsurance recoverables

At 31 December

$ '000	As at 31 Dec 2016	As at 31 Dec 2015
Due from reinsurers	3,855	9,529
Less: Provision for impairment for reinsurers	(391)	(13)
Total reinsurance recoverables	**3,464**	**9,516**

15 Deferred acquisition costs

$ '000	Year ended 31 Dec 2016	Year ended 31 Dec 2015
Opening deferred acquisition costs	14,539	11,623
Acquisition costs deferred	30,812	24,613
Amortisation charged to comprehensive income	(25,841)	(21,697)
Deferred acquisition costs at 31 December	**19,510**	**14,539**

At 31 December

$ '000	As at 31 Dec 2016	As at 31 Dec 2015
Opening deferred reinsurance commissions	18,845	13,975
Reinsurance commission costs deferred	36,638	32,646
Amortisation charged to comprehensive income	(31,017)	(27,776)
Deferred reinsurance commission at 31 December	**24,466**	**18,845**

16 Properties, plant and equipment

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

$ '000	Furniture & Fittings & Leasehold Improvements	Office Equipment	Total
Cost			
Balance 1 January 2015	2,418	44	2,462
Additions	7	64	71
At 31 December 2015	**2,425**	**108**	**2,533**
Additions	-	18	18
At 31 December 2016	**2,425**	**126**	**2,551**
Accumulated Depreciation			
Balance 1 January 2015	(763)	(24)	(787)
Depreciation charge	(322)	(27)	(349)
At 31 December 2015	**(1,085)**	**(51)**	**(1,136)**
Depreciation charge	(322)	(30)	(352)
At 31 December 2016	**(1,407)**	**(81)**	**(1,488)**
Carrying Amount			
At 1 January 2015	**1,655**	**21**	**1,676**
At 31 December 2015	**1,340**	**57**	**1,397**
At 31 December 2016	**1,018**	**45**	**1,063**

17 Intangible Assets

Movements in capitalised software and work in progress are as follows:

$ '000	Computer Software	Work in Progress	Total
Cost			
Balance 1 January 2015	399	1,035	1,434
Additions	3,089	737	3,826
Transfers	-	-	-
At 31 December 2015	**3,488**	**1,772**	**5,260**
Additions	8	1,132	1,140
Transfers	1,708	(1,708)	-
At 31 December 2016	**5,204**	**1,196**	**6,400**
Accumulated Amortisation			
Balance 1 January 2015	(345)	-	(345)
Amortisation charge	(190)	-	(190)
Disposals	-	-	-
At 31 December 2015	**(535)**	**-**	**(535)**
Amortisation charge	(778)	-	(778)
Transfers	-	-	-
At 31 December 2016	**(1,313)**	**-**	**(1,313)**
Carrying Amount			
At 1 January 2015	**54**	**1,035**	**1,089**
At 31 December 2015	**2,953**	**1,772**	**4,725**
At 31 December 2016	**3,891**	**1,196**	**5,087**

18 Other receivables

At 31 December

$ '000	As at 31 Dec 2016	As at 31 Dec 2015
Accrued investment income	1,082	1,535
Prepayments	180	128
Third party administration – claim floats	1,779	1,994
Other receivables	**3,041**	**3,657**

19 Trade and other payables

At 31 December

$ '000	Note	As at 31 Dec 2016	As at 31 Dec 2015
Trade payables		8,053	7,341
Reinsurance payables		3,769	1,478
Amount due to related companies	25	47,658	47,409
Withholding taxes		3,403	3,630
Provision for holiday pay		905	916
Trade and other payables		**63,788**	**60,774**

20 Provision for net unearned premium

$ '000	Year ended 31 Dec 2016	Year ended 31 Dec 2015
Gross unearned premium reserve	117,577	111,863
Less: Reinsurance unearned premium reserve	(79,703)	(73,678)
Provision for net unearned premium	**37,874**	**38,185**
Net unearned premium at beginning of year	38,185	40,514
Deferral of premiums on contracts written in year	29,257	27,399
Earning of premiums written in previous year	(29,568)	(29,728)
Provision for net unearned premium	**37,874**	**38,185**

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 2016. 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.

The application of the liability adequacy test in respect of the net premium liabilities identified a surplus at December 2016.

For the purposes of the liability adequacy test at 31 December 2016, the present value of expected future cash flows for future claims (including risk margin) is equal to $32.3 million (2015: $34.3m), made up as follows:

- Discounted central estimate (net of reinsurance) of $20.7 million (2015:$22.0m);
- Indirect claims expense provision of $7.4 million (2015:$7.9m); and
- Risk margins at the 75th percentile probability of sufficiency (after allowing for diversification benefit) of $4.2 million (2015:$4.4m).

