

**Aioi Nissay Dowa Insurance Co., Ltd
New Zealand Branch**

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2013**

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BRANCH DIRECTORYFOR THE YEAR ENDED 31 MARCH 2013

Nature of Business Aioi Nissay Dowa Insurance Co., Limited – New Zealand Branch
Fire and General Insurers

Registered Office L1, Building C, 602 Great South Road
Greenlane, Auckland, New Zealand

Directors of Aioi Nissay Dowa Insurance Co. Limited

Full legal name: **Satoshi OZAWA**

Residential Address: 12-21 Hoshigaokamotocho, Chikusa-ku, Nagoya-sh, Aichi,
Japan

Appointment Date: 1 July 2011

Full legal name: **Hiroshi MANABE**

Residential Address: 1-3-3-701 Akemi, Urayasu-shi, Chiba, Japan

Appointment Date: 17 Sep 2012

Full legal name: **Hisahito SUZUKI**

Residential Address: 11-1-215 Hachiyamacho, Shibuya-ku, Tokyo, Japan

Appointment Date: 21 May 2009

Full legal name: **Hiroaki NAGASUE**

Residential Address: 13-12-510 Ohara-cho, Itabashi-ku, Tokyo, Japan

Appointment Date: 21 May 2009

Full legal name: **Mitsuhiro SONODA**

Residential Address: 123-2-405 Otokikiyama, Nagoya-shi, Aichi, Japan

Appointment Date: 1 July 2011

Full legal name: **Takeshi SUZUKI**

Residential Address: 3-201 Uedayama, Tenpaku-ku, Nagoya-shi, Aichi, Japan

Appointment Date: 1 July 2011

Full legal name: **Mitsuhiro TSUCHIYA**

Residential Address: 357-6 Tsuchiya, Nishiku, Saitama-shi, Saitama, Japan

Appointment Date: 1 July 2011

Full legal name: **Nampey YANAGAWA**

Residential Address: 2-25-1-306 Yoga, Setagaya-ku, Tokyo, Japan

Appointment Date: 17 Sep 2012

BRANCH DIRECTORY (continued)FOR THE YEAR ENDED 31 MARCH 2013

Directors of Aioi Nissay Dowa Insurance Co. Limited (continued)

Full legal name: **Sadao KATO**

Residential Address: 2-10-76 Mita, Meguro-ku, Tokyo, 153-0062, Japan

Appointment Date: 01 Oct 2010

Full legal name: **Hiroshi ISHIMURA**

Residential Address: 4-8-14-306 Kitashinagawa, Shinagawa-ku, Tokyo, Japan

Appointment Date: 1 July 2011

Full legal name: **Toshihiko TANAKA**

Residential Address: 13-10-2806 Nakamaruko, Kawasaki-shi, Kanagawa,
2110012, Japan

Appointment Date: 01 Oct 2010

Full legal name: **Yasuzo KANASUGI**

Residential Address: 1-17-11 Takaidohigashi, Suginami-ku, Tokyo, Japan

Appointment Date: 17 Sep 2012

Full legal name: **Masanori YONEDA**

Residential Address: 1-37-13 Asagayakita, Suginami-ku, Tokyo, Japan

Appointment Date: 01 Oct 2010

Full legal name: **Tadashi KODAMA**

Residential Address: 2-7-1-3104 Fujimi, Chiyoda-ku, Tokyo, Japan

Appointment Date: 21 May 2009

Resignation date: 17 September 2012

Full legal name: **Takao SHIDA**

Residential Address: 3-31-9-506 Kitazakae Urayasu, Chiba, Japan

Appointment Date: 25 Jun 2009

Resignation date: 17 September 2012

Full legal name: **Ichiro TATEYAMA**

Residential Address: 1-42-3 Denenchofu, Ota-ku, Tokyo, 145-0071, Japan

Appointment Date: 01 Oct 2010

Resignation date: 17 September 2012

BRANCH DIRECTORY (continued)FOR THE YEAR ENDED 31 MARCH 2013

Auditor	Ernst & Young Auckland, New Zealand
Bankers	ANZ part of ANZ National Bank Ltd Westpac
Actuary	Taylor Fry Consulting Actuaries Melbourne, Australia
Business Location	New Zealand

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2013

	Notes	2013 \$	2012 \$
Gross written premiums		10,413,133	8,256,467
Movements in unearned premiums	6	(1,666,400)	(1,299,813)
Gross earned premium		8,746,733	6,956,654
Reinsurance expense		(554,362)	(502,666)
Net premium revenue		8,192,371	6,453,988
Claims expense	7	(4,036,733)	(3,310,909)
Reinsurance recoveries		-	(179,632)
Net claims expense		(4,036,733)	(3,490,541)
Acquisition costs	8	(2,042,979)	(1,465,485)
Underwriting result		2,112,659	1,497,962
Operating expenses	9	(1,628,093)	(1,374,496)
Investment income		81,724	65,994
Profit before tax		566,290	189,460
Tax expense	10	(87,959)	(91,361)
Profit after tax and total comprehensive income for the year attributable to the shareholder of Aioi Nissay Dowa Insurance Co., Ltd		478,331	98,099

