

**Aioi Nissay Dowa Insurance Company,
Limited**

New Zealand Branch

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2020

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BRANCH DIRECTORY**FOR THE YEAR ENDED 31 MARCH 2020**

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

Registered Office L3, Building C, 602 Great South Road
Greenlane, Auckland,
New Zealand

Directors of Aioi Nissay Dowa Insurance Company, Limited.

Full legal name: Hisahito Suzuki
Residential address: 11-1-215 Hachiyamacho, Shibuya-ku,
Tokyo, 150-0035,
Japan
Appointment date: 21 May 2009

Full legal name: Yasuzo Kanasugi
Residential address: 4-14-14-3407 Akasaka, Minato-ku,
Tokyo, 107-0052,
Japan
Appointment date: 17 Sep 2012

Full legal name: Michio Kitahara
Residential address: 3-8-19 Hamadayama, Suginami-ku,
Tokyo, 168-0065,
Japan
Appointment date: 24 June 2019

Full legal name: Masami Kuroda
Residential address: 2-17-9 Benten, Urayasu-
shi,
Chiba, 279-0026,
Japan
Appointment date: 22 Jun 2015

Full legal name: Hitoshi Ishikawa
Residential address: 3-34-1-1004 Shiba,
Minato-ku
Tokyo, 105-0014,
Japan
Appointment date: 22 Jun 2015

BRANCH DIRECTORY (continued)

FOR THE YEAR ENDED 31 MARCH 2020

Directors of Aioi Nissay Dowa Insurance Company, Limited. (continued)

Full legal name:	Nobuko Takahashi
Residential address:	2-17-1 Shimodacho, Kohoku-ku, Yokohama-shi, Kanagawa, 223-0064, Japan
Appointment date:	22 Jun 2015
Full legal name:	Masahiro Higuchi
Residential address:	1-14-5 Gohongi, Meguro-ku, Tokyo, 153-0053, Japan
Appointment date:	20 May 2016
Full legal name:	Takeshi Furuichi
Residential address:	2-6-17-1607 Ougi-Machi, Kita-ku Osaka City, 530-0025, Japan
Appointment date:	22 Jun 2016
Full legal name:	Hiroshi Takahashi
Residential address:	2-8-27 Sekimachiminami, Nerima- ku Tokyo, 177-0053, Japan
Appointment date:	1 Apr 2017
Full legal name:	Yasuhiko Sato
Residential address:	5-23-6 Okusawa, Setagaya-ku, Tokyo, 158-0083, Japan
Appointment date:	26 Jun 2017
Full legal name:	Satoru Tamura
Residential address:	3-9-2 Hamadayama, Suginami-ku Tokyo, 168-0065, Japan
Appointment date:	01 Apr 2018
Full legal name:	Yukio Ogata
Residential address:	4-10-19 Toyoda, Hino-shi Tokyo, 191-0053, Japan
Appointment date:	31 Mar 2020

BRANCH DIRECTORY (continued)**FOR THE YEAR ENDED 31 MARCH 2020**

Auditor	Ernst & Young Auckland, New Zealand
Bankers	ANZ Banking Group (New Zealand) Ltd Westpac New Zealand Limited
Legal	Shieff Angland Auckland, New Zealand Robertsons Auckland, New Zealand
Actuary	Taylor Fry Melbourne, Australia
Business location	L3, Building C, 602 Great South Road Greenlane, Auckland

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2020

	Notes	2020 \$	2019 \$
Gross written premiums		26,636,331	21,893,116
Movements in unearned premiums	6	(2,636,434)	(1,618,017)
Gross earned premium		23,999,897	20,275,099
Reinsurance expense		(238,662)	(206,787)
Net premium revenue		23,761,235	20,068,312
Claims Expense	7	(15,866,992)	(12,617,373)
Acquisition costs	8	(4,484,398)	(3,797,230)
Underwriting result		3,409,845	3,653,709
Operating expenses	9	(3,952,395)	(3,366,333)
Investment income		193,952	176,216
Profit (Loss) before tax		(348,598)	463,592
Taxation (expense) benefit	10	97,607	(129,947)
Profit (Loss) after tax and comprehensive income for the year attributable to the shareholder of Aioi Nissay Dowa Insurance Company, Limited		(250,991)	333,645

