# Aioi Nissay Dowa Insurance Co., Ltd

# New Zealand Branch

# FINANCIAL STATEMENTS

# FOR THE YEAR ENDED 31 MARCH 2016

# CONTENTS

# BRANCH DIRECTORY
**FOR THE YEAR ENDED 31 MARCH 2016**

| | |
|---|---|
| **Nature of Business** | Aioi Nissay Dowa Insurance Co., Ltd. - New Zealand Branch<br>Fire and General Insurers |
| **Registered Office** | L1, Building C, 602 Great South Road<br>Greenlane, Auckland,<br>New Zealand |

**Directors of Aioi Nissay Dowa Insurance Co., Ltd.**

| | |
|---|---|
| Full legal name: | Yoichiro Ichimaru |
| Residential address: | 170 Meitohonmachi, Meito-ku, Nagoya-shi<br>Aichi, 465-0088,<br>Japan |
| Appointment date: | 22 Jun 2015 |
| Full legal name: | Hisahito Suzuki |
| Residential address: | 11-1-215 Hachiyamacho, Shibuya-ku,<br>Tokyo, 150-0035,<br>Japan |
| Appointment date: | 21 May 2009 |
| Full legal name: | Hiroshi Manabe |
| Residential address: | 1-3-3-701 Akemi, Urayasu-shi,<br>Chiba, 279-0014,<br>Japan |
| Appointment date: | 17 September 2012 |
| Full legal name: | Mitsuhiro TSUCHIYA |
| Residential address: | 357-6 Tsuchiya, Nishiku, Saitama-shi,<br>Saitama, 331-0062 ,<br>Japan |
| Appointment date: | 1 July 2011 |
| Full legal name: | Koji NAGASHIMA |
| Residential address: | 6-25-5 Mori, Isogo-ku,<br>Kangawa, 235-0023,<br>Japan |
| Appointment date: | 30 April 2014 |
| Full legal name: | Yasuzo Kanasugi |
| Residential address: | 1-17-11 Takaido Higashi, Suginami-ku,<br>Tokyo, 168-0072,<br>Japan |
| Appointment date: | 17 Sep 2012 |

# BRANCH DIRECTORY (continued)
## FOR THE YEAR ENDED 31 MARCH 2016

**Directors of Aioi Nissay Dowa Insurance Co., Ltd. (continued)**

| | |
|---|---|
| Full legal name: | Masami Kuroda |
| Residential address: | 2-17-9 Benten, Urayasu-shi,<br>Chiba, 279-0026,<br>Japan |
| Appointment date: | 22 Jun 2015 |
| Full legal name: | Hitoshi Ishikawa |
| Residential address: | 7-1-22 Minamirinkan, Yamato-shi,<br>Kanagawa, 242-0006,<br>Japan |
| Appointment date: | 22 Jun 2015 |
| Full legal name: | Nobuo NAGASAKI |
| Residential address: | 1-3-12 Higashikaigan Kita, Chigasaki-shi,<br>Kanagawa, 253-0053,<br>Japan |
| Appointment date: | 30 April 2014 |
| Full legal name: | Fumiaki Ohkawabata |
| Residential address: | 1314-9 Ukitacho, Edogawa-ku,<br>Tokyo, 134-0082,<br>Japan |
| Appointment date: | 22 Jun 2015 |
| Full legal name: | Sadao Kato |
| Residential address: | 1-7-7 Koraibashi, Chuo-ku, Osaka-shi,<br>Osaka, 541-0043,<br>Japan |
| Appointment date: | 01 Oct 2010 |
| Full legal name: | Nobuko Takahashi |
| Residential address: | 2-17-1 Shimodacho, Kohoku-ku, Yokohama-shi,<br>Kanagawa, 223-0064,<br>Japan |
| Appointment date: | 22 Jun 2015 |
| Full legal name: | Takahiko Ijichi |
| Residential address: | 8-5-15 Itsutsugaoka, Toyota-shi,<br>Aichi, 471-0814,<br>Japan |
| Appointment date: | 22 Jun 2015 |

