AMI INSURANCE LIMITED

ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2013

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AMI INSURANCE LIMITED
DIRECTORS' REPORT

The directors present their report together with the financial report of AMI Insurance Limited (Company) for the financial year ended 30 June 2013 and the auditor's report thereon.

DIRECTORS
The Company's directors in office at any time during or since the end of the financial year are as follows:

H. A. Fletcher - Chairman, M. M. Devine, N. B. Hawkins, J. S. Johnson, H. M. Price, R. J. Wagstaffe and M. J. Wilkins.

Directors were in office for the entire period unless otherwise stated.

PRINCIPAL ACTIVITY
The principal continuing activity of the Company is the underwriting of general insurance.

FINANCIAL RESULTS

	30 June 2013
	$000
Profit Before Income Tax	26,601
Income Tax Expense	(7,626)
Profit After Income Tax	18,975
Other Comprehensive Income [actuarial gains/(losses) net of tax]	2,399
Retained earnings as at 30 June 2012	3,701
Dividends paid	(27,200)
Retained earnings as at 30 June 2013	(2,125)
The state of the Company's affairs as at was:	
Equity	123,650
Represented by:	
Assets	601,878
Liabilities	(478,228)
	123,650

REVIEW OF OPERATIONS
The net result of the Company after applicable income tax for the financial year ended 30 June 2013 was a profit of $19.0 million (2012 - $5.3 million).

DIVIDENDS
Dividends of $27.2 million were paid during the year (2012 - Nil).

SIGNIFICANT CHANGES IN STATE OF AFFAIRS
In the director's opinion there have been no significant changes in the state of affairs of the company during the financial year.

EVENTS SUBSEQUENT TO REPORTING DATE
During July 2013 there were a number of earth tremors and after-shocks centred around the Cook Strait. As at the date of this report these events have not resulted in any significant claims incurred.

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.

DIRECTORS' REMUNERATION, INTERESTS AND EMPLOYEE REMUNERATION
The Company, with its shareholder's approval, has applied the exemption available under section 211(3) of the Companies Act 1993 in not disclosing the information required under section 211(1) paragraphs (a) and (e) to (j) of the Companies Act 1993.

AUDITOR

It is proposed that the auditor, KPMG, continue in office in accordance with section 200 of the Companies Act 1993.

Signed at Auckland this 12th day of August 2013 in accordance with a resolution of the directors.

....	....
Director	Director

AMI INSURANCE LIMITED

CORPORATE GOVERNANCE

THE BOARD
The Board is accountable to the shareholder for the performance, operations and affairs of the Company. The Board's principal role is to govern, rather than manage. The directors represent and serve the interests of the shareholder and collectively oversee and appraise the strategies, policies and performance of the Company.

The Board is responsible for oversight, including:
- driving the strategic direction of the Company and approving corporate strategies;
- approving significant corporate initiatives including major acquisitions, projects and divestments, and capital management transactions;
- setting the Company's risk appetite;
- evaluating Board processes and performance of the Board as a whole, as well as contributions by individual directors;
- monitoring management's performance and the exercise of the Board's delegated authority;
- evaluating regularly and, if necessary, replacing the chief executive officer (CEO);
- reviewing CEO, chief financial officer (CFO) and senior management succession planning; and
- setting standards for and ensuring that proper governance practices (including appropriate standards of ethical behaviour, corporate governance, and social and environmental responsibility) are adhered to at all times.

The Board currently comprises four independent non-executive directors, and three executive directors. The Board considers its size and composition annually. The Board's policy is to ensure that the Board comprises directors who collectively have the relevant experience, knowledge, diversity and skills required taking into account the Company's current size, market position, complexity and strategic focus.

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

H.A. Fletcher - Independent non-executive director
Mr Hugh Fletcher was appointed to the Board on 5 April 2012. Previously Mr Fletcher had been an independent director of New Zealand Insurance Limited since December 1998.

Mr Fletcher has a joint BSc/BCom and MCom with first class Honours in Economics from the University of Auckland and also holds an MBA from Stanford University, California.

Mr Fletcher is a former Chief Executive Officer of Fletcher Challenge Limited and is currently a director of Fletcher Brothers Limited, Rubicon Limited, Vector Limited, Insurance Australia Group Limited (and various subsidiaries), and trustee of the Dilworth Trust, Chelsea Park Trust, NZ Portrait Gallery Trust and the University of Auckland Foundation. He was formerly Chairman of New Zealand Insurance Limited and CGNU Australia, and a non-executive director of the Reserve Bank of New Zealand.

M.M. Devine - Independent non-executive director
Ms Mary Devine was appointed a director on 27 April 2012.

Ms Devine is Managing Director of J. Ballantynes & Co and from 2006 to 2010 was Chief Executive of EziBuy and has also held directorships of Max Fashions Limited from 2007 to 2010, and McKenzie and Willis Limited from 2010 to April 2013.

Ms Devine is a director of Meridian Energy Limited and was previously a Board member of NZ Hockey and is now a Trustee of the NZ Hockey Foundation and a Fellow of the New Zealand Institute of Management.

N.B. Hawkins - Executive director
Mr Nicholas Hawkins was appointed as a director on 5 April 2012. Mr Hawkins is the Chief Financial Officer of Insurance Australia Group Limited (IAG Group) and has also held several senior roles across the IAG Group including Head of Asset Management & Group Strategy, General Manager, Group Finance and Chief Executive Officer of IAG New Zealand Limited.

Before joining IAG, Mr Hawkins was a partner with KPMG, where he specialised in the financial services sector.

Mr Hawkins holds a BCom (University of Western Australia), and has completed an Advanced Management Program (Harvard Business School). Mr Hawkins is also a Fellow of the Institute of Chartered Accountants in Australia.

J.S. Johnson - Executive director
Ms Jacki Johnson was appointed as a director on 5 April 2012. Ms Johnson is Chief Executive Officer of IAG New Zealand Limited and prior to this was CEO of The Buzz, IAG's online insurer. Ms Johnson is currently the President of the Insurance Council of New Zealand, a Fellow of the Australian Institute of Company Directors, a director of Community First Credit Union and a founding member of the Personal Injury Education Foundation in Australia.

Ms Johnson has held a number of senior positions in IAG, including Chief Executive Officer Business Partnerships, managing IAG's risk management services businesses which included the New South Wales and Victoria workers' compensation fee based businesses.

With over 20 years experience in insurance Ms Johnson has been a key contributor to claims management programmes, policy development and rebuilding strategies that have come about following some of Australia's most significant and recent natural disasters.

Ms Johnson has also held roles in organisational effectiveness and group strategy, and led the integration of IAG and CGU's workers compensation business. Before joining the IAG Group in 2001, Ms Johnson held senior positions with Allianz Insurance, HIH Insurance and IRS Total Injury Management.

Ms Johnson holds a Bachelor of Applied Science (Cumberland College of Health Services), Graduate Diploma of Safety Science (University of New South Wales), and Executive Master of Business Administration (Australia School of Management).

H.M. Price - Independent non-executive director
Mr Harry Price was appointed a director on 5 April 2012.

Mr Price has over 40 years experience in banking and was formerly a Westpac Group Executive with responsibility for New Zealand and Pacific Regions. Mr Price was a director of Westpac New Zealand Limited until he retired from this position in July 2011.

Following his retirement, Mr Price continued with Westpac in Sydney as a consultant responsible for training middle/senior management in a broad range of management skills and in addition performed a mentoring role for many senior executives in Westpac.

R.J. Wagstaffe - Independent non-executive director
Mr Robert Wagstaffe was appointed a director on 5 April 2012.

Mr Wagstaffe has more than 45 years experience in the insurance industry, most recently as CGU Group Executive Intermediary Business at Insurance Australia Group Limited.

Mr Wagstaffe began his career with Commercial Union Group in 1965 and has held a wide range of roles in sales, underwriting and management and was a director of CGU Insurance Limited and related subsidiaries between 1995 and 2004.

Mr Wagstaffe is currently the Chairman of NTI New Zealand Limited, a joint venture business with Suncorp specialising in heavy transport insurance.

M.J. Wilkins - Executive director
Mr Michael Wilkins was appointed as a director on 5 April 2012. Mr Wilkins is also Managing Director and Chief Executive Officer of Insurance Australia Group Limited, having previously held the position of Chief Operating Officer.

Mr Wilkins holds a BCom (University of New South Wales) and a Master of Business Administration (University of Sydney). Mr Wilkins is also a Fellow of the Institute of Chartered Accountants in Australia and a Fellow of the Australian Institute of Company Directors.

Mr Wilkins has more than 25 years experience in the insurance and financial services sector. He is a member of the Australian Government's Financial Sector Advisory Council and a former director and President of the Insurance Council of Australia.

Mr Wilkins was formerly the Managing Director of Promina Group Limited (from August 1999 to March 2007), Managing Director of Tyndall Australia Limited (from 1994 to 1999) and a director of the Investment and Financial Services Association.

AUDIT, RISK MANAGEMENT & COMPLIANCE COMMITTEE (ARMCCO)
The members of the ARMCCO are currently Hugh Fletcher, Mary Devine, Harry Price and Robert Wagstaffe.

The main role of this committee is to assist the Board in discharging its responsibilities in relation to ensuring:

- the integrity of external and internal financial reporting, including compliance with applicable laws, regulations, and other requirements in relation to external financial reporting;
- that directors and management are provided with high quality financial and non financial information that can be relied on by them to make informed judgements;
- that appropriate and effective systems of internal, accounting and financial controls are in place and maintained to safeguard the Company's financial and physical resources;
- that sound risk management and compliance frameworks are in place to identify, assess and manage risks within the Company's risk appetite determined by the Board; and
- that the independence of the external auditor, the internal auditor, and the Appointed Actuary is safeguarded.

ASSET AND LIABILITY COMMITTEE (ALCO)
The ALCO is made up of Jacki Johnson and other senior management members of the Company.

The purpose of the ALCO is to allow senior management of the Company to provide input into the formulation of recommendations for the Board concerning issues related to:

- reinsurance including endorsement of major reinsurance renewal strategies.
- capital management including processes, risk appetite, economic capital targets and minimum capital requirements as prescribed by the Reserve Bank of New Zealand.
- asset and liability management including overseeing market risk and making recommendations to the Board regarding balance sheet and capital mix; and
- risk management.

THE CHIEF EXECUTIVE OFFICER

The Board has delegated responsibility for the overall management and profit performance of the Company, including all the day-to-day operations and administration, to the CEO, who is responsible for:

- the efficient and effective operation of the Company;
- fostering a culture of performance, integrity, respect and a considered sense of urgency;
- ensuring the ongoing development, implementation and monitoring of IAG's risk management and internal controls framework;
- ensuring the Board is provided with accurate and clear information in a timely manner to promote effective decision making; and
- ensuring all material matters affecting the Company are brought to the Board's attention.

The CEO, together with the executive management team, manages the Company in accordance with the policies, budget, corporate plan and strategies approved by the Board, and has the power to manage the Company, subject to the limits set out in the Charter of CEO Delegated Authority Limits.

