

AMI INSURANCE LIMITED

**ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2014**

AMI INSURANCE LIMITED
TABLE OF CONTENTS

Directors' Report **1**

Corporate Governance **3**

Financial Report..... **7**

Independent Auditor's Report **38**

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 2014 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, D.A. McKay (Director since 10 February 2014), H.M. Price (Director until 12 August 2013), 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 2014
	\$000
Profit Before Income Tax	55,837
Income Tax Expense	<u>(15,646)</u>
Profit After Income Tax	40,191
Other Comprehensive Income	1,880
Retained earnings as at 30 June 2013	(2,125)
Dividends paid	<u>(10,100)</u>
Retained earnings as at 30 June 2014	<u>29,846</u>
The state of the Company's affairs as at 30 June 2014 was:	
Equity	<u>155,621</u>
Represented by:	
Assets	566,531
Liabilities	<u>(410,910)</u>
	<u>155,621</u>

REVIEW OF OPERATIONS

The net result of the Company after applicable income tax for the financial year ended 30 June 2014 was a profit of \$40.2 million (2013 - \$19.0 million).

DIVIDENDS

Dividends of \$10.1 million were paid during the year (2013 - \$27.2 million).

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

In the Directors' opinion there have been no significant changes in the state of affairs of the Company during the financial year.

EVENTS SUBSEQUENT TO REPORTING DATE

There has not arisen in the interval between the end of the financial period and the date of this report any item, transaction, or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

DIRECTORS' USE OF COMPANY INFORMATION

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

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 11th day of August 2014 in accordance with a resolution of the Directors.


.....
Director
.....
Director

AMI INSURANCE LIMITED

CORPORATE GOVERNANCE STATEMENT

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 and divestments, projects, 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 as a Director on 27 April 2012.

Ms Devine holds a BCom from the University of Otago and a MBA from the University of Canterbury.

Ms Devine is a former Managing Director of department store J. Ballantyne & Co, a former Chief Executive of Australasia multi-channel retailer EziBuy and has particular experience in corporate strategy, brand marketing and multi-channel retailing. Ms Devine was awarded an ONZM for services to business.

Ms Devine is currently a director of Meridian Energy Limited, Briscoe Group Limited and Top Retail Limited and is also a Trustee of the New Zealand Hockey Foundation.

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 Programme (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 member of the Community First Corporate Governance Committee, 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 led organisational effectiveness and group strategy functions, and managed 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, HIIH 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).

D.A. McKay - Independent Non-Executive Director

Mr Doug McKay was appointed a Director on 10 February 2014.

Mr McKay's previous roles include executive positions with Lion Nathan Limited, Carter Holt Harvey Limited, Goodman Fielder Pty Limited, Sealord Group Limited, Independent Liquor (NZ) Limited and Procter and Gamble.

Mr McKay holds a BA from the University of Auckland and has completed an Advanced Management Programme (Harvard Business School).

Mr McKay is a Director of the New Zealand Institute of Chartered Accountants and is a Director delegate of Chartered Accountants Australia and New Zealand. Mr McKay is also a Director of Bank of New Zealand Limited, NZ Food Company Holdings Limited, NZ Snack Food Holdings Limited, Wymac Consulting Limited, Genesis Energy Limited, Eden Park Trust Board and is a member of the Institute of Directors in New Zealand.

Mr McKay was the inaugural Chief Executive of Auckland Council from May 2010 to December 2013.

R.J. Wagstaffe - Independent Non-Executive Director

Mr Robert Wagstaffe was appointed a Director on 5 April 2012.

Mr Wagstaffe has more than 48 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 and is a former Chairman of Mutual Community General Insurance Company, a joint venture licensed domestic insurer with Bupa Australia.

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.

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 30 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 (now the Financial Services Council).

BOARD LEVEL COMMITTEES

AUDIT, RISK MANAGEMENT & COMPLIANCE COMMITTEE (ARMCCO)

The members of the ARMCCO are currently Hugh Fletcher, Mary Devine, Doug McKay and Robert Wagstaffe.

The main role of the 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.

NOMINATION AND REMUNERATION COMMITTEE

The members of the Nomination and Remuneration Committee are currently Hugh Fletcher, Mary Devine, Doug McKay and Robert Wagstaffe.

The key roles of the Nomination and Remuneration Committee are to:

- review and determine Director and Executive remuneration; and
- review Board capabilities and composition and succession planning.

MANAGEMENT COMMITTEES

ASSET AND LIABILITY COMMITTEE (ALCO)

The members of the ALCO are currently Jacki Johnson, Dan Coman and Christian Barrington.

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.

EXECUTIVE RISK COMMITTEE (ERC)

The members of the ERC are currently Jacki Johnson, Dan Coman, Allan Dornan, Karl Armstrong, Craig Olsen, Dean MacGregor and Tanya Hadfield.

The ERC oversees the operation and governance of the Reserving Committee, the Asset and Liability Committee and the Insurance Risk Committee and directly oversees operational and strategic risk.

The role of the ERC is to promote a proactive risk management culture; to ensure adequate awareness and debate; and provide adequate management oversight of all significant risks in relation to the following risk areas:

- Strategic Risk;
- Insurance Risk;
- Reinsurance Risk;
- Financial Risk; and
- Operational Risk.

INSURANCE RISK COMMITTEE

The members of the Insurance Risk Committee are currently Dan Coman, Heads of Business channels and other senior management members of the Company.

The role of the Insurance Risk Committee is to oversee the operation of the Business Division Licence (the IAG Group-granted licence governing pricing, underwriting and claims).

PROJECT PORTFOLIO GOVERNANCE BOARD (PPGB)

The PPGB is made up of Dan Coman, Allan Dornan, Karl Armstrong, Tanya Hadfield, Craig Olsen, Dean MacGregor and other senior management members of the Company.

The PPGB provides executive review and oversight of IAG's portfolio of projects.

RESERVING COMMITTEE

The members of the Reserving Committee are currently Dan Coman, Allan Dornan, Heads of Business Channels and other senior management members of the Company.

The role of the Reserving Committee is to review the adequacy of the technical reserves of the insurance business including reviewing the recommendation of the Actuarial team.