## BRANCH DIRECTORY (continued)

**FOR THE YEAR ENDED 31 MARCH 2016**

| | |
|---|---|
| **Auditor** | Ernst & Young<br>Auckland, New Zealand |
| **Bankers** | ANZ Banking Group (New Zealand) Ltd |
| | Westpac New Zealand Limited |
| **Legal** | Shieff Angland<br>Auckland, New Zealand |
| | Robertsons<br>Auckland, New Zealand |
| **Actuary** | Taylor Fry<br>Melbourne, Australia |
| **Business location** | L1, Building C, 602 Great South Road<br>Greenlane, Auckland |

# STATEMENT OF COMPREHENSIVE INCOME

**FOR THE YEAR ENDED 31 MARCH 2016**

| | Notes | 2016<br>$ | 2015<br>$ |
|---|---|---|---|
| **Gross written premiums** | | **13,990,758** | **13,116,962** |
| Movements in unearned premiums | 6 | (657,250) | (1,236,949) |
| **Gross earned premium** | | **13,333,508** | **11,880,013** |
| Reinsurance expense | | (209,447) | (264,170) |
| **Net premium revenue** | | **13,124,061** | **11,615,843** |
| Claims Expense | 7 | (7,722,250) | (6,566,603) |
| Acquisition costs | 8 | (2,948,925) | (2,938,585) |
| **Underwriting result** | | **2,452,886** | **2,110,655** |
| Operating expenses | 9 | (2,275,611) | (1,985,552) |
| Investment income | | 191,153 | 151,728 |
| **Profit before tax** | | **368,428** | **276,831** |
| Taxation benefit | 10 | 64,303 | 58,772 |
| **Profit after tax and comprehensive income for the year attributable to the shareholder of Aioi Nissay Dowa Insurance Co., Ltd** | | **432,731** | **335,603** |

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



EY

# STATEMENT OF CHANGES IN EQUITY

**FOR THE YEAR ENDED 31 MARCH 2016**

| | Head Office Account $ | Accumulated Deficit $ | Total $ |
|---|---|---|---|
| **Balance at 1 April 2014** | **568,867** | **(1,813,791)** | **(1,244,924)** |
| Total comprehensive income | - | 335,603 | 335,603 |
| **Balance at 31 March 2015** | **568,867** | **(1,478,188)** | **(909,321)** |
| **Balance at 1 April 2015** | **568,867** | **(1,478,188)** | **(909,321)** |
| Total comprehensive income | - | 432,731 | 432,731 |
| **Balance at 31 March 2016** | **568,867** | **(1,045,457)** | **(476,590)** |

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



EY

## STATEMENT OF FINANCIAL POSITION
**AS AT 31 MARCH 2016**

| | Notes | 2016 $ | 2015 $ |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | | 1,396,502 | 1,575,413 |
| Investments | 11 | 4,809,945 | 4,011,434 |
| Premium receivables | 12 | 4,349,960 | 3,781,071 |
| Deferred acquisition costs | 13 | 2,023,105 | 2,153,768 |
| Current taxation receivable | 14 | 106,728 | 73,987 |
| **Total Assets** | | 12,686,240 | 11,595,673 |
| **Liabilities** | | | |
| Accounts Payable | 16 | 466,530 | 466,809 |
| Reinsurance payable | 17 | 57,527 | 54,857 |
| Outstanding claims liability | 18 | 1,307,713 | 1,297,493 |
| Unearned premium reserve | 19 | 10,738,282 | 10,081,032 |
| Other current liabilities | 21 | 26,307 | 1,746 |
| Deferred taxation liability | 15 | 566,471 | 603,057 |
| **Total Liabilities** | | **13,162,830** | **12,504,994** |
| **Net liabilities** | | **(476,590)** | **(909,321)** |
| **Equity** | | | |
| Head Office account | | 568,867 | 568,867 |
| Accumulated deficit | | (1,045,457) | (1,478,188) |
| **Total Equity** | | **(476,590)** | **(909,321)** |

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

For an on behalf of the Board, who authorise the issue of these financial statements:

Director

Masahiro Higuchi
Director



EY

# STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED 31 MARCH 2016

| | Notes | 2016 $ | 2015 $ |
|---|---|---|---|
| Net cash inflow from operating activities | | 428,446 | 748,291 |
| Net cash (outflow) from investment activities | | (607,357) | (859,706) |
| **Decrease in cash during the year** | | **(178,911)** | **(111,415)** |
| **Operating activities** | | | |
| Profit before tax | | 368,428 | 276,831 |
| Adjusted for: | | | |
| - (Increase) in premium receivable | | (568,889) | (622,976) |
| - Decrease in deferred acquisition costs | | 130,663 | 85,956 |
| - (Decrease)/increase in accounts payable | | (278) | 123,002 |
| - Increase/(decrease) in reinsurance payable | | 2,670 | (207,333) |
| - Increase in outstanding claims liability | | 10,220 | 9,612 |
| - Increase in unearned premium reserve | | 657,250 | 1,236,947 |
| - Increase/(decrease) in other liabilities | | 24,770 | (5,918) |
| Non-operating cash items included in profit before tax | | | |
| - Investment income | | (191,153) | (151,728) |
| Taxation (paid) | 14 | (39,940) | (39,282) |
| Income taxation refunded | 14 | - | 31,664 |
| Payments received for tax loss utilisation from related party | 14 | 34,705 | 11,516 |
| **Net cash flow from operating activities** | | **428,446** | **748,291** |
| **Investment activities** | | | |
| Investment in term deposit at banking institution | | (750,000) | (1,000,000) |
| Interest received | | 142,643 | 140,294 |
| **Net cash (outflow) from investing activities** | | **(607,357)** | **(859,706)** |
| **Movement in cash and cash equivalents** | | | |
| Cash and cash equivalents at the end of year | | 1,396,502 | 1,575,413 |
| Cash and cash equivalents at the beginning of year | | 1,575,413 | 1,686,828 |
| | | **(178,911)** | **(111,415)** |

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



EY

# NOTES TO THE FINANCIAL STATEMENTS

**FOR THE YEAR ENDED 31 MARCH 2016**

## 1. CORPORATE INFORMATION

### a. New Zealand Branch

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 directly, and through agents, to other entities. As a registered Branch, policyholders have direct recourse to Aioi Nissay Dowa Insurance Co., Ltd. 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 Aioi Nissay Dowa Insurance Co., Ltd.

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 2016. The financial statements were authorised for Issue by the Directors on 25 July 2016.

### b. Corporate governance

The Directors of ADI (Japan) are primarily responsible for corporate governance of the Branch. The implementation and management of governance processes is delegated to Aioi Nissay Dowa Management New Zealand Ltd.

Full details of the governance structure and governance performance of Aioi Nissay Dowa Management New Zealand Ltd. for the year ended 31 March 2016 are available in the 2016 Annual Report for Aioi Nissay Dowa Management New Zealand Ltd.

## 2. SUMMARY OF SIGNIFICANT POLICIES

### a. Basis of preparation

The financial statements of the Branch comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand (NZ GAAP). For the purposes of complying with NZ GAAP the Branch is a for-profit entity.

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

The financial statements provide comparative information in respect of the previous period.

### 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.

### c. New accounting standards and interpretations

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



EY

# NOTES TO THE FINANCIAL STATEMENTS (continued)

**FOR THE YEAR ENDED 31 MARCH 2016**

## 2. SUMMARY OF SIGNIFICANT POLICIES (continued)

### c. New accounting standards and interpretations (continued)

The following new accounting standards or amendments to standards that are relevant to the Branch and that are mandatory for the year commenced 1 April 2015 have been adopted in these financial statements.

- NZ IAS 24: Related Party Disclosures. This standard became effective for accounting periods beginning on 1 April 2015. The standard requires a reporting entity to disclose transactions with its related parties and relationships between parents and subsidiaries irrespective of whether there have been transactions between those related parties. The standard clarifies that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity.

  Adoption of NZ IAS 24 has no significant impact on related party disclosure.

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

- NZ IFRS 9 (2014): Financial Instruments. This is the final version of NZ IFRS 9 and will be effective for the accounting period beginning on 1 April 2018. NZ IFRS 9 (2014) will replace NZ IAS39 Financial Instruments: Recognition and Measurement and all previous version of NZ IFRS 9. NZ IFRS 9 improves and simplifies the approach for classification and measurement of financial assets and establishes two primary measurement categories for financial assets: amortised cost and fair value. The standard also incorporates requirements for the measurement and accounting treatment of impairment and hedge relationships.

