UHY Haines Norton
Chartered Accountants

UHY Haines Norton (Auckland) Limited

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5 September 2017

The Directors
The New India Assurance Company Limited – New Zealand Branch
C/- Nilanchal Mishra
PO Box 91748
Victoria Street West
Auckland 1142

Dear Directors

**Audit of the Financial Statements of The New India Assurance Company Limited – New Zealand Branch for the Year Ended 31 March 2017**

We have completed our audit of the New India Assurance Company Limited – New Zealand Branch's financial statements for the year ended 31 March 2017. Please find the attached audited financial statements with our audit report.

We extend our appreciation for the assistance provided to us and professionalism demonstrated by the branch's staff and management during our audit.

Please do not hesitate to contact us should you have any queries.

Yours sincerely
**UHY Haines Norton**

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**Sungesh Singh**
**Partner**
**Direct No: (09) 839 2184**

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# The New India Assurance Company Limited - New Zealand Branch

Annual report
for the year ended 31 March 2017

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# Annual report

In the opinion of the Directors of the New India Assurance Company Limited - New Zealand Branch ("the Branch") the financial statements and notes, on pages 5 to 34:

• comply with New Zealand generally accepted accounting practice and give a true and fair view of the financial position of the Branch as at 31 March 2017 and the results of operations for the year ended on that date

• have been prepared using the appropriate accounting policies, which have been consistently applied and supported by reasonable judgements and estimates

The Directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Branch and facilitate compliance of the financial statements with the Financial Reporting Act 2013

The Directors consider that they have taken adequate steps to safeguard the assets of the Branch, and to prevent and detect fraud and other irregularities Internal control procedures are also considered to be sufficient to provide reasonable assurance as to the integrity and reliability of the financial statements

The Directors are pleased to present their Annual Report, together with the financial statements of The New India Assurance Company Limited - New Zealand Branch for the year ended 31 March 2017 As required by Section 211 of the Companies Act 1993 we disclose the following information:

- The results of operations for the year and the state of affairs of the Branch, as reported in the financial statements, were as expected by the Directors

- No dividends are payable by the Branch.

- The Directors had no interests in contracts with the Branch except as disclosed in note 24

The Directors do not receive any remuneration from the Branch

- One employee received remuneration and other benefits of between $100,000 - $110,000

- One employee received remuneration and other benefits of between $120,000 - $130,000

- Donations amounting to nil were made by the Branch during the year.

- The Auditors remuneration from the Branch is as disclosed at Note 7

| | |
|---|---|
| Director H. G. ROKADE. DIRECTOR & G M. | Director अनिल कुमार ANIL KUMAR निदेशक एवं महाप्रबंधक Director & General Manager |
| Date 04/09/2017 | Date 04/09/2017 |

# Directory

| | |
|---|---|
| **Nature of business** | General Insurance |
| **Registered Office** | Level 5<br>63 Albert Street<br>Auckland<br>New Zealand |
| **Incorporation number** | 1489374 |
| **Director** | G. Srinivasan<br>M. Mustafa<br>A. Kumar (appointed 20 June 2017)<br>H. Rokade<br>A. Tiwari<br>T. Alamelu (appointed 7 September 2016 - resigned 31 May 2017) |
| **Auditor** | UHY Haines Norton<br>Chartered Accountants |
| **Banker** | ANZ Bank |

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Chartered Accountants

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**INDEPENDENT AUDITOR'S REPORT**
**TO THE SHAREHOLDERS OF THE NEW INDIA ASSURANCE COMPANY LIMITED – (NZ BRANCH)**

**Opinion**
We have audited the financial statements of The New India Assurance Company Limited – (NZ Branch) (the Branch) on pages 5 to 34, which comprise the statement of financial position as at 31 March 2017 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Branch as at 31 March 2017 and its financial performance and its cash flows for the year then ended, in accordance with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

**Basis for Opinion**
We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described below 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.

Other than in our capacity as auditors we have no other relationships with, or interests in the Branch.

**Emphasis of Matter**
We draw attention to Note 1(c) of the financial statements, which describes the correction of errors in prior years' financial statements, and the consequential restatement of the comparative figures in this year's financial statements. Our opinion is not modified in respect of this matter.

**Restriction on Responsibility**
This report is made solely to the Company's shareholders, as a body, in accordance with Section 207B(1) of the Companies Act 1993. Our audit work has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

**Other information**
The directors are responsible on behalf of the Branch for the other information. The other information comprises the Corporate Information and Annual Report but does not include the financial statements and our auditor's report thereon.



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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 in the audit or otherwise appears to be materially misstated. If based, on 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.

**Responsibilities of the Directors for the Financial Statements**

The directors are responsible on behalf of the Branch for the preparation and fair presentation of the financial statements in accordance with NZ IFRS 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 the Branch's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Branch or to 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 ISAs (NZ) 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 XRB's website at

http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-6/

**Other Matter**

The financial statements of The New India Assurance Company Limited – (NZ Branch) for the year ended 31 March 2016 were audited by another auditor who expressed an unmodified opinion on those statements on 27 July 2016.

UHY Haines Norton

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**UHY Haines Norton**
*Chartered Accountants*
Auckland, New Zealand
5 September 2017

# Statement of financial position

as at 31 March 2017

*in New Zealand Dollars*

| | Note | 2017 | 2016 (restated)* | 2015 (restated)* |
|---|---|---|---|---|
| | | $ | $ | $ |
| **Assets** | | | | |
| Cash and cash equivalents | | 775,197 | 1,219,086 | 2,493,086 |
| Trade and other receivables | 13 | 5,834,213 | 4,972,940 | 3,576,898 |
| Deferred acquisition costs | 15 | 401,029 | 396,556 | 421,759 |
| Investments | 12 | 14,866,208 | 14,214,004 | 6,540,037 |
| **Total current assets** | | **21,876,647** | **20,802,587** | **13,031,780** |
| Property, plant and equipment | 10 | 23,379 | 24,842 | 35,465 |
| Intangibles | 11 | 12 | 30 | 74 |
| Investments | 12 | 29,835,000 | 25,645,022 | 28,018,155 |
| **Total non-current assets** | | **29,858,391** | **25,669,894** | **28,053,694** |
| **Total assets** | | **51,735,038** | **46,472,481** | **41,085,474** |
| **Liabilities** | | | | |
| Trade and other payables | 16 | 194,725 | 1,348,098 | 1,448,637 |
| Outstanding claim provision | 18 | 3,074,273 | 3,359,519 | 4,639,071 |
| Income tax payable | 9 | 503,404 | 773,712 | 788,465 |
| Employee benefits | 17 | 25,475 | 33,153 | 33,153 |
| Unearned premium reserve | 19 | 4,107,512 | 4,492,745 | 5,333,296 |
| **Total current liabilities** | | **7,905,389** | **10,007,227** | **12,242,622** |
| Deferred tax liability | 14 | 62,541 | 61,974 | 78,147 |
| **Total non-current liabilities** | | **62,541** | **61,974** | **78,147** |
| **Total liabilities** | | **7,967,930** | **10,069,201** | **12,320,769** |
| **Equity** | | | | |
| Retained earnings | | 22,313,251 | 17,927,414 | 13,220,146 |
| **Total equity** | | **22,313,251** | **17,927,414** | **13,220,146** |
| Head office account | 24 | 21,453,857 | 18,475,867 | 15,544,560 |
| **Total equity and head office account** | | **43,767,108** | **36,403,281** | **28,764,706** |
| **Total liabilities and equity** | | **51,735,038** | **46,472,481** | **41,085,474** |

* Please refer to the Statement of Accounting Policies for more details

Director
Date 4/9/17
H.G. ROKADE
DIRECTOR & GM.
04/09/2017

Director
Date 4/9/17
04/09/2017
अनिल कुमार
ANIL KUMAR
Director & Gen...