AMI INSURANCE LIMITED
FINANCIAL REPORT

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AMI INSURANCE LIMITED
STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2013

	NOTE	**2013** **$000**	2012* $000
Premium revenue	5	**410,851**	92,334
Outwards reinsurance premium expense		**(82,697)**	(19,378)
Net premium revenue (i)		**328,154**	72,956
Claims expense	9	**(250,865)**	(52,549)
Reinsurance and other recoveries revenue	5	**20,538**	6,444
Net claims expense (ii)	9	**(230,327)**	(46,105)
Acquisition costs	6	**(35,603)**	(6,924)
Other underwriting expenses	6	**(42,198)**	(13,706)
Underwriting expenses (iii)		**(77,801)**	(20,630)
Underwriting profit/(loss) (i) + (ii) + (iii)		**20,026**	6,221
Investment income on assets backing insurance liabilities	5	**4,026**	608
Investment expenses on assets backing insurance liabilities		**(322)**	-
Insurance profit/(loss)		**23,730**	6,829
Investment income on equity holders' funds	5	**3,002**	613
Corporate and other expenses	6	**(131)**	-
Profit/(loss) before income tax		**26,601**	7,442
Income tax (expense)/credit	8	**(7,626)**	(2,092)
Profit/(loss) for the year		**18,975**	5,350
OTHER COMPREHENSIVE INCOME AND (EXPENSE), NET OF TAX			
Actuarial gains and (losses) on defined benefit arrangements		**3,332**	(2,290)
Business transfer - the difference between consideration paid and net assets		**(1,826)**	(252,399)
Income tax (expense)/credit on other comprehensive income and (expense)		**(933)**	641
Other comprehensive income and (expense), net of tax		**573**	(254,048)
Total comprehensive income and (expense) for the year, net of tax		**19,548**	(248,698)

The above statement of comprehensive income should be read in conjunction with the notes to the financial statements.

*The 2012 comparative figures are for the period 5 April 2012 to 30 June 2012 (3 months).

AMI INSURANCE LIMITED
BALANCE SHEET AS AT 30 JUNE 2013

	NOTE	2013 $000	2012 $000
ASSETS			
Cash held for operational purposes	23	**10,462**	40,198
Investments	13	**261,907**	219,733
Premium receivable	14	**129,598**	113,615
Trade and other receivables	14	**1,112**	4,822
Receivables from related bodies corporate	21	**478**	-
Deferred outwards reinsurance expense	11	**127,656**	76,448
Deferred acquisition costs	11	**18,460**	14,444
Reinsurance and other recoveries on outstanding claims	10	**10,232**	10,980
Deferred tax assets	8	**-**	349
Plant and equipment	15	**5,610**	7,302
Intangible assets	16	**34,463**	18,003
Other assets		**1,900**	3,174
Total assets		**601,878**	509,068
LIABILITIES			
Trade and other payables	17	**32,479**	25,057
Reinsurance premium payable		**130,413**	89,871
Payables to related bodies corporate	21	**2,054**	41
Current tax liabilities		**4,896**	-
Unearned premium liability	12	**223,677**	203,131
Employee benefits provision	18	**11,436**	15,644
Deferred tax liabilities	8	**1,714**	-
Outstanding claims liability	9	**70,759**	43,234
Other liabilities		**800**	788
Total liabilities		**478,228**	377,766
Net assets		**123,650**	131,302
EQUITY			
Ordinary share capital	22	**380,000**	380,000
General reserve	22	**(254,225)**	(252,399)
Retained earnings		**(2,125)**	3,701
Total equity		**123,650**	131,302

Signed in Auckland this 12th day of August 2013 in accordance with a resolution of the directors.

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Director Director

The above balance sheet should be read in conjunction with the notes to the financial statements.

KPMG

AMI INSURANCE LIMITED
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2013

	ORDINARY SHARE CAPITAL $000	GENERAL RESERVE $000	RETAINED EARNINGS $000	TOTAL EQUITY $000
2013				
Balance at the beginning of the financial year	**380,000**	**(252,399)**	**3,701**	**131,302**
Profit/(loss) for the year	-	-	**18,975**	**18,975**
Other comprehensive income and (expense)	-	-	**2,399**	**2,399**
Total comprehensive income for the year	-	-	**21,374**	**21,374**
Adjustment relating to amounts recognised on business transfer	-	**(1,826)**	-	**(1,826)**
Dividends declared and paid	-	-	**(27,200)**	**(27,200)**
Balance at the end of the financial year	**380,000**	**(254,225)**	**(2,125)**	**123,650**
2012				
Profit/(loss) for the period	-	-	5,350	5,350
Other comprehensive income and (expense)	-	-	(1,649)	(1,649)
Total comprehensive income for the period	-	-	3,701	3,701
Shares issued	500,000	-	-	500,000
Shares repaid	(120,000)	-	-	(120,000)
Business transfer - the difference between consideration paid and net assets	-	(252,399)	-	(252,399)
Balance at the end of the period	380,000	(252,399)	3,701	131,302

The above statement of changes in equity should be read in conjunction with the notes to the financial statements.

KPMG

AMI INSURANCE LIMITED
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2013

	NOTE	**2013** **$000**	2012* $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Premium received		**414,394**	90,696
Reinsurance and other recoveries received		**21,619**	6,444
Claims costs paid		**(223,702)**	(52,876)
Outwards reinsurance premium expense paid		**(93,424)**	(586)
Interest received		**3,761**	1,141
Income taxes paid		**(1,600)**	-
Other operating payments		**(66,076)**	(17,649)
Net cash flows from operating activities	23	**54,972**	27,170
CASH FLOWS FROM INVESTING ACTIVITIES			
Net cash flows on acquisition of AMI business		-	(142,974)
Proceeds from disposal of fixed assets		**2,666**	-
Outlays for investments and plant and equipment		**(25,577)**	(128,378)
Net cash flows from investing activities		**(22,911)**	(271,352)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		**(27,200)**	-
Proceeds from issue of shares		-	500,000
Repayment of initial shares issued		-	(120,000)
Net cash flows from financing activities		**(27,200)**	380,000
Net movement in cash held		**4,861**	135,818
Cash and cash equivalents at the beginning of the financial year		**135,818**	-
Cash and cash equivalents at the end of the financial year	23	**140,679**	135,818

The above cash flow statement should be read in conjunction with the notes to the financial statements.

*The 2012 comparative figures are for the period 5 April 2012 to 30 June 2012 (3 months).

KPMG

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

AMI Insurance Limited (Company) is a company limited by shares, incorporated and domiciled in New Zealand. Its registered office is 1 Fanshawe Street, Auckland, New Zealand and the principal place of business is 1 Show Place, Christchurch, New Zealand.

The Company is wholly owned by IAG (NZ) Holdings Limited. The ultimate parent entity is Insurance Australia Group Limited (IAG), an entity incorporated in Australia. As part of the IAG Group, the Company complies with a variety of policies and procedures developed by IAG for application by all entities in the IAG Group where applicable.

With the implementation of the Insurance (Prudential Supervision) Act 2010 all general insurance entities undertaking insurance business in New Zealand are required to be licensed by the Reserve Bank of New Zealand (RBNZ). The Company has been granted a full license. As a result of being a licensed insurer, the Company is classified as an issuer under the Financial Reporting Act 1993.

A. STATEMENT OF COMPLIANCE

This general purpose financial report has been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP) and complies with the NZ IFRS, International Financial Reporting Standards (IFRS) and other applicable Financial Reporting Standards, and interpretations as appropriate to profit-oriented entities. The Company is a reporting entity for the purposes of the Financial Reporting Act 1993 and its financial statements comply with that Act.

The financial statements also comply, where relevant, with the Insurance (Prudential Supervision) Act 2010 and associated Regulations.

B. BASIS OF PREPARATION OF THE FINANCIAL REPORT

The significant accounting policies adopted in the preparation of this financial report are set out below. The accounting policies adopted in the preparation of this financial report have been applied consistently by the Company and are the same as those applied for the previous reporting period unless otherwise noted. The financial statements have been prepared on the basis of historical cost principles, as modified by certain exceptions noted in the financial report, with the principal exceptions being the measurement of all investments and derivatives at fair value and the measurement of the outstanding claims liability and related reinsurance and other recoveries at present value.

The presentation currency used for the preparation of this financial report is New Zealand dollars.

The balance sheet is prepared using the liquidity format in which the assets and liabilities are presented broadly in order of liquidity.

I. Comparatives

The Company was incorporated on 7 December 2011 but did not commence operations until 5 April 2012. Therefore, the comparative figures for the prior year is for the period from 5 April 2012 to 30 June 2012.

II. New Standards and Interpretations Issued But Not Yet Effective

As at the date of this financial report, there have been a number of new standards, amendments to standards and interpretations for which the mandatory application dates fall after the end of this current reporting period.

None of these standards have been early adopted and applied in the current reporting period or are expected to have a significant effect on the financial statements of the Company, except for NZ IFRS 9 Financial Instruments (effective date 1 January 2015) which could change the classification and measurement of financial assets and NZ IAS 19 Employee Benefits (effective date 1 January 2013) which requires the recognition of changes in the defined benefit penison obligation and in pension plan assets when those changes occur. The company does not plan to adopt these standards early and the extent of the impact has not been determined. These standards will be adopted in the year commencing 1 July after the effective date. For example, NZ IFRS 9 will be adopted in the financial year commencing 1 July 2015.

III. Changes in accounting policies

There have been no changes in accounting policies having a material financial impact during the current financial reporting period.

IV. Reclassifications of comparatives

Certain items have been reclassified from the Company's prior year financial report to conform to the current period's presentation. The reclassifications were made to better align the way the balances are managed and reported internally. The significant reclassifications are:

- A reclassification of prepayment balances totalling \$3.174 million as at 30 June 2012 from the trade and other receivables balance to the prepayments balance.
- A reclassification of external reinsurance creditors totalling \$6.942 million as at 30 June 2012 from the trade and other payables balance to the reinsurance premium payable balance.
- A reclassification of lease make good provision balances totalling \$0.788 million from the trade and other payables to the other liabilities balance.
- A reclassification of internal reinsurance creditors totalling \$82.929 million as at 30 June 2012 from the related party liabilities balance to the reinsurance premium payable balance.

SIGNIFICANT ACCOUNTING POLICIES RELATED TO GENERAL INSURANCE CONTRACTS

All of the general insurance products and reinsurance products on offer, or utilised, meet the definition of an insurance contract (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, the insured event, adversely affects the policyholder) and none of the contracts contain embedded derivatives or required to be unbundled. Insurance contracts that meet the definition of a financial guarantee contract are accounted for as insurance contracts. This means that all of the general insurance products are accounted for in the same manner.

C. PREMIUM REVENUE

Premium revenue comprises amounts charged to policyholders (direct premium) and excludes fire service and earthquake levies collected on behalf of statutory bodies. Premium is recognised as earned from the date of attachment of risk (generally the date a contract is agreed to but may be earlier if persuasive evidence of an arrangement exists) over the period of the related insurance contracts in accordance with the pattern of the incidence of risk expected under the contracts. The pattern of the risks underwritten is generally matched by the passing of time. The unearned portion of premium is recognised as an unearned premium liability on the balance sheet.

Premium receivable is recognised as the amount due and is normally settled between 30 days and 12 months. The recoverability of premium receivable is assessed and provision is made for impairment based on objective evidence and having regard to past default experience. Premium receivable is presented on the balance sheet net of any provision for impairment.

D. OUTWARDS REINSURANCE

Premium ceded to reinsurers is recognised as an expense in accordance with the pattern of reinsurance service received. Accordingly, a portion of outwards reinsurance premium expense is treated as a prepayment and presented as deferred outwards reinsurance expense on the balance sheet at the reporting date. The reinsurance premium payable is carried at cost, which is the fair value of the consideration to be paid in the future for reinsurance received.

E. CLAIMS

The outstanding claims liability is measured as the central estimate of the present value of expected future payments relating to claims incurred at the reporting date with an additional risk margin to allow for the inherent uncertainty in the central estimate. The expected future payments include those in relation to claims reported but not yet paid or not yet paid in full, claims incurred but not enough reported (IBNER), claims incurred but not reported (IBNR) and the anticipated direct and indirect claims handling costs. The liability is discounted to present value using a risk free rate.