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 2020

	Head Office Account \$	Accumulated Deficit \$	Total \$
Balance at 1 April 2018	568,867	(1,346,629)	(777,762)
Total comprehensive income	-	333,645	333,645
Balance at 31 March 2019	568,867	(1,012,984)	(444,117)
Balance at 1 April 2019	568,867	(1,012,984)	(444,117)
Total comprehensive income	-	(250,991)	(250,991)
Balance at 31 March 2020	568,867	(1,263,975)	(695,108)

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

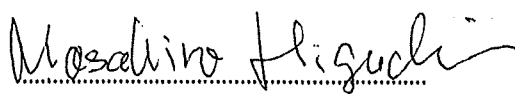
STATEMENT OF FINANCIAL POSITION

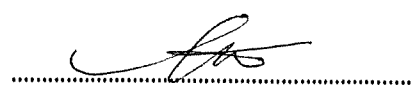
AS AT 31 MARCH 2020

	Notes	2020 \$	2019 \$
Assets			
Cash and cash equivalents		4,418,996	2,476,182
Investments	11	6,857,865	5,493,066
Accounts receivables	12	8,019,588	7,333,692
Deferred acquisition costs	13	2,832,249	2,739,511
Current taxation receivable	14	133,415	291,391
Total Assets		22,262,113	18,333,842
Liabilities			
Accounts Payable	16	808,169	648,037
Reinsurance payable	17	93,892	72,075
Outstanding claims liability	18	3,051,968	1,614,374
Unearned premium reserve	19	18,266,831	15,630,397
Other current liabilities	21	29,018	50,792
Deferred taxation liability	15	707,343	762,284
Total Liabilities		22,957,221	18,777,959
Net liabilities		(695,108)	(444,117)
Equity			
Head Office account		568,867	568,867
Accumulated deficit		(1,263,975)	(1,012,984)
Total Equity		(695,108)	(444,117)

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

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


 Director 14th July 2020


 Director 14 July 2020

STATEMENT OF CASH FLOWS**FOR THE YEAR ENDED 31 MARCH 2020**

	2020	2019
	\$	\$
Net cash inflow (outflow) from operating activities	3,113,663	738,059
Net cash inflow (outflow) from investment activities	(1,170,849)	145,091
Increase (Decrease) in cash during the year	1,942,814	883,150
Operating activities		
(Loss) Profit before tax	(348,598)	463,592
Adjusted for:		
- (Increase) in premium receivable	(685,896)	(1,211,638)
- (Increase) in deferred acquisition costs	(92,738)	(187,321)
- Increase (Decrease) in accounts payable	160,132	37,744
- Increase in reinsurance payable	21,817	(17,561)
- Increase (Decrease) in outstanding claims liability	1,437,594	136,981
- Increase in unearned premium reserve	2,636,434	1,618,017
- Increase in other liabilities	(21,774)	2,409
Non-operating cash items included in profit before tax		
- Investment income	(193,952)	(176,216)
Taxation paid	(50,157)	(40,591)
Income taxation refunded	69,512	112,784
Payments received for tax loss utilisation from related party	181,289	(141)
Net cash inflow (outflow) from operating activities	3,113,663	738,059
Investment activities		
Investment in term deposit at banking institution	(1,350,000)	-
Interest received	179,151	145,091
Net cash inflow (outflow) from investing activities	(1,170,849)	145,091
Movement in cash and cash equivalents		
Cash and cash equivalents at the end of year	4,418,996	2,476,182
Cash and cash equivalents at the beginning of year	2,476,182	1,593,032
	1,942,814	883,150

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 2020

1. CORPORATE INFORMATION

a. New Zealand Branch

The financial statements are for the New Zealand branch of Aioi Nissay Dowa Insurance Company, Limited (the "Branch"). The Branch is a branch of Aioi Nissay Dowa Insurance Company, Limited (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 Company, Limited. The ultimate parent of Aioi Nissay Dowa Insurance Company, Limited, is MS&AD Insurance Group Holdings, Inc. (Japan).

These Branch financial statements should be read in conjunction with the full financial statements of Aioi Nissay Dowa Insurance Company, Limited.