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.

CORPORATE GOVERNANCE POLICIES, PRACTICES AND PROCESSES

The Company is a member of Insurance Australia Group Limited (IAG Group) and is committed to operate and comply with all the IAG Group operating policies and procedures, except where they are inconsistent with the requirements of New Zealand law or regulations or where the Board considers they are not in the best interests of the Company. Where further refinement of IAG Group policies and procedures is required to better reflect the New Zealand regulatory, legislative or operating environment, the Company has specific policies in place to address the New Zealand situation.

The Company's corporate governance policies, practices and processes are contained in the Company's Risk Management Programme which has been approved by the Reserve Bank of New Zealand.

AMI INSURANCE LIMITED

FINANCIAL REPORT

CONTENTS	PAGE
Statement of comprehensive income	8
Balance sheet	9
Statement of changes in equity	10
Cash flow statement	11
NOTES TO THE FINANCIAL REPORT	
1 Summary of significant accounting policies	12
2 Critical accounting estimates and judgements	16
3 Risk management	17
4 Analysis of income	22
5 Analysis of expenses	22
6 Remuneration of auditor	22
7 Income tax	23
8 Claims	23
9 Reinsurance and other recoveries on outstanding claims	27
10 Deferred insurance assets	28
11 Unearned premium liability	28
12 Investments	28
13 Receivables	29
14 Plant and equipment	30
15 Intangible assets	31
16 Trade and other payables	31
17 Employee benefits	31
18 Superannuation	32
19 Commitments	34
20 Contingencies	35
21 Related party disclosures	35
22 Notes to the statement of changes in equity	36
23 Notes to the cash flow statement	36
24 Capital management	37
25 Events subsequent to reporting date	37

AMI INSURANCE LIMITED**STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2014**

	NOTE	2014 \$000	2013 \$000
Premium revenue	4	445,195	410,851
Outwards reinsurance premium expense		(83,251)	(82,697)
Net premium revenue (i)		361,944	328,154
Claims expense	8	(247,983)	(250,865)
Reinsurance and other recoveries revenue	4	21,572	20,538
Net claims expense (ii)	8	(226,411)	(230,327)
Acquisition costs	5	(38,778)	(35,603)
Other underwriting expenses	5	(48,433)	(42,198)
Underwriting expenses (iii)		(87,211)	(77,801)
Underwriting profit/(loss) (i) + (ii) + (iii)		48,322	20,026
Investment income on assets backing insurance liabilities	4	3,168	4,026
Investment expenses on assets backing insurance liabilities		(343)	(322)
Insurance profit/(loss)		51,147	23,730
Investment income on shareholder's funds	4	4,854	3,002
Corporate and other expenses		(164)	(131)
Profit/(loss) before income tax		55,837	26,601
Income tax (expense)/credit	7	(15,646)	(7,626)
Profit/(loss) for the year		40,191	18,975
OTHER COMPREHENSIVE INCOME AND (EXPENSE), NET OF TAX			
Remeasurements of defined benefit plans		2,611	3,332
Business transfer - the difference between consideration paid and net assets		-	(1,826)
Income tax (expense)/credit on other comprehensive income and (expense)		(731)	(933)
Other comprehensive income and (expense), net of tax		1,880	573
Total comprehensive income and (expense) for the year, net of tax		42,071	19,548

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

AMI INSURANCE LIMITED
BALANCE SHEET AS AT 30 JUNE 2014

	NOTE	2014 \$000	2013 \$000
ASSETS			
Cash held for operational purposes	23	3,430	10,462
Investments	12	299,672	261,907
Premium receivable	13	134,420	129,598
Trade and other receivables	13	2,332	1,112
Receivables from related bodies corporate	21	305	478
Deferred outwards reinsurance expense	10	40,928	127,656
Deferred acquisition costs	10	21,628	18,460
Reinsurance and other recoveries on outstanding claims	9	10,430	10,232
Plant and equipment	14	6,068	5,610
Intangible assets	15	44,982	34,463
Other assets		2,336	1,900
Total assets		<u>566,531</u>	<u>601,878</u>
LIABILITIES			
Trade and other payables	16	29,664	32,479
Reinsurance premium payable		42,442	130,413
Payables to related bodies corporate	21	992	2,054
Current tax liabilities		9,181	4,896
Unearned premium liability	11	235,753	223,677
Employee benefits provision	17	10,972	11,436
Deferred tax liabilities	7	4,812	1,714
Outstanding claims liability	8	76,284	70,759
Other liabilities		810	800
Total liabilities		<u>410,910</u>	<u>478,228</u>
Net assets		<u>155,621</u>	<u>123,650</u>
EQUITY			
Ordinary share capital	22	380,000	380,000
General reserve	22	(254,225)	(254,225)
Retained earnings		29,846	(2,125)
Total equity		<u>155,621</u>	<u>123,650</u>

Signed in Auckland this 11th day of August 2014 in accordance with a resolution of the Directors.

.....
Director

.....
Director

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

AMI INSURANCE LIMITED
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2014

	ORDINARY SHARE CAPITAL \$000	GENERAL RESERVE \$000	RETAINED EARNINGS \$000	TOTAL EQUITY \$000
2014				
Balance at the beginning of the financial year	380,000	(254,225)	(2,125)	123,650
Profit/(loss) for the year	-	-	40,191	40,191
Other comprehensive income and (expense)	-	-	1,880	1,880
Total comprehensive income/(expense) for the year	-	-	42,071	42,071
Dividends declared and paid	-	-	(10,100)	(10,100)
Balance at the end of the financial year	380,000	(254,225)	29,846	155,621
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/(expense) 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