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2013

	Head Office Account \$	Accumulated Deficit \$	Total \$
Balance at 1 April 2011	568,867	(2,416,623)	(1,847,756)
Total comprehensive income	-	98,099	98,099
Balance at 31 March 2012	568,867	(2,318,524)	(1,749,657)
Balance at 1 April 2012	568,867	(2,318,524)	(1,749,657)
Total comprehensive income	-	478,331	478,331
Balance at 31 March 2013	568,867	(1,840,193)	(1,271,326)

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

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2013

	Notes	2013 \$	2012 \$
Assets			
Cash and cash equivalents		1,037,323	926,860
Investments	11	2,500,469	1,512,352
Accrued interest		31,596	32,818
Premium receivables	12	2,648,454	2,085,667
Deferred acquisition costs	13	1,952,265	1,534,401
Current taxation receivable	14(i)	46,490	12,064
Total assets		8,216,597	6,104,162
Liabilities			
Accounts payable	15	276,595	268,000
Reinsurance payable	16	513,929	463,110
Outstanding claims liability	17	622,880	781,211
Unearned premium reserve	19	7,449,808	5,783,409
Other current liabilities	22	78,076	128,456
Deferred tax liability	14(ii)	546,635	429,633
Total liabilities		9,487,923	7,853,819
Net liabilities		(1,271,326)	(1,749,657)
Equity			
Head Office Account		568,867	568,867
Accumulated deficit		(1,840,193)	(2,318,524)
Total Equity		(1,271,326)	(1,749,657)

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


Director


Director

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2013

	2013 \$	2012 \$
Operating activities		
Profit before tax	566,290	189,460
Adjustment for:		
- Decrease in other assets	0	27,568
- Increase in premium receivable	(562,787)	(424,131)
- Increase in deferred acquisition costs	(417,864)	(436,889)
- Increase in accounts payable	8,595	77,474
- Increase in reinsurance payable	50,819	256,089
- Decrease in outstanding claims liability	(158,331)	(714,267)
- Increase in unearned premium liability	1,666,399	1,299,813
- Increase/(decrease) in other liabilities	(50,380)	106,688
Non-cash items included in profit before tax		
- Investment income	(80,502)	(83,939)
Income tax refunded/(paid)	(5,383)	214,196
Net cash from operating activities	1,016,856	512,062
Investment Activities		
Investment in term deposit at banking institution	(1,000,000)	(1,000,000)
Interest received	93,607	70,696
Net cash flow used in investing activities	(906,393)	(929,304)
Net decrease in cash and cash equivalents	110,463	(417,242)
Cash and cash equivalents at the beginning of year	926,860	1,344,102
Cash and cash equivalents at the end of year	1,037,323	926,860

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2013

1. Corporate Information

The financial statements are for the New Zealand branch of Aioi Nissay Dowa Insurance Co., Ltd (the "Branch"). The Branch is a branch of Aioi Nissay Dowa Insurance Co., Ltd (the "Company" or "Parent"), a company incorporated in Japan and an overseas company registered under the Companies Act 1993. The Branch provides insurance both directly to other entities and through reinsurance arrangements. As a registered Branch, policyholders have direct recourse to Aioi Nissay Dowa Insurance Company Limited. The ultimate parent of Aioi Nissay Dowa Insurance Co., Ltd is MS&AD Insurance Group Holdings, Inc. (Japan).

These Branch's financial statements should be read in conjunction with the full financial statements of the overseas company.

The Branch has been registered in New Zealand as a branch of the Company since May 2009.

The financial statements of the Branch are for the year ended 31 March 2013. The financial statements were authorised for Issue by the Directors on 28 of August 2013.

2. Summary of Significant Policies

a) Basis of preparation

The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand (NZ GAAP) and the requirements of the Companies Act 1993 and the Financial Reporting Act 1993. For the purpose of complying with NZ GAAP the entity is a profit-oriented entity. They comply with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The financial statements comply with International Financial Reporting Standards (IFRS).

The financial statements are presented in New Zealand dollars (\$). This is the Branch's functional and presentation currency.

b) Basis of measurement

The financial statements have been prepared on the historical cost basis, as modified by certain exceptions noted in the financial statements, with the principal exception being the measurement of investments at fair value and the measurement of the outstanding claims liability and related reinsurance recoveries as set out below.

c) New accounting standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year.

- There are no new standards or amendments to standards that are relevant to the Branch and that are mandatory for the year commenced 1 April 2012 that have been adopted in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2013

2. Summary of Significant Policies (continued)

c) New accounting standards and interpretations (continued)

The following new accounting standards which are deemed to have an impact on the financial statements or performance of the Branch have been issued but are not yet effective:

- *Amendments to NZ IFRS 7: Financial Instruments: Disclosures* will be effective for accounting periods beginning on or after 1 January 2013. These amendments to NZ IFRS 7 remove the requirement for the restatement of comparative period financial statements upon initial application of the classification and measurement requirements of NZ IFRS 9. Instead, the amendments introduce additional disclosures on transition from the classification and measurement requirements of NZ IAS 39 Financial Instruments: Recognition and Measurement to those of NZ IFRS 9.

The Branch intends to adopt these amendments as they become effective.

- *NZ IFRS 13: Fair Value Measurement* will be effective for accounting periods beginning on or after 1 January 2013. NZ IFRS 13 establishes a single source of guidance under NZ IFRS for determining the fair value of assets and liabilities. Application of this guidance may result in different fair values being determined for the relevant assets. NZ IFRS 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.

The Branch intends to adopt this standard as it becomes effective.