This statement is to be read in conjunction with the notes to the financial statements

# Statement of comprehensive income

for the year ended 31 March 2017
*in New Zealand Dollars*

| | Note | 2017 | 2016 (restated)* |
|---|---|---|---|
| | | $ | $ |
| Gross earned premium revenue | 6 | 8,430,663 | 10,025,241 |
| Outwards reinsurance premium expense | | (2,161,350) | (2,402,936) |
| **Net premium revenue** | | 6,269,313 | 7,622,305 |
| Claims expense | | (1,757,011) | (1,527,822) |
| Reinsurance and other recoveries revenue | 6 | 983,620 | 198,784 |
| **Net claims incurred** | | (773,391) | (1,329,038) |
| Acquisition costs | | (678,564) | (816,465) |
| Other underwriting expenses | 7 | (993,581) | (1,011,726) |
| **Underwriting expenses** | | (1,672,145) | (1,828,191) |
| **Underwriting profit** | | 3,823,777 | 4,465,075 |
| Investment income | 8 | 2,384,532 | 2,103,994 |
| **Profit before income tax expense** | | 6,208,309 | 6,569,070 |
| Income tax expense | 9 | (1,822,472) | (1,861,803) |
| **Profit for the period** | | 4,385,837 | 4,707,267 |
| Other comprehensive income | | - | - |
| **Total comprehensive income for the period** | | 4,385,837 | 4,707,267 |

* Please refer to the Statement of Accounting Policies for more details.

This statement is to be read in conjunction with the notes to the financial statements.

# Statement of changes in equity

for the year ended 31 March 2017
*in New Zealand Dollars*

| | Retained earnings | Total |
|---|---|---|
| | $ | $ |
| Balance at 31 March 2015 | 14,418,265 | 14,418,265 |
| Prior period adjustments | | |
| Movement in deferred acqusition costs | (1,651,162) | (1,651,162) |
| Movement in deferred tax | 453,043 | 453,043 |
| | (1,198,119) | (1,198,119) |
| Balance at 1 April 2015 *(restated) | 13,220,146 | 13,220,146 |
| Total comprehensive income for the year | | |
| Profit for the year *(restated) | 4,707,267 | 4,707,267 |
| Other comprehensive income | - | - |
| Total comprehensive income for the year | 4,707,267 | 4,707,267 |
| Balance at 31 March 2016 *(restated) | 17,927,414 | 17,927,414 |
| Balance at 1 April 2016 *(restated) | 17,927,414 | 17,927,414 |
| Total comprehensive income for the year | | |
| Profit for the year | 4,385,837 | 4,385,837 |
| Other comprehensive income | - | - |
| Total comprehensive income for the year | 4,385,837 | 4,385,837 |
| Balance at 31 March 2017 | 22,313,251 | 22,313,251 |

* Please refer to the Statement of Accounting Policies for more details

This statement is to be read in conjunction with the notes to the financial statements.

# Statement of cash flows

for the year ended 31 March 2017
*in New Zealand Dollars*

| | Note | 2017 $ | 2016 $ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Premiums received | | 7,851,187 | 9,753,005 |
| Reinsurance and other recoveries received | | 823,153 | 225,022 |
| Interest received | | 1,708,980 | 763,867 |
| Interest paid | | - | - |
| Claims paid | | (2,042,257) | (2,807,373) |
| Outwards reinsurance premiums paid | | (3,407,515) | (2,454,745) |
| Acquisition expenses (paid)/ recovered | | 2,456,263 | 1,489,577 |
| Other underwriting expenses paid | | (890,716) | (1,049,761) |
| Income tax paid | | (2,092,213) | (1,892,728) |
| **Net cash inflows from operating activities** | 22 | **4,406,882** | **4,026,864** |
| **Cash flows from investing activities** | | | |
| Investment in term deposits at banking institutes | | (4,842,182) | (5,300,834) |
| Sale/ (purchase) of property, plant and equipment | | (8,590) | 1,599 |
| Proceeds from sale of property, plant and equipment | | - | (1,628) |
| **Net cash outflows from investing activities** | | **(4,850,772)** | **(5,300,863)** |
| **Net (decrease)/ increase in cash and cash equivalents** | | **(443,890)** | **(1,273,999)** |
| Opening cash and cash equivalents | | 1,219,086 | 2,493,086 |
| **Closing cash and cash equivalents** | | **775,197** | **1,219,086** |

* Please refer to the Statement of Accounting Policies for more details.

This statement is to be read in conjunction with the notes to the financial statements.

UHY HAINES NORTON - AUDIT
For identification purposes only

# Notes to the financial statements

## 1 Statement of Accounting Policies

### Reporting Entity

The financial statements are for the New Zealand Branch of The New India Assurance Company Limited (the "Branch"). The Branch is a Branch of The New India Assurance Company Limited, a company incorporated in India and an overseas company registered under the Companies Act 1993. The Branch is an FMC Reporting Entity in terms of the Financial Markets Conduct Act 2013 and the financial statements have been prepared in accordance with the requirements of that Act and the Financial Reporting Act 2013.

The Branch is a for-profit reporting entity.

The Branch provides general insurance services directly to other entities.

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

The financial statements of the Branch are for the year ended 31 March 2017. The financial statements were authorised for issue by the Directors on the date included on page 1

### (a) Basis of Preparation

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). They comply with the New Zealand Equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable Financial Reporting Standards as appropriate to Tier 1 for-profit entities. The financial statements comply with International Financial Reporting Standards (IFRS).

The financial statements are presented in New Zealand dollars ($). This is the Branch's functional and presentation currency. All amounts are rounded to the nearest dollar.

### (b) Basis of Measurement

The financial statements have been prepared on the historical cost basis, as modified by certain exceptions as described in the accounting policies below.

In the application of NZ IFRS, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements. It is possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the asset or liability affected.

# Notes to the financial statements (continued)

(b) **Basis of Measurement (continued)**

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of NZ IFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed where applicable in the relevant notes to the financial statements.

(c) **Changes in Accounting Policies and Comparatives**

All accounting policies have been applied consistently to all periods presented in the financial statements.

In addition to the impact of the amendments and restatements described in Note 1 (f), (k), (r) and Notes 7, 13 & 14. The classifications of certain balances have been revised and the comparatives have been restated accordingly.

**Restatements**

During the year it was identified that certain expenses had been incorrectly reclassified as acquisition costs and prepaid reinsurance premiums had been incorrectly expensed in the prior year financial statements. There was also a prepayment that was incorrectly expensed. The expenses incorrectly coded as deferred acquisition costs have been corrected from 31 March 2015. Other items were impractical to restate due to lack of information. The corrections have been made from 1 April 2015.The following tables summarise the impact on the Branch's retained earnings.

| | Impact of correction of error |
|---|---|
| | **Retained Earnings** |
| | **$** |
| **Balance at1 April 2015*(restated)** | 13,220,146 |
| **Profit for the year as reported** | 3,440,038 |
| Reinsurance expense adjustment | (1,894,220) |
| Acquisition cost adjustment | 2,996,907 |
| Other expenses adjustment | (108,957) |
| Investment income adjustment | 740,046 |
| Income tax expense adjustment | (466,547) |
| **Total adjustments** | 1,267,229 |
| **Profit for the year* (restated)** | 4,707,267 |
| **Balance as at 31 March 2016*(restated)** | 17,927,414 |

(d) **Principles of General Insurance**

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

# Notes to the financial statements (continued)

**(e) Revenue**

*(i) Premium revenue*

Direct and inwards insurance premium revenues represent amounts charged in relation to accepting risk from policy holders or other insurers and do not include amounts collected on behalf of third parties

The earned portion of premiums received and receivable, including unclosed business, is recognised as revenue from the date of attachment of risk. Premium revenue is recognised evenly over the period of the policy or the period of indemnity on the basis of the 24ths method which is considered to closely approximate the pattern of incidence of risk.