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

AMI INSURANCE LIMITED
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2014

	NOTE	2014 \$000	2013 \$000
CASH FLOWS FROM OPERATING ACTIVITIES			
Premium received		452,451	414,394
Reinsurance and other recoveries received		21,374	21,619
Claims costs paid		(242,458)	(223,702)
Outwards reinsurance premium expense paid		(84,494)	(93,424)
Interest received		3,180	3,761
Income taxes paid		(8,994)	(1,600)
Other operating payments		(88,473)	(66,076)
Net cash flows from operating activities	23	<u>52,586</u>	<u>54,972</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of investment and plant and equipment		375,189	2,666
Outlays for investments and plant and equipment		(542,981)	(18,731)
Net cash flows from investing activities		<u>(167,792)</u>	<u>(16,065)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		(10,100)	(27,200)
Net cash flows from financing activities		<u>(10,100)</u>	<u>(27,200)</u>
Net movement in cash held		(125,306)	11,707
Effects of exchange rate changes on balances of cash held in foreign currencies		(9,800)	(6,846)
Cash and cash equivalents at the beginning of the financial year		<u>140,679</u>	<u>135,818</u>
Cash and cash equivalents at the end of the financial year	23	<u><u>5,573</u></u>	<u><u>140,679</u></u>

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

AMI INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

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 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 (Group), the Company complies with a variety of policies and procedures developed by IAG for application by all entities in the 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 licence. 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 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 year 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.

Certain items have been reclassified from the Company's prior year financial report to conform to the current period's presentation.

I. New Zealand accounting standards 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 year.

The Company has early adopted amendments to NZ IAS 36 - Recoverable Amount Disclosures for Non-Financial Assets. This standard has no financial impact and only impacts disclosures. Except for the amendments to NZ IAS 36, 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 1 January 2018) which could change the classification and measurement of financial assets. The Company does not plan to adopt this standard early and the extent of the impact has not been determined. This standard will be adopted in the year commencing 1 July 2018.

II. Changes in accounting policies

There were a number of new NZ IFRS and Interpretations applicable for the current year. These included:

TITLE	DESCRIPTION
NZ IFRS 10	Consolidated Financial Statements
NZ IFRS 11	Joint Arrangements
NZ IFRS 12	Disclosure of Interests in Other Entities
NZ IFRS 13	Fair Value Measurement
NZ IAS 19	Employee Benefits
NZ IAS 27	Separate Financial Statements
NZ IAS 28	Investments in Associates and Joint Ventures

There was no material financial impact during the current financial reporting period.

From 1 April 2014, the new Financial Reporting Act 2013 has come into force replacing the Financial Reporting Act 1993, and is effective for all for-profit entities with reporting periods commencing on or after 1 April 2014. This will be effective for the Company's 30 June 2015 reporting period. It is expected that the change in legislation will have no material impact on the Company's obligation to prepare general purpose financial statements.

In addition to the change in legislation the External Reporting Board of New Zealand (XRB) has released a new accounting standards framework which establishes the financial standards to be applied to entities with statutory financial reporting obligations. The Company is currently applying NZ IFRS. Under the new XRB framework it is expected that the Company will continue to apply NZ IFRS as applicable for Tier 1 for-profit entities. It is expected that this will have no material impact on the preparation and disclosures included in the financial statements.

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 are 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 year 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.

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 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 the 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 shareholder's 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 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 quoted market price. 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

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 shareholder's funds.

I. 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.

II. 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 impairment is indicated or 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. Smaller 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 remeasurements of defined benefit plans (experience adjustments and changes in actuarial assumptions), which are recognised in other comprehensive income and (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 approach to key estimates and judgements for this reporting period are the same as the 2013 financial year, unless otherwise stated.

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 8;
 - reinsurance and other recoveries on outstanding claims, refer to note 9; and
 - liability adequacy test, refer to note 11.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:
 - intangible assets impairment testing, refer to notes 15;
 - acquired intangible assets initial measurement and determination of useful life, refer to note 15;
 - income tax and related assets and liabilities, refer to note 7; and
 - defined benefit superannuation arrangements, refer to note 18.

NOTE 3. RISK MANAGEMENT

RISK MANAGEMENT CATEGORIES AND RISK MITIGATION

I. Strategic risk

Strategic risk is managed by the IAG Executive team with Board oversight. Key elements in the management of strategy and strategic risk include the strategic planning programme and associated oversight arrangements. Progress against strategic priorities is regularly considered. Strategic risks are included in IAG's Enterprise Risk Profile as appropriate.

II. Insurance risk

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 as the price for a contract must be set before the losses relating to the product are known. As such, 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 approach is the effective governance and management of the risks that impact the amount, timing and certainty of cash flows arising from insurance contracts.

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.

a. INSURANCE PROCESSES

The key processes 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. 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 at Note 8).

iii. Reinsurance

Refer to reinsurance risk section III below for further details.

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 also 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 large number of policies to the one event	Purchase of reinsurance clash protection

III. Reinsurance Risk

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 IV below for further details.

IV. Financial Risk

The Company is exposed to a variety of financial risks in the normal course of business; market risk (including foreign exchange risk, interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Board and senior management of the Group have developed, implemented and maintain a Risk Management Strategy (RMS) across the Group. The Company complies with the risk management policies of the Group. The policies form the Company's procedures, processes and controls that manage material risks, financial and non financial, likely to be faced by the Company.

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. All non-New Zealand dollar denominated securities are hedged back to NZ dollars, therefore the relevant market risks are interest rate risk and price risk.

a. INTEREST RATE RISK

i. Nature of the risks 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 are exposed to changes in carrying value derived from mark-to-market revaluations. Financial assets and liabilities with floating interest rates create exposure to cash flow volatility.

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 broadly matched to the expected payment pattern of the insurance liabilities. Movements in investment income on assets backing insurance liabilities broadly 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.

ii. 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 or loss. 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% (for example a move from 4% to 5% or to 3%) on profit before tax, net of related derivatives, is shown in the following table:

		2014 \$000	2013 \$000
		Impact to profit	Impact to profit
Investments - interest bearing securities and related interest rate derivatives	+1%	(1,280)	(550)
	-1%	1,410	555

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. PRICE RISK

i. Nature of the risk and how managed

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market prices (other than those arising from interest rate or foreign exchange risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded on the market. The Company has exposure to equity price risk.

The Company is exposed to equity price risk through its investment in convertible securities.