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

Management have not performed an assessment of the potential impact of this standard on the financial statements of the Branch yet.

### d. 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.

### e. 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 and based on the proportion of proposed business that is expected to be closed.

### f. 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 an unearned premium reserve.


EY

# NOTES TO THE FINANCIAL STATEMENTS (continued)

**FOR THE YEAR ENDED 31 MARCH 2016**

## 2. Summary of Significant Policies (continued)

### g. 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 based upon a predetermined level of cover, which is adjusted annually to reflect the forecast level of risk.

### h. Claims expense

Claims expense represents the net of payments for settlements of claims, claims handling costs, recoveries made on claims, and the movement in the outstanding claims liability.

### i. 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.

### j. 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.

### k. Liability adequacy testing

The unearned premiums reserve 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 less deferred acquisition costs. Any deficiency is recognised in the Statement of Comprehensive Income after first writing down any deferred acquisition costs associated with that line of business. Any shortfall after having written down deferred acquisition costs is then recognised in the Statement of Comprehensive Income as a movement in unearned premium reserve with the corresponding amount recognised in the Statement of Financial Position as an unexpired risk liability, included in the balance of unearned premium reserve.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

**FOR THE YEAR ENDED 31 MARCH 2016**

**2. Summary of Significant Policies (continued)**

**l. 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 either expire or are disposed of.

**m. 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.

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.



EY

# NOTES TO THE FINANCIAL STATEMENTS (continued)
**FOR THE YEAR ENDED 31 MARCH 2016**

## 2. Summary of Significant Policies (continued)

### n. 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.

### o. Cash and cash equivalents

Cash comprises balances on bank current accounts and call accounts.

### p. 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 term deposits, premiums and other receivables.

**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'.

Deposits with credit institutions have been designated at fair value through profit or loss as they are held to match the average duration of a corresponding insurance liability as assets backing general insurance liabilities.

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 through the profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.



EY

# NOTES TO THE FINANCIAL STATEMENTS (continued)

**FOR THE YEAR ENDED 31 MARCH 2016**

**2. Summary of Significant Policies (continued)**

**p. Financial Assets (continued)**

**Subsequent measurement (continued)**

Financial assets have been classified as follows:

| Asset | NZ IAS 39 Classification | Measurement basis |
|---|---|---|
| Investments | | |
| Deposits with credit institutions | Financial assets at fair value through profit or loss – designated upon initial recognition | 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 |

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.

**q. 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.p has been met.

**r. Financial liabilities**

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



EY

# NOTES TO THE FINANCIAL STATEMENTS (continued)

**FOR THE YEAR ENDED 31 MARCH 2016**

## 2. Summary of Significant Policies (continued)

### s. 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. 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.

### t. 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.

### u. 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.

### v. 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.



EY

## NOTES TO THE FINANCIAL STATEMENTS (continued)
**FOR THE YEAR ENDED 31 MARCH 2016**

### 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 4.1 – 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 reasonableness and consistency 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:

| | 2016 | 2015 |
|---|---|---|
| Discount rate (average weighted by term) | 2.24% | 3.46% |
| Weighted average term to settlement (years) | 0.17 | 0.18 |
| Discounted mean term (years) | 0.18 | 0.18 |
| Assumed net loss ratio | -19% to 531% (varies by class and loss period) | 8% to 340% (varies by class and loss period) |
| 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 2016.

#### 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.

#### 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 consistent with the previous valuation.

# NOTES TO THE FINANCIAL STATEMENTS (continued)
**FOR THE YEAR ENDED 31 MARCH 2016**

## 3. Actuarial Assumptions and Methods (continued)

### 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 valuation, the New Zealand business has been considered as a standalone portfolio for the purposes of determining the risk margin. As such, the margin is considerably higher than that derived when the business is considered in combination with the Australian Company. 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 valuation.

### 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 Branch analysis of claim related expenses and calculated to be 6% of the gross outstanding claims cost. This differs from our previous valuation where the expense allowance was calculated as 6% of net outstanding claims.