The unearned portion of premium is recognised within unearned premium liabilities in the Statement of Financial Position.

*(ii) Investment income*

All investment income is recognised as revenue on an accrual basis. Interest income is recognised on a time proportion basis using the simple interest method. Assets are designated at fair value through profit and loss and the related net realised and unrealised gains and losses are included in the Statement of Comprehensive Income as investment revenue.

**(f) Outward Reinsurance Expense**

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

During the year it was identified that prepaid reinsurance was incorrectly expensed. It was impractical to restate balances at 31 March 2015 because the information is not available. The corrections have been made from 1 April 2015. The impact of this correction of error on outward reinsurance expenses is detailed below and to be read in conjunction with note 1 (c):

| 2016 | Previous balance<br>$<br>DR/(CR) | Adjustment<br>$<br>DR/(CR) | Restated balance<br>$<br>DR/(CR) |
|---|---|---|---|
| Outwards reinsurance premium expense | 508,716 | 1,894,220 | 2,402,936 |

**(g) Reinsurance Commission Income**

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

**(h) Claims**

The Branch's claims liability is measured as the present value of expected future payments relating to claims incurred at the reporting date. The expected future payments include those estimates in relation to the claims incurred but not enough reported (IBNER) and claims incurred but not reported (IBNR) based on past experience.

Claims incurred all relate to providing services, including the bearing of risk, and are accordingly treated as expenses in the Statement of Comprehensive Income. Claims expenses represent total claim payments made during the year adjusted for the movement in the outstanding claims liability.

# Notes to the financial statements (continued)

**(h) Claims (continued)**

The claims liability is measured based on the valuations performed by the Appointed Actuary whose key assumptions are outlined in note 3.

**(i) Liability Adequacy Testing**

Liability adequacy testing is performed in order to recognise any deficiencies in the Statement of Comprehensive Income arising from the carrying amount of the unearned premium liability less any related deferred acquisition costs and intangible assets not meeting the estimated future claims under current insurance contracts

The estimated future claims under current insurance contracts are measured using the present value of the expected cash flows relating to future claims and associated expenses (discounted using a risk free discount rate) plus the additional fair value risk margin to reflect the inherent uncertainty of those estimated cash flows.

Liability adequacy testing 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.

**(j) Reinsurance Recoveries**

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

**(k) Deferred Acquisition Costs**

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 to which they relate.

Deferred acquisition costs 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 that the carrying value, an impairment loss is recognised in the profit or loss. Deferred acquisition costs are also considered in the liability adequacy test for each reporting period. Deferred acquisition costs are derecognised when the related contracts are either settled or disposed of.

A prior period error was identified relating to incorrect deferrals. These have been reversed accordingly. It was impractical to restate balances at 31 March 2015 because the information is not available. The corrections have been made from 1 April 2015. The impact of this correction of error on deferred acquisition costs is detailed below:

| 2015 | 31-Mar-15 | Prior Period Adjustment | 1 April 2015 *Restated | Movement | 31 March 2016 *Restated Balance |
|---|---|---|---|---|---|
| Deferred acquisition costs | 2,072,921 | (1,651,162) | 421,759 | (25,203) | 396,556 |

# Notes to the financial statements (continued)

## (l) 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 amounts 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 using the liability method 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 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 difference, 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)

### (m) Property, Plant and Equipment

**Owned assets**

Property, plant and equipment are stated at cost, less accumulated depreciation and impairment losses.

**Depreciation**

Depreciation is charged to the Statement of Comprehensive Income. The following rates have been used:

| | |
|---|---|
| Other assets | 19.2%- 25% diminishing value |
| Office equipment | 36% - 60% diminishing value |
| Fixtures and fittings | 12% - 40% diminishing value |
| Motor vehicles | 26% diminishing value |

The residual value of assets is reassessed annually.

### (n) Intangible Assets

Software is a finite life intangible asset and is recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a diminishing value basis so as to write off the cost less the estimated residual value of these assets over their estimated useful lives. The amortisation expense is included in the Statement of Comprehensive Income. The diminishing rate of 60% has been used in preparing the financial statements

### (o) Investments

Term deposits are held to maturity measured at amortised cost at balance date.

### (p) Cash and cash equivalents

Cash and cash equivalents comprise of cash balances and call deposits with maturities of 3 months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Branch in the management of its short term commitments.

# Notes to the financial statements (continued)

(q) **Impairment**

The carrying amounts of the Branch's assets are reviewed at each balance date to determine whether there is any indication of impairment. If any such indication exists, the assets recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses directly reduce the carrying amount of assets and are recognised in the Statement of Comprehensive Income.

Estimated recoverable amount of investments and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at their original effective interest rate. Receivables with short duration are not discounted.

Estimated recoverable amount of investments is the greater of their fair value less costs to sell and value in use. Value in use is determined by estimating future cash flows from the use and ultimate disposal of the asset and discounting these to their present value using a pre-tax discount rate that reflects current market rates and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(r) **Trade and Other Receivables**

Accounts receivable are stated at their estimated net realisable value after allowance for bad or doubtful debts and credit notes due. An allowance is established when the Branch will not be able to collect all amounts due to the original term of the receivable. Any decrease or increase of the allowance is recognised in the Statement of Comprehensive Income.

As discussed in (c), a prior period error was identified in relation to prepaid reinsurance being expensed. It was impractical to restate balances at 31 March 2015 because the information is not available. The corrections have been made from 1 April 2015. The impact of this correction of error on trade and other receivables is detailed below:

| 2016 | Previous balance<br>$<br>DR/(CR) | Adjustment<br>$<br>DR/(CR) | Restated balance<br>$<br>DR/(CR) |
|---|---|---|---|
| Prepayments | 36,667 | 631,407 | 668,074 |

(s) **Provisions**

A provision is recognised when the Branch has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market rates, and, where appropriate, the risks specific to the liability.

(t) **Equity Retention**

It is the policy of the shareholders to ensure that equity retained provides an adequate level of solvency when measured against capital requirements to support the assets of the Branch. The Head Office account is subordinated to all liabilities of the Branch and will not be repaid unless there is an adequate surplus of assets over liabilities after repayment of the Head Office account

# Notes to the financial statements (continued)

**(u) Reinsurance Programme**

Reinsurance is purchased to make the Branch's results less volatile by reducing the effect that individual large claims and catastrophic events leading to multiple claims have on results.

The experience based model has been adopted while purchasing catastrophic reinsurance cover.

The majority of reinsurance has been arranged on excess of loss treaty basis and facultative cover is used where certain risks are falling outside the limits provided under excess of loss treaty to ensure complete financial protection.

**(v) Operating Lease Payments**

Payments made under operating leases are recognised in the Statement of Comprehensive Income on a straight-line basis over the term of the lease. Lease incentives received are recognised in the Statement of Comprehensive Income over the lease term as an integral part of the total lease expense.