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	2016	2015
Central estimate	242,259	275,425
Undiscounted risk margin	37,151	42,496
Undiscounted indirect expenses	3,535	5,984
Outstanding claims reserve	**282,945**	**323,905**
Discount to present value	(14,056)	(4,146)
Provision for gross outstanding claims	**268,889**	**319,759**

At 31 December $ '000	2016	2015
Gross reinsurance and other recoveries	234,202	276,656
Less: discount to present value	(12,870)	(2,912)
Provision for reinsurance outstanding claims	**221,332**	**273,744**
Net outstanding claims	**47,557**	**46,015**

21 Provision for claims outstanding (continued)

Reconciliation of movements in discounted outstanding claims liability

As at 31 December

	2016			2015		
NZD '000	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Balance bought forward	319,759	273,744	46,015	402,419	307,961	94,458
Unwind of interest	5,378	4,405	973	11,603	9,049	2,554
Claims incurred in the current year (last year's basis)	207,149	163,109	44,040	69,638	34,693	34,945
Claims cost paid during the year	(259,941)	(229,141)	(30,799)	(172,842)	(114,039)	(58,803)
Claims handling expenses during the year	(4,321)	-	(4,321)	(5,402)	-	(5,402)
Total effect of change in assumptions:	(1,541)	1,435	(2,976)	4,480	2,979	1,502
- indirect claims expenses	(1,453)	0	(1,453)	1,826	(9)	1,835
- interest rate	1,694	1,435	259	1,456	1,024	431
- risk margin	-	-	-	1,200	1,964	(764)
- methodology	(1,783)	(0)	(1,783)			
Development on prior year outstanding claims liability	2,406	7,780	(5,375)	9,863	33,101	(23,238)
Balance carried forward	268,889	221,332	47,557	319,759	273,744	46,015

Policy Liability Maturity profile

	1 year or less $'000	1 to 3 years $'000	3 to 5 years $'000	Over 5 years $'000	Total $'000	Carrying Amount $'000
Gross Policy liability						
Outstanding claims liablities	129,595	59,194	53,878	26,222	268,889	268,889
Unearned premium liabilities	58,052	50,442	7,587	1,496	117,577	117,577
RI Policy liability						
Outstanding claims liablities	100,146	44,065	51,844	25,277	221,332	221,332
Unearned premium liabilities	39,604	34,039	5,060	1,000	79,703	79,703
Net Policy liability						
Outstanding claims liablities	29,449	15,129	2,034	945	47,557	47,557
Unearned premium liabilities	18,448	16,403	2,527	496	37,874	37,874

21 Provision for claims outstanding (continued)

Net undiscounted ultimate claims costs for the nine most recent accident years from 2007 to 2016

As at 31 December

Ultimate indemnity
Inflated value

November Y.E.	Nov 2008	Nov 2009	Nov 2010	Nov 2011	Dec 2012	Dec 2013	Dec 2014	Dec 2015	Dec 2016	Cumulative net payments to date	Net undiscounted outstanding claims for the nine most recent accident years (inflated, undiscounted, without margins)
2008	29,454	47,252	73,631	95,273	99,007	95,940	91,287	90,744	90,626	90,385	241
2009		20,624	29,630	19,965	18,619	18,670	18,409	18,086	18,020	17,826	194
2010			48,018	51,248	55,512	63,703	72,011	70,902	72,486	71,438	1,048
2011				20,446	20,701	21,520	20,843	19,872	21,672	20,774	898
2012					8,779	8,061	7,710	7,256	7,187	6,069	1,118
2013						8,703	6,926	7,635	7,803	6,963	840
2014							6,861	7,180	7,466	5,326	2,140
2015								14,252	14,081	10,029	4,052
2016									28,920	7,299	21,621
										Total	**32,152**
										From prior years	6,490
										Travel	1,089
										Warranty	489
											40,220
										Net undiscounted outstanding claims for the 2016/12 loss month	1,189
										Effect of discounting	-989
										Net discounted oustanding claims (without margins)	40,420
										Indirect expenses	3,434
										Risk margins	3,703
										Net discounted oustanding claims (with margins)	47,557

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 31 Dec 2016	As at 31 Dec 2015
Provision for doubtful debts	180	19
Provision for bonus payments	37	414
Provision for holiday pay	253	256
Deferred acquisition costs	1,388	1,206
Fixed assets	(17)	46
Accruals not currently deductible	236	293
Deferred tax assets	**2,077**	**2,234**

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.