Exposure to equity price risk is monitored through several measures that include value-at-risk analysis, position limits, scenario testing, and stress testing.

ii. Sensitivity

The impact from the measurement of the investments held at reporting date of a change in equity values at reporting date by +10% or -10% on profit before tax, net of related derivatives, is shown in the table below:

		2014 \$000	2013 \$000
Investments – equity and trust securities, and related equity derivatives	+10%	2,484	-
	- 10%	(2,118)	-

All equity investments are measured at fair value through profit or loss and so there is no direct impact to equity from those movements.

CREDIT RISK

a. NATURE OF THE RISK AND HOW MANAGED

Credit risk is the risk of loss from a counterparty failing to meet their financial obligations. The Company credit risk arises predominantly from investment activities and reinsurance activities. The Group has a Credit Risk Policy 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.

Group Treasury is responsible for ensuring that the policies governing the management of credit quality risk are properly implemented. The Group's credit risk appetite is approved by the IAG Board and covers credit exposure and credit rating. All new, changed and continuing credit risk exposures must be approved in accordance with the Group's approval authority framework.

Concentrations of credit risk exist 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 Group's reinsurance programme.

b. CREDIT RISK EXPOSURE

i. Premium and reinsurance recoveries on paid claims receivable

The maximum exposure to credit risk as at reporting date is the carrying amount of the receivables on the balance sheet.

An ageing analysis for premium receivable and reinsurance recoveries receivable is provided here. The amounts are aged according to their original due date.

	NOT OVERDUE		OVERDUE		TOTAL
		<30 days	30-120 days	>120 days	
	\$000	\$000	\$000	\$000	\$000
2014					
Premium receivable	131,785	3,035	-	-	134,820
Provision for lapses	(400)	-	-	-	(400)
Net balance	131,385	3,035	-	-	134,420
Reinsurance recoveries on paid claims	27	-	-	-	27
Net balance	27	-	-	-	27
Other trade debtors	2,305	-	-	-	2,305
Net balance	2,305	-	-	-	2,305
2013					
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

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 and revenue is reversed.

The provision for lapses at reporting date for receivables balances totalled \$0.4 million (2013 - \$0.4 million). The net movement in the aggregated provision for the current period was \$0.0 million (2013 - Nil).

ii. Reinsurance recoveries receivable on outstanding claims

Reinsurance arrangements mitigate insurance risk but expose 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. Group's captive reinsurer has clearly defined credit policies for the approval and management of credit risk in relation to reinsurers. Group's captive reinsurer 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 the Group's policy to deal only with reinsurers with credit ratings of at least Standard & Poor's BBB+ (or other rating agency equivalent) without collateralisation. Having reinsurance protection with strong reinsurers also benefits 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 programmes in place over a number of years and so will not necessarily align with the rating allocations noted above for the current programme.

CREDIT RATING	2014	2013
	% of total	% of total
AA	100	100
Total	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.

iii. 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 loss 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	2014	2013
	% of total	% of total
AAA	24	-
AA	76	85
A	-	15
Total	<u>100</u>	<u>100</u>

LIQUIDITY RISK

a. 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 Company complies with Group liquidity risk management practices, which include the framework and procedures in place to ensure an adequate and appropriate level of monitoring and management of liquidity.

Underwriting insurance contracts expose 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.

b. LIQUIDITY RISK EXPOSURE

The breakdown of the fixed term investments are provided by expected maturity. Actual maturities may differ from expected 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 broadly matching the maturity profile of the assets with the estimated pattern of claims payments.

MATURITY ANALYSIS	NET DISCOUNTED OUTSTANDING CLAIMS LIABILITY		INVESTMENTS	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
Floating interest rate (at call)	-	-	2,143	130,217
Within 1 year or less	61,504	57,990	216,487	131,690
Within 1 to 2 years	3,012	1,719	-	-
Within 2 to 3 years	370	223	-	-
Within 3 to 4 years	628	76	-	-
Within 4 to 5 years	340	519	-	-
Total	<u>65,854</u>	<u>60,527</u>	<u>218,630</u>	<u>261,907</u>

Financial liabilities including derivative liabilities, trade and other payables and related party payables are all due to mature within one year.

Timing of future claim payments is inherently uncertain. The table above represents estimated timing.

V. 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 impact the other risk categories. When controls fail, an operational risk incident can cause injury, damage to reputation, have legal or regulatory implications or can lead to financial loss. The Company does not aim to eliminate all operational risks, but manages these by initiating an appropriate control framework and by monitoring and managing the potential 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. ANALYSIS OF INCOME

	2014	2013
	\$000	\$000
A. GENERAL INSURANCE REVENUE		
Gross written premium	457,233	431,398
Movement in unearned premium liability	(12,038)	(20,547)
Premium revenue	445,195	410,851
Reinsurance and other recoveries revenue	21,572	20,538
Total general insurance revenue	466,767	431,389
B. INVESTMENT INCOME		
Dividend revenue	1	2
Interest revenue	3,667	3,944
Total investment revenue	3,668	3,946
Net change in fair value of investments		
Realised net gains and (losses)	(2,257)	9,737
Unrealised net gains and (losses)	6,611	(6,655)
Total investment income	8,022	7,028
Represented by		
Investment income on assets backing insurance liabilities	3,168	4,026
Investment income on shareholder's funds	4,854	3,002
	8,022	7,028
Total income	474,789	438,417

NOTE 5. ANALYSIS OF EXPENSES

	2014	2013
	\$000	\$000
Underwriting expenses include the following:		
Amortisation of software assets	3,079	301
Commissions	789	882
Depreciation - plant and equipment	2,310	3,035
Operating lease costs	7,560	8,136
Software costs	4,200	1,390
(Gain)/Loss on sale of plant and equipment	(24)	(88)
Restructuring costs	487	-
Share-based remuneration expense	18	5
Defined contribution superannuation expense	3,235	3,285
Employee benefit expense	53,925	60,795

NOTE 6. REMUNERATION OF AUDITOR

	2014	2013
	\$000	\$000
Audit of the financial statements	154	162
Audit of statutory returns in accordance with regulatory requirements	21	48
Total remuneration of auditor	175	210