**(w) Finance Income and Expenses**

Finance income comprises interest income. Finance expenses comprise interest expense on borrowings. Interest income is recognised in the Statement of Comprehensive Income as it accrues using the effective interest method. The interest expense component of finance lease payments is recognised in the Statement of Comprehensive Income using the effective interest rate method.

**(x) Goods and Services Tax**

All amounts are shown exclusive of Goods and Services Tax (GST), except for receivables and payables that are stated inclusive of GST.

**(y) Financial Assets**

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss', 'held-to-maturity investments', 'available-for-sale financial assets', and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Currently the Branch has only classified financial assets in the 'loans and receivables' and 'at fair value through profit or loss' categories.

<u>Loans and receivables</u>

Trade receivables, loans and other receivables and cash and cash equivalents that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less impairment.

<u>Financial assets at fair value through profit or loss</u>

Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

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**(z) Financial Liabilities**

Trade and other payables are recognised when the Branch becomes obliged to make future payments resulting from the purchase of goods and services

Trade and other payables are classified as 'other financial liabilities'. Other financial liabilities are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and allocating the interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount of the liability.

**(z) (i) Assets Backing General Insurance Liabilities**

The Branch maintains its investment portfolio to ensure that investments are part of the current assets available to meet its insurance liabilities as they become due and payable

# Notes to the financial statements (continued)

(aa) **New accounting standards and interpretations not yet adopted**

The Branch has not adopted any new standards or interpretations early.

New or revised standards and interpretations that have been approved but are not yet effective have not been adopted by the Branch for the year ended 31 March 2017. The adoption of these standards and interpretations is not expected to have a material recognition or measurement impact on the Branch's financial statements.

The Branch will adopt the following new and revised standards when they become mandatory.

*- NZ IFRS 9 - Financial Instruments*

NZ IFRS 9 was issued in September 2014 as a complete version of the standard. NZ IFRS 9 replaces the parts of NZ IAS 39 that relate to the classification and measurement of financial instruments, hedge accounting and impairment. NZ IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the NZ IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The new hedge accounting model more closely aligns hedge accounting with risk management activities undertaken by companies when hedging their financial and non-financial risks. NZ IFRS 9 introduces a new expected credit loss model for calculating the impairment of financial assets. This standard is effective for reporting periods beginning on or after 1 January 2018. The adoption of this standard is not expected to have a material impact on the measurement of the Branch's assets and liabilities.

*- NZ IFRS 15 - Revenue from contracts with customers*

NZ IFRS 15 addresses recognition of revenue from contracts with customers. It replaces the current revenue recognition guidance in NZ IAS 18 Revenue and NZ IAS 11 Construction Contracts and is applicable to all entities with revenue. It sets out a five step model for revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. This standard is effective for periods beginning on or after 1 January 2018. The adoption of this standard is not expected to have a material impact on the measurement of the Branch's assets and liabilities as the new standard does not apply to insurance contracts. Management is currently assessing the impact of this new revenue standard.

*- Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)*

The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. Guidance on how to determine future taxable profit for the recognition test is also provided. The Branch intends to adopt these amendments in its financial statements for the annual period beginning on 1 April 2017. The Branch does not expect the amendments to have a material impact on the financial statements.

# Notes to the financial statements (continued)

(aa) **New accounting standards and interpretations not yet adopted (continued)**

*- Disclosure Initiative (Amendments to IAS 7)*

Additional disclosures to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as effects of changes in foreign exchange rates and changes in fair values). The Branch intends to adopt these amendments in its financial statements for the annual period beginning on 1 April 2017. The Branch does not expect the amendments to have a material impact on the financial statements.

*- IFRS 16 Leases*

The new standard eliminates the current dual accounting model for lessees which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. The Branch is currently assessing the impacts of the new standard. The effective date of the new standard is 31 December 2019.

*- IFRS 17 Insurance Contracts*

The new standard 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 effective date of the new standard is on or after 1 January 2021. Management are assessing the impact of this new standard.

# Notes to the financial statements (continued)

## 2 Accounting Judgements and Estimates

The Branch makes estimates and assumptions that affect the reported amounts of assets and liabilities at year end. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The areas in which accounting estimates are applied are described below.

*Key sources of estimation uncertainty*

The key area of estimation uncertainty for the Branch is in its estimation of outstanding claims and reinsurance recoveries.

*The ultimate liability arising from claims made under insurance contracts*

Provision is made at the year-end for the estimated cost of claims incurred but not settled at the end of the reporting period, including the cost of IBNR and IBNER to the Branch.

The Branch takes all reasonable steps to ensure that it has appropriate information regarding its claims exposure. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different form the original liability established.

The estimation of IBNR and IBNER is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Branch, where more information about the claim event is generally available. In calculating the estimated cost of unpaid claims the Branch uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- changes in the economic environment
- changes in the mix of business
- changes in claims management practice

Provisions are calculated gross of all recoveries.

The methods used to analyse past claims experience and to project future claims experience are largely determined by the available data and the nature and maturity of the portfolio.

The determination of an appropriate outstanding claims liability and the specific assumptions used are detailed in note 3.

## 3 Actuarial Assumptions and Methods

The actuary who carried out the valuation of the IBNR reserve of the Branch is Marcelo Lardies from the actuarial team at Aon New Zealand.

Report date: 27 July 2017
Qualification: Fellow of the New Zealand Society of Actuaries

The report relied on historical data and other qualitative and quantitative information provided by The New India Assurance Company Limited - New Zealand Branch. The actuary also reconciled the business data to the financial data in which the overall result is acceptable.

# Notes to the financial statements (continued)

### 3 Actuarial Assumptions and Methods (continued)

**Unexpired risk liability**

The unearned premium liability was found to be adequate as at 31 March 2017.

The probability of sufficiency (POS) adopted in performing the liability adequacy test (LAT) is set at the 75th percentile which is the same as that adopted in determining the outstanding claims liability (OCL).

The POS for OCL is set at a level that is appropriate to cover the Branch's claims obligations after having regard to the prevailing market environment and prudent industry practice.

Being a test of adequacy, the POS for LAT is set to highlight deficiencies in product pricing following an analysis of the Branch's profit margins for the last two financial years.

**(a) Assumptions**

| The following assumptions have been made in determining the outstanding claims liabilities | 2017 |
|---|---|
| Inflation rate | 1.90% |
| Discount rate | 4.00% |
| Discounted mean term (years) | 2 |
| Claim handling expense ratio | 17.70% |
| Risk margin | 15.00% |

**(b) Processes Used to Determine Assumptions**

The valuation of outstanding claims liabilities included in the Appointed Actuary report are calculated using the Chain Ladder Method and the Payments Per Claim Incurred Method.

In the development of Claim Payment Patterns and projecting claim payment liabilities the following economic assumptions have been made:

**Inflation Rate**

Pre valuation date claim inflation has been taken as movements in CPI. Post valuation date claim inflation has been taken as 1.9% per annum. Most claims are of a short to medium term duration.

**Discount Rate**

The discount rate used is 4% per annum. This is approximately the average gross yield on Government Bonds of short to medium term durations consistent with the duration of the liabilities.

**Claims Handling Expenses**

The Branch is responsible for the on-going management of all claims incurred on or before 31 March 2017.
To reflect this expense, an allowance is included in the central estimate of the outstanding claims liability.

**Risk Margin**

A risk margin at a 75% level of sufficiency has been used to determine the outstanding claims liability on the liability line of business at 31 March 2017. The risk margin reflects the predominantly short tail nature of the business.