Claims expense represents claim payments adjusted for the movement in the outstanding claims liability.

The estimation of the outstanding claims liability involves a number of key assumptions and is the most critical accounting estimate. All reasonable steps are taken to ensure that the information used regarding claims exposures is appropriate. However, given the uncertainty in establishing the liability, it is likely that the final outcome will be different from the original liability established. Changes in claims estimates are recognised in profit or loss in the reporting period in which the estimates are changed.

F. REINSURANCE AND OTHER RECOVERIES

Reinsurance and other recoveries received or receivable on paid claims and on outstanding claims (notified and not yet notified) are recognised as income.Reinsurance recoveries on paid claims are presented as part of trade and other receivables net of any provision for impairment based on objective evidence for individual receivables. 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 balance sheet.

G. ACQUISITION COSTS

Costs associated with obtaining and recording general insurance contracts are referred to as acquisition costs. These costs include advertising expenses, commissions or brokerage paid to agents or brokers, premium collection costs, risk assessment costs and other administrative costs. Such costs are capitalised where they relate to the acquisition of new business or the renewal of existing business, are presented as deferred acquisition costs, and are amortised on the same basis as the earning pattern of the premium over the period of the related insurance contracts. The balance of the deferred acquisition costs at the reporting date represents the capitalised acquisition costs relating to unearned premium.

H. LIABILITY ADEQUACY TEST

The liability adequacy test is an assessment of the carrying amount of the unearned premium liability and is conducted at each reporting date. If current estimates of the present value of the expected future cash flows relating to future claims arising from the rights and obligations under current general insurance contracts, plus an additional risk margin to reflect the inherent uncertainty in the central estimate, exceed the unearned premium liability (net of reinsurance) less related deferred acquisition costs, then the unearned premium liability is deemed to be deficient. The test is performed at the level of a portfolio of contracts that are subject to broadly similar risks and that are managed together as a single portfolio. Any deficiency arising from the test is recognised in profit or loss with the corresponding impact on the balance sheet recognised first through the write down of deferred acquisition costs for the relevant portfolio of contracts, with any remaining balance being recognised on the balance sheet as an unexpired risk liability.

SIGNIFICANT ACCOUNTING POLICIES APPLICABLE TO OTHER ACTIVITIES

I. LEASES
All leases entered into are operating leases, where the lessor retains substantially all the risks and benefits of ownership of the leased items. The majority of the lease arrangements are entered into as lessee for which the lease payments are recognised as an expense on a straight line basis over the term of the lease. Certain sublease arrangements are entered into as the lessor for which the lease payments are recognised as revenue on a straight line basis over the term of the lease.

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

J. TAXATION
I. Income tax
Income tax expense for a reporting period comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax expense is the expected tax payable on the taxable income for the year and any adjustment to tax payable in respect of previous financial periods. Deferred tax expense/credit is the change in deferred tax assets and liabilities between the reporting periods.

Deferred tax assets and liabilities are recognised using the balance sheet method for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except in the following circumstances when no deferred tax asset or liability is recognised:
- temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss;
- temporary differences between the carrying amount and tax bases of investments in subsidiaries where it is probable that the differences will not reverse in the foreseeable future; and
- temporary differences relating to the initial recognition of goodwill and indefinite life intangible assets.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at reporting date. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

II. Goods and services tax
Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of 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 part of other receivables and payables on the balance sheet.

K. INVESTMENTS
Investments comprise assets held to back insurance liabilities (also referred to as technical reserves) and assets that represent equity holders' funds. All investments are managed and performance evaluated on a fair value basis for both external and internal reporting purposes in accordance with a documented risk management strategy.

All investments are designated as fair value through profit or loss upon initial recognition. They are initially recorded at fair value (being the cost of acquisition excluding transaction costs) and are subsequently remeasured to fair value at each reporting date. Changes in the fair value from the previous reporting date (or cost of acquisition excluding transaction costs if acquired during the financial period) are recognised as realised or unrealised investment gains or losses in profit or loss. Purchases and sales of investments are recognised on a trade date basis, being the date on which a commitment is made to purchase or sell the asset. Transaction costs for purchases of investments are expensed as incurred. Investments are derecognised when the rights to receive future cash flows from the assets have expired, or have been transferred, and substantially all the risks and rewards of ownership have transferred.

For securities traded in an active market, fair value is determined by reference to published bid price quotations. For securities traded in a market that is not active, valuation techniques are used based on market observable inputs. In a limited number of instances, valuation techniques are based on non-market observable inputs.

Investment revenue is brought to account on an accruals basis. Revenue on investment in equity securities is deemed to accrue on the date the dividends/distributions are declared, which for listed equity securities is deemed to be the ex-dividend date.

L. DERIVATIVES
I. Derivatives without hedge accounting applied
The Company uses a variety of derivatives to manage various risks. Derivatives are used solely to manage risk exposure and are not used for trading or speculation.

Derivatives are initially recognised at fair value (generally the transaction price; the fair value of the consideration given or received) on the date a derivative contract is entered into and are subsequently remeasured to fair value at each reporting date. The fair value is determined by reference to current market quotes (current bid price for derivatives presented as assets and the current ask price for derivatives presented as liabilities) or generally accepted valuation principles. The derivatives become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market rates relative to their terms. Transaction costs for purchases of derivatives are expensed as incurred and presented in the statement of comprehensive income as investment expenses on assets backing insurance liabilities and fee based, corporate and other expenses for assets representing equity holders' funds.

II. Investment operations
All of the derivatives managed in conjunction with the investment operations are recognised on the balance sheet (presented together with the underlying investments) at fair value with movements in fair value being recognised as part of investment income in profit or loss. None of the derivatives are designated for hedge accounting. This matches the accounting for the derivatives with the accounting for the underlying investments.

III. Corporate treasury operations
Derivatives are used to hedge exposure to foreign currency and interest rate movements in relation to corporate treasury transactions, including interest bearing liabilities with the derivative being recognised on the balance sheet at fair value and movements in fair value being recognised in profit or loss. The derivatives are classified as assets when the fair value is positive, or as liabilities when the fair value is negative.

M. TRADE AND OTHER RECEIVABLES
Trade and other receivables are stated at the amounts to be received in the future and are presented net of any provision for impairment. Due to their short tail nature trade and other receivables have not been stated at a discounted value. The recoverability of debts is assessed on an ongoing basis and provision for impairment is made based on objective evidence and having regard to past default experience. The impairment charge is recognised in profit or loss. Debts which are known to be uncollectible are written off.

N. PLANT AND EQUIPMENT
Plant and equipment is initially recorded at cost which is the fair value of consideration provided plus incidental costs directly attributable to the acquisition.

All items of plant and equipment are carried at cost less accumulated depreciation and accumulated impairment charges. Depreciation is calculated using the straight line method to allocate the cost of assets less any residual value over the estimated useful economic life.

The carrying amount of each class of plant and equipment is reviewed each reporting date by determining whether there is an indication that the carrying value of a class may be impaired. If any such indication exists, the item is tested for impairment by comparing the recoverable amount of the asset or its cash generating unit to the carrying value. An impairment charge is recognised whenever the carrying value exceeds the recoverable amount. Impairment charges are recognised in profit or loss and may be reversed where there has been an indication that the loss may no longer exist and/or there is a change in the estimates used to determine the recoverable amount.

The net gain or loss on disposal of plant and equipment is recognised in profit or loss and is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds.

O. INTANGIBLE ASSETS
I. Acquired intangible assets
Acquired intangible assets are initially recorded at their cost at the date of acquisition being the fair value of the consideration provided and, for assets acquired separately, incidental costs directly attributable to the acquisition. Intangible assets with finite useful lives are amortised on a straight line basis (unless the pattern of usage of the benefits is significantly different) over the estimated useful lives of the assets being the period in which the related benefits are expected to be realised (shorter of legal duration and expected economic life). Amortisation rates and residual values are reviewed annually and any changes are accounted for prospectively.

The carrying amount of intangible assets with finite useful lives is reviewed each reporting date by determining whether there is an indication that the carrying value may be impaired. If any such indication exists, the item is tested for impairment by comparing the recoverable amount of the asset or its cash generating unit to the carrying value. Where the recoverable amount is determined by the value in use, the projected net cash flows are discounted using a pre tax discount rate. For assets with indefinite useful lives, the recoverability of the carrying value of the assets is reviewed for impairment at each reporting date, or more frequently if events or changes in circumstances indicate that it might be impaired. An impairment charge is recognised when the carrying value exceeds the calculated recoverable amount. Impairment charges are recognised in profit or loss and may be reversed where there has been a change in the estimates used to determine the recoverable amount.

II. Software development expenditure
Software development expenditure that meets the criteria for recognition as an intangible asset is capitalised on the balance sheet and amortised over its expected useful life, subject to impairment testing. Costs incurred in researching and evaluating a project up to the point of formal commitment to a project are treated as research costs and are expensed as incurred. Small projects and other costs are treated as maintenance costs, being an ongoing part of maintaining effective computer systems, and are expensed as incurred.

All such capitalised costs are deemed to have an expected useful life of three years unless it can be clearly demonstrated for a specific project that the majority of the net benefits are to be generated over a longer period. The capitalised costs are amortised on a straight line basis over the period following completion of a project or implementation of part of a project. The recoverability of the carrying amount of the asset is assessed in the same manner as for acquired intangible assets with finite useful lives.

P. TRADE AND OTHER PAYABLES
Trade and other payables are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received. The amounts are not discounted because the effect of the time value of money is not material.

Q. ONEROUS CONTRACTS PROVISION
A provision is recognised for onerous contracts when the expected benefits to be derived from a contract are lower than the unavoidable cost of meeting the obligations under the contract.

R. EMPLOYEE BENEFITS
I. Wages and salaries and annual leave
Liabilities for wages and salaries (including bonuses) and annual leave are recognised at the nominal amounts unpaid at the reporting date using remuneration rates that are expected to be paid when these liabilities are settled.

II. Superannuation
For defined contribution superannuation plans, obligations for contributions are recognised in profit or loss as they become payable. For defined benefit superannuation plans, the net financial position of the plans is recognised on the balance sheet and the movement in the net financial position is recognised in profit or loss, except for actuarial gains and losses (experience adjustments and changes in actuarial assumptions), which are recognised in other comprehensive income or (expense).

S. FOREIGN CURRENCY
I. Functional and presentation currency
Items included in the financial records are measured using the currency of the primary economic environment in which the entity operates (functional currency). The financial statements are presented in New Zealand dollars, which is the presentation currency of the Company.

II. Translation of foreign currency transactions
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at reporting date, are translated to the functional currency using reporting date exchange rates. Resulting exchange differences are recognised in profit or loss.

NOTE 2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS
In the process of applying the significant accounting policies, certain critical accounting estimates and assumptions are used, and certain judgements are made.

The estimates and related assumptions are based on experience and other factors that are considered to be reasonable, the results of which form the basis for judgements about the carrying values of assets and liabilities. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised, and future periods if relevant.

The areas where the estimates and assumptions involve a high degree of judgement or complexity and are considered significant to the financial statements, listed together with reference to the notes to the financial statements where more information is provided, are:

- insurance contracts related:
  - claims, refer to note 9;
  - reinsurance and other recoveries on outstanding claims, refer to note 10; and
  - liability adequacy test, refer to note 12.B.

  There are other amounts relating to insurance contracts that are based on allocation methodologies supported by assumptions (e.g. deferred acquisition costs). The estimates relate to past events, do not incorporate forward looking considerations, and generally do not change from year to year.