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 2020. The financial statements were authorised for issue by the Directors on 14 July 2020.

b. Corporate governance

The Directors of Aioi Nissay Dowa Insurance Company, Limited 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 Limited.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 MARCH 2020

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:

- NZ IFRS 9: Financial Instruments. This is effective for the accounting period beginning on or after 1 January 2018. NZ IFRS 9 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 has performed an initial impact assessment of the aspects of NZ IFRS 9 and expects no significant impact on its statement of financial position and equity. The Branch qualifies the temporary exemption as the Branch has not previously applied any version of IFRS 9 and the Branch's activity is predominantly 'related to insurance'. The Branch has elected to apply the temporary exemption, deferring the initial application date of NZ IFRS 9 to align with the initial application of NZ IFRS 17.

- NZ IFRS 17: Insurance Contracts. NZ IFRS 17 was issued in August 2017 and applies to annual reporting periods beginning on or after 1 January 2021. NZ IFRS 17 Insurance Contracts established the principle for the recognition, measurement, presentation and disclosure of insurance contracts with the scope of the standard. The objective of NZ IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows.

The Branch believe the adoption of this new standard will have some degree of impacts on its financial statements. The Branch will continue to review and evaluate the potential effect of NZ IFRS 17.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 MARCH 2020

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 2020

2. SUMMARY OF SIGNIFICANT POLICIES (continued)

1. 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 MARCH 2020

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 re-measured 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 MARCH 2020

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 profit & loss
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

De-recognition

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 de-recognition 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 31 MARCH 2020**

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 Company, Limited. 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 Company, Limited 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 New Zealand Branch. The New Zealand 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 and relevant New Zealand legislation.

The financial statements do not include any adjustments that would result from a failure to recapitalise the New Zealand 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 (continued)

FOR THE YEAR ENDED 31 MARCH 2020

3. Actuarial Assumptions and Methods (continued)

The actuarial reports for the current period were prepared by Daniel Smith, actuary and principal 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 30 – General Insurance Business and the IAAust Professional Standard 302 – 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:

	2020	2019
Discount rate (average weighted by term)	0.27%	1.74%
Weighted average term to settlement (years)	0.22	0.21
Discounted mean term (years)	0.22	0.21
Assumed net loss ratio	56% to 81% for TVI (varies by class and loss period) - other classes more volatile	55% to 81% for TVI (varies by class and loss period) - other classes more volatile
Risk margin (overall diversified)	20.79%	20.37%
Claim handling expense ratio	6.94%	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 2020.

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 1.75% per annum, which is 25 basis points lower than the assumption of 2.00% for our previous valuation.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 MARCH 2020

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 review, 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 Branch. 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. For this review and the previous review, we have allowed for recent growth, particularly in the TVI business which has resulted in lowered risk margins than implied by the industry report upon which they are based. Given the small size of the New Zealand portfolio, a diversification benefit has not been allowed for.

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 and calculated to be 7% of the gross outstanding claims cost for TVI and 6% for all other classes. For our previous review, 6% was adopted for all classes.

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%	-4,000
Discount rate	-1%	+4,000
Assumed loss ratio	+ 10 percentage points	+260,000
Assumed loss ratio	- 10 percentage points	-260,000
Inflation	+1%	+4,000
Inflation	-1%	-4,000
Settlement pattern	+0.5 year	+12,000
Settlement pattern	-0.5 year	-6,000
Claims handling expense ratio	+1%	+50,000
Claims handling expense ratio	-1%	-50,000

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 31 MARCH 2020**

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 2020

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 2020			
Financial assets at fair value through profit or loss			
Investments	6,857,865	-	6,857,865
Premium receivables	-	8,019,588	8,019,588
Cash and cash equivalents	4,418,996	-	4,418,996
Total	11,276,861	8,019,588	19,296,449
31 March 2019			
Financial assets at fair value through profit and loss			
Investments	5,493,066	-	5,493,066
Premium receivables	-	7,333,692	7,333,692
Cash and cash equivalents	2,476,182	-	2,476,182
Total	7,969,248	7,333,692	15,302,940

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 2020, there were no financial assets past due but not impaired (2019: Nil).