# Notes to the financial statements (continued)

## 3 Actuarial Assumptions and Methods (continued)

### (c) Sensitivity Analysis

The Outstanding Claims Liability provision has been estimated by the Appointed Actuary taking into consideration overall past claims experience and case estimates information provided by the management of the Branch. A 10% increase in Claims Expenses ratio will result in a 1.2% increase ($36,600) in Outstanding Claims Liability, decreasing the reported profit and equity by the same amount. Likewise a 10% increase in Risk margin ratio will result in a 1.1% increase ($31,900) in Outstanding Claims Liability, decreasing profit and equity by the same amount.

Refer notes 27 and 28 for further details of the development of claims and concentration of risk.

### (d) Solvency

As at 31 March 2017 The New India Assurance Company Limited had an audited Solvency Ratio (Total Available Solvency Margin/ Total Required Solvency Margin) of 2.19 (= Rs111.35bn / Rs50.74bn) in accordance with Section 64VA of the Insurance Act, 1938 (Republic of India).

## 4 Insurance Contracts Risk Management Policies and Procedures

The principal risk the Branch faces under insurance contracts is that the actual claims payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual claims 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 facultative reinsurance placements which is taken out to reduce the overall exposure of the Branch to certain classes of business. Non- proportional reinsurance is primarily excess-of-loss reinsurance designed to mitigate the Branch's net exposure to risk and catastrophe losses. Retention limits for the excess-of-loss reinsurance vary by product line.

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provisions 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 risk 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

### *(a) 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:
The Branch has investments in bank fixed deposits mostly for 1-2 years to avoid long term risk. The banks are selected for fixed deposit investment on the basis of their credit ratings by approved Rating Agencies and having superior ratings to ensure safety and liquidity of capital. The investments are made in different banks in order to ensure diversification and spread risk and to reduce the exposure in single bank transactions.

# Notes to the financial statements (continued)

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.

*(b) 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.

| 31 March 2017 | Rated | Unrated |
|---|---|---|
| | $ | $ |
| **Financial assets** | | |
| Term deposits with credit institutions | 44,701,208 | - |
| Trade receivables | - | 2,123,424 |
| Cash and cash equivalents | 775,197 | - |
| **Total** | 45,476,405 | 2,123,424 |

| 31 March 2016 | Rated | Unrated |
|---|---|---|
| | $ | $ |
| **Financial assets** | | |
| Term deposits with credit institutions | 39,859,026 | - |
| Trade receivables | - | 1,937,258 |
| Cash and cash equivalents | 1,219,086 | - |
| **Total** | 41,078,112 | 1,937,258 |

Cash and cash equivalents and term deposits are invested with New Zealand Banks i.e. ANZ Bank New Zealand Limited having a credit rating of AA- of S&P, AA- of Fitch and Aa3 of Moody's, Bank of India (New Zealand) Limited having a credit rating of BBB- of Standard and Poor and Bank of Baroda having a credit rating of BBB- of Fitch and Baa3 of Moody's. Insurance receivables are not rated.

The concentration of risk relating to cash and cash equivalents and term deposits of the Branch is related to the amounts held by the three financial institutions ANZ , Bank of Baroda and Bank of India.

Approximately 76% of deposits are held with the Bank of India, 21% with ANZ, and 3% with Bank of Baroda.

*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 2017, there were $36,895 of financial assets past due but not impaired (2016: $162,795).

*(c) Liquidity risk*

Liquidity risk is the risk that payment of obligations may not be met in a timely manner at a reasonable cost. Ultimate responsibility for liquidity risk management rests with the board of directors who have built a liquidity risk management framework for the management of the Branch's short, medium and long term investment portfolio which can be liquidated at short notice.

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 expected on a daily and monthly basis. The normal cash outflow is managed from monthly cash inflow premium and in the event of greater and significant outflow of cash, the liquidity may be managed through liquidating the bank fixed deposits and if the requirements exceed these limits, Head Office in India shall be approached to provide liquidity support.

# Notes to the financial statements (continued)

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

The following tables summarise the maturity profile of the Branch's financial liabilities:

| | Less than 1 year | 1-5 years | 5+ years | Total |
|---|---|---|---|---|
| **2017** | | | | |
| Outstanding claims | 1,271,238 | - | - | 1,271,238 |
| **Financial Liabilities** | | | | |
| Non- interest bearing payables | 194,725 | - | - | 194,725 |
| | 1,465,963 | - | - | 1,465,963 |

| | Less than 1 year | 1-5 years | 5+ years | Total |
|---|---|---|---|---|
| **2016** | | | | |
| Outstanding claims | 1,450,719 | - | - | 1,450,719 |
| **Financial Liabilities** | | | | |
| Non- interest bearing payables | 1,344,235 | - | - | 1,344,235 |
| | 2,794,954 | - | - | 2,794,954 |

*(d) 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 environmental, technology and the industry are monitored through the Branch's strategic planning and budgeting process.

*(e) Market risk*

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks are currency exchange risk, fair value interest rate risk, cash flow interest rate risk and price risk. The Branch does not deal with any capital market risk instruments involving fluctuations in values and all investments are in short and medium term bank fixed deposits of 1 to 5 year term period basis with fixed interest rates.

# Notes to the financial statements (continued)

*(i) Currency risk*

Currency risk is the risk that the value of recognised assets and liabilities or the cash flows from possible future transactions, that are denominated in a currency other than that of the functional currency will decrease due to changes in market exchange rates.

The Branch has no foreign currency exposure at balance date that is considered material.

*(ii) Interest rate risk*

Interest rate risk is the risk that the value of financial instruments will fluctuate as a result of changes in market interest rates.

The Branch primarily faces interest rate risk due to the nature of its investments and liabilities. The Branch manages its exposure to this risk by holding the majority of such assets on short to medium term maturities.

The following table details the Branch's expected maturity for its financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets.

| | Weighted average interest rate % | Less than 1 year | 1-5 years | 5+ years | Total |
|---|---|---|---|---|---|
| **2017** | | | | | |
| Non- interest bearing | | | | | |
| Cash | - | 775,197 | - | - | 775,197 |
| Trade debtors | - | 5,834,213 | - | - | 5,834,213 |
| **Fixed interest rate instruments** | | | | | |
| Short term deposits | 5.27% | 14,866,208 | - | - | 14,866,208 |
| Medium term deposits | 4.51% | - | 29,835,000 | - | 29,835,000 |
| | | 21,475,618 | 29,835,000 | - | 51,310,618 |

| | Weighted average interest rate % | Less than 1 year | 1-5 years | 5+ years | Total |
|---|---|---|---|---|---|
| **2016** | | | | | |
| Non- interest bearing | | | | | |
| Cash | - | 1,219,086 | - | - | 1,219,086 |
| Trade debtors * (restated) | - | 4,972,940 | - | - | 4,972,940 |
| **Fixed interest rate instruments** | | | | | |
| Short term deposits | 4.43% | 14,214,004 | - | - | 14,214,004 |
| Medium term deposits | 5.28% | - | 25,645,022 | - | 25,645,022 |
| | | 20,406,030 | 25,645,022 | - | 46,051,052 |

A change of 100 basis points movement in interest rates would increase or decrease net profit before tax by $447,012 (2016: $398,590).

# Notes to the financial statements (continued)

*(iii)* *Price risk*

Price risk is the risk that the fair value of equities or financial instruments could decrease due to fluctuations in market prices.

The Branch has no such price risk exposure at balance date (2016: nil).

*(f)* *Fair value measurement*

NZ IFRS 13 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 form 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 financial assets and liabilities are classified as Level 2.