- other:
  - defined benefit superannuation arrangements, refer to note 24.

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NOTE 3. INSURANCE RISK MANAGEMENT

A key risk from operating in the general insurance industry is the exposure to insurance risk arising from underwriting general insurance contracts. The insurance contracts transfer risk to the insurer by indemnifying the policyholders against adverse effects arising from the occurrence of specified uncertain future events. There is a risk that the actual amount of claims to be paid in relation to contracts will be different to the amount estimated at the time a product was designed and priced. The Company is exposed to this risk because the price for a contract must be set before the losses relating to the product are known. Hence the insurance business involves inherent uncertainty. The Company also faces other risks relating to the conduct of the general insurance business including financial risks and capital risks.

A fundamental part of the Company's overall risk management strategy is the effective governance and management of the risks that impact the amount, timing and uncertainty of cash flows arising from insurance contracts.

A. RISK MANAGEMENT OBJECTIVES AND POLICIES FOR MITIGATING INSURANCE RISK

The insurance activities primarily involve the underwriting of risks and the management of claims. A disciplined approach to risk management is adopted rather than a premium volume or market share orientated approach. It is believed that this approach provides the greatest long term likelihood of being able to meet the objectives of all stakeholders.

The key policies and processes put in place to mitigate insurance risk include the following:

I. Acceptance and pricing of risk

The underwriting of large numbers of less than fully correlated individual risks across a range of classes of insurance business reduces the variability in overall claims experience over time. Maximum limits are set for the acceptance of risk both on an individual contract basis and for classes of business and specific risk groupings. Management information systems are maintained that provide up-to-date, reliable data on the risks to which the business is exposed at any point in time. Efforts are made, including plain language policy terms, to ensure there is no misalignment between what policyholders perceive will be paid when a policy is initially sold and what is actually paid when a claim is made.

Statistical models that combine historical and projected data are used to calculate premiums and monitor claims patterns for each class of business. The data used includes historical pricing and claims analysis for each class of business as well as current developments in the respective markets and classes of business. All data used is subject to rigorous verification and reconciliation processes. The models incorporate consideration of prevailing market conditions.

II. Reinsurance

Reinsurance is used to limit exposure to large single claims as well as accumulation of claims that arise from the same or similar events.

Risks underwritten are reinsured in order to limit exposure to losses, stabilise earnings, protect capital resources and ensure efficient control and spread of the risks underwritten.

The use of reinsurance introduces credit risk. The management of reinsurance includes the monitoring of reinsurers' credit risk and controls the exposure to reinsurance counterparty default. Refer to note 4 for further details.

III. Claims management and provisioning

Initial claims determination is managed by claims officers with the requisite degree of experience and competence with the assistance, where appropriate, of a loss adjustor or other party with specialist knowledge. It is the Company's policy to respond to and settle all claims quickly whenever possible and to pay claims fairly, based on policyholders' full entitlements.

Claims provisions are established using actuarial valuation models and include a risk margin for uncertainty (refer to the claims note).

B. CONCENTRATIONS OF INSURANCE RISK

Concentration risk is particularly relevant in the case of catastrophes, usually natural disasters, which generally result in a concentration of affected policyholders over and above the norm and which constitutes the largest individual potential financial loss. Catastrophe losses are an inherent risk of the general insurance industry that have contributed, and will continue to contribute, to potentially material year-to-year fluctuations in the results of operations and financial position. Catastrophes are caused by various natural events including earthquakes, hailstorms, storms and high winds. The Company is also exposed to certain human-made catastrophic events such as industrial accidents and building collapses. The nature and level of catastrophes in any period cannot be predicted accurately but can be estimated through the utilisation of predictive models. The Company actively limits the aggregate insurance exposure to catastrophe losses in regions that are subject to high levels of natural catastrophes.

Each year, the Company sets its tolerance for concentration risk and purchases reinsurance in excess of these tolerances. Various models are used to estimate the impact of different potential natural disasters and other catastrophes. The tolerance for concentration risk is used to determine the maximum event retention (MER) which is the maximum net exposure to insurance risk determined appropriate for any single event with a given probability. The selected MER is determined based on the cost of purchasing the reinsurance and capital efficiency.

Specific processes for monitoring identified key concentrations are set out below.

RISK	SOURCE OF CONCENTRATION	RISK MANAGEMENT MEASURES
An accumulation of risks arising from a natural peril	Insured property concentrations	Accumulation risk modelling, reinsurance protection
A large property loss	Fire or collapse affecting one building or a group of adjacent buildings	Maximum acceptance limits, property risk grading, reinsurance protection
Multiple liability retentions being involved in the same event	Response by a number of policies to the one event	Purchase of reinsurance clash protection

C. OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk can have overlaps with all of the other risk categories. When controls fail, operational risk events can cause injury, damage to reputation, have legal or regulatory implications or can lead to financial loss. The Company cannot expect to eliminate all operational risks, but manages these by initiating an appropriate control framework and by monitoring and responding to potential risks, and thereby minimise exposure to such risks.

The Group risk management strategy includes consideration of operational risk. Operational risk is identified and assessed on an ongoing basis and the capital management strategy includes consideration of operational risk. Management and staff are responsible for identifying, assessing and managing operational risks in accordance with their roles and responsibilities. The Group has an internal audit function which monitors processes and procedures surrounding operational risk.

NOTE 4. FINANCIAL RISK MANAGEMENT

The Company is exposed to a variety of financial risks in the normal course of business; market risk (including currency risk, fair value, interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Board and senior management of the IAG Group have developed, implemented and maintain a Risk Management Strategy (RMS) across the Group, including the Company. The Company complies with the risk management policies of the Group. The policies form the Company's 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.

A. MARKET RISK

Market risk is the risk of adverse financial impact due to changes in fair values or future cash flows of financial instruments from fluctuations in foreign currency exchange rates, interest rates, and equity prices. For the Company, investments substantially comprise either New Zealand dollar denominated fixed interest investments and cash or Australian dollar denominated fixed interest investments and cash hedged back to New Zealand dollars, therefore the relevant market risk is interest rate risk.

Interest rate risk

a. NATURE OF THE RISK AND HOW MANAGED

Interest rate risk is the risk of loss arising from an unfavourable movement in market interest rates. Fixed interest rate assets and liabilities create exposure to fair value interest rate risk which is a market risk. Financial assets and liabilities with floating interest rates create exposure to cash flow interest rate risk.

The underwriting of general insurance contracts creates exposure to the risk that interest rate movements may materially impact the value of the insurance liabilities. Movements in interest rates should have minimal impact on the insurance profit due to the Company's policy of investing in assets backing insurance liabilities principally in fixed interest securities matched to the expected payment pattern of the insurance liabilities. Movements in investment income on assets backing insurance liabilities offset the impact of movements in discount rates on the insurance liabilities, other than the changes in credit spreads on the fixed interest securities which are expected to reverse on maturity.

b. SENSITIVITY

The sensitivity analysis provided in the following table demonstrates the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. The sensitivities do not include interdependencies among variables, but rather show isolated interest rate movements.

The investments in interest bearing securities are recognised on the balance sheet at fair value. Movements in market interest rates impact the price of the securities (and hence their fair value measurement) and so would impact profit. The impact from the measurement of the interest bearing securities held at reporting date of a change in interest rates at reporting date by +1% or -1% (e.g. a move from 4% to 5% or to 3%) on profit before tax, net of related derivatives, is shown in the table below.

		2013	2012
		$000	$000
		Impact to profit	Impact to profit
Investments - interest bearing securities and related interest rate derivatives	+1%	**(550)**	(359)
	-1%	**555**	390

The majority of the interest bearing securities are expected to be held to maturity and so movements in the fair value are expected to reverse upon maturity of the instruments.

B. CREDIT RISK

I. Nature of the risk and how managed

Credit risk is the risk of loss from a counterparty failing to meet their financial obligations. Credit risk arises predominantly from investment activities, reinsurance activities. Credit quality management roles, principles and processes are detailed in the Group Credit Risk Management Policy document which is approved by the IAG Board. The policy outlines the framework and procedures in place to ensure an adequate and appropriate level of monitoring and management of credit quality throughout the Group.

The Group Treasury function is responsible for ensuring that the policies governing the management of credit quality risk are properly implemented. The Group's credit risk appetite relies heavily on credit rating agency research and is predominantly weighted towards counterparties of high quality investment grade. All new, changed and continuing credit risk exposures must be approved in accordance with the Group's approval authority framework.

Concentration of the credit risk exists if a number of counterparties have similar economic characteristics. At the reporting date, with the exception of the reinsurance recoverable from the Group captive reinsurers, there are no material concentrations of credit risk in the investment portfolios as the Company transacts with a large number of counterparties without any individual counterparty having a material outstanding balance except for possible exposure to the major banks in New Zealand. With regard to the Group captive reinsurers, ultimately, the Company's exposure is to the external reinsurer with whom the captives have placed the IAG Group's reinsurance programme.

II. Credit risk exposure

a. PREMIUM AND OTHER TRADE RECEIVABLE

The maximum exposure to credit risk as at reporting date is the carrying amounts of the receivables on the balance sheet. An ageing analysis for premium receivable and other trade debtors is provided here. The amounts are aged according to their original due date.

2013	NOT OVERDUE			OVERDUE	TOTAL
		<30 days	30-120 days	>120 days	
	$000	$000	$000	$000	$000
Premium receivable	**125,201**	**4,797**	-	-	**129,998**
Provision for lapses	**(400)**	-	-	-	**(400)**
Net balance	**124,801**	**4,797**	-	-	**129,598**
Other trade debtors	**1,112**	-	-	-	**1,112**
Net balance	**1,112**	-	-	-	**1,112**

2012	$000	$000	$000	$000	$000
Premium receivable	110,557	3,458	-	-	114,015
Provision for lapses	(400)	-	-	-	(400)
Net balance	110,157	3,458	-	-	113,615
Other trade debtors	4,822	-	-	-	4,822
Net balance	4,822	-	-	-	4,822

A significant portion of the premium receivable balance relates to policies which are paid on a monthly instalment basis. It is important to note that the late payment of amounts due under such arrangements allows for the cancellation of the related insurance contract eliminating both the credit risk and insurance risk for the unpaid amounts. Upon cancellation of a policy the outstanding premium receivable is reversed.

The provision for lapses at reporting date for receivables balances totalled $0.4 million (2012 - $0.4 million). The net movement in the aggregated provision for the current period was $0.0 million (2012 - $0.4 million).

b. REINSURANCE RECOVERIES RECEIVABLE ON OUTSTANDING CLAIMS
Reinsurance arrangements mitigate insurance risk but expose the the Company to credit risk. Reinsurance is placed with companies based on an evaluation of the financial strength of the reinsurers, terms of coverage, and price. The Company has clearly defined credit policies for the approval and management of credit risk in relation to reinsurers. The Company monitors the financial condition of its reinsurers on an ongoing basis and periodically reviews the reinsurers' ability to fulfil its obligations to the Company under respective existing and future reinsurance contracts. Some of the reinsurers are domiciled outside of the jurisdictions in which the Company operates and so there is the potential for additional risk such as country risk and transfer risk.

The level and quality of reinsurance protection is an important element in understanding the financial strength of an insurer. The financial condition of a reinsurer is a critical deciding factor when entering into a reinsurance agreement. The longer the tail of the direct insurance, the more important is the credit rating of the reinsurer.

It is Company policy to deal only with reinsurers with credit ratings of at least Standard & Poor's BBB+ (or other rating agency equivalent) without collaterisation. Having reinsurance protection with strong reinsurers will benefit the Company in its regulatory capital calculations. The capital risk charges vary with the grade of the reinsurers such that higher credit quality reinsurance counterparties incur lower regulatory capital charges.