- *NZ IFRS 9 (2009): Financial Instruments* will be effective for accounting periods beginning on or after 1 January 2015. NZ IFRS 9 (2009) is the first standard issued as part of a wider project to replace IAS 39. NZ IFRS 9 (2009) retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply.

NZ IFRS 9 (2010): Financial Instruments will be effective for accounting periods beginning on or after 1 January 2015. NZ IFRS 9 (2010) adds the requirements related to the classification and measurement of financial liabilities, and derecognition of financial assets and liabilities to the version issued in November 2009.

The Branch intends to adopt this standard as it becomes effective.

The implications of adoption of these new standards and amendments for the Branch are currently under review.

NOTES TO THE FINANCIAL STATEMENTSFOR THE YEAR ENDED 31 MARCH 2013

2. Summary of Significant Policies (continued)**d) Changes in accounting estimates**

During the year, the Branch has enhanced the calculation of the deferred acquisition costs for the vehicle insurance business line. The improved calculation method better reflects the nature and timing commission expense and aligns the expense recognition with the recognition of premium income. The net effect of the change for the financial year ended 31 March 2013 was a reduction of deferred acquisition costs (DAC) of \$61,185 before liability adequacy adjustment.

e) Insurance contracts

An Insurance contract is defined as a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain insured event adversely affects the policyholder. The Insurance activities of the Branch all arise from general insurance contracts.

f) Revenue

Premium revenue comprises amounts charged to the policyholders excluding taxes and levies collected on behalf of third parties. The earned portion of premiums received and receivable, including unclosed business, is recognised as revenue. Premium on unclosed business is brought to account using estimates based on the proportion of proposed business that is expected to be closed.

g) Unearned premium

Unearned premium are those proportions of premiums written in a year that relate to periods of risk after the balance sheet date. Unearned premiums are calculated based on the pattern of risks underwritten. The proportion attributable to subsequent periods is deferred as a provision for unearned premium.

h) Outward reinsurance expense

Premium ceded to reinsurers is recognised as an expense from the date of attachment of risk over the period of indemnity of the reinsurance contract in accordance with the expected pattern of the incidence of risk.

Reinsurance premium expense on catastrophe and single risk reinsurance is determined on a straight line basis over the financial year based upon a predetermined level of cover, which is periodically adjusted to reflect the actual level of cover.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2013

2. Summary of Significant Policies (continued)

i) Reinsurance commission income

Reinsurance commission income is earned on business ceded to reinsurers. Commission income is recognised as the service is performed.

j) Claims expense

Claims expense represents payments made on claims and the movement in the outstanding claims liability.

k) Interest revenue

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

l) Outstanding claims liability

The central estimate of outstanding claims liabilities is the best estimate of the present value of future projected claims payments and associated claim handling costs in respect of claims reported but not yet paid, claims incurred but not reported ("IBNR") and claims incurred but not enough reported ("IBNER").

Standard actuarial methods are applied to all classes of business to assess the central estimate of outstanding claims liabilities. Features and trends of claims experience including claim frequencies, average claim sizes and individual claim estimates are analysed and assumptions about the future are selected.

A risk margin is added to the central estimate in determining the outstanding claims liabilities. The risk margin is designed to increase the probability of the outstanding claims liabilities proving ultimately to be adequate.

m) Liability adequacy testing

The reserve for unearned premiums includes premiums received for risks that have not yet expired. Generally the reserve is released over the term of the contract and is recognised as premium income.

A liability adequacy test is performed at each reporting date to assess whether there are any deficiencies in the unearned premium reserve due to expected future claims and claims costs. The amount of these expected future claims is estimated using the present value of future claims and expenses plus an additional risk margin to reflect the inherent uncertainty in those estimated cash flows. This is compared to the unearned premium reserve and deferred acquisition costs. Any deficiency is recognised in the Statement of Comprehensive Income after first writing down any deferred acquisition costs. Any shortfall after having written down acquisition costs is then recognised in the Statement of Comprehensive Income with the corresponding amount recognised in the Statement of Financial Position as an unexpired risk liability, included in the movement in unearned premium.

NOTES TO THE FINANCIAL STATEMENTSFOR THE YEAR ENDED 31 MARCH 2013

2. Summary of Significant Policies (continued)**n) Reinsurance recoveries**

Reinsurance recoveries are recognised when due and measured on initial recognition at the fair value of the consideration receivable. Subsequent to initial recognition, reinsurance recoveries are measured at cost less impairment. A reinsurance asset is impaired if there is objective evidence as a result of an event that occurred after initial recognition of the asset that the amounts due may not be received and the amount can be reliably measured. Any impairment is recognised in the profit or loss.

o) Deferred Acquisition Costs (DAC)

Acquisition costs incurred in writing and renewing of insurance contracts are deferred and recognised as assets where they can be reliably measured and where it is probable that they will be recoverable out of future premiums. Deferred acquisition costs are amortised in accordance with expected pattern of incidence of risk under the insurance contract to which they relate.

DAC are measured at the lower of cost and recoverable amount. An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value, an impairment loss is recognised in the profit or loss. DAC are also considered in the liability adequacy test for each reporting period.

DAC are derecognised when the related contracts are either settled or disposed of.

p) Taxes*Current Income Tax*

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date in the countries where the Branch operates and generates taxable income. Current income tax assets and liabilities also include adjustments for tax expected to be payable or recoverable in respect of previous periods.