### 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% | -2,000 |
| Discount rate | -1% | +2,000 |
| Assumed loss ratio | + 10 percentage points | +101,000 |
| Assumed loss ratio | - 10 percentage points | -101,000 |
| Inflation | +1% | -4,000 |
| Inflation | -1% | 4,000 |
| Settlement pattern | +0.5 year | -1,000 |
| Settlement pattern | -0.5 year | +0 |
| Claims handling expense ratio | +1% | +20,000 |
| Claims handling expense ratio | -1% | -20,000 |



EY

# NOTES TO THE FINANCIAL STATEMENTS (continued)
**FOR THE YEAR ENDED 31 MARCH 2016**

## 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 designed to mitigate the Branch net exposure to catastrophe losses.

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. Counterparty credit limits are reviewed on an annual basis, and may be updated throughout the year subject to approval of the Parent. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty's failure to make payments.
- 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 (continued)
**FOR THE YEAR ENDED 31 MARCH 2016**

## 5. Insurance and Financial Risks (continued)

### Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Branch performance to developments affecting a particular industry.

As the Branch maintains limited financial reserves separate from the Parent, the assessment, control, and management of the overall risk from concentrations and the maintenance of a diversified portfolio is carried out at Parent company level.

### 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 | Investment grade | Non-graded | TOTAL |
|---|---|---|---|
| | $ | $ | $ |
| **31 March 2016** | | | |
| **Financial assets at fair value through profit and loss** | | | |
| Investments | 4,809,945 | - | 4,809,945 |
| Premium receivables | - | 4,349,960 | 4,349,960 |
| Cash and cash equivalents | 1,396,502 | - | 1,396,502 |
| **Total** | **6,206,447** | **4,349,960** | **10,556,407** |
| **31 March 2015** | | | |
| **Financial assets at fair value through profit and loss** | | | |
| Investments | 4,011,434 | - | 4,011,434 |
| Premium receivables | - | 3,781,071 | 3,781,071 |
| Cash and cash equivalents | 1,575,413 | - | 1,575,413 |
| **Total** | **5,586,847** | **3,781,071** | **9,367,918** |

Cash and cash equivalents and term deposits are invested with New Zealand banks that all have a credit 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 2016, there were no financial assets past due but not impaired (2015: Nil).



EY

# NOTES TO THE FINANCIAL STATEMENTS (continued)
**FOR THE YEAR ENDED 31 MARCH 2016**

**5. Insurance and Financial Risks (continued)**

### 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.

- The following procedures are in place to mitigate the exposure to liquidity risk:
- The Branch manages its liquidity risk by monitoring the total cash inflows and outflows on a daily and monthly 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 operating 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 financial 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.

### Interest Rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Branch's exposure to the risk of changes in market interest rates relates primarily to the Branch's term investments.

### 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 Branch cannot expect to eliminate all operational risks, but by initiating a rigorous control framework and by monitoring and responding to potential risks, the Branch 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 Branch strategic planning and budgeting process.

### Market risk

NZ 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:

i) Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);

ii) 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

iii) Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The Branch's Investments are classified as Level 2.



EY

## NOTES TO THE FINANCIAL STATEMENTS (continued)
**FOR THE YEAR ENDED 31 MARCH 2016**

### 6. Movement in Unearned Premiums

| | 2016 $ | 2015 $ |
|---|---|---|
| Movement in unearned premium reserves | (665,204) | (1,225,756) |
| Adjustment for unexpired risk | 7,954 | (11,193) |
| | **(657,250)** | **(1,236,949)** |

### 7. Claims Expense

| | 2016 $ | 2015 $ |
|---|---|---|
| Settlements | 9,922,799 | 8,337,240 |
| Recoveries | (2,777,876) | (2,276,719) |
| Cost of settling claims | 567,107 | 496,469 |
| Movement in outstanding claims reserve | 10,220 | 9,613 |
| | **7,722,250** | **6,566,603** |