The following table provides information regarding the credit risk relating to the reinsurance recoveries receivable on the outstanding claims balance, excluding other recoveries, based on Standard & Poor's counterparty credit ratings. These rating allocations relate to balances accumulated from reinsurance programs in place over a number of years and so will not necessarily align with the rating allocations noted above for the current program.

CREDIT RATING	**2013** **% of total**	2012 % of total
AA	**100**	-
	100	-

No separate provision for impairment has been recognised for the reinsurance recoveries on outstanding claims balance. The actuarial estimates include a credit risk component in the underlying balance and therefore no separate provision is required.

c. INVESTMENTS
The Company is exposed to credit risk from investments in third parties where the Company holds debt and similar securities issued by those entities.

The credit risk relating to investments is monitored and assessed, and maximum exposures are limited. The maximum exposure to credit risk as at reporting date is the carrying amount of the investments on the balance sheet as they are measured at fair value. The investments comprising assets backing insurance liabilities are restricted to investment grade securities.

The following table provides information regarding the credit risk relating to the interest bearing investments based on Standard & Poor's counterparty credit ratings.

CREDIT RATING	**2013** **% of total**	2012 % of total
AA	**85**	-
A	**15**	100
Total	**100**	100

C. LIQUIDITY RISK

I. Nature of the risk and how managed

Liquidity risk is concerned with the risk of there being insufficient cash resources to meet payment obligations without affecting the daily operations or the financial condition of the Company. Liquidity facilitates the ability to meet expected and unexpected requirements for cash. The liquidity position is derived from operating cash flows, investment portfolios and access to outside sources of liquidity such as bank lines of credit, reinsurance arrangements and other sources. The liquidity management roles, principles and processes are detailed in the Group Liquidity Risk Management Policy document which is approved by the IAG Board. The policy outlines the framework and procedures in place to ensure an adequate and appropriate level of monitoring and management of liquidity.

Underwriting insurance contracts exposes the Company to liquidity risk through the obligation to make payments of unknown amounts on unknown dates. The assets backing insurance liabilities consist predominantly of government securities (the most liquid of securities) and other very high quality securities which can generally be readily sold or exchanged for cash. The assets are managed so as to effectively match the maturity profile of the assets with the expected pattern of claims payments. The debt securities are restricted to investment grade securities with concentrations of investments managed by various criteria including issuer, industry, geography and credit rating. The proportion of the portfolio of assets backing insurance liabilities invested in high quality liquid assets, by market value, must exceed 35% of the portfolio balance.

II. Liquidity risk exposure

The breakdowns of the fixed term investments are provided by contractual maturity. Actual maturities may differ from contractual maturities because certain counterparties have the right to call or prepay certain obligations with or without call or prepayment penalties.

A maturity analysis of the estimated net discounted outstanding claims liability based on the remaining term to payment at the reporting date and the investments that have a fixed term is provided in the table below.

This maturity profile is a key tool used in the investment of assets backing insurance liabilities in accordance with the policy of matching the maturity profile of the assets with the estimated pattern of claims payments.

MATURITY ANALYSIS	NET DISCOUNTED OUTSTANDING CLAIMS LIABILITY			INVESTMENTS
	2013	2012	**2013**	2012
	$000	$000	**$000**	$000
Floating interest rate (at call)	-	-	**130,217**	95,620
Within 1 year or less	**57,990**	34,566	**131,690**	124,113
Within 1 to 2 years	**1,719**	(218)	-	-
Within 2 to 3 years	**223**	(639)	-	-
Within 3 to 4 years	**76**	(526)	-	-
Within 4 to 5 years	**519**	(365)	-	-
Over 5 years	-	(564)	-	-
Total	**60,527**	32,254	**261,907**	219,733

Financial liabilities including derivative liabilities, trade and other payables and related party payables are all due to mature within one year. Reinsurance premium payables include $43.1m which is expected to be paid within 1-2 years from reporting date.

NOTE 5. ANALYSIS OF INCOME

	2013	2012
	$000	$000
A. GENERAL INSURANCE REVENUE		
Gross written premium	**431,398**	97,518
Movement in unearned premium liability	**(20,547)**	(5,184)
Premium revenue	**410,851**	92,334
Reinsurance and other recoveries revenue	**20,538**	6,444
Total general insurance revenue	**431,389**	98,778
B. INVESTMENT INCOME		
Dividend revenue	**2**	-
Interest revenue	**3,944**	1,706
Total investment revenue	**3,946**	1,706
Realised net gains and (losses)	**9,737**	(328)
Unrealised net gains and (losses)	**(6,655)**	(157)
Total investment income	**7,028**	1,221
Represented by		
Investment income on assets backing insurance liabilities	**4,026**	608
Investment income on equity holders' funds	**3,002**	613
	7,028	1,221
Total income	**438,417**	99,999

NOTE 6. ANALYSIS OF EXPENSES

	2013 $000	2012 $000
Underwriting expenses includes the following:		
Amortisation of software assets	**301**	389
Commissions	**882**	145
Depreciation	**3,035**	863
Operating lease costs	**8,136**	1,748
Software costs	**1,390**	1,355
Gain on sale of plant and equipment	**(88)**	(88)
Share-based remuneration expense	**5**	-
Defined contribution superannuation expense	**547**	757
Employee benefit expense	**63,532**	15,106

NOTE 7. REMUNERATION OF AUDITOR

	2013 $000	2012 $000
Audit of the financial statements	**162**	152
Other assurance services	**48**	-
Total remuneration of auditor	**210**	152

NOTE 8. INCOME TAX

	2013 $000	2012 $000
A. INCOME TAX EXPENSE		
Current tax	**5,563**	-
Deferred tax	**1,910**	2,092
(Over)/under provided in prior period	**153**	-
Income tax expense/(credit)	**7,626**	2,092

B. INCOME TAX RECONCILIATION

The income tax for the financial year differs from the amount calculated on the profit/(loss) before income tax. The differences are reconciled as follows:

	2013 $000	2012 $000
Profit/(loss) for the year before income tax	**26,601**	7,442
Income tax calculated at 28%	**7,448**	2,084
Amounts which are not deductible/(taxable) in calculating taxable income		
Non-deductible expenses	**25**	8
Income tax (credit)/expense applicable to current year	**7,473**	2,092
Adjustment relating to prior period	**153**	-
Income tax (credit)/expense attributable to profit/(loss) for the year	**7,626**	2,092

C. DEFERRED TAX ASSET/(LIABILITY)

	2013 $000	2012 $000
Employee benefits	**1,818**	2,020
Depreciation	**305**	192
Deferred acquisition costs	**(5,169)**	(4,044)
Other	**1,332**	2,181
	(1,714)	349

	2013 $000	2012 $000
D. IMPUTATION CREDITS		
Imputation credits at the beginning of the financial year	-	-
New Zealand tax payments / (refunds)	1,600	-
Balance at the end of the financial year	1,600	-

NOTE 9. CLAIMS

A. NET CLAIMS EXPENSE IN THE STATEMENT OF COMPREHENSIVE INCOME

Current year claims relate to claim events that occurred in the current financial year. Prior year claims relate to a reassessment of the claim events that occurred in all previous financial periods.

	Current year $000	Prior years $000	2013 Total $000	Current period $000	Prior years $000	2012 Total $000
Gross claims - undiscounted	246,432	4,683	251,115	52,549	-	52,549
Discount	(491)	241	(250)	-	-	-
Gross claims - discounted	245,941	4,924	250,865	52,549	-	52,549
Reinsurance and other recoveries - undiscounted	(13,244)	(7,293)	(20,537)	(6,444)	-	(6,444)
Discount	137	(138)	(1)	-	-	-
Reinsurance and other recoveries - discounted	(13,107)	(7,431)	(20,538)	(6,444)	-	(6,444)
Net claim expense	232,834	(2,507)	230,327	46,105	-	46,105

B. OUTSTANDING CLAIMS LIABILITY RECOGNISED ON THE BALANCE SHEET

	2013 $000	2012 $000
I. Composition of gross outstanding claims liability		
Gross central estimate - undiscounted	58,005	34,502
Claims handling costs	6,363	4,592
Risk margin	6,864	4,140
	71,232	43,234
Discount to present value	(473)	-
Gross outstanding claims liability - discounted	70,759	43,234

The outstanding claims liability includes $5.3m (2012 - $3.9m) which is expected to be settled after more than 12 months from reporting date.

II. Reconciliation of movements in discounted outstanding claims liability

	2013			2012		
	Gross	**Reinsurance and other recoveries**	**Net**	Gross	Reinsurance and other recoveries	Net
	$000	**$000**	**$000**	$000	$000	$000
Balance at the beginning of the financial year	**43,234**	**(10,980)**	**32,254**	-	-	-
Movement in the prior year central estimate	**4,271**	**(2,774)**	**1,497**	-	-	-
Acquired as part of business transfer	**-**	**-**	**-**	43,157	(10,517)	32,640
Current year claims incurred	**245,500**	**(20,035)**	**225,465**	52,549	(6,444)	46,105
Claims paid/recoveries received	**(223,702)**	**21,934**	**(201,768)**	(52,508)	6,089	(46,419)
Movement in discounting	**524**	**(118)**	**406**	-	(108)	(108)
Movement in risk margin	**932**	**1,741**	**2,673**	36	-	36
Balance at the end of the financial year	**70,759**	**(10,232)**	**60,527**	43,234	(10,980)	32,254

III. Central estimate and risk margin

a. REPORTING DATE VALUES

	2013	2012
	%	%
The percentage risk margin applied to the net outstanding claims liability	**12.8**	10.6
The probability of adequacy of the risk margin	**87.5**	87.5

b. PROCESS

The outstanding claims liability is determined based on three building blocks being:

- a central estimate of the future cash flows;
- discounting for the effect of the time value of money; and
- a risk margin for uncertainty.

i. Future cash flows

The estimation of the outstanding claims liability is based on a variety of actuarial techniques that analyse experience, trends and other relevant factors. The expected future payments include those in relation to claims reported but not yet paid or not yet paid in full, claims incurred but not enough reported (IBNER), claims incurred but not reported (IBNR) and the anticipated direct and indirect claims handling costs.

The estimation process involves using the Company's specific data, relevant industry data and more general economic data. Each class of business is usually examined separately and the process involves consideration of a large number of factors including the risks to which the business is exposed at a point in time, claim frequencies and average claim sizes, historical trends in the incidence and development of claims reported and finalised, legal, social and economic factors that may impact upon each class of business as well as the key actuarial assumptions set out in section IV, and the impact of reinsurance and other recoveries.

Different actuarial valuation models are used for different claims types and lines of business. The selection of the appropriate actuarial model takes into account the characteristics of a claim type and class of business and the extent of the development of each past accident period.

ii. Discounting

Projected future claims payments, both gross and net of reinsurance and other recoveries, and associated claims handling costs are discounted to a present value using appropriate risk free discount rates.

iii. Risk margin

The central estimate of the outstanding claims liability is an estimate which is intended to contain no deliberate or conscious over or under estimation and is commonly described as providing the mean of the distribution of future cash flows. It is considered appropriate to add a risk margin to the central estimate in order for the claims liability to have an increased probability of sufficiency. The risk margin refers to the amount by which the liability recognised in the financial statements is greater than the actuarial central estimate of the liability.

As at 30 June 2013, the central estimate of the outstanding claims liability was reviewed by Christian Barrington (Fellow of the New Zealand Society of Actuaries) of IAG New Zealand Limited. The methodology used was peer reviewed by Finity Consulting Pty Limited.