Contingent liabilities as at 31 December 2016 were nil (2015: Nil)

Capital Commitments

The Company has capital commitments of $4.3m for IT development costs as at 31 December 2016 (31 December 2015: $2.4m).

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 31 Dec 2016	As at 31 Dec 2015
Not later than one year	1,223	1,172
Later than one year and not later than five years	3,982	3,863
Later than five years	165	1,024
Total	**5,370**	**6,059**

24 Share capital

As at 31 December 2015, 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. On 22 June 2016 there was a reduction of 53,000,000 ordinary shares @ $1 per share. Following the reduction these shares have now been cancelled.

$ '000

At 31 December	As at 31 Dec 2016	As at 31 Dec 2015
Opening Balance	158,250	158,250
Reduction of shares belonging to AIG Asia Pacific Pte Ltd	(53,000)	-
Total	**105,250**	**158,250**

25 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.

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 Company, 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.

25 Ownership and transactions with related parties (continued)

Reinsurance:
In the ordinary course of business, the Company reinsures certain risks with affiliated entities, predominately American International 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 31 Dec 2016	Year ended 31 Dec 2015
Expenses with parent		
- AIG (services provided for NZ operations)	(5,689)	(8,752)
Income/(expenses) with other related parties		
- American International Overseas Association	(117,686)	(123,254)
- American International Overseas Association	179,625	102,405
- National Union Fire Insurance Co Ltd	(4,721)	(2,590)
- National Union Fire Insurance Co Ltd	3,289	824
- AIG Malaysia Insurance Berhad	5,070	-
- AIG Bermuda	(1,373)	525
- AIG Australia Insurance Ltd	(1,699)	(1,304)
- AIG Asia Pacific Pte Ltd	(47)	962
- AIG US (Global Claims)	(672)	(1,575)
- AIG Shared Services – Philippines	(1,131)	(442)
- AIG Shared Services – Malaysia	(614)	(874)
- AIG APAC Holdings Pte Ltd	821	-
- AIG Travelguard	(577)	(583)
- AIG Global Services (web billing services)	(604)	(422)
- Other	166	(195)
Related party transactions	**54,158**	**(35,275)**

Key Management Compensation
At 31 December

$ '000	Year ended 31 Dec 2016	Year ended 31 Dec 2015
Salaries and other short-term employee benefits	2,100	1,659
Other long-term benefits	-	-
Total	**2,100**	**1,659**

25 Ownership and transactions with related parties (continued)

Loans to directors
No loans were advanced to directors or key management personnel during the year (2015: nil).

Other related party balances receivable

$ '000	As at 31 Dec 2016	As at 31 Dec 2015
American International Overseas Association	23,396	17,562
National Union Fire Insurance Co	1,562	870
AIUI Japan	-	1
AIG Malaysia Berhad	-	7
AIG Asia Pacific Pte Ltd	-	139
AIG China	26	10
AIG PNG Ltd	-	66
AIG Europe UK Limited	89	594
AIG Inc	1	91
AIG Global Claims Services	277	-
AIG Bermuda	136	-
AIG APAC Holdings Pte. Ltd	104	-
AIG Europe Limited (France)	41	-
AIG Europe Limited (Belgium)	50	-
AIG Insurance Company of Canada	32	-
AIG other	54	5
AIG Worldwide Source	1,137	245
Related party receivables	**26,905**	**19,590**

Other related party balances payable
At 31 December

$ '000	As at 31 Dec 2016	As at 31 Dec 2015
American International Overseas Association	43,635	44,490
National Union Fire Insurance Co	2,079	925
AIG Australia Insurance Ltd	160	89
AIG Shared Services Philippines	259	828
AIG Shared Services Malaysia	89	-
AIG Europe UK	-	334
AIG Global Reinsurance Operations	129	130
AIG Global Services	72	75
AIG Global Claims Services	602	95
AIG Travelguard	61	82
AIG Bermuda	477	-
AIG Property Casualty International	95	361
Related party payables	**47,658**	**47,409**

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

26 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.