### 8. Acquisition Costs

| | 2016 $ | 2015 $ |
|---|---|---|
| Gross Acquisition costs | 2,818,262 | 2,852,629 |
| Expenses deferred current year | (1,674,890) | (1,796,973) |
| Amortisation of previously deferred expenses | 1,416,434 | 1,536,517 |
| Liability adequacy adjustment | 389,119 | 346,412 |
| | **2,948,925** | **2,938,585** |

### 9. Operating Expense

| | 2016 $ | 2015 $ |
|---|---|---|
| Management fees | 2,244,000 | 1,958,160 |
| Other expenses | 31,611 | 27,392 |
| | **2,275,611** | **1,985,552** |

### 10. Current Tax Charge

| | 2016 $ | 2015 $ |
|---|---|---|
| (i) Income Tax Expense | | |
| Current Income Tax | 139,746 | 101,580 |
| Deferred Income Tax | (36,586) | (24,067) |
| Recognition of previously unrecognised tax credit | (167,463) | (136,285) |
| **Income tax (benefit) as reported in Statement of Comprehensive Income** | **(64,303)** | **(58,772)** |



EY

## NOTES TO THE FINANCIAL STATEMENTS (continued)
**FOR THE YEAR ENDED 31 MARCH 2016**

### 10. Current tax charge (continued)

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

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| Accounting profit before tax | 368,428 | 276,831 |
| At the company's statutory income tax rate of 28% | 103,160 | 77,513 |
| Recognition of loss | (139,746) | (101,580) |
| Recognition of actual and expected loss offset with Aioi Nissay Dowa Management NZ Ltd | (27,717) | (34,705) |
| **Aggregate income tax (benefit)** | **(64,303)** | **(58,772)** |

### 11. Investments

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| Financial assets at fair value through profit and loss | | |
| Deposits with credit institutions | 4,809,945 | 4,011,434 |
| **Total investments at fair value through profit and loss** | **4,809,945** | **4,011,434** |

### 12. Premium Receivables

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| Monthly instalment customers | 4,286,068 | 3,713,345 |
| Commercial customers | - | 1,191 |
| Written but not received | 63,892 | 66,535 |
| **Total premium receivable** | **4,349,960** | **3,781,071** |

### 13. Deferred Acquisition Costs

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| Opening Balance | 2,153,768 | 2,239,724 |
| Current Year Movement | 1,674,890 | 1,796,973 |
| Amortisation of previously deferred expenses | (1,416,434) | (1,536,517) |
| Liability adequacy adjustment | (389,119) | (346,412) |
| **Total deferred acquisition costs** | **2,023,105** | **2,153,768** |



EY

# NOTES TO THE FINANCIAL STATEMENTS (continued)
## FOR THE YEAR ENDED 31 MARCH 2016

### 14. Tax Receivable

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| At 1 April | 73,987 | 43,180 |
| Prior period adjustment | (211) | - |
| Loss offset recorded in Statement of Comprehensive Income | 27,717 | 34,705 |
| Refunds received during the year | (34,705) | (43,180) |
| Payments made during the year | 39,940 | 39,282 |
| **At 31 March** | **106,728** | **73,987** |

Of the current tax receivable, $27,717 (2015: $34,705) is due from Aioi Nissay Dowa Management New Zealand Ltd as consideration for tax losses offset.

### 15. Deferred Tax Liability

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| Deferred tax costs | (36,586) | (24,067) |
| **Deferred Tax Expense Note 10( i )** | **(36,586)** | **(24,067)** |
| At 1 April | 603,057 | 627,124 |
| Amounts recorded in Statement of Comprehensive | (36,586) | (24,067) |
| **At 31 March** | **566,471** | **603,057** |
| **Statement of Financial Position** | | |
| Deferred acquisition costs | 566,471 | 603,057 |
| **Total Deferred Tax Liability** | **566,471** | **603,057** |

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 tax losses carried forward of $145,061 (2015: $743,144) as there is insufficient certainty as to the availability of future profits arising.