NOTE 7. INCOME TAX

	2014 \$000	2013 \$000
A. INCOME TAX EXPENSE		
Current tax	12,881	5,563
Deferred tax	2,770	1,910
(Over)/under provided in prior year	(5)	153
Income tax expense/(credit)	<u>15,646</u>	<u>7,626</u>
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:		
Profit/(loss) for the year before income tax	<u>55,837</u>	<u>26,601</u>
Income tax calculated at 28%	15,634	7,448
Amounts which are not deductible/(taxable) in calculating taxable income		
Non-deductible expenses	25	25
Other	(8)	-
Income tax expense/(credit) applicable to current year	15,651	7,473
Adjustment relating to prior year	(5)	153
Income tax expense/(credit) attributable to profit/(loss) for the year	<u>15,646</u>	<u>7,626</u>
C. DEFERRED TAX ASSETS / (LIABILITIES)		
Depreciation	(2,015)	305
Employee benefits	2,336	1,818
Deferred acquisition costs	(6,056)	(5,169)
Other	923	1,332
	<u>(4,812)</u>	<u>(1,714)</u>
D. IMPUTATION CREDITS		
Imputation credits at the beginning of the financial year	1,600	-
New Zealand tax payments/(refunds)	2,100	1,600
Imputation credits at the end of the financial year	<u>3,700</u>	<u>1,600</u>

NOTE 8. 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	2014 Total \$000	Current year \$000	Prior years \$000	2013 Total \$000
Gross claims - undiscounted	250,604	(2,343)	248,261	246,432	4,683	251,115
Discount	(662)	384	(278)	(491)	241	(250)
Gross claims - discounted	<u>249,942</u>	<u>(1,959)</u>	<u>247,983</u>	<u>245,941</u>	<u>4,924</u>	<u>250,865</u>
Reinsurance and other recoveries - undiscounted	(13,310)	(8,313)	(21,623)	(13,244)	(7,293)	(20,537)
Discount	166	(115)	51	137	(138)	(1)
Reinsurance and other recoveries - discounted	<u>(13,144)</u>	<u>(8,428)</u>	<u>(21,572)</u>	<u>(13,107)</u>	<u>(7,431)</u>	<u>(20,538)</u>
Net claims expense	<u>236,798</u>	<u>(10,387)</u>	<u>226,411</u>	<u>232,834</u>	<u>(2,507)</u>	<u>230,327</u>

B. OUTSTANDING CLAIMS LIABILITY RECOGNISED ON THE BALANCE SHEET

	2014	2013
	\$000	\$000
I. Composition of gross outstanding claims liability		
Gross central estimate - undiscounted	62,773	58,005
Claims handling costs	6,998	6,363
Risk margin	7,339	6,864
	77,110	71,232
Discount to present value	(826)	(473)
Gross outstanding claims liability - discounted	76,284	70,759

The outstanding claims liability includes \$7.1 million (2013 - \$5.3 million) which is expected to be settled more than 12 months from the reporting date.

II. Reconciliation of movements in discounted outstanding claims liability

iii. Reconciliation of movements in discounted outstanding claims liability						
	2014			2013		
	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	70,759	(10,232)	60,527	43,234	(10,980)	32,254
Movement in the prior year central estimate	(2,765)	(1,447)	(4,212)	4,271	(2,774)	1,497
Current year claims incurred	249,826	(20,542)	229,284	245,500	(20,035)	225,465
Claims paid/recoveries received	(242,458)	21,820	(220,638)	(223,702)	21,934	(201,768)
Movement in discounting	580	(29)	551	524	(118)	406
Movement in risk margin	342	-	342	932	1,741	2,673
Balance at the end of the financial year	76,284	(10,430)	65,854	70,759	(10,232)	60,527

III. Central estimate and risk margin

a. REPORTING DATE VALUES

	2014	2013
	%	%
The percentage risk margin applied to the net outstanding claims liability	12.5	12.8
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. These factors may include 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, 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 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 adequacy.

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 2014, 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
2014	
Discounted average term to settlement	0.4 years
Inflation rate	2.45%
Discount rate	3.15% - 3.95%
Claims handling costs ratio	13.40%
2013	
Discounted average term to settlement	0.3 years
Inflation rate	2.15%
Discount rate	2.38% - 3.12%
Claims handling costs ratio	13.40%

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 settlement 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. Discount rate

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

iv. 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 would 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 rate

Expected future payments take account of inflationary increases. An increase or decrease in the assumed levels of economic inflation will have a corresponding decrease or increase on profit and loss.

iii. Discount rate

The outstanding claims liability is calculated with 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 and loss.

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 and loss.

b. SENSITIVITY ANALYSIS OF CHANGES

The impact on the profit and 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 stated 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
2014		
Discounted average term to settlement	+1 Month	137
	-1 Month	(138)
Inflation rate	+1%	(176)
	-1%	172
Discount rate	+1%	172
	-1%	(176)
Claims handling costs ratio	+1%	(522)
	-1%	522
2013		
Discounted average term to settlement	+1 Month	97
	-1 Month	(97)
Inflation rate	+1%	(138)
	-1%	135
Discount rate	+1%	135
	-1%	(138)
Claims handling costs ratio	+1%	(383)
	-1%	383

NOTE 9. REINSURANCE AND OTHER RECOVERIES ON OUTSTANDING CLAIMS

	2014	2013
	\$000	\$000
A. REINSURANCE AND OTHER RECOVERIES RECEIVABLE ON OUTSTANDING CLAIMS		
Expected reinsurance and other recoveries receivable on outstanding claims - undiscounted	10,689	10,541
Discount to present value	(259)	(309)
Expected reinsurance and other recoveries receivable on outstanding claims - discounted	<u>10,430</u>	<u>10,232</u>

The carrying value of reinsurance recoveries and other recoveries includes \$2.7 million (2013 - \$2.8 million) which is expected to be settled more than 12 months from the reporting date.

The reinsurance recoveries receivable on outstanding claims includes \$0.7 million (2013 - \$0.3 million) from IAG Re Singapore Pte Limited.