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 MARCH 2020

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 Company, Limited 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 debtors 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 relate purely to term deposits and are classified as Level 2 within the fair value hierarchy. The fair value of term deposits are based on carrying values plus accrued interest as determined by each counterparty at balance date.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 MARCH 2020

6. Movement in Unearned Premiums	2020	2019
	\$	\$
Movement in unearned premium reserves	(2,624,460)	(1,639,989)
Adjustment for unexpired risk (refer note 23)	(11,974)	21,972
	(2,636,434)	(1,618,017)
7. Claims Expense	2020	2019
	\$	\$
Settlements	18,672,049	15,440,181
Recoveries	(5,125,179)	(3,781,520)
Cost of settling claims	882,529	821,730
Movement in outstanding claims reserve	1,437,593	136,982
	15,866,992	12,617,373
8. Acquisition Costs	2020	2019
	\$	\$
Gross Acquisition costs	4,577,137	3,984,551
Expenses deferred current year	(2,247,553)	(2,281,977)
Amortisation of previously deferred expenses	1,987,998	2,112,876
Liability adequacy adjustment	166,816	(18,220)
	4,484,398	3,797,230
9. Operating Expense	2020	2019
	\$	\$
Management fees	3,769,170	3,216,000
Other expenses	183,225	150,333
	3,952,395	3,366,333
10. Current Tax Charge	2020	2019
	\$	\$
(i) Income Tax Expense		
Current Income Tax Expense (Benefit)	(123,574)	77,356
Deferred Income Tax	25,967	52,450
Recognition of previously unrecognised tax credit	-	141
Income tax expense (benefit) as reported in Statement of Comprehensive Income	(97,607)	129,947

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 MARCH 2020

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:

	2020	2019
	\$	\$
Accounting profit (loss) before tax	(348,598)	463,592
At the company's statutory income tax rate of 28%	(97,607)	129,806
Recognition of profit (loss)		
Overstatement of previously recognised tax credit	-	141
Aggregate income tax expense/ (benefit)	(97,607)	129,947

11. Investments

	2020	2019
	\$	\$
Financial assets designated at fair value through profit or loss		
Deposits with financial institutions	6,857,865	5,493,066
Total investments at fair value through profit or loss	6,857,865	5,493,066

12. Accounts Receivables

	2020	2019
	\$	\$
Monthly instalment customers	7,908,486	7,114,054
GST Receivables	31,462	19,874
Written but not received	79,640	199,764
Total Accounts receivable	8,019,588	7,333,692

13. Deferred Acquisition Costs

	2020	2019
	\$	\$
Opening Balance	2,739,511	2,552,190
Current Year Movement	2,247,553	2,281,977
Amortisation of previously deferred expenses	(1,988,000)	(2,112,876)
Liability adequacy adjustment (refer note 23)	(166,816)	18,220
Total deferred acquisition costs	2,832,249	2,739,511

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 MARCH 2020

14. Tax Receivable	2020	2019
	\$	\$
At 1 April	291,391	182,296
Receivable from ADMNZ for tax losses utilised	42,666	181,287
Refunds received during the year	(250,800)	(112,784)
Payments made during the year	50,158	40,592
At 31 March	133,415	291,391
15. Deferred Income Tax Liability	2020	2019
	\$	\$
Deferred tax costs	25,967	52,450
Current year tax loss benefit recognised	(123,574)	-
Deferred Income Tax Expense Note 10(i)	(97,607)	52,450
Deferred tax liability at 1 April	762,284	451,190
Amounts recorded in Statement of Comprehensive	(54,941)	311,094
Deferred tax liability at 31 March	707,343	762,284
Statement of Financial Position		
Deferred acquisition costs	793,030	767,063
Deferred tax asset recognised	(85,687)	(4,779)
Total Deferred Tax Liability	707,343	762,284

A deferred tax asset is recognised for a tax carry forward only to the extent that realisation of the related tax benefit is probable. It is expected that the balance of \$85,687 will be utilised in the 2021 year.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 MARCH 2020

