TOKIO MARINE & NICHIDO FIRE INSURANCE CO