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 the outstanding claims liability (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 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 PROGRAMME

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 programme 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 Group by being the main buyer of the Group's outwards reinsurance programme. The reinsurance operation is intended to manage reinsurance and earnings volatility and the 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 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 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 consist of a combination of the following reinsurance protection:

- A Group catastrophe cover 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 programme for the Company has been placed for the period 1 July 2012 to 31 December 2014.
- A surplus cover, which provides "per risk" protection for the commercial property and engineering businesses.
- Excess of loss reinsurance for all casualty portfolios.

NOTE 10. DEFERRED INSURANCE ASSETS

	2014	2013
	\$000	\$000
A. DEFERRED ACQUISITION COSTS		
Reconciliation of movements		
Deferred acquisition costs at the beginning of the financial year	18,460	14,444
Acquisition costs deferred	21,628	18,460
Amortisation charged to profit	(18,460)	(14,444)
Deferred acquisition costs at the end of the financial year	<u>21,628</u>	<u>18,460</u>
B. DEFERRED OUTWARDS REINSURANCE EXPENSE		
Reconciliation of movements		
Deferred outwards reinsurance expense at the beginning of the financial year	127,656	76,448
Reinsurance expenses deferred	(3,477)	127,656
Amortisation charged to profit	(83,251)	(76,448)
Deferred outwards reinsurance expense at the end of the financial year	<u>40,928</u>	<u>127,656</u>

NOTE 11. UNEARNED PREMIUM LIABILITY

	2014	2013
	\$000	\$000
A. RECONCILIATION OF MOVEMENTS		
Unearned premium liability at the beginning of the financial year	223,677	203,131
Deferral of premiums on contracts written	235,753	223,677
Earning of premiums written in previous financial years	(223,677)	(203,131)
Unearned premium liability at the end of the financial year	<u>235,753</u>	<u>223,677</u>
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 for which additional information is provided in the table below (2013 - surplus).

	2014	2013
	\$000	\$000
Net central estimate of present value of expected future cash flows from future claims	156,701	146,754
Risk margin of the present value of expected future cash flows	4,036	3,763
	<u>160,737</u>	<u>150,517</u>
Risk margin percentage	2.6%	2.6%
Probability of adequacy	60.0%	60.0%

The probability of adequacy applied for the purpose 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 12. INVESTMENTS

	2014	2013
	\$000	\$000
A. COMPOSITION		
I. Interest bearing investments		
Cash and short term money held in investment	2,143	130,217
Government and semi-government bonds	216,487	131,690
	<u>218,630</u>	<u>261,907</u>
II. Equity investments		
Unlisted	81,042	-
	<u>299,672</u>	<u>261,907</u>

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

Valued using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices), including: quoted prices in active markets for similar assets or liabilities, quoted prices in markets in which there are few transactions for identical or similar assets or liabilities, and other inputs that are not quoted prices but are observable for the asset or liability, for example interest rate yield curves observable at commonly quoted intervals.

III. Level 3 unobservable inputs

Inputs for the asset or liability that are not based on observable market data (unobservable inputs) are used.

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
2014				
Interest bearing investments	218,630	-	-	218,630
Equity investments	-	81,042	-	81,042
	<u>218,630</u>	<u>81,042</u>	<u>-</u>	<u>299,672</u>
2013				
Interest bearing investments	<u>261,907</u>	-	-	<u>261,907</u>
	<u><u>261,907</u></u>	<u>-</u>	<u>-</u>	<u><u>261,907</u></u>

NOTE 13. RECEIVABLES

	2014 \$000	2013 \$000
COMPOSITION		
I. Premium receivable		
Premium receivable	134,820	129,998
Provision for lapses	<u>(400)</u>	<u>(400)</u>
Premium receivable	<u>134,420</u>	<u>129,598</u>
II. Trade and other receivables		
Reinsurance recoveries on paid claims	27	-
Investment income receivable	783	296
Other debtors	<u>1,522</u>	<u>816</u>
Trade and other receivables	<u>2,332</u>	<u>1,112</u>
	<u><u>136,752</u></u>	<u><u>130,710</u></u>

NOTE 14. PLANT AND EQUIPMENT

	2014	2013
	\$000	\$000
A. COMPOSITION		
Motor vehicles		
Cost	3	44
Accumulated depreciation	(3)	(24)
	<u>-</u>	<u>20</u>
Office and other plant and equipment		
Cost	11,955	9,179
Accumulated depreciation	(5,887)	(3,589)
	<u>6,068</u>	<u>5,590</u>
Balance at the end of the financial year	<u>6,068</u>	<u>5,610</u>

	Motor vehicles \$000	Office equipment \$000	Total \$000
2014			
B. RECONCILIATION OF MOVEMENTS			
Balance at the beginning of the financial year	20	5,590	5,610
Additions	-	2,779	2,779
Disposals	(41)	(3)	(44)
Depreciation	(11)	(2,299)	(2,310)
Accumulated depreciation - disposals	32	1	33
Balance at the end of the financial year	<u>-</u>	<u>6,068</u>	<u>6,068</u>

2013

C. 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	<u>20</u>	<u>5,590</u>	<u>5,610</u>

D. ESTIMATED USEFUL LIVES

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 15. INTANGIBLE ASSETS

	2014	2013
	\$000	\$000
2014		
A. COMPOSITION		
Software development expenditure		
Cost	48,622	35,024
Accumulated amortisation	(3,640)	(561)
Balance at the end of the financial year	<u>44,982</u>	<u>34,463</u>
B. RECONCILIATION OF MOVEMENTS		
Balance at the beginning of the financial year	34,463	18,003
Additions acquired and developed	13,598	16,824
Amortisation*	(3,079)	(301)
Disposals - cost	-	(192)
Disposals - accumulated depreciation	-	129
Balance at the end of the financial year	<u>44,982</u>	<u>34,463</u>

* Amortisation of intangible assets is included under other underwriting expenses in the Statement of Comprehensive Income.

C. AMORTISATION RATES (% per annum) 10%-33.3% 33.3%

D. EXPLANATORY NOTES FOR INTANGIBLE ASSETS**Software development expenditure**

The software development expenditure asset comprises internally generated assets.