Deferred Tax

Deferred tax is provided in respect of temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2013

2. Summary of Significant Policies (continued)

q) Taxes (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

q) Goods and services tax (GST)

The Statement of Comprehensive Income has been prepared so that all components are stated exclusive of GST. All Items in the Statement of Financial Position are stated net of GST, with the exception of receivables and payables, which include GST Invoiced. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

r) Cash and cash equivalents

Cash comprises cash balances on call at bank and cash deposits with an original maturity of ninety days or less.

s) Financial Assets

Initial recognition and measurement

Financial assets within the scope of NZ IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, available for sale financial assets, or as held to maturity investments, as appropriate. The Branch determines the classification of its financial assets at initial recognition.

Financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Branch commits to purchase or sell the asset.

The Branch's financial assets include cash and short-term deposits, premium and other receivables and quoted government bonds.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2013

2. Summary of Significant Policies (continued)**s) Financial Assets (continued)***Subsequent measurement*Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and those designated upon initial recognition at fair value through profit or loss. Investments typically bought with the intention to sell in the near future are classified as held for trading. These investments are initially recorded at fair value. Subsequent to initial recognition, they are remeasured at fair value. Changes in fair value are recorded in 'Investment income'.

Government bond and deposits with credit institutions have been designated at fair value through profit and loss as they are held to match the average duration of a corresponding insurance liability as assets backing general insurance liabilities. Fair value of government bond is established by reference to quoted bid prices.

Loans and other receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. After initial measurement, loans and receivables are measured at amortised cost, using the effective interest rate method (EIR), less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in 'Investment income' in the statement of comprehensive income. Gains and losses are recognised in the profit and loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Financial assets have been classified as follows:

Asset	NZ IAS 39 Classification	Measurement basis
Investments		
Government bond	Designated Fair Value through Profit or Loss	Fair value with changes recognised through the Statement of Comprehensive Income
Deposits with credit institutions	Financial assets at fair value through profit and loss – held for trading	Fair value with changes recognised through the Statement of Comprehensive Income
Premium, interest and other receivables	Loans and receivables	Amortised cost less impairment
Due from related parties	Loans and receivables	Amortised cost less impairment
Cash and cash equivalents	Loans and receivables	Amortised cost less impairment

NOTES TO THE FINANCIAL STATEMENTSFOR THE YEAR ENDED 31 MARCH 2013

2. Summary of Significant Policies (continued)**s) Financial assets (continued)***Derecognition*

Financial assets are derecognised if the Branch's contractual rights to the cash flows from the financial assets expire or if the Branch transfers the financial assets to another party without retaining control or substantially all risks and rewards of the asset.

Impairment of financial assets

The Branch assesses at each reporting date whether there is any objective evidence that a financial asset is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

t) Premium receivables

Premium receivables are amounts due from policyholders and intermediaries that are initially recognised at fair value being the consideration receivable. They are subsequently measured at amortised cost, using the effective interest rate method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of comprehensive income.

Premium receivables are derecognised when the derecognition criteria for financial assets, as described in Note 2(s), have been met.

u) Financial Liabilities

Financial Liabilities comprise trade and other payables. Financial liabilities are measured at amortised cost.

v) Head Office Account

The Branch equity in the form of a Head Office Account represents funds advanced to the Branch by Aioi Nissay Dowa Insurance Co., Ltd. As a Branch there are no externally imposed capital restrictions to which the Branch must adhere. Should additional capital requirements be imposed by the Reserve Bank of New Zealand in terms of the Insurance (Prudential Supervision) Act 2010, Aioi Nissay Dowa Insurance Co., Ltd will meet these capitalisation requirements through additional funding to the Branch.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2013

2. Summary of Significant Policies (continued)

w) Assets Backing General Insurance Liabilities

All financial assets and deferred acquisition costs of the Branch are considered to be assets backing general insurance liabilities. As part of its investment strategy the Branch actively manages its investment portfolio to ensure that investments mature in accordance with the expected pattern of future cash flows arising from general insurance liabilities.

x) Accounts Payable

These amounts represent liabilities for goods and services provided to the Branch prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

y) Going Concern

The financial statements have been prepared on a going concern basis, the validity of which depends on the ability of the shareholder to recapitalise the NZ Branch. The NZ Branch has obtained the commitment of the shareholder that it will be recapitalised should additional capital requirements be imposed by the Reserve Bank of New Zealand in terms of the Insurance (Prudential Supervision) Act 2010.

The financial statements do not include any adjustments that would result from a failure to recapitalise the NZ Branch.

3. Actuarial Assumptions and Methods

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder and Payments Per Claim Incurred (PPCI) methods.

A key assumption underlying these techniques is that a Branch's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is analysed by class of business and split by accident and development quarter. Large claims are usually identified individually and a separate allowance made where necessary. Explicit allowance is made for future claims inflation with growth above inflation (i.e. superimposed inflation) based on the rates observed historically and implicit in the valuation assumptions.