# Notes to the financial statements

## 6 Revenue

| | 2017<br>$ | 2016<br>(Restated)<br>$ |
|---|---|---|
| Gross written premium | 8,045,430 | 9,184,690 |
| Movement in unearned premium | 385,233 | 840,551 |
| Gross earned premium reserve | 8,430,663 | 10,025,241 |
| Reinsured and other recoveries revenue | 983,620 | 198,784 |
| | 9,414,283 | 10,224,025 |

## 7 Expenses

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| The following are included in Other underwriting expenses | | |
| Depreciation | 10,053 | 10,927 |
| Amortisation of intangible assets | 18 | 44 |
| Rental operating lease expenses | 79,178 | 79,492 |
| Salaries and wages | 492,944 | 557,692 |
| Doubtful debts recovered | 11,805 | (593) |
| Loss on disposal of property, plant and equipment | - | 273 |
| Auditor's remuneration comprises | | |
| Audit of financial statements | 57,937 | 41,909 |
| Tax compliance services | - | 7,800 |
| Total auditor's remuneration | 57,937 | 49,709 |

As discussed in part (c) of the Statement of Accounting Policies, a prior period error was identified and a reversal of expenses incorrectly reclassified as acquisition costs was required. It was impractical to restate balances at 31 March 2015 because the information is not available. The corrections have been made from 1 April 2015. The impact of this correction of error to other underwriting expenses is as follows

| 2016 | Previous balance<br>$<br>DR/(CR) | Adjustment<br>$<br>DR/(CR) | Restated balance<br>$<br>DR/(CR) |
|---|---|---|---|
| Other Underwriting expenses | 902,769 | 108,957 | 1,011,726 |

## 8 Investment income

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Interest income | 2,384,532 | 2,103,994 |
| Interest expense * | - | - |
| **Total investment income** | 2,384,532 | 2,103,994 |

* See Note 13 for impact of correction of error to Accrued Interest

## 9 Tax

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| **a) Current tax expense** | | |
| *Income tax expense comprises* | | |
| Current tax expense/ (benefit) | 1,806,603 | 1,880,752 |
| Deferred tax expense/ (benefit) | (567) | (16,173) |
| Prior period adjustment | 16,436 | (2,776) |
| **Total expense** | 1,822,472 | 1,861,803 |
| The income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows: | | |
| **Profit before Taxation** | 6,208,309 | 6,569,070 |
| Prima facie income tax expense calculated at 28% | 1,738,327 | 1,839 340 |
| *Tax effect of:* | | |
| Non-deductible items | (12,026) | (16,510) |
| Prior period adjustment | | - |
| Other adjustments | 96,171 | 38,973 |
| **Income tax expense** | 1,822,472 | 1,861,803 |

## Notes to the financial statements (continued)

**b) Income tax (payable) / receivable**

| | | |
|---|---|---|
| Opening balance | (773,712) | (788,465) |
| Prior period adjustment | 286,517 | (75,504) |
| Adjustment | 17,684 | 41,739 |
| Provisional tax and RWT paid | 1,788,579 | 1,910,321 |
| Current year charge | (1,822,472) | (1,861,803) |
| **Total income tax payable for the year** | **(503,404)** | **(773,712)** |

The current tax liability of $503,403 (2016: liability of $773,712) represents the amount of income taxes payable in respect of current and prior periods.

10 **Property, plant and equipment**

| 2017 | Furniture and fittings | Motor Vehicle | Office Equipment | Other assets | Total |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| **Cost** | | | | | |
| Balance at 1 April 2016 | 42,201 | 46,923 | 39,897 | 1,153 | 130,174 |
| Additions | 4,565 | - | 4,026 | - | 8,591 |
| Disposals | - | - | - | - | - |
| Balance at 31 March 2017 | 46,766 | 46,923 | 43,923 | 1,153 | 138,765 |
| **Depreciation** | | | | | |
| Balance at 1 April 2016 | 33,042 | 33,158 | 38,146 | 985 | 105,332 |
| Depreciation for the year | 3,115 | 3,579 | 3,320 | 38 | 10,053 |
| Disposals | - | - | | 1 | 1 |
| Balance at 31 March 2017 | 36,157 | 36,737 | 41,466 | 1,024 | 115,386 |
| **Carrying amount** | | | | | |
| At 31 March 2017 | 10,608 | 10,187 | 2,457 | 129 | 23,379 |

| 2016 | Furniture and fittings | Motor Vehicle | Office Equipment | Other assets | Total |
|---|---|---|---|---|---|
| | $ | $ | $ | | $ |
| **Cost** | | | | | |
| Balance at 1 April 2015 | 42,201 | 46,923 | 39,663 | 1,153 | 129,940 |
| Additions | - | - | 1,599 | - | 1,599 |
| Disposals | - | - | (1,365) | - | (1,365) |
| Balance at 31 March 2016 | 42,201 | 46,923 | 39,897 | 1,153 | 130,174 |
| **Depreciation** | | | | | |
| Balance at 1 April 2015 | 31,060 | 28,321 | 34,158 | 934 | 94,475 |
| Depreciation for the year | 1,982 | 4,837 | 4,057 | 51 | 10,927 |
| Disposals | - | - | (69) | - | (69) |
| Balance at 31 March 2016 | 33,042 | 33,158 | 38,146 | 985 | 105,332 |
| **Carrying amount** | | | | | |
| At 31 March 2016 | 9,159 | 13,765 | 1,751 | 168 | 24,842 |

| | | | | | |
|---|---|---|---|---|---|
| **Carrying amount** | | | | | |
| At 31 March 2016 | 9,159 | 13,765 | 1,751 | 168 | 24,842 |
| Additions | 4,565 | - | 4,026 | - | 8,591 |
| Disposals | - | - | - | - | - |
| Depreciation | 3,115 | 3,579 | 3,320 | 38 | 10,053 |
| Depreciation recovered | - | - | - | 1 | 1 |
| At 31 March 2017 | 10,608 | 10,187 | 2,457 | 129 | 23,379 |

11 **Intangible assets**

| | Cost | Amortisation | Accumulated amortisation | Carrying value |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Software | 112,932 | 18 | 112,920 | 12 |
| **Balance as at 31 March 2017** | 112,932 | 18 | 112,920 | 12 |

| | Cost | Amortisation | Accumulated amortisation | Carrying value |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Software | 112,932 | 44 | 112,902 | 30 |
| **Balance as at 31 March 2016** | 112,932 | 44 | 112,902 | 30 |

## Notes to the financial statements (continued)

| 12 Investments | 2017 $ | 2016 $ |
|---|---|---|
| **Current** | | |
| Term deposits | 14,866,208 | 14,214,004 |
| | 14,866,208 | 14,214,004 |
| **Non-current** | | |
| Term deposits | 29,835,000 | 25,645,022 |
| | 29,835,000 | 25,645,022 |
| **Total investments** | 44,701,208 | 39,859,026 |

| 13 Trade and other receivables | 2017 $ | 2016 (restated)* $ |
|---|---|---|
| **Trade receivables** | | |
| Premium due from policyholders and intermediaries | 2,277,297 | 2,079,326 |
| Provision for doubtful debts - trade receivables | (153,873) | (142,068) |
| **Total trade receivables** | 2,123,424 | 1,937,258 |
| **Other receivables** | | |
| Other receivables | 245,148 | 88,543 |
| Accrued interest *(restated) | 2,954,616 | 2,279,065 |
| Prepayments *(restated) | 511,026 | 668,074 |
| **Total other receivables** | 3,710,790 | 3,035,682 |
| **Total receivables** | 5,834,213 | 4,972,940 |