E. IMPAIRMENT TESTING

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

NOTE 16. TRADE AND OTHER PAYABLES

	2014	2013
	\$000	\$000
COMPOSITION		
I. Trade creditors		
Levies payable	14,903	14,930
Other	<u>13,738</u>	<u>16,662</u>
	28,641	31,592
II. Other payables		
Other creditors and accruals	<u>1,023</u>	<u>887</u>
	<u>29,664</u>	<u>32,479</u>

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.

NOTE 17. EMPLOYEE BENEFITS

	2014	2013
	\$000	\$000
A. EMPLOYEE BENEFITS PROVISION		
Annual leave	4,537	4,705
Cash based incentive arrangements	3,778	2,074
Defined benefit superannuation plans	<u>2,657</u>	<u>4,657</u>
	<u>10,972</u>	<u>11,436</u>

The employee benefits provision includes \$3.4 million (2013 - \$4.8 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 continued in operation during the current reporting year. Eligible employees have the capacity to earn a proportion of their base pay as 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 18. SUPERANNUATION

DEFINED BENEFIT SUPERANNUATION 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 Superannuation Schemes Act 1989 governs the superannuation industry and provides the framework within which the Scheme operates. The Scheme is a registered superannuation scheme governed by its own trust deed. The Scheme has a defined contribution tier and a defined benefit tier. The defined benefit obligation is determined by reference to career average earnings. Contributions to both tiers are expensed as incurred, when relevant employee services have been received.

The Scheme's trustee is responsible for the governance of the Scheme. The trustee has a legal obligation to act solely in the best interest of the Scheme beneficiaries. The trustee has the following roles:

- Administration of the Scheme and payment to the beneficiaries from Scheme assets when required in accordance with the Scheme rules;
- Management and investment of the Scheme assets; and
- Compliance with superannuation law and other applicable regulations.

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.

Funding levels may vary in the future as members have the option to elect their level of contributions under the defined contribution tier and these contributions are matched by the Company up to 5% of salary. The level of contributions required under the defined benefit tier are reviewed every 3 years by the Scheme's actuary. The actuary will make recommendations to the trustees regarding the level of contributions required that will ensure continued security of members' defined benefit entitlements. 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 future expected contributions to Scheme for the year ending 30 June 2015 are \$2.16 million.

The reconciliations below present the obligation and the fair value of the entire AMI Scheme, however, the net liability of \$2.657 million (2013 - \$4.657 million) relates to the defined benefit portion only.

II. Financial information of defined benefit arrangements

a. REPORTING DATE BALANCES

	2014	2013
	\$000	\$000
Fair value of plan assets	30,885	29,324
Present value of defined benefit obligation (net discount rate)	(32,718)	(32,584)
Net defined benefit asset/(liability)	(1,833)	(3,260)
Contribution tax asset/(liability)	(824)	(1,397)
Net asset/(liability) recognised on the balance sheet	(2,657)	(4,657)

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

	2014	2013
	\$000	\$000
Net asset/(liability) at beginning of the financial year	(3,260)	(5,154)
Included in profit and loss		
Current service cost	(1,798)	(2,174)
Net interest cost	(93)	(114)
Included in OCI		
Return on plan assets, excluding interest income	1,232	1,558
Gains/(losses) from change in demographic assumptions	-	(2,023)
Gains/(losses) from change in financial assumptions	4,612	2,889
Gains/(losses) from liability experience	(4,010)	53
Other		
Employer contributions	1,484	1,705
Total net amount recognised from reporting date valuation	<u>(1,833)</u>	<u>(3,260)</u>

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

Defined benefit obligation at the beginning of the financial year	(32,584)	(34,002)
Current service cost	(1,798)	(2,174)
Interest expense	(1,082)	(815)
Gains/(losses) from change in demographic assumptions	-	(2,023)
Gains/(losses) from change in financial assumptions	4,612	2,889
Gains/(losses) from liability experience	(4,010)	53
Contributions by plan participants	(1,014)	(1,159)
Benefits paid	2,931	4,507
Taxes benefit obligation at the end of the financial year	<u>227</u>	<u>140</u>
Defined benefit obligation at the end of the financial year	<u>(32,718)</u>	<u>(32,584)</u>

d. RECONCILIATION OF MOVEMENTS IN THE FAIR VALUE OF ASSETS

Fair value of plan assets at the beginning of the financial year	29,324	28,883
Interest income	989	701
Return on plan assets, excluding interest income	1,232	1,523
Contributions by employers	1,484	1,705
Contributions by plan participants	1,014	1,159
Benefits paid	(2,931)	(4,507)
Taxes, premiums and expenses paid	<u>(227)</u>	<u>(140)</u>
Fair value of plan assets at the end of the financial year	<u>30,885</u>	<u>29,324</u>

The asset ceiling had no impact on the net defined liability recognised in the balance sheet.

e. PLAN ASSETS

The percentage invested in each asset class at reporting date is shown in the table below:

	2014	2013
	%	%
Australasian shares	21	22
Overseas shares	16	5
NZ fixed interest	15	19
Property	4	-
Cash	<u>44</u>	<u>54</u>

To determine the fair value of the investment fund that the plan assets are invested in significant observable inputs are used (fair value hierarchy level 2).

f. ACTUARIAL ASSUMPTIONS

The principal actuarial assumptions used in determining the defined benefit obligations include:

	2014	2013
	%	%
Discount rate (gross)	4.8	3.4
Expected future salary increases	4.0	4.0
Future pension increases - adult/child	0.0	0.0

g. SENSITIVITY OF MEASUREMENT TO ACTUARIAL ASSUMPTIONS

The sensitivity analysis is based on a change in the assumption whilst holding all other assumptions constant. The methods and assumptions used in preparing the sensitivity analysis did not change compared to the prior year.