At December 2016	Carrying amount				Fair Value	
	Loans and receivables $000	Designated at fair value through profit or loss $000	Financial assets/liabilities at amortised cost $000	Total $000	Level 2 $000	Total $000
Financial assets measured at fair value						
Financial assets at fair value through profit or loss	-	98,860	-	98,860	98,860	98,860
Financial Assets not measured at fair value						
Cash and cash equivalents	-	-	49,317	49,317	-	-
Trade and other receivables	95,216	-	-	95,216	-	-
Reinsurance recoverables	3,464	-	-	3,464	-	-
Third Party Administration Claim Floats	1,775			1,775		
Accrued investment income		-	1,082	1,082	-	-
	100,455	98,860	50,399	249,714	98,860	98,860
Financial Liabilities not measured at fair value						
Insurance payables	-	-	51,428	51,428	-	-
Other payables	-	-	12,360	12,360	-	-
	-	-	63,788	63,788	-	-

At December 2015	Carrying amount				Fair Value	
	Loans and receivables $000	Designated at fair value through profit or loss $000	Financial assets/liabilities at amortised cost $000	Total $000	Level 2 $000	Total $000
Financial assets measured at fair value						
Financial assets at fair value through profit or loss	-	142,703	-	142,703	142,703	142,703
Financial Assets not measured at fair value						
Cash and cash equivalents	-		64,120	64,120	-	-
Trade and other receivables	78,380	-	-	78,380	-	-
Reinsurance recoverables	9,516	-	-	9,516	-	-
Third Party Administration Claim Floats	1,994			1,994		
Accrued investment income	-	-	1,536	1,536	-	-
	89,890	142,703	65,656	298,249	142,703	142,703
Financial Liabilities not measured at fair value						
Insurance payables	-	-	48,887	48,887	-	-
Other payables	-	-	11,887	11,887	-	-
	-	-	60,774	60,774	-	-

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.

27 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.

28 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.

29 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, insurance payables, 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.

29 Financial risk (continued)

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 (on non-equity instruments)
- Trade and other receivables
- Reinsurance recoverables

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.

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 2016

$ '000	Neither past-due nor impaired	Past-due but not impaired	Past-due and impaired	Total
Assets:				
Cash and cash equivalents	49,317	-	-	49,317
Financial assets at fair value through profit or loss	98,860	-	-	98,860
Trade and other receivables	85,872	9,344	-	95,216
Reinsurance recoverables	3,299	165	-	3,464
Total	**237,348**	**9,509**	**-**	**246,857**

29 Financial risk (continued)

Credit exposure (continued)

As 31 December 2015

$ '000	Neither past-due nor impaired	Past-due but not impaired	Past-due and impaired	Total
Assets:				
Cash and cash equivalents	64,120	-	-	64,120
Financial assets at fair value through profit or loss	142,703	-	-	142,703
Trade and other receivables	74,484	3,896	-	78,380
Reinsurance recoverables	8,395	1,121	-	9,516
Total	**289,702**	**5,017**	**-**	**294,719**

Age analysis of financial assets past due but not impaired

As 31 December 2016

$ '000	0 - 90 days	91 - 180 days	181 - 360 days	> 1 year	Total past-due but not impaired
Assets:					
Trade and other receivables	-	8,370	614	360	9,344
Reinsurance recoverables	-	25	104	36	165
Total	**-**	**8,395**	**718**	**396**	**9,509**

Age analysis of financial assets past due but not impaired

As 31 December 2015

$ '000	0 - 90 days	91 - 180 days	181 - 360 days	> 1 year	Total past-due but not impaired
Assets:					
Trade and other receivables	-	3,458	347	91	3,896
Reinsurance recoverable	-	685	434	2	1,121
Total	**-**	**4,143**	**781**	**93**	**5,017**

29 Financial risk (continued)

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

The tables below provide information regarding the credit risk exposure of the Company at 31 December 2016 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 at 31 December 2016

$ '000	AAA	AA	A	Not rated	Total
Assets:					
Cash and cash equivalents	-	49,317	-	-	49,317
Financial assets at fair value	16,708	70,457	11,396	300	98,860
Trade and other receivables				95,216	95,216
Reinsurance recoverable				3,464	3,464
Total	**16,708**	**119,744**	**11,396**	**98,980**	**246,857**

As 31 December 2015

$ '000	AAA	AA	A	Not rated	Total
Assets:					
Cash and cash equivalents	-	64,120	-	-	64,120
Financial assets at fair value	17,802	99,989	24,604	308	142,703
Trade and other receivables				78,380	78,380
Reinsurance recoverable				9,516	9,516
Total	**17,802**	**164,109**	**24,604**	**88,204**	**294,719**