16. Accounts Payable	2020	2019	
	\$	\$	
Commissions	450,361	372,926	
GST	-	-	
Other	357,808	275,111	
	808,169	648,037	
17. Reinsurance Payable	2020	2019	
	\$	\$	
Opening balance	72,075	89,636	
Prior Year Adjustment			
Current Year Expense			
- payable to ADICA (refer note 30)	232,756	200,408	
Less paid	(210,939)	(217,969)	
	93,892	72,075	
18. Outstanding Claims Liability	2020	2019	
	\$	\$	
Gross outstanding claims liability (including IBNR)	4,155,039	2,818,475	
Third Party Recoveries (including IBNR)	(1,916,824)	(1,646,436)	
Risk Margin	525,236	273,226	
Claims Handling Expense	288,517	169,109	
	3,051,968	1,614,374	
19. Unearned Premium Reserve	2020	2019	
	\$	\$	
Opening balance	15,630,397	14,012,380	
Movement in unearned premium reserves	2,624,460	1,596,045	
Adjustment for unexpired risk (refer note 23)	11,974	21,972	
	18,266,831	15,630,397	
Unearned Premium Reserve aging	Current	Non-current	Total
	\$	\$	\$
2020	13,850,164	4,416,667	18,266,831
2019	11,847,282	3,783,115	15,630,397
20. Reconciliation of Net Premium Liabilities	2020	2019	
	\$	\$	
Unearned Premium Reserve (refer note 19)	18,266,831	15,630,397	
Less Deferred Acquisition Costs (refer note 13)	(2,832,249)	(2,739,511)	
Total Premium Liability per Actuarial Report	15,434,582	12,890,886	

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 MARCH 2020

21. Other current liabilities	2020	2019
	\$	\$
Non Resident Insurer Withholding Tax	12,017	10,839
Other	17,001	39,953
	29,018	50,792

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	2015	2016	2017	2018	2019	2020	Total
	\$	\$	\$	\$	\$	\$	\$
same year	8,876,748	10,806,824	13,197,766	14,534,317	16,271,310	20,266,857	
1 year	8,697,020	10,712,440	13,211,638	14,502,440	16,543,171		
2 years	8,673,378	10,792,897	13,264,471	14,515,668			
3 years	8,690,783	10,800,578	13,267,213				
4 years	8,693,348	10,806,510					
5 years	8,695,387						
Estimate of cumulative claims	8,695,387	10,806,510	13,267,213	14,515,668	16,543,171	20,266,857	
Cumulative payments to date	8,695,387	10,806,510	13,267,213	14,515,668	16,504,178	16,579,181	
	-	-	-	-	38,993	3,687,676	3,726,668
Present value of case estimates	-	-	-	-	38,993	3,687,676	3,726,668
IBNR adjustment							428,371
Claims handling expenses and risk margin							1,199,079
Third party Recoveries							(2,302,150)
Total outstanding claims provision per Statement of Financial Position							3,051,968

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 MARCH 2020

23. Liability Adequacy Test	Toyota Insurance portfolio		Toyota Insurance Commercial portfolio	
	2020	2019	2020	2019
	\$	\$	\$	\$
Unearned Premium Reserve	18,128,186	15,537,065	98,922	65,583
Less Deferred Acquisition Costs	(3,261,894)	(3,002,340)	-	-
Total Net Unearned Premium reserve	14,866,292	12,534,725	98,922	65,583
Gross discounted premium liabilities	19,774,285	16,726,704	188,416	149,898
Discounted third party recoveries	(4,478,348)	(3,929,150)	(49,770)	(56,565)
Total discounted premium liability	15,295,937	12,797,554	138,646	93,333
Deficiency	(429,645)	(262,829)	(39,723)	(27,750)

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 decrease of deferred acquisition costs of \$166,816 (2019: increase of \$18,220) and a decrease of unexpired risk liability of \$11,974 (2019: increase of \$21,972).

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). If additional capital requirements are imposed by the Reserve Bank of New Zealand in terms of the Insurance (Prudential Supervision) Act 2010, Aioi Nissay Dowa Insurance Company, Limited will meet these capitalization requirements through additional funding to the Branch.

25. Solvency

The solvency of Aioi Nissay Dowa Insurance Company, Limited at 31 March 2020, calculated in accordance with the Japanese equivalent of the Solvency Standard for Non-Life Insurance Business, was:

	2020	2019
	\$M	\$M
Actual Solvency Capital	17,926	15,490
Minimum Solvency Capital	2,552	2,251
Solvency Margin	15,374	13,240
Solvency Ratio	702.4%	688.3%

26. Capital commitments

There are no capital commitments at balance date (2020: Nil).

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 MARCH 2020

27. Contingencies

As at 31 March 2020, the Branch had no contingent liabilities or contingent assets (2019: Nil).