A considerable component of the actuarial valuation is the application of qualitative judgment, which is used to assess the extent to which past trends may not apply in future (for example to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures). The aim being to arrive at an estimated ultimate cost of claims that represents the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2013

3. Actuarial Assumptions and Methods (continued)

The actuarial reports for the current period were prepared by Daniel Smith, actuary and director of Taylor Fry Consulting Actuaries. Daniel Smith is a Fellow of the Institute of Actuaries of Australia (IAAust) and a Fellow of the New Zealand Society of Actuaries (NZSA). The Actuary has stated that Insurance Liabilities have been calculated in accordance with NZSA Professional Standard 4 – General Insurance Business and the IAAust Professional Standard 300 – Valuations of General Insurance Claims. After making appropriate checks, the Actuary was satisfied as to the sufficiency and accuracy of the data from which the amount of the insurance liabilities has been determined.

The following assumptions have been made in determining the net outstanding claims liabilities:

	2013	2012
Discount rate (average weighted by term)	2.50%	2.75%
Weighted average term to settlement (years)	0.20	0.17
Discounted mean term (years)	0.20	0.17
	20% to 135% (varies by class and loss period)	15% to 160% (varies by class and loss period)
Assumed net loss ratio		
Risk margin (overall diversified)	30.00%	30.00%
Claim handling expense ratio	6.00%	6.00%

Processes used to determine assumptions

The valuations included in the reported results are calculated using assumptions including:

Discount Rate

Outstanding claims liabilities for long tail claims were discounted to present value using the risk free yield curve based on gross yields to maturity of NZ Government Securities of appropriate terms at 31 March 2013.

Future settlement patterns and weighted average term to settlement

The weighted average term to settlement is an aggregate figure for all classes of business based on expected claims development patterns which are in turn derived from an analysis of historical claims patterns.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2013

3. Actuarial Assumptions and Methods (continued)

Inflation

Insurance costs are subject to inflationary pressures over time. Claim costs are generally related to the inflationary pressures of the materials and goods insured as well as labour costs to effect repairs. The liability classes in New Zealand do not cover weekly and permanent impairment benefits (that are typically indexed). Payments are related to losses suffered by claimants, although legal costs are subject to increases in the wages and disbursements of professionals in that field.

The actuarial valuation applies an explicit inflation assumption of 2.00% per annum, which is lower than the rate adopted for the previous valuation (2.75%). Note that a doubling of the selected inflation rate would increase the net liabilities by less than \$1,000.

Assumed loss ratios

Assumed loss ratios were determined from a consideration of observed loss ratios for historical loss quarters and previously adopted loss ratio assumptions.

Risk margin

As with the previous review, the New Zealand business has been considered as a standalone portfolio for the purposes of determining the risk margin. The adopted risk margin has been based on an industry report which sets out estimates of risk margins by class of business and portfolio size. Given the small size of the New Zealand portfolio, a diversification benefit has not been allowed for. The adopted risk margins are the same as for the previous review. The risk margins applied in these financial statements are intended to produce reserves that provide a 75% probability of adequacy.

Expense allowance

An estimate of outstanding claims liabilities will typically incorporate an allowance for the future cost of administering the claims. This allowance was based on a high level company analysis of claim related expenses.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2013

3. Actuarial Assumptions and Methods (continued)**Sensitivity**

The table below sets out the impact of variation in key assumptions on the value of the outstanding claims liabilities, net of reinsurance and other recoveries. This illustrates exposure to the risk of changes in the underlying assumptions and experience.

Variable	Movement in variable	Net outstanding claim liabilities increase / (decrease) \$
Discount rate	+ 1%	-1,000
Discount rate	- 1%	+1,000
Assumed loss ratio	+ 10 percentage points	+48,000
Assumed loss ratio	- 10 percentage points	-48,000
Inflation	+ 1%	-1,000
Inflation	- 1%	+1,000
Settlement pattern	+ 0.5 year	-6,000
Settlement pattern	- 0.5 year	+2,000
Claims handling expense ratio	+ 1%	+5,000
Claims handling expense ratio	- 1%	-5,000

4. Insurance Contracts – Risk Management Policies and Procedures

The principal risk the Branch faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Branch is to ensure that sufficient reserves are available to cover these liabilities.

The above risk exposure is mitigated by diversification across the portfolio of insurance contracts and geographical areas. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

The Branch purchases reinsurance as part of its risks mitigation programme. Reinsurance ceded is placed on both a proportional and non-proportional basis. The majority of proportional reinsurance is quota-share reinsurance which is taken out to reduce the overall exposure of the Branch to certain classes of business. Non-proportional reinsurance is primarily excess-of-loss reinsurance designed to mitigate the Branch's net exposure to catastrophe losses. Retention limits for the excess-of-loss reinsurance vary by product line and territory.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2013

4. Insurance Contracts – Risk Management Policies and Procedures (continued)

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the Branch has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements.

5. Insurance and Financial Risks

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.

The following policies and procedures are in place to mitigate the Branch's exposure to credit risk:

- Net exposure limits are set for each counterparty or group of counterparties – i.e., limits are set for investments and cash deposits that may be held.
- Reinsurance is placed with counterparties that have a good credit rating and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year and which are subject to regular reviews. At each reporting date the creditworthiness of reinsurers are assessed to allow for impairment.
- The credit risk in respect of customer balances incurred on non-payment of premiums will only persist during the grace period specified in the policy document, when the policy is either paid up or terminated. Commission paid to intermediaries is netted off against amounts receivable from them to reduce the risk of doubtful debts.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2013

5. Insurance and Financial Risks (continued)*Credit exposure by credit rating*

The table below provides information regarding the maximum credit risk exposure of the Branch by classifying assets according to Branch's credit ratings of counterparties:

	Neither past due nor impaired		TOTAL
	Investment grade	Non-graded	
	\$	\$	\$
31 March 2013			
Financial assets at fair value through profit and loss			
Debt securities	500,469	-	500,469
Term deposits with credit institutions	2,000,000	-	2,000,000
Insurance receivables	-	2,648,454	2,648,454
Cash and cash equivalents	1,037,323	-	1,037,323
Total	3,537,792	2,648,454	6,186,246

31 March 2012**Financial assets at fair value through profit and loss**

Debt securities	512,352	-	512,352
Term deposits with credit institutions	1,000,000	-	1,000,000
Insurance receivables	-	2,085,669	2,085,669
Cash and cash equivalents	926,860	-	926,860
Total	2,439,212	2,085,669	4,524,881

Cash and cash equivalents and term deposits are invested with New Zealand banks that all have a credit rating of AA- stable and in Government Bonds which has a rating of AA+ stable. Insurance receivables are not rated.

Age analysis of financial assets past due but not impaired

For assets to be classified as "past-due" and impaired contractual payments must be in arrears for more than 90 days. No collateral is held as security for any past due or impaired assets.

As at 31 March 2013, there were no financial assets past due but not impaired (2012: nil).

Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial instruments. In respect of catastrophic events there is also a liquidity risk associated with the timing differences between gross cash outflows and expected reinsurance recoveries.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2013

5. Insurance and Financial Risks (continued)

- The following procedures are in place to mitigate the exposure to liquidity risk:
- The Company manages its liquidity risk by monitoring the total cash inflows and outflows expected on a daily and monthly basis. The Company also monitors the cash flow on a daily basis.
- Guidelines are set for asset allocations, portfolio limit structures and maturity profiles of assets, in order to ensure sufficient funding available to meet insurance and investment contract obligations.
- Aioi Nissay Dowa Insurance Co., Ltd will supply any shortfall in required capital should additional capital requirements be imposed by the Reserve Bank of New Zealand in terms of the Insurance (Prudential Supervision) Act 2010.

All net cash outflows for liabilities in the financial statements will be within 12 months. The Branch maintains a portfolio of highly marketable assets that can easily be liquidated in the event of an unforeseen interruption of cash flow. The net cash inflow for premium debts will be within 12 months. Receivables include interest receivable.

Interest rate risk

The Branch is not exposed to interest rate risk.

Operational risk

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

Market risk

IFRS 7 requires the Branch to classify the fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The Branch's financial assets and liabilities are classified as Level 2.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2013

6. Movement in Unearned Premiums

	2013	2012
	\$	\$
Movement in unearned premium reserves	(1,775,138)	(1,232,871)
Adjustment for unexpired risk	108,738	(66,942)
	(1,666,400)	(1,299,813)

7. Claims Expense

	2013	2012
	\$	\$
Settlements	5,330,521	5,457,829
Third Party Recoveries	(1,474,792)	(1,732,517)
Cost of settling claims	339,335	299,864
Movement in outstanding claims reserve	(158,331)	(714,267)
	4,036,733	3,310,909

8. Acquisition Costs

	2013	2012
	\$	\$
Gross acquisition costs	2,460,843	1,902,374
Expenses deferred current year	(1,558,104)	(1,387,640)
Amortisation of previously deferred expenses	1,077,247	806,865
Liability adequacy adjustment	62,993	143,886
	2,042,979	1,465,485

9. Operating Expense

	2013	2012
	\$	\$
Management fees	1,590,000	1,370,000
Head office charges	-	(30,000)
Other expenses	38,093	34,496
	1,628,093	1,374,496

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2013

10. Current tax charge

	2013 \$	2012 \$
(i) Income Tax Expense		
Current Income Tax	30,945	-
Deferred income tax	117,002	122,329
Adjustments in respect of current income tax in respect of previous years	(18,429)	(30,968)
Recognition of previously unrecognised tax credit used to reduce current year tax expense	(41,559)	-
Income tax expense as reported in the Statement of Comprehensive Income	87,959	91,361

- (ii) Numerical reconciliation between aggregate tax expense recognised in the statement of comprehensive income and tax expense calculated per the statutory income tax rate:

Accounting profit before tax	566,290	189,460
At the Branch's statutory income tax rate of 28% (2012:28%)	158,561	53,049
Income not assessable for tax purposes	-	(1,800)
Loss not recognised		71,080
Recognition of loss	(41,559)	
Recognition of actual and expected loss offset with Aioi Nissay Dowa Management NZ Ltd	(29,043)	(30,968)
Aggregate income tax expense	87,959	91,361

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2013

11. Investments*Financial assets at fair value through profit and loss*

	2013 \$	2012 \$
Government Bonds – face value	500,000	500,000
<i>Purchase Date 25 September 2009, Maturity Date 15 April 2013, Interest Rate 6.5%, Managed by Public Trust</i>		
Fair value at 1 March	512,352	523,595
Change in fair value	(11,883)	(11,243)
Fair value of government bond at 30 April	500,469	512,352
Deposits with credit institutions	2,000,000	1,000,000
Total investments at fair value through profit and loss	2,500,469	1,512,352

12. Premium Receivables

	2013 \$	2012 \$
Monthly instalment customers	2,517,194	1,956,094
Commercial customers	73,989	67,667
Written but not received provision	57,271	57,971
Other	-	3,935
Total premium receivable	2,648,454	2,085,667