The decrease/(increase) in the defined benefit obligation is disclosed for each of the key assumptions:

ASSUMPTION	MOVEMENT IN ASSUMPTION	2014 \$000
Discount rate (gross)	+1%	2,479
	-1%	(3,136)
Expected future salary increase	+1%	(394)
	-1%	363

The discount rate applied for the AMI Scheme reflects the market yields on government bonds and so is subject to change if those yields change.

h. RISK EXPOSURE

There are a number of risks to which the Scheme exposes the employer, including the measurement process of the defined benefit obligation which involves estimates and assumptions, based on experience and other reasonable factors. Differences in actuarial valuations compared to actual performance can impact the expense recognised, movements in other comprehensive income, and the value of plan assets and liability.

i. DEFINED BENEFIT FUNDING

The weighted average duration of the defined benefits obligation is 14 years (2013 - 15 years). The expected maturity analysis of undiscounted defined benefit obligation is as follows:

	Within 1 year \$000	1 - 2 years \$000	2 - 5 years \$000	Over 5 years \$000	Total \$000
30 June 2014	994	1,003	3,633	85,860	91,490
30 June 2013	2,806	2,072	9,199	80,897	94,974

NOTE 19. COMMITMENTS

	2014 \$000	2013 \$000
A. CAPITAL AND OTHER COMMITMENTS		
Capital commitments		
Software development	15,280	27,903
B. OPERATING LEASE COMMITMENTS		
I. Property		
Due within 1 year	3,674	4,713
Due within 1 to 2 years	1,999	3,912
Due within 2 to 5 years	2,040	5,571
Due after 5 years	-	683
II. Plant and equipment		
Due within 1 year	400	510
Due within 1 to 2 years	263	300
Due within 2 to 5 years	203	217
	8,579	15,906

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:

Related Party	Description	30 June 2014	30 June 2013
		\$000	\$000
Insurance Australia Limited	Forward exchange contracts	305	478
Insurance Australia Limited	Fee for services	(67)	(260)
IAG New Zealand Limited	Fee for services	(925)	(1,794)
		<u>(687)</u>	<u>(1,576)</u>
Reported within Reinsurance and other recoveries on outstanding claims (refer to note 9):			
IAG Re Singapore Pte Limited		707	283
Reported within Reinsurance premium payable:			
IAG Re Singapore Pte Limited		<u>42,442</u>	<u>130,413</u>

B. RELATED PARTY TRANSACTIONS

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

		Transaction Amount	
		30 June 2014	30 June 2013
	Transaction	\$000	\$000
Insurance Australia Limited	Forward exchange contracts	(10,562)	(7,777)
Insurance Australia Limited	Fee for services	880	1,819
IAG Asset Management Limited	Investment management fees	507	453
IAG (NZ) Holdings Limited	Dividend paid	10,100	27,200
IAG Re Singapore Pte Limited	Reinsurance expense	83,251	82,253
IAG New Zealand Limited	Fee for services	32,175	11,059

The foreign exchange movement on investments and the foreign exchange movement on the related currency hedges have been offset within investment income in Note 4.B.

C. KEY MANAGEMENT PERSONNEL

Details of compensation

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

The aggregate compensation of the KMP is set out below:

	2014	2013
	\$000	\$000
Short term employee benefits	1,306	1,796
Post employment benefits	15	64
Other long term benefits	7	10
Termination benefits	-	562
Share based payments	599	445
	<u>1,927</u>	<u>2,877</u>

The compensation disclosed in the table above represents the KMP'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

At 30 June 2014, Share Capital comprised 380,000,000 ordinary shares of \$1 each (2013 - \$380,000,000).

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

B. NATURE AND PURPOSE OF 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

	2014	2013
	\$000	\$000
A. COMPOSITION		
Cash held for operational purposes	3,430	10,462
Cash and short term money held in investments	<u>2,143</u>	<u>130,217</u>
Cash and cash equivalents	<u>5,573</u>	<u>140,679</u>

Cash and cash equivalents represent cash on hand and held with banks, deposits at call and short term money held in 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. SIGNIFICANT RISKS

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. A small portion of the amounts bear no interest.

	2014	2013
	\$000	\$000
C. RECONCILIATION OF PROFIT/(LOSS) FOR THE YEAR TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/(loss) for the year	40,191	18,975
I. Non cash items		
Depreciation of plant and equipment	2,258	3,035
Amortisation and impairment of intangible assets	3,079	301
Net realised (gains) and losses on disposal of investments	2,257	(9,737)
Net unrealised (gains) and losses on revaluation of investments	(6,611)	6,655
Net (gains) and losses on disposal of plant and equipment	(24)	(88)
Other	1,880	1,380
II. Movement in operating assets and liabilities		
DECREASE/(INCREASE) IN OPERATING ASSETS		
Premium and other receivables	(7,104)	(13,535)
Prepayments, deferred levies and charges	83,124	(53,949)
Reinsurance and other recoveries	(198)	748
INCREASE/(DECREASE) IN OPERATING LIABILITIES		
Trade and other payables	(90,786)	50,970
Provisions	(464)	(3,881)
Current tax liabilities	4,285	4,896
Deferred tax liabilities	3,098	1,131
Outstanding claims liability	5,525	27,525
Unearned premium liability	<u>12,076</u>	<u>20,546</u>
Net cash flows from operating activities	<u>52,586</u>	<u>54,972</u>

NOTE 24. CAPITAL MANAGEMENT

A. CAPITAL MANAGEMENT STRATEGY

The 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 RBNZ half-yearly. As at 30 June 2014, the ASC, MSC and solvency margins held were:

	2014	2013
	\$m	\$m
ASC	110.6	79.1
MSC	76.4	54.4
Solvency margin	34.2	24.7

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, the Company 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-" (2013 - "A-"). This rating represents 'excellent' claims paying ability.

NOTE 25. EVENTS SUBSEQUENT TO REPORTING DATE

There has not arisen in the interval between the end of the financial period and the date of this report any item, transaction, or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.



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 8 to 37. The financial statements comprise the balance sheet as at 30 June 2014, 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. Subject to certain restrictions, 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 8 to 37:

- 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 2014 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.



13 August 2014
Auckland

AMI Insurance Limited - Section 78 Appointed Actuaries Report as at 30 June 2014

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 2014 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 2014.
- h. AMI does not underwrite any life products. As such no opinion under section 78 (h) of the Act is required.

This report is not 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 2014 Financial Condition Report.

Signed



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

Date

4 August 2014.