There were no qualifications contained in the actuarial report and the actuary was satisfied as to the nature, sufficiency and accuracy of the data used to determine the outstanding claims liability.

Uncertainties surrounding the outstanding claims liability estimation process include those relating to the data, actuarial models and assumptions, the statistical uncertainty associated with a general insurance claims runoff process, and risks external to the Company, for example, the impact of future legislative reform. Uncertainty from these sources is examined for each class of business and expressed as a volatility measure relative to the net central estimate. The volatility measure for each class is derived after consideration of stochastic modelling and benchmarking to industry analysis. Certain product classes may be subject to the emergence of new types of latent claims and such uncertainties are considered when setting the volatility, and hence the risk margin appropriate for those classes.

The measure of the volatility is referred to as the coefficients of variation (CoV). The CoV is defined as the standard deviation of the distribution of future cash flows divided by the mean. Short tail classes of business have relatively lower levels of volatility.

The risk margin required to provide a given probability of adequacy for two or more classes of business or for two or more geographic locations combined is likely to be less than the sum of the risk margins for the individual classes. This reflects the benefit of diversification in general insurance.

The measure of the diversification benefit is referred to as correlation. The higher the correlation between two classes of business, the more likely it is that a negative outcome in one class will correspond to a negative outcome in the other class. The correlations adopted are normally derived from industry analysis, historical experience and the judgement of experienced and qualified actuaries.

The determination of the overall risk margin takes into account the volatility of each class of business and the correlations between the lines of business. The current risk margin, which has been determined after assessing the inherent uncertainty in the central estimate and the prevailing market environment, results in an overall probability of adequacy for the outstanding claims liability of 87.5%.

IV. Actuarial assumptions

The following ranges of key actuarial assumptions were used in the measurement of outstanding claims and recoveries, where appropriate, at the reporting date.

ASSUMPTION	Claims
2013	
Discounted average term to settlement	**0.3 years**
Inflation rate	**2.15%**
Superimposed inflation rate	**0.00%**
Discount rate	**2.38% - 3.12%**
Claims handling costs ratio	**13.40%**
2012	
Discounted average term to settlement	0.4 year
Inflation rate	implicit
Superimposed inflation rate	0.00%
Discount rate	2.50%*
Claims handling costs ratio	13.3%

* Applicable to motor non-reinsurance recoveries only.

PROCESS USED TO DETERMINE ASSUMPTIONS

A description of the key assumptions and the processes used to determine those assumptions is provided below.

i. Discounted average term to settlement

The discounted average term to settlement relates to the expected payment pattern for claims (inflated and discounted). It is calculated by class of business and is generally based on historical payment patterns. The discounted average term to settlement, while not itself an assumption, provides a summary indication of the future cash flow pattern.

ii. Inflation rate

Insurance costs are subject to inflationary pressures. Economic inflation assumptions are set by reference to current economic indicators.

iii. Superimposed inflation rate

Superimposed inflation occurs due to non-economic effects such as the cost of court settlements increasing at a faster rate than the economic inflation rate utilised. An allowance for superimposed inflation is made for each underlying model, where appropriate, after considering the historical levels of superimposed inflation present in the portfolio, projected future superimposed inflation and industry superimposed inflation trends.

iv. Discount rate

The discount rate is derived from market yields on government securities.

v. Claims handling costs ratio

The future claims handling costs ratio is generally calculated with reference to the historical experience of claims handling costs as a percentage of past payments.

V. The effect of changes in assumptions

a. GENERAL IMPACT OF CHANGES

i. Discounted average term to settlement

A decrease in the discounted average term to settlement would reflect claims being paid sooner than anticipated and so increase the claims expense. Note that this sensitivity test only extends or shortens the term of the payments assumed in the valuation, without changing the total nominal amount of the payments.

ii. Inflation and superimposed inflation rates

Expected future payments are inflated to take account of inflationary increases. An increase or decrease in the assumed levels of either economic or superimposed inflation will have a corresponding decrease or increase on profit.

iii. Discount rate

The outstanding claims liability is calculated by reference to expected future payments. These payments are discounted to adjust for the time value of money. An increase or decrease in the assumed discount rate will have a corresponding increase or decrease on profit.

iv. Claims handling costs ratio

An increase in the ratio reflects an increase in the estimate for the internal costs of administering claims. An increase or decrease in the ratio assumption will have a corresponding decrease or increase on profit.

b. SENSITIVITY ANALYSIS OF CHANGES

The impact on the profit or loss before income tax to changes in key actuarial assumptions is summarised below. Each change has been calculated in isolation of the other changes and is net of reinsurance recoveries.

The movements are stated in absolute terms where the base assumption is a percentage, for example, if the base inflation rate assumption was 3.5%, a 1% increase would mean assuming a 4.5% inflation rate.

The impact on comprehensive income is disclosed for each of the key assumptions:

ASSUMPTION	Movement in assumption	Claims $000
2013		
Discount Rate		
	+1.0%	**135**
	-1.0%	**(138)**
Risk margin		
	+1.0%	**(413)**
	-1.0%	**413**
Claims handling costs rate	**+1.0%**	**(383)**
	-1.0%	**383**
2012		
Discount Rate	+1.0%	152
	-1.0%	(159)
Risk margin	+1.0%	391
	-1.0%	(391)
Claims handling costs rate	+1.0%	(379)
	-1.0%	379

NOTE 10. REINSURANCE AND OTHER RECOVERIES ON OUTSTANDING CLAIMS

	2013 $000	2012 $000
A. REINSURANCE AND OTHER RECOVERIES RECEIVABLE ON OUTSTANDING CLAIMS		
Expected reinsurance and other recoveries receivable - undiscounted	**10,541**	11,422
Discount to present value	**(309)**	(442)
Expected reinsurance and other recoveries on outstanding claims receivable - discounted	**10,232**	10,980

The carrying value of reinsurance recoveries and other recoveries includes $2.8m (2012 - $3.0m) which is expected to be settled more than 12 months from the reporting date.

B. ACTUARIAL ASSUMPTIONS

The measurement of reinsurance and other recoveries on outstanding claims is an inherently uncertain process involving estimates. The amounts are generally calculated using actuarial assumptions and methods similar to those used for outstanding claims (refer to section IV of the claims note).

Where possible, the valuation of reinsurance recoveries is linked directly to the valuation of the gross outstanding claims liability. Accordingly, the valuation of outstanding reinsurance recoveries is subject to similar risks and uncertainties as the valuation of the outstanding claims liability. Significant individual losses (for example those relating to catastrophe events) are analysed on a case by case basis for reinsurance purposes.

C. THE EFFECT OF CHANGES IN ASSUMPTIONS

The effect of changes in assumptions on the net outstanding claims liability, which incorporates the reinsurance recoveries on outstanding claims and other recoveries receivable, is disclosed in the claims note.

D. RISK MANAGEMENT

The IAG Group has in place a dedicated risk management function responsible for the development and maintenance of the risk management framework. The framework includes a written Reinsurance Management Strategy (REMS) which sets out key elements of the reinsurance management framework, processes for setting and monitoring the Maximum Event Retention (MER), processes for selecting, implementing, monitoring and reviewing reinsurance arrangements and identification, roles and responsibilities of those charged with managerial responsibility for the reinsurance management framework. The REMS is updated annually and approved by the IAG Group board.

E. REINSURANCE PROGRAM

Risks underwritten are reinsured in order to limit exposure to losses, stabilise earnings, protect capital resources and ensure efficient control and spread of the risks underwritten. The Company has its own reinsurance programmes and determines its own risk limits. To facilitate the reinsurance process, manage counterparty exposure and create economies of scale, the Group has established a captive reinsurance operation. This operation acts as the reinsurer for the Company by being the main buyer of the Company's outwards reinsurance program. The reinsurance operation is intended to manage reinsurance and earnings volatility and the IAG Group's exposure to catastrophe risk. The operation retains a portion of the intercompany business it assumes and retrocedes (passes on) the remainder to external reinsurers.

While a large portion of the business ceded by the Company is reinsured with the Group's captive reinsurance operation, the Company purchases additional reinsurance protection outside the IAG Group. This generally relates to facultative reinsurance covers.

The reinsurance operation purchases reinsurance on behalf of the Company to cover a maximum return period of at least the Reserve Bank of New Zealand's (RBNZ) minimum of 1:1000 year event on a single site basis. Dynamic financial analysis modelling is used to determine the optimal level to which reinsurance should be purchased for capital efficiency, compared with the cost and benefits of covers available in the market.

The reinsurance programmes include a combination of the following reinsurance protection:

- A catastrophe cover programme which is placed in line with the strategy of buying to the level of a 1:1000 year event on a modified whole of portfolio basis. The catastrophe program has been placed for the period 1 July 2012 to 31 December 2014.
- A Surplus cover, which provides "per risk" protection for large individual risks.

NOTE 11. DEFERRED INSURANCE ASSETS

	2013 $000	2012 $000
A. DEFERRED ACQUISITION COSTS		
RECONCILIATION OF MOVEMENTS		
Deferred acquisition costs at the beginning of the financial year	**14,444**	-
Acquisition costs deferred	**18,460**	6,651
Amortisation charged to profit	**(14,444)**	(6,919)
Addition through business acquisition	**-**	14,712
Deferred acquisition costs at the end of the financial year	**18,460**	14,444
B. DEFERRED OUTWARDS REINSURANCE EXPENSE		
RECONCILIATION OF MOVEMENTS		
Deferred outwards reinsurance expense at the beginning of the financial year	**76,448**	-
Reinsurance expenses deferred	**127,656**	76,448
Amortisation charged to profit	**(76,448)**	(12,241)
Addition through business acquisition	**-**	12,241
Deferred outwards reinsurance expense at the end of the financial year	**127,656**	76,448

The carrying value of deferred outwards reinsurance expense includes $42.5m (2012 - Nil) which is expected to be amortised more than 12 months from reporting date.

NOTE 12. UNEARNED PREMIUM LIABILITY

	2013 $000	2012 $000
A. RECONCILIATION OF MOVEMENTS		
Unearned premium liability at the beginning of the financial year	**203,131**	-
Deferral of premiums on contracts written	**223,677**	85,844
Earning of premiums written in previous financial years	**(203,131)**	(80,660)
Addition through business acquisition	**-**	197,947
Unearned premium liability at the end of the financial year	**223,677**	203,131

B. LIABILITY ADEQUACY TEST

The liability adequacy test has been conducted using the central estimate of the premium liabilities, together with an appropriate margin for uncertainty. The test is based on prospective information and so is heavily dependent on assumptions and judgements.

The liability adequacy test at reporting date resulted in a surplus for the Company (2012 - surplus) for which additional information is provided in the table below.

	2013 $000	2012 $000
Central estimate of present value of expected future cash flows from future claims	**146,754**	126,019
Risk margin	**3,763**	4,713
	150,517	130,732
Net surplus/(deficiency)	**11,928**	20,555

The risk margin used is determined to give a probability of adequacy of 60%. In prior years the risk margin was determined based on an assessment of the recent historical experience in relation to the volatility of the insurance margin.

The probabiltiy of adequacy applied for the purposes of the liability adequacy test differs from the probability of adequacy determined for the outstanding claims liability. The reason for this difference is that the former is in effect an impairment test used only to test the sufficiency of net premium liabilities whereas the latter is a measurement accounting policy used in determining the carrying value of the outstanding claims liability carried on the balance sheet.