29 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 2016

$ '000	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Total	Carrying Amount
Financial assets:					
Cash and cash equivalents	49,317	-	-	**49,317**	**49,317**
Trade and other receivables	94,856	360	-	**95,216**	**95,216**
Accrued income	141	941	-	**1,082**	**1,082**
Reinsurance recoverables	3,428	36	-	**3,464**	**3,464**
Financial assets at fair value through profit or loss	19,757	79,103	-	**98,860**	**98,860**
Total	**167,499**	**80,440**	**-**	**247,939**	**247,939**
Financial liabilities:					
Insurance payables	49,955	1,473	-	**51,428**	**51,428**
Other payables	11,953	407	-	**12,360**	**12,360**
Total	**61,908**	**1,880**	**-**	**63,788**	**63,788**

As 31 December 2015

$ '000	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Total	Carrying Amount
Financial assets:					
Cash and cash equivalents	64,120	-	-	**64,120**	**64,120**
Trade and other receivables	78,289	91	-	**78,380**	**78,380**
Accrued income	449	1,087	-	**1,536**	**1,536**
Reinsurance recoverables	9,514	2	-	**9,516**	**9,516**
Financial assets at fair value through profit or loss	43,125	96,441	3,137	**142,703**	**142,703**
Total	**195,497**	**97,621**	**3,137**	**296,255**	**296,255**
Financial liabilities:					
Insurance payables	48,843	-	-	**48,843**	**48,843**
Other payables	11,501	430	-	**11,931**	**11,931**
Total	**60,344**	**430**	**-**	**60,774**	**60,774**

29 Financial risk (continued)

Liquidity risk (continued)

As 31 December		2016			2015	
$ '000	Current	Non-current	**Total**	Current	Non-current	**Total**
Assets:						
Cash and cash equivalents	49,317	-	**49,317**	64,120	-	**64,120**
Trade and other receivables	94,856	360	**95,216**	78,289	91	**78,380**
Accrued income	141	941	**1,082**	449	1,087	**1,536**
Reinsurance recoverables	3,428	36	**3,464**	9,514	2	**9,516**
Financial assets at fair value through profit or loss	19,757	79,103	**98,860**	43,125	99,578	**142,703**
Total	**167,499**	**80,440**	**247,939**	**195,497**	**100,758**	**296,255**
Liabilities:						
Trade and other payables	61,908	1,880	**63,788**	60,345	429	**60,774**
Deferred reinsurance commissions	24,466	-	**24,466**	18,845	-	**18,845**
Total	**86,374**	**1,880**	**88,254**	**79,910**	**429**	**79,619**

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 $41k (2015: $454k) and USD is $644k (2015: $966k). Other foreign currency movements are not material.

29 **Financial risk** (continued)

Foreign Exchange Rate Risk (continued)

2016

Change in FX Rate %	Profit (Loss) after tax $'000	Equity $'000
+10%	65	47
-10%	(65)	(47)

2015

Change in FX Rate %	Profit (Loss) after tax $'000	Equity $'000
+10%	(403)	37
-10%	403	(37)

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.

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

2016

Change in interest rate %	Profit (Loss) after tax $'000	Equity $'000
+1.75%	(1,672)	(1,204)
-1.75%	2,172	1,563

2015

Change in interest rate %	Profit (Loss) after tax $'000	Equity $'000
+1.75%	(2,441)	(2,441)
-1.75%	2,668	2,668

29 Financial risk (continued)

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. (2015: 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.

30 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 31 Dec 2016	Year ended 31 Dec 2015
Actual solvency capital	100,594	147,777
Minimum solvency	34,706	42,942
Solvency margin	65,888	104,835
Solvency ratio	**2.90**	**3.44**

31 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 Han 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 2016 (*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;
- (iv) Application of the Liability Adequacy Test and any deferred acquisition cost or deferred fee revenue relevant to the Premium Liabilities;
- (v) Disclosures made in the financial statements in relation to actuarial valuation methodologies, and assumptions; and
- (vi) Claims development tables.

2.2 The Scope and Limitations of the Review: 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 The required opinions are from an actuarial perspective and are not intended to alter the scope or role of the auditor in respect of audited financial statements or group financial statements.

2.7 The Licensed Insurer has an established policy to seek the advice of the appointed actuary in respect of part or all of the actuarial information and to always adopt that advice in its financial statements or group financial statements. I have verified that my advice has been adopted in the relevant financial statements and note the reliance on this provision within the associated report.

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.

(i) The Licensed Insurer is not required to maintain a statutory fund and so no opinion is required.

Dated:16 March 2017

Signed: Eric Han Soo Lew