The provision for doubtful debts in relation to trade receivables is provided for based on estimated recoverable amounts determined by reference to current customer circumstances and past default experience. In determining the recoverability of a trade receivable, the Branch considers any change in credit quality of the trade receivable from the date the credit was initially granted up to the reporting date. In the current year the Branch has recognised an increase in doubtful debts of $11,805 (2016: ($593)).

| 2016 | Previous balance $ DR/(CR) | Adjustment $ DR/(CR) | *Restated balance $ DR/(CR) |
|---|---|---|---|
| Prepayments | 36,667 | 631,407 | 668,074 |
| Accrued Interest | 1,539,018 | 740,047 | 2,279,065 |

| 14 Deferred tax | 2017 $ | 2016 (restated)* $ |
|---|---|---|
| **Deferred tax assets comprise:** | | |
| Provisions and temporary differences | 6,663 | 39,779 |
| Receivables | 43,084 | 9,283 |
| | 49,747 | 49,062 |
| **Deferred tax liabilities comprise:** | | |
| Deferred acquisition costs * (restated) | (112,288) | (111,036) |
| | (112,288) | (111,036) |
| **Net deferred tax asset/ (liability)** | (62,541) | (61,974) |

* Restated Balances

| 31 March 2015 | Prior period adjustment | 1 April 2015- Restated | 2016 Movement | Restated balance |
|---|---|---|---|---|
| $Dr/(Cr) | $Dr/(Cr) | $Dr/(Cr) | $Dr/(Cr) | $Dr/(Cr) |
| (531,190) | 453,043 | (78,147) | 16,173 | (61,974) |

| 15 Deferred acquisition costs | 2017 $ | 2016 (restated)* $ |
|---|---|---|
| Opening balance at 1 April (*restated) | 396,556 | 421,759 |
| Current year movement | 4,473 | (25,203) |
| **Total deferred acquisition costs** | 401,029 | 396,556 |

* Refer to note (k) for further details of the impact of the prior period adjustment

# Notes to the financial statements

## 16 Trade and other payables

| | 2017 | 2016 (restated) |
|---|---|---|
| | $ | $ |
| Trade payables | 118,623 | 63,378 |
| Amounts due to reinsurers | (160,241) | 1,082,063 |
| Non-trade payables and accrued expenses | 236,343 | 202,657 |
| **Total trade and other payables** | 194,725 | 1,348,098 |

The average credit limit for payables owing to the Branch's reinsurer and brokers is 90 days. The Branch has financial risk management polices in place to ensure that all payables are paid within the credit timeframe.

## 17 Employee benefits

| | 2017 | 2016 |
|---|---|---|
| | $ | $ |
| Liability for annual/ sick leave | 25,475 | 33,153 |

## 18 Outstanding claims provision

| | 2017 | 2016 |
|---|---|---|
| | $ | $ |
| Central estimate of outstanding claims provision (including risk margin) | 1,271,238 | 1,450,709 |
| Claim handling expenses | 331,433 | 266,910 |
| Claims incurred but not reported | 539,968 | 597,100 |
| Claims incurred but not enough reported | 864,260 | 1,044,800 |
| Third party recoveries | 67,374 | - |
| **Total outstanding claims provision** | 3,074,273 | 3,359,519 |

The risk margin used to determine claims incurred but not reported included in total outstanding claims is 15.0% (2016: 15.0%) of the central estimate. Refer note 27 for further details of the development of claims.

## 19 Unearned premium reserve

| | 2017 | 2016 |
|---|---|---|
| | $ | $ |
| Opening balance at 1 April 2016 | 4,492,745 | 5,333,296 |
| Deferral of premium on contracts written during the year | 4,306,083 | 4,492,745 |
| Earning of premiums deferred in prior years | (4,492,745) | (5,333,296) |
| **Closing balance at 31 March 2017** | 4,107,512 | 4,492,745 |

The unearned premium liability was found to be adequate as at 31 March 2017

The probability of sufficiency (POS) adopted in performing the liability adequacy test (LAT) is set at the 75th percentile which is the same as adopted in determining the outstanding claims liability (OCL).

The POS for OCL is set at a level that is appropriate to cover the Branch's claims obligations after having regard to the prevailing market environment and prudent industry practice.

## 20 Liability adequacy test

The liability adequacy test is an assessment of the carrying amount of unearned premium liabilities and is conducted at the end of each reporting period. The test is conducted separately for each portfolio of contracts that are subject to broadly similar risks that are managed together as a single portfolio.

The Appointed Actuary has assessed the adequacy of the Unearned Premium Liability by considering Deferred Acquisition Costs and the estimated present value of the expected future cash flows relating to future claims arising from the rights and obligations under current insurance policies as follows:

| Liability Adequacy Test: Pass | 2017 | 2016 |
|---|---|---|
| | $ | $ |
| Unearned premium | 4,306,083 | 4,492,745 |
| Related deferred acquisition costs | (337,720) | (396,556) |
| Net unearned premium | 3,968,363 | 4,096,189 |
| | | |
| Premium liabilities (*) | 1,636,139 | 967,198 |
| Liability surplus | 2,332,224 | 3,128,991 |
| | | |
| Deferred acquisition costs to be written off | - | - |

(*) including risk margin and claims management expenses

# Notes to the financial statements

20 **Liability adequacy test (continued)**

The Appointed Actuary calculated the Premium Liabilities as Unearned Premiums x Claims Ratio of the last three years x Risk Margin loading x Claims Management Expenses loading ($1,560,690 = $4,107,512 x 28% x 1.15 x 1.18).

The Appointed Actuary is not aware of any need to make any allowance for any projected Premium Adjustments or Unclosed Premiums or other commitments arising from the Branch's insurance contracts.

21 **Financial instruments**

**Capital risk management**

The Branch manages its capital structure to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of debt and equity balance

The capital structure of the Branch consists of cash and cash equivalents and equity comprising accumulated profits as disclosed in the Statement of Changes in Equity

The directors review the capital structure on a regular basis, as part of the review the directors consider the cost of capital and the risks associated with each class of capital The directors balance the overall capital structure through the issue of new debt or redemption of existing debt when required

The fair value of the of the financial assets is not significantly different to the carrying amount.

The carrying amount of the of the financial instruments equals the maximum credit risk.

**Categories of financial assets and liabilities**

| 2017 | Loans and receivables | Financial assets at fair value through profit or loss | Financial liabilities at amortised cost | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| **Assets** | | | | |
| Cash and cash equivalents | 775,197 | - | - | 775,197 |
| Trade and other receivables | 5,834,213 | - | - | 5,834,213 |
| Investment in term deposits | - | 44,701,208 | - | 44,701,208 |
| **Total financial assets** | 6,609,410 | 44,701,208 | - | 51,310,618 |
| Non-financial assets | - | - | - | 424,420 |
| **Total assets** | | | | 51,735,038 |
| **Liabilities** | | | | |
| Trade and other payables | - | - | 194,725 | 194,725 |
| **Total financial liabilities** | - | - | 194,725 | 194,725 |
| Non-financial liabilities | - | - | - | 7,773,205 |
| **Total liabilities** | | | | 7,967,930 |

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# Notes to the financial statements

21 Financial instruments (continued)

| | 2016 | | | |
|---|---|---|---|---|
| | Loans and receivables | Financial assets at fair value through profit or loss | Financial liabilities at amortised cost | Total |
| | $ | $ | $ | $ |
| **Assets** | | | | |
| Cash and cash equivalents | 1,219,086 | - | - | 1,219,086 |
| Trade and other receivables | 4,972,940 | - | - | 4,972,940 |
| Investment in term deposits | - | 39,859,026 | - | 39,859,026 |
| **Total financial assets** | 6,192,026 | 39,859,026 | - | 46,051,052 |
| Non-financial assets | - | - | - | 421,429 |
| **Total assets** | | | | 46,472,481 |
| **Liabilities** | | | | |
| Trade and other payables | - | - | 1,348,098 | 1,348,098 |
| **Total financial liabilities** | - | - | 1,348,098 | 1,348,098 |
| Non-financial liabilities | - | - | - | 8,721,103 |
| **Total liabilities** | | | | 10,069,201 |