NOTE 13. INVESTMENTS

	2013 $000	2012 $000
A. COMPOSITION		
I. Interest bearing investments		
Cash and short term money held for investment	**130,217**	95,620
Government and semi-government bonds	**131,690**	124,297
	261,907	219,917
II. Derivatives		
Foreign exchange risk derivatives	**-**	(184)
	-	(184)
	261,907	219,733

B. DETERMINATION OF FAIR VALUE

The table below separates the total investments balance based on a hierarchy that reflects the significance of the inputs used in the determination of fair value. The fair value hierarchy has the following levels:

I. Level 1 quoted prices

Quoted prices (unadjusted) in active markets for identical assets and liabilities are used.

II. Level 2 other observable inputs

Inputs that are observable (other than Level 1 quoted prices) for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) are used.

III. Level 3 unobservable inputs

Inputs for the asset or liability that are not based on observable market data (unobservable inputs) are used. The assets are effectively marked to model rather than marked to market. Reasonable changes in the judgement applied in conducting these valuations would not have a significant impact on the balance sheet.

Where the determination of fair value for an instrument involves inputs from more than one category, the level within which the instrument 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.

	LEVEL 1 $000	LEVEL 2 $000	LEVEL 3 $000	TOTAL $000
2013				
Interest bearing investments	**261,907**	-	-	**261,907**
Derivatives	-	-	-	-
	261,907	-	-	**261,907**
2012				
Interest bearing investments	219,917	-	-	219,917
Derivatives	-	(184)	-	(184)
	219,917	(184)	-	219,733

NOTE 14. RECEIVABLES

	2013 $000	2012 $000
A. COMPOSITION		
I. Premium receivable		
Premium receivable	**129,998**	114,015
Provision for lapses	**(400)**	(400)
Premium receivable	**129,598**	113,615
II. Trade and other receivables		
Investment income receivable	**296**	-
Investment transactions not yet settled at reporting date	**-**	17
Other debtors	**816**	4,805
Trade and other receivables	**1,112**	4,822
	130,710	118,437

NOTE 15. PLANT AND EQUIPMENT

	2013 $000	2012 $000
A. COMPOSITION		
Motor vehicles		
Cost	**44**	2,597
Accumulated depreciation	**(24)**	(217)
	20	2,380
Office and other plant and equipment		
Cost	**8,966**	5,566
Accumulated depreciation	**(3,376)**	(644)
	5,590	4,922
Balance at the end of the financial year	**5,610**	7,302

	Motor vehicles $000	Office equipment $000	Total $000
2013			
B. RECONCILIATION OF MOVEMENTS			
Balance at the beginning of the financial year	**2,380**	**4,922**	**7,302**
Additions	**145**	**3,588**	**3,733**
Disposals	**(2,698)**	**(188)**	**(2,886)**
Depreciation	**(239)**	**(2,796)**	**(3,035)**
Accumulated depreciation - disposals	**432**	**64**	**496**
Balance at the end of the financial year	**20**	**5,590**	**5,610**
2012			
C. RECONCILIATION OF MOVEMENTS			
Balance at the beginning of the period	-	-	-
Additions	169	251	420
Disposals	(49)	-	(49)
Additions through business combination	2,477	5,315	7,792
Depreciation	(219)	(644)	(863)
Accumulated depreciation - disposals	2	-	2
Balance at the end of the period	2,380	4,922	7,302

D. DEPRECIATION RATES

The estimated economic lives of the depreciable assets are as follows:

- Motor Vehicles 3 - 5 years

- Office and other plant and equipment 3 - 15 years

The net carrying amount of all classes of plant and equipment is considered a reasonable approximation of the fair value of the assets in the context of the financial statements. There are no items of plant and equipment pledged as security for liabilities.

NOTE 16. INTANGIBLE ASSETS

	Software	Software Under Development	Total
	$000	$000	$000
2013			
A. COMPOSITION			
Cost	**878**	**34,146**	**35,024**
Accumulated amortisation	**(561)**	**-**	**(561)**
Balance at the end of the financial year	**317**	**34,146**	**34,463**
B. RECONCILIATION OF MOVEMENTS			
Balance at the beginning of the financial year	**681**	**17,322**	**18,003**
Additions - Internal Development	**-**	**16,824**	**16,824**
Amortisation*	**(301)**	**-**	**(301)**
Disposals - Cost	**(192)**	**-**	**(192)**
Disposals - Accumulated Depreciation	**129**	**-**	**129**
Balance at the end of the financial year	**317**	**34,146**	**34,463**
2012			
C. COMPOSITION			
Cost	1,070	17,322	18,392
Accumulated amortisation	(389)	-	(389)
Balance at the end of the period	681	17,322	18,003
D. RECONCILIATION OF MOVEMENTS			
Balance at the beginning of the period	-	-	-
Additions - Business Acqusition	1,046	13,751	14,797
Additions - Internal Development	-	3,571	3,571
Additions - Acquired	24	-	24
Amortisation*	(389)	-	(389)
Balance at the end of the period	681	17,322	18,003

* Amortisation of intangible assets is included under other underwriting expenses in the Statement of comprehensive income

E. AMORTISATION RATE (%)	33.33%	N/A	

F. EXPLANATORY NOTES FOR INTANGIBLE ASSETS

Software development expenditure

The software development expenditure asset comprises internally generated assets.

G. IMPAIRMENT TESTING

An impairment test was conducted for software under development. There were no impairment charges recognised during the current year or prior year periods.

NOTE 17. TRADE AND OTHER PAYABLES

	2013	2012
	$000	$000
COMPOSITION		
I. Trade creditors		
Levies Payable	**14,930**	14,666
Other	**16,662**	2,575
	31,592	17,241
II. Other payables		
Other creditors and accruals	**887**	7,816
	32,479	25,057

Trade and other payables are unsecured and non interest-bearing. Amounts have not been discounted because the effect of the time value of money is not material. The carrying amount of payables is a reasonable approximation of the fair value of the liabilities because of the short-term nature of the liabilities.

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NOTE 18. EMPLOYEE BENEFITS

	2013 $000	2012 $000
A. EMPLOYEE BENEFITS PROVISION		
Annual leave	**4,705**	7,677
Cash based incentive arrangements	**2,074**	327
Defined benefit superannuation plans	**4,657**	7,640
	11,436	15,644

The employee benefits provision includes $4.8 million (2012 - $1.8 million) which is expected to be settled after more than 12 months from reporting date.

B. CASH BASED INCENTIVE ARRANGEMENTS

Short term incentive plan

The short term incentive plan commenced operating during the current reporting period. Eligible employees have the capacity to earn a cash incentive annually. The incentive opportunity is set depending on an employee's role and responsibilities. The majority of employees are on a 10% or 20% plan. The incentive payments are determined based on an assessment of individual performance and achievement of a range of business unit and individual goals.

NOTE 19. COMMITMENTS

	2013 $000	2012 $000
A. CAPITAL AND OTHER COMMITMENTS		
Software development	**27,903**	21,760
B. OPERATING LEASE COMMITMENTS		
I. Property		
Due within 1 year	**4,713**	5,286
Due within 1 to 2 years	**3,912**	4,069
Due within 2 to 5 years	**5,571**	6,339
Due after 5 years	**683**	183
II. Plant and equipment		
Due within 1 year	**510**	-
Due within 1 to 2 years	**300**	-
Due within 2 to 5 years	**217**	-
	15,906	15,877

Certain property and motor vehicles are leased under non cancellable operating leases. Most leases are subject to annual reviews with increases subject to a set percentage or based on either movements in consumer price indices or operating criteria. Where appropriate, a right of renewal has been incorporated into the lease agreements at which time all terms and conditions may be renegotiated. There are no options to purchase the relevant assets on expiry of the lease.

NOTE 20. CONTINGENCIES

CONTINGENT LIABILITIES

Contingent liabilities are not recognised on the balance sheet but are disclosed here where the possibility of settlement is less than probable but more than remote. Provisions are not required with respect to these matters as it is not probable that a future sacrifice of economic benefits will be required or the amount is not reliably measurable. If settlement becomes probable, a provision is recognised. The best estimate of the settlement amount is used in measuring a contingent liability for disclosure. The measurement involves judgement.

The Company has no known material contingent liabilities as at the date of this report.

NOTE 21. RELATED PARTY DISCLOSURES

A. RELATED PARTY BALANCES

At the end of the reporting period the Company had the following related party balances:

		Closing Balance	
		30 June 2013	30 June 2012
Related Party	**Description**	**$000**	$000
Insurance Australia Limited	Forward exchange contracts	**478**	-
Insurance Australia Limited	Fee for services	**(260)**	-
IAG New Zealand Limited	Fee for services	**(1,794)**	(41)
		(1,576)	(41)

Reported within Reinsurance and other recoveries on outstanding claims (refer to note 10):

IAG Re Singapore Pte Limited		**283**	-

B. RELATED PARTY TRANSACTIONS

Impact of transactions with related parties on the Company's Financial Statements was as follows:

		Transaction Amount	
		30 June 2013	30 June 2012
Related Party	**Transaction**	**$000**	$000
Insurance Australia Limited	Forward exchange contracts	**(7,777)**	84
Insurance Australia Limited	Fee for services	**1,819**	-
IAG Asset Management Limited	Investment management fees	**453**	-
IAG (NZ) Holdings Limited	Dividend paid	**27,200**	-
IAG (NZ) Holdings Limited	Issue of ordinary shares	**-**	(380,000)
IAG Re Singapore Pte Limited	Reinsurance expense	**82,253**	-
IAG New Zealand Limited	Fee for services	**11,059**	41

The foreign exchange movement on investments and the foreign exchange movement on the related cross currency swaps have been offset within investment income in Note 5.B.

C. KEY MANAGEMENT PERSONNEL

I. Details of compensation

Key management personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

The aggregate compensation of the key management personnel is set out below.

	2013	2012
	$000	$000
Short term employee benefits	**1,796**	1,507
Post employment benefits	**64**	118
Other long term benefits	**10**	-
Termination benefits	**562**	851
Share based payments	**445**	-
	2,877	2,476

The compensation disclosed in the table above represents the key management personnel's estimated compensation received from the Company in relation to their involvement in the activities with the Company.

NOTE 22. NOTES TO THE STATEMENT OF CHANGES IN EQUITY

A. CAPITAL

On 5 April 2012, 380,000,000 ordinary shares of $1 each were issued to IAG (NZ) Holdings Limited.

At 30 June 2013, Share Capital comprised 380,000,000 ordinary shares of $1 each (2012 - 380,000,000).

All ordinary shares participate equally in both dividends and any surplus remaining on winding up of the Company. All ordinary shares are fully paid and have the right to one vote.

B. NATURE AND PURPOSE OF THE GENERAL RESERVE

The general reserve is used to recognise the difference between the purchase price paid for the insurance operations of AMI Insurance Limited and the fair value of the net assets transferred.

NOTE 23. NOTES TO THE CASH FLOW STATEMENT

	2013 $000	2012 $000
A. COMPOSITION		
Cash held for operational purposes	**10,462**	40,198
Cash and short term money held for investment	**130,217**	95,620
Cash and cash equivalents	**140,679**	135,818

Cash and cash equivalents represent cash on hand and held with banks, deposits at call and short term money held for investment readily convertible to cash within two working days, net of any bank overdraft. There are no cash balances held that are not available for use in normal operations. The carrying amount of the cash and cash equivalents presented on the balance sheet is the same as that used for the purposes of the cash flow statement as there are no bank overdrafts used which are repayable upon demand.

B. CREDIT RISK

The net carrying amount of cash and cash equivalents represents the maximum exposure to credit risk at reporting date and is equivalent to the fair value of the assets because of the negligible credit risk and frequent repricing.