13. Deferred Acquisition Costs

	2013 \$	2012 \$
Opening Balance	1,534,401	1,097,512
Current year movement	1,558,104	1,387,640
Amortisation of previously deferred expenses	(1,077,247)	(806,865)
Liability adequacy adjustment	(62,993)	(143,886)
Total deferred acquisition costs	1,952,265	1,534,401

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2013

14. Tax Receivable

	2013	2012
	\$	\$
(i) Tax Receivable		
At 1 April	12,064	188,750
Prior period adjustment in respect of resident withholding tax	-	6,542
Amount recorded in Statement of Comprehensive Income	29,043	30,968
Refunds received during the year	(12,064)	(219,719)
Payments made during the year	17,447	5,523
At 31 March	46,490	12,064

Of the current tax receivable, \$29,043 (2012: nil) is due from Aioi Nissay Dowa Management New Zealand Ltd as a consideration for tax loss offset.

(ii) Deferred Tax Liability

Deferred acquisition costs	(117,002)	(122,329)
Deferred Tax Expense/(Income) Note 10	(117,002)	(122,329)
At 1 April	(429,633)	(307,304)
Amounts recorded in Statement of Comprehensive Income	(117,002)	(122,329)
At 31 March	(546,635)	(429,633)
Statement of Financial Position		
Deferred acquisition costs	(546,635)	(429,633)
Total Deferred Tax Liability	(546,635)	(429,633)

A deferred tax asset is recognised for a tax carry forward only to the extent that realisation of the related tax benefit is probable.

A deferred tax asset has not been recognised in respect of a tax loss carry forward of \$1,129,089 (2012: \$1,277,515) as there is insufficient certainty as to the availability of future profits arising.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2013

15. Accounts Payable

	2013 \$	2012 \$
Commissions	216,316	214,103
GST Payable	25,865	49,672
Other	34,414	4,225
Total accounts payable	276,595	268,000

16. Reinsurance Payable

	2013 \$	2012 \$
Current Year Expense payable to Guy Carpenter	44,880	35,834
Current Year Expense payable to Aioi Nissay Dowa Insurance Co., Ltd – Australia Branch	500,977	450,870
Less paid	(31,928)	(23,594)
Total reinsurance payable	513,929	463,110

17. Outstanding Claims Liability

	2013 \$	2012 \$
Gross outstanding case estimates	1,002,473	762,691
Estimated third party recoveries	(455,097)	(255,220)
IBNR	(95,359)	59,446
Risk margin 30% (2012: 30%)	143,742	180,280
Claims handling expense 6% (2012: 6%)	27,121	34,015
	622,880	781,211

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2013

18. Claims Development Table

The following table shows the estimates of cumulative claims, including both claims notified and IBNR for each successive accident year at each reporting date, together with the cumulative payments to date going back to the period when the earliest material claim arose for which there is still uncertainty about the amount and timing of the claims payment.

	2011	2012	2013	Total
	\$	\$	\$	\$
<u>Claims Estimate of cumulative claims incurred</u>				
same year	-	-	1,138,832	
1 year	-	34,760	-	
3 years	21,349	-	-	
Total	21,349	34,760	1,138,832	1,194,941
<u>Cumulative payments to date</u>				
same year	-	-	151,543	
1 year	-	24,685	-	
3 years	16,240	-	-	
Total	16,240	24,685	151,543	192,468
Case Estimates less Payments	5,109	10,075	987,289	1,002,473
IBNR, claims handling expenses and risk margin				286,032
Less third party Recoveries				
Third party recoveries included in case estimates				(455,097)
Claims handling expenses and Risk margin on third party recoveries				(210,528)
Total outstanding claims provision per Statement of Financial Position				622,880

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2013

19. Unearned Premium Reserve

	2013	2012
	\$	\$
Opening balance	5,783,409	4,483,596
Movement in unearned premium reserves	1,662,655	1,232,871
Adjustment for Unexpired Risk	3,744	66,942
	7,449,808	5,783,409

Unearned Premium Reserve aging

	Current	Non-current	Total
	\$	\$	\$
2013	5,322,494	2,127,314	7,449,808
2012	4,408,090	1,375,319	5,783,409

20. Reconciliation of Net Premium Liabilities

	2013	2012
	\$	\$
Unearned Premium Reserve	7,449,808	5,783,409
Less Deferred Acquisition Costs	(1,952,265)	(1,534,401)
Total Premium Liability per Actuarial Report	5,497,543	4,249,008

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2013

21. Liability Adequacy Test

	Toyota Insurance portfolio		Japanese Interests Abroad portfolio	
	2013	2012	2013	2012
	\$	\$	\$	\$
Net Unearned Premium Reserve	7,374,390	5,602,113	71,674	114,355
Less Deferred Acquisition Costs	(2,015,258)	(1,678,288)	-	-
Total Net Unearned Premium reserve	5,359,132	3,923,825	71,674	114,355
Gross discounted premium liabilities	6,565,822	5,106,989	173,790	288,524
Discounted third party recoveries	(1,143,697)	(1,039,278)	(98,372)	(107,227)
Total discounted premium liability	5,422,125	4,067,711	75,418	181,297
Deficiency	(62,993)	(143,886)	(3,744)	(66,942)

The liability adequacy test is performed at the level of a portfolio of contracts that are subject to broadly similar risks and are managed together as a single portfolio. The Liability Adequacy Test ("LAT") has resulted in a write off of deferred acquisition costs of \$62,993 (2012: \$143,886) and a release of unexpired risk liability of \$ 108,738 (2012: charge of \$66,942).