EY

# NOTES TO THE FINANCIAL STATEMENTS (continued)
**FOR THE YEAR ENDED 31 MARCH 2016**

## 16. Accounts Payable

| | 2016 $ | 2015 $ |
|---|---|---|
| Commissions | 338,145 | 315,879 |
| GST | 51,954 | 25,847 |
| Other | 76,431 | 125,083 |
| | **466,530** | **466,809** |

## 17. Reinsurance Payable

| | 2016 $ | 2015 $ |
|---|---|---|
| Opening balance | 54,857 | 262,190 |
| Current Year Expense | | |
| - payable to ADICA (refer note 30) | 195,934 | 257,977 |
| - Aon Benfield | - | 7,290 |
| Less paid | (193,264) | (472,600) |
| | **57,527** | **54,857** |

## 18. Outstanding Claims Liability

| | 2016 $ | 2015 $ |
|---|---|---|
| Gross outstanding claims liability (including IBNR) | 1,951,838 | 1,640,969 |
| Third Party Recoveries | (1,063,016) | (699,393) |
| Risk Margin | 301,780 | 299,422 |
| Claims Handling Expense | 117,111 | 56,495 |
| | **1,307,713** | **1,297,493** |

## 19. Unearned Premium Reserve

| | 2016 $ | 2015 $ |
|---|---|---|
| Opening balance | 10,081,032 | 8,844,085 |
| Movement in unearned premium reserves | 665,204 | 1,225,754 |
| Adjustment for unexpired risk | (7,954) | 11,193 |
| | **10,738,282** | **10,081,032** |

| **Unearned Premium Reserve aging** | Current $ | Non-current $ | Total $ |
|---|---|---|---|
| **2016** | 7,830,262 | 2,908,020 | 10,738,282 |
| **2015** | 7,093,796 | 2,987,236 | 10,081,032 |

## 20. Reconciliation of Net Premium Liabilities

| | 2016 $ | 2015 $ |
|---|---|---|
| Unearned Premium Reserve | 10,738,282 | 10,081,032 |
| Less Deferred Acquisition Costs | (2,023,105) | (2,153,768) |
| Total Premium Liability per Actuarial Report | **8,715,177** | **7,927,264** |



EY

# NOTES TO THE FINANCIAL STATEMENTS (continued)

**FOR THE YEAR ENDED 31 MARCH 2016**

## 21. Other current liabilities

| | 2016 $ | 2015 $ |
|---|---|---|
| NRIWT | 12,913 | 1,746 |
| Unclaimed money | - | - |
| Other | 13,394 | - |
| | **26,307** | **1,746** |

## 22. 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.

| Claims Estimate of cumulative claims incurred | 2011 $ | 2012 $ | 2013 $ | 2014 $ | 2015 $ | 2016 $ | Total $ |
|---|---|---|---|---|---|---|---|
| same year | 5,058,980 | 5,111,586 | 5,822,945 | 7,914,326 | 8,876,748 | 10,806,824 | |
| 1 year | 4,705,432 | 5,120,396 | 5,928,148 | 7,785,518 | 8,697,020 | | |
| 2 years | 4,732,028 | 5,146,628 | 5,942,192 | 7,793,563 | | | |
| 3 years | 4,738,830 | 5,151,675 | 5,951,058 | | | | |
| 4 years | 4,741,102 | 5,152,789 | | | | | |
| 5 years | 4,742,552 | | | | | | |
| **Estimate of cumulative claims** | **4,742,552** | **5,152,789** | **5,951,058** | **7,793,563** | **8,697,020** | **10,806,824** | |
| Cumulative payments to date | 4,742,552 | 5,152,789 | 5,951,058 | 7,779,531 | 8,628,858 | 8,916,318 | |
| | - | - | - | 14,032 | 68,162 | 1,890,505 | 1,972,699 |
| **Present value of case estimates** | - | - | - | **14,032** | **68,162** | **1,890,505** | **1,972,699** |
| IBNR adjustment | | | | | | | (20,861) |
| Claims handling expenses and risk margin | | | | | | | 418,891 |
| Third party Recoveries | | | | | | | (1,063,016) |
| **Total outstanding claims provision per Statement of Financial Position** | | | | | | | **1,307,713** |