22 Reconciliation of profit after income tax to net cash inflows from operating activities

| Operating activities | 2017 | 2016 (restated) |
|---|---|---|
| | $ | $ |
| Net profit/(loss) after tax | 4,385,837 | 4,707,267 |
| Add: Non-cash items | | |
| Depreciation | 10,053 | 10,925 |
| Amortisation | 18 | 44 |
| Loss on disposal of fixed assets | - | (273) |
| (Increase)/decrease in trade and other receivables | (861,273) | (1,396,043) |
| Decrease in deferred acquisition costs | (4,472) | 25,203 |
| Decrease in trade and other payables | (1,153,372) | (100,540) |
| Decrease in outstanding claim provision | (285,246) | (1,279,552) |
| Decrease in employee benefits | (7,678) | - |
| Decrease in unearned premiums | (386,233) | (840,551) |
| Increase in income tax receivable | (270,308) | 438,291 |
| Decrease in deferred tax liability | 566 | (469,216) |
| Increase in head office account | 2,977,990 | 2,931,309 |
| **Net cash inflows from operating activities** | 4,406,882 | 4,026,864 |

23 Contingencies and commitments

The Branch had no capital commitments as at balance date.

The Branch and its co-insurer are currently involved in a proceeding for a subrogated recovery claim. The Voluntary disclosure was submitted to Inland Revenue on 6 March 2017 in relation to premiums paid to non-resident insurers. Inland Revenue has yet to finalise its view on the voluntary disclosure. Based on the voluntary disclosure filed the estimated tax liability is $248,468 and the client has already paid this amount to a tax pooling account.

# Notes to the financial statements

## 23 Contingencies and commitments (continued)

### Operating lease commitments

| Commitments under non-cancellable operating leases | 2017 $ | 2016 $ |
|---|---|---|
| Less than one year | 83,258 | 79,178 |
| Between one and five years | 152,502 | 217,740 |
| Greater than five years | - | - |
| **Total operating lease commitments** | 235,760 | 296,918 |

The Branch leases the office premises and the lease agreement runs to 31 December 2019. The photocopier is also leased for a term of 60 months. The lease expires on 30 August 2021

## 24 Related parties

| **Key management compensation**<br>Total compensation for key management personnel is set out as follows | 2017 $ | 2016 $ |
|---|---|---|
| Short term employee benefits | 255,879 | 121,290 |

### Transactions and balances

The Head Office has charged the New Zealand branch for Treaty Reinsurance in the amount of $1,919,700 (2016: $2,564,038).

The Head Office has provided funding to support the New Zealand branch and as at 31 March 2017 the New Zealand branch owed the Head Office $21,453,857 (2016: $18,475,867)

No related party debts have been written off or forgiven during the year

## 25 Subsequent events

Subsequent to the balance date, The New India Assurance Company Limited (Head Office) is in the process of an Initial Public Offering. The Head Office in India has already applied to the Insurance Regulatory and Development Authority (IRDA) for an in-principle approval for the IPO and is awaiting the results. No decision has yet been made on the IPO at the date of signing these financial statements.

Due to circumstances beyond the directors' control, the preparation and audit of the financial statements and related filing obligations, went beyond the statutory deadlines. No provision has been made for any penalties that might be levied. Regulators were notified in advance of the delay and, at the date of approving these financial statements, no indication has been received that action will be taken against the branch.

## 26 Credit rating

The Branch has received an A- (Excellent) Credit Rating and an A- (Excellent) Financial Strength Rating from A.M Best Company, an approved agency by the Reserve Bank of New Zealand, dated 19 January 2017. The credit rating is an indication of the Branch's ability to pay current and future claims.

## 27 Development of claims

The following table shows the development of net outstanding claims relative to the current estimate of ultimate claim costs for the five most recent years

| | 2013 $ | 2014 $ | 2015 $ | 2016 $ | 2017 $ | Total $ |
|---|---|---|---|---|---|---|
| **Ultimate claims cost estimate** | | | | | | |
| At the end of incident year | 3,770,659 | 4,685,810 | 2,755,572 | 2,803,264 | 2,258,942 | |
| One year later | 3,509,217 | 3,895,868 | 2,223,118 | 2,288,969 | | |
| Two years later | 3,254,674 | 3,612,675 | 1,592,148 | | | |
| Three years later | 3,069,624 | 3,558,263 | | | | |
| Four years later | 3,121,166 | | | | | |
| Five years later | | | | | | |
| Earlier | | | | | | |
| Current estimate of ultimate cost | 3,121,166 | 3,558,263 | 1,592,148 | 2,288,969 | 2,258,942 | |
| Cumulative payments | (2,999,596) | (3,540,997) | (1,509,289) | (1,914,216) | (1,324,248) | |
| Undiscounted central estimate | 121,570 | 17,266 | 82,858 | 374,753 | 934,693 | 1,531,141 |
| Discount to present value | 2,580 | 366 | 1,758 | 7,953 | 19,836 | 32,494 |
| Discounted central estimate | 118,990 | 16,900 | 81,100 | 366,800 | 914,857 | 1,498,647 |
| Claims management expenses | | | | | | 319,300 |
| IBNR | | | | | | 520,200 |
| Risk margin | | | | | | 318,410 |
| **Net outstanding claims liability** | | | | | | **2,656,557** |
| Reinsurance and third party recoveries on outstanding claim liability | | | | | | 417,716 |
| **Gross outstanding claims liability** | | | | | | **3,074,273** |

## 28 Concentration of Insurance Risk

Refer to the following table for Concentration of Insurance Risk by type and geographical area ($ million)

| | No. Risks | Building ($) | Contents ($) | BI ($) | Total ($) |
|---|---|---|---|---|---|
| Auckland | 1031 | 393 | 189 | 149 | 731 |
| Nelson | 56 | 130 | 109 | 80 | 319 |
| Napier / Hastings | 38 | 120 | 90 | 89 | 299 |
| Canterbury / Christchurch | 52 | 176 | 26 | 69 | 271 |
| Pacific Islands of NZ | 17 | 148 | 69 | 43 | 260 |
| Manawatu / Wanganui / P. North | 46 | 120 | 17 | 25 | 162 |
| Waikato / Hamilton | 120 | 73 | 22 | 13 | 108 |
| Wellington / Hutt / Porirua | 32 | 66 | 5 | 24 | 95 |
| Bay of Plenty / Tauranga / Rotoura | 21 | 55 | 16 | 15 | 86 |
| Westland / Greymouth | 6 | 33 | 34 | 12 | 79 |
| Taranaki / New Plymouth | 55 | 45 | 1 | 3 | 49 |
| Hawkes Bay | 1 | 16 | 2 | 3 | 21 |
| Marlborough / Blenheim | 2 | 5 | 7 | 2 | 14 |
| Otago / Dunedin | 3 | 4 | 4 | 1 | 9 |
| Southland / Invercargill | 2 | 4 | 1 | 0 | 5 |
| Northland | 0 | 0 | 0 | 0 | 0 |
| East Coast / Gisborne | 0 | 0 | 0 | 0 | 0 |
| | 1,482 | 1389 | 590 | 527 | 2505 |