22. Other current liabilities

	2013	2012
	\$	\$
Non-resident withholding tax	15,320	37,408
Unclaimed money	21,091	20,484
Other	41,665	70,564
	78,076	128,456

23. Capital Management

Management aims to maintain a capital structure that ensures the lowest cost of capital availability to the entity. The Branch is not subject to any externally imposed capital requirements as it received an exemption due to the parent company being in an approved overseas jurisdiction (Japan). Should additional capital requirements be imposed by the Reserve Bank of New Zealand in terms of the Insurance (Prudential Supervision) Act 2010, Aioi Nissay Dowa Insurance Co., Ltd will meet these capitalization requirements through additional funding to the Branch.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2013

23. Capital Management (continued)

The solvency margin ratio of Aioi Nissay Dowa Insurance Company, Limited (Japan) at 31 March 2013, calculated in accordance with the Japanese equivalent of the Solvency Standard for Non-Life Insurance Business, was 649.1% (2012: 442.6%).

24. Capital commitments

There are no capital commitments at balance date (2012: Nil).

25. Auditor's remuneration

Aioi Nissay Dowa Management New Zealand Ltd paid fees to Ernst & Young on behalf of the Branch.

	2013 \$	2012 \$
Amounts paid or payable by Aioi Nissay Dowa Management New Zealand Ltd on behalf of the Branch:		
Audit of Aioi Nissay Dowa Insurance Co Ltd - NZ Branch	31,100	31,000
Tax compliance	7,579	22,333
Disbursements	1,927	644
	<u>40,606</u>	<u>53,977</u>

26. Contingencies

As at 31 March 2013, the Branch had no contingent liabilities or contingent assets (2012: Nil)

27. Related party information

The Branch paid management fees of \$1,590,000 (2012: \$1,370,000) to Aioi Nissay Dowa Management NZ Ltd, a wholly owned subsidiary of Aioi Nissay Dowa Insurance Co., Ltd, as disclosed in Note 9. These amounts were paid in full by 31 March.

The Branch accrued for consideration receivable from Aioi Nissay Dowa Management NZ Ltd for tax losses transferrable to offset the taxable income of Aioi Nissay Dowa Management NZ Ltd. The total amount accrued at 31 March 2013 was \$29,043 (2012: nil).

The Branch paid reinsurance premiums to Aioi Nissay Dowa Insurance Co Ltd – Australia Branch ("Australia Branch"), which is a branch of Aioi Nissay Dowa Insurance Co., Ltd, as disclosed in note 16. The reinsurance premiums expense to the Australia branch amounted to \$500,977 (2012: \$450,870). The outstanding payable to Australia Branch at 31 March 2013 is \$500,977 (2012: \$450,870).

The balances with related parties are unsecured, interest-free and payable on demand.

28. Credit rating

The Branch has received an "A-Stable" credit rating from A.M. Best Company dated 15 November 2012. The credit rating is an indication of the Branch's current and future claims paying ability.

Independent Auditor's Report

To the Shareholders of Aioi Nissay Dowa Insurance Co., Limited

Report on the Financial Statements

We have audited the financial statements of the New Zealand branch of Aioi Nissay Dowa Insurance Co., Limited on pages 5 to 32, which comprise the statement of financial position of the New Zealand branch of Aioi Nissay Dowa Insurance Co., Limited as at 31 March 2013, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the company's shareholders, as a body, in accordance with Section 19(3) of the Financial Reporting Act 1993. Our audit has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the New Zealand branch of the company and the company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation of the financial statements, in accordance with generally accepted accounting practice in New Zealand, and that give a true and fair view of the matters to which they relate and for such internal 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 the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). These auditing standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our 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, we have considered the internal control relevant to the New Zealand branch of 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 New Zealand branch of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

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

Ernst and Young provides taxation advice to the New Zealand branch of the company. We have no other relationship, or interest in the company.

Partners and employees of our firm may deal with the New Zealand branch of the company on normal terms within the ordinary course of trading activities of the business of the New Zealand branch of the company.

Opinion

In our opinion, the financial statements on pages 5 to 32:

- ▶ comply with generally accepted accounting practice in New Zealand;
- ▶ comply with International Financial Reporting Standards; and
- ▶ give a true and fair view of the financial position of the New Zealand branch of the company as at 31 March 2013 and its financial performance and cash flows for the year then ended.

Emphasis of Matter

In arriving at our opinion, we have considered the adequacy of the disclosures made in the financial statements regarding the reliance on the shareholder to provide additional capital. As stated in note 2, the financial statements have been prepared on the going concern basis, the validity of which depends upon the ability to obtain additional capital and funding. The financial statements do not include any adjustments that would result from a failure to obtain additional capital and funding. Our opinion is not qualified in respect of this matter.

Report on Other Legal and Regulatory Requirements

In accordance with the Financial Reporting Act 1993, we report that:

- ▶ We have obtained all the information and explanations that we have required.
- ▶ In our opinion proper accounting records have been kept by the New Zealand branch of Aioi Nissay Dowa Insurance Co., Limited as far as appears from our examination of those records.

Ernst & Young

28 August 2013
Auckland