EY

# NOTES TO THE FINANCIAL STATEMENTS (continued)
**FOR THE YEAR ENDED 31 MARCH 2016**

## 23. Liability Adequacy Test

| | Toyota Insurance portfolio | | Toyota Insurance Commercial portfolio | |
|---|---|---|---|---|
| | 2016 $ | 2015 $ | 2016 $ | 2015 $ |
| Net Unearned Premium Reserve | 10,711,660 | 10,047,881 | 17,633 | 16,206 |
| Less Deferred Acquisition Costs | (2,412,224) | (2,500,180) | - | - |
| **Total Net Unearned Premium reserve** | **8,299,436** | **7,547,701** | **17,633** | **16,206** |
| Gross discounted premium liabilities | 11,537,211 | 9,926,641 | 42,757 | 53,240 |
| Discounted third party recoveries | (2,848,656) | (2,032,528) | (16,135) | (20,091) |
| **Total discounted premium liability** | **8,688,555** | **7,894,113** | **26,622** | **33,149** |
| **Deficiency** | **(389,119)** | **(346,412)** | **(8,989)** | **(16,943)** |

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 $389,119 (2015: $346,412) and a decrease of unexpired risk liability of $7,954 (2015: increase of $11,193).

## 24. 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.

## 25. Solvency

The solvency of Aioi Nissay Dowa Insurance Co., Ltd. (Japan) at 31 March 2016, calculated in accordance with the Japanese equivalent of the Solvency Standard for Non-Life Insurance Business, was:

| | 2016 $M | 2015 $M |
|---|---|---|
| Actual Solvency Capital | 16,019 | 14,313 |
| Minimum Solvency Capital | 1,931 | 1,778 |
| Solvency Margin | 14,088 | 12,535 |
| Solvency Ratio | 829.4% | 804.9% |

## 26. Capital commitments

There are no capital commitments at balance date (2015: Nil).

## 27. Contingencies

As at 31 March 2016, the Branch had no contingent liabilities or contingent assets (2015: Nil).



EY

# NOTES TO THE FINANCIAL STATEMENTS (continued)
**FOR THE YEAR ENDED 31 MARCH 2016**

## 28. Credit rating

The Branch has received an "A+ Stable" credit rating from A.M. Best Company, confirmed on 27 May 2016. The credit rating is an indication of the Branch's current and future claims paying ability.

## 29. Auditor's remuneration

Amounts paid or payable by Aioi Nissay Dowa Management New Zealand Ltd to Ernst & Young on behalf of the Branch.

| | 2016 $ | 2015 $ |
|---|---|---|
| Audit of Aioi Nissay Dowa Insurance Co Ltd - NZ Branch | 31,400 | 31,400 |
| Tax compliance | 8,060 | 8,060 |
| Disbursements | 1,973 | 1,973 |
| | 41,433 | 41,433 |

## 30. Related party information

The Branch paid management fees of $2,244,000 (2015: $1,958,160) 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 2016 was $27,706 (2015: $34,705).

The Parent company operates an Insurance business in Australia. This was conducted by the Parent through a wholly owned subsidiary of the Parent, Aioi Nissay Dowa Insurance Company Australia Pty Ltd (ADICA).

The Branch paid reinsurance premiums as detailed in note 17 to ADICA which is a related party of Aioi Nissay Dowa Insurance Co., Ltd, as disclosed above.

The reinsurance premiums expense to ADICA amounted to $195,934 (2015: $257,977). The outstanding payable to ADICA at 31 March 2016 is $57,527 (2015: $54,857).

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



EY

EY
Building a better working world

Chartered Accountants

## Independent Auditor's Report

## To the Shareholder of Aioi Nissay Dowa Insurance Co., Ltd

## 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 27, which comprise the statement of financial position of the New Zealand branch of Aioi Nissay Dowa Insurance Co., Limited as at 31 March 2016, 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 shareholder. Our audit has been undertaken so that we might state to the company's shareholder 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 shareholder, for our audit work, for this report, or for the opinions we have formed.

### Directors' Responsibility for the Financial Statements

The directors are responsible on behalf of the company for the preparation and fair presentation of the financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards, 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 and fair presentation of the financial statements 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 & Young provides tax compliance services to the New Zealand branch of the company. We have no other relationship, or interest in, the New Zealand branch of 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 27 present fairly, in all material respects, the financial position of the New Zealand branch of the company as at 31 March 2016 and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

### 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.

Ernst & Young

25 July 2016
Auckland