The majority of the amounts bear variable rates of interest. Those balances bearing a fixed rate of interest mature in less than one year. A small portion of the amounts bear no interest.

	2013 $000	2012 $000
C. RECONCILIATION OF PROFIT/(LOSS) FOR THE YEAR TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/(loss) for the year	**18,975**	5,350
I. Non cash items		
Depreciation of plant and equipment	**3,035**	863
Amortisation and impairment of intangible assets and goodwill	**301**	389
Net realised (gains) and losses on disposal of investments	**(9,737)**	328
Net unrealised (gains) and losses on revaluation of investments	**6,655**	157
Net (gains) and losses on disposal of plant and equipment	**(88)**	(88)
Other	**1,380**	(172)
II. Movement in operating assets and liabilities		
DECREASE/(INCREASE) IN OPERATING ASSETS		
Premium and other receivables	**(13,535)**	7,397
Reinsurance and other recoveries	**41,200**	611
Prepayment	**(53,949)**	-
Other	**-**	268
INCREASE/(DECREASE) IN OPERATING LIABILITIES		
Trade and other payables	**10,518**	5,065
Provision for employee entilements	**(3,881)**	1,937
Current tax liabilities	**4,896**	-
Deferred tax liabilities	**1,131**	2,092
Outstanding claims liability	**27,525**	77
Unearned premium liability	**20,546**	5,184
Other	**-**	(2,288)
Net cash flows from operating activities	**54,972**	27,170

NOTE 24. SUPERANNUATION

A. DEFINED BENEFIT PENSION ARRANGEMENTS

There is one defined benefit pension arrangement: the AMI Superannuation Scheme.

I. AMI superannuation scheme

AMI is sponsor to an employee superannuation scheme (the Scheme). Both participating employees and AMI make contributions to the Scheme, typically as a percentage of salary. AMI contributes in accordance with the Scheme's trust deed and actuarial recommendations.

The Scheme has a defined contribution tier and a defined benefit tier. Contributions to both tiers are expensed as incurred, when relevant employee services have been received.

The asset or liability recognised in the Balance Sheet in respect of the defined benefit tier is the present value of the defined benefit obligation at the reporting date, less the fair value of the Scheme's assets as determined by an independent actuary. Actuarial gains and losses are recognised in other comprehensive income.

Management estimates the defined benefit obligation annually with the assistance of independent actuaries. The estimate of post-retirement benefit obligations is based on standard rates of inflation, mortality and anticipated future salary increases. Discount factors are determined close to each year-end by reference to the government bond rates that have terms to maturity approximating to the terms of the related pension liability.

The reconciliations below present the obligation and fair value for the entire AMI Scheme, however, the net liability of $4.657million (2012 - $7.640 million) relates to the defined benefit portion only.

II. Financial information of defined benefit arrangement

a. REPORTING DATE BALANCES

	2013	2012
	$000	$000
Fair value of plan assets	**29,324**	28,883
Present value of defined benefit obligation (net discount rate)	**(32,584)**	(34,002)
Net defined benefit asset/(liability)	**(3,260)**	(5,119)
Contribution tax asset/(liability)	**(1,397)**	(2,521)
Net asset/(liability) recognised on the balance sheet	**(4,657)**	(7,640)

b. RECOGNITION OF MOVEMENTS IN NET ASSET/(LIABILITY)

Contributions expensed	**2,424**	527
Reporting date valuation adjustment to profit	**349**	(48)
	2,773	479
Reporting date valuation adjustment to retained earnings	**(3,332)**	2,290
Total amount recognised for financial year in closing retained earnings	**(559)**	2,769
Reporting date valuation adjustments represent		
Current service cost	**3,106**	527
Interest cost (net of tax)	**1,471**	269
Expected return on plan assets	**(1,804)**	(317)
Actuarial (gains) and losses	**(3,332)**	2,290
Total net amount recognised from reporting date valuation	**(559)**	2,769

c. RECONCILIATION OF MOVEMENTS IN THE PRESENT VALUE OF DEFINED BENEFIT OBLIGATION

Defined benefit obligation at the beginning of the financial year	**(34,002)**	-
Current service cost	**(2,174)**	(527)
Interest cost	**(1,030)**	(269)
Contributions by plan participants	**(1,159)**	(268)
Actuarial (gains) and losses	**1,274**	(1,753)
Benefits paid	**4,507**	147
Addition through business acquisition	-	(30,587)
Transfers in	-	(745)
Defined benefit obligation at the end of the financial year	**(32,584)**	(34,002)

d. RECONCILIATION OF MOVEMENTS IN THE FAIR VALUE OF ASSETS

Fair value of plan assets at the beginning of the financial year	**28,883**	-
Expected return on plan assets	**1,263**	317
Actuarial gains and (losses)	**821**	219
Contributions by employers	**1,705**	441
Contributions by plan participants	**1,159**	268
Benefits paid	**(4,507)**	(147)
Addition through business acquisition	-	27,040
Transfers in	-	745
Fair value of plan assets at the end of the financial year	**29,324**	28,883

e. PLAN ASSETS
The percentage invested in each asset class at reporting date is shown in the table below.

	2013 %	2012 %
NZ shares	**22**	15
Overseas shares	**5**	8
Property	**-**	3
NZ fixed interest	**19**	50
Cash	**54**	24

To determine the expected rate of return on assets, the actuary has considered the expected future investment returns for each major asset class net of investment tax and investment fees. The actual return on the AMI Scheme assets for the current reporting period was $2.084 million (2012 - $0.536 million).

f. ACTUARIAL ASSUMPTIONS
The principal actuarial assumptions used in determining the financial position of the plans include:

	2013 %	2012 %
Discount rate (gross)*	**3.4**	3.5
Expected rate of return on plan assets supporting pension liabilities	**4.5**	4.5
Expected rate of return on other plan assets	**4.5**	4.5
Expected future salary increases	**4.0**	3.0

g. SENSITIVITY OF MEASUREMENT TO ACTUARIAL ASSUMPTIONS
The discount rate applied for the AMI Plan reflects the market yields on government bonds and so is subject to change if those yields change. A 1% reduction in the discount rate would result in a $4.643 million increase in the present value of the defined benefit obligation of the AMI Plan. A 1% increase in the discount rate would result in an equivalent magnitude, but opposite in direction impact.

h. HISTORICAL INFORMATION

	2013 $000	2012 $000
Present value of defined benefit obligation	**(32,584)**	(34,002)
Fair value of plan assets	**29,324**	28,883
Surplus/(deficit) in the plan	**(3,260)**	(5,119)

NOTE 25. CAPITAL MANAGEMENT

A. CAPITAL MANAGEMENT STRATEGY

Capital management strategy plays a central role in managing risk to create shareholder value whilst meeting the important objective of providing an appropriate level of capital to protect policyholders and lenders and satisfy regulators and stakeholders.

The target level of capitalisation is assessed by considering a number of factors, including:

- protecting the interests of current and future policyholders;
- the probability of falling below the prescribed regulatory capital amount;
- other stakeholder perspectives, including rating agency capital models and associated ratings.

Internal policies, governance structures and regular reporting of capital are in place to ensure deviations from target capitalisation will result in senior management and the Board considering how any shortfall should be made good or any surplus utilised.

Regulatory capital
AMI is regulated by the RBNZ in terms of the Insurance (Prudential Supervision) Act 2010 (the Act). This is a relatively new regulatory environment and a prime determinant of the amount and type of capital that is held.

The Act and associated Solvency Standards prescribe how the minimum solvency capital (MSC) required by the regulator and how the actual solvency capital (ASC) held by the licensed insurer are calculated. The solvency margin is determined by comparing the ASC with the MSC, which are required to be reported to the RBNZ half-yearly. As at 30 June 2013, the ASC, MSC and solvency margins held were:

	2013	2012*
	$m	$m
ASC	**80.7**	99.1
MSC	**54.8**	51.2
Solvency margin	**25.9**	47.9

*The comparative amounts as at 30 June 2012 have been restated to reflect the Solvency Return lodged with the RBNZ in November 2012. A dividend of $7.5 million was paid in November 2012 to IAG (NZ) Holdings Limited. In order to comply with the requirements of the Solvency Standard this dividend was deducted from the ASC reported in the June 2012 Solvency Return.

The policy or approach to managing capital has not changed during the period.

B. CREDIT RATING
In terms of the Insurance (Prudential Supervision) Act 2010, AMI undergoes an annual claims paying ability rating. The rating review is performed by A.M.Best Co. As at the date of this report the rating assigned to AMI was "A-" (2012 - "A-"). This rating represents "excellent" claims paying ability.

NOTE 26. EVENTS SUBSEQUENT TO REPORTING DATE
During July 2013 there were a number of earth tremors and after-shocks centred around the Cook Strait. As at the date of this report these events have not resulted in any significant claims incurred.

KPMG

Independent auditor's report

To the shareholder of AMI Insurance Limited

Report on the financial statements

We have audited the accompanying financial statements of AMI Insurance Limited ("the company") on pages 7 to 36. The financial statements comprise the statement of financial position as at 30 June 2013, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The directors are responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand and International Financial Reporting Standards that give a true and fair view of the matters to which they relate, 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.

Auditor's responsibility

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

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

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

Our firm has also provided other services to the company in relation to other assurance services. Partners and employees of our firm may also deal with the company on normal terms within the ordinary course of trading activities of the business of the company. These matters have not impaired our independence as auditor of the company. The firm has no other relationship with, or interest in, the company.

Opinion

In our opinion the financial statements on pages 7 to 36:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards;
- give a true and fair view of the financial position of the company as at 30 June 2013 and of its financial performance and cash flows for the year then ended.

Report on other legal and regulatory requirements

In accordance with the requirements of sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993, we report that:

- we have obtained all the information and explanations that we have required; and
- in our opinion, proper accounting records have been kept by AMI Insurance Limited as far as appears from our examination of those records.

KPMG

14 August 2013

Christchurch

AMI Insurance Limited - Section 78 Appointed Actuaries Report as at 30 June 2013

This report has been prepared in accordance with section 78 of the Insurance Prudential Supervision Act 2010 ("Act") and details the review of the actuarial information, as defined in section 77(4), used in the preparation of AMI Insurance Limited's ("AMI") 30 June 2013 financial statements as required under section 77 of the Act ("review"). It states the following:

a. The review was carried out by Christian Barrington, AMI's Appointed Actuary.

b. The Appointed Actuary reviewed the actuarial information and financial statements.

c. The review covers actuarial information in, or used in the preparation of, financial statements. There was no limitation to the review of actuarial information carried out by the Appointed Actuary.

d. The relationships (other than that of actuary) and interests that the actuary has in AMI (or any of its subsidiaries) are as follows:
(i) None.

e. All the information and explanations required by the Appointed Actuary were provided.

f. In the opinion of the Appointed Actuary and from an actuarial perspective:
(i) the actuarial information contained in the financial statements has been appropriately included in those statements; and
(ii) the actuarial information used in the preparation of the financial statements has been used appropriately.

g. In the opinion of the Appointed Actuary AMI is maintaining the solvency margin that applies under a condition imposed under section 21 (2) (b) of the Act at 30 June 2013.

h. AMI does not underwrite any life products. As such no opinion under section 78 (h) of the Act is required.

This report is <u>not</u> required to be prepared in accordance with professional standard 9.2: Communication of Professional Advice of the New Zealand Society of Actuaries. All matters that are required under this standard are contained within the 30 June 2013 Financial Condition Report.

Signed C Barrington

Christian Barrington
Appointed Actuary
AMI Insurance Limited
Fellow of the New Zealand Society of Actuaries

Date 17/10/2013