28. Credit rating

The Branch has received an “AA Stable” credit rating from A.M. Best Company, confirmed on 23 May 2019. 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.

	2020 \$	2019 \$
Audit of Aioi Nissay Dowa Insurance Company, Limited New Zealand Branch	40,800	40,000
Tax compliance	8,700	8,420
Disbursements & service fees	2,040	2,000
	51,540	50,420

30. Related party information

The Branch paid management fees of \$3,769,170 (2019: \$3,216,000) to Aioi Nissay Dowa Management New Zealand Limited, a wholly owned subsidiary of Aioi Nissay Dowa Insurance Company, Limited, as disclosed in Note 9. These amounts were paid in full by 31 March.

The Branch has previously recognised the tax benefits of losses incurred. The portion of \$53,680 (2019: \$100,337) of these benefit will be utilised by Aioi Nissay Dowa Management New Zealand Limited for offsetting its current year taxable income.

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 Company, Limited, as disclosed above.

The reinsurance premiums expense to ADICA amounted to \$232,756 (2019: \$200,408). The outstanding payable to ADICA at 31 March 2020 is \$93,892 (2019: \$72,075).

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

31. Subsequent Events

There are no other events subsequent to balance date which have materially affected or may materially affect the financial statements of that date.



Independent auditor's report to the Shareholder of Aioi Nissay Dowa Insurance Company, Limited

Opinion

We have audited the financial statements of the New Zealand branch of Aioi Nissay Dowa Insurance Company, Limited ("the branch") on pages 5 to 27, which comprise the statement of financial position of the branch as at 31 March 2020, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended of the branch, and the notes to the financial statements including a summary of significant accounting policies.

In our opinion, the financial statements on pages 5 to 27 present fairly, in all material respects, the financial position of the branch as at 31 March 2020 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.

This report is made solely to the shareholder of Aioi Nissay Dowa Insurance Company, Limited ("the company"). 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 company and the company's shareholder, for our audit work, for this report, or for the opinions we have formed.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

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

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

Ernst & Young provides taxation compliance services to the branch. Partners and employees of our firm may deal with the branch on normal terms within the ordinary course of trading activities of the business of the branch. We have no other relationship with, or interest in, the branch.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor’s responsibilities for the audit of the financial statements* section of the audit report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Valuation of outstanding claims liability

Why significant

The outstanding claims liability has a recorded balance at 31 March 2020 of \$3,051,968.

The estimation of the value of outstanding claims involves significant judgement and is based on an actuarial model of the expected cost of claims incurred on, or prior to, balance date. Assumptions included in the model can generally be categorised as either economic assumptions such as inflation and discount rates or non-economic assumptions relating to claims development and cost. Non-economic assumptions are often based on historical data relating to the volume, amount and pattern of claims settlement.

Disclosures relating to the outstanding claims liability, including key assumptions, are included in Notes 3, 18, and 22 of the financial statements.

How our audit addressed the key audit matter

Our audit procedures over the valuation of the outstanding claims liability included:

- ▶ evaluating and testing key controls over the claims assessment and settlement process;
- ▶ on a sample basis, validating the costs associated with claims recorded in the year;
- ▶ comparing the claims data used by the appointed actuary to the branch underlying claims system on a sample 'sbasis;
- ▶ using our actuarial specialists to review the outstanding claims liability valuation report prepared by the appointed actuary and evaluate the appropriateness of the methodologies and assumptions used in the valuation;
- ▶ evaluating the objectivity and expertise of the appointed actuary; and
- ▶ considering the adequacy of disclosures in relation to the outstanding claims liability taking into account the requirements of NZ IFRS 4 *Insurance Contracts*.

Information other than the financial statements and auditor’s report

The directors of the company are responsible for the Annual Report, which includes information other than the financial statements and auditor’s report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.



If, based upon the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' responsibilities for the financial statements

The directors are responsible, on behalf of the entity, 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.

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

Auditor's responsibilities for the audit of the financial statements

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

A further description of the auditor's responsibilities for the audit of the financial statements is located at the External Reporting Board's website: <https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/>. This description forms part of our auditor's report.

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

The logo for Ernst & Young, featuring the company name in a stylized, cursive script.

Chartered Accountants
Auckland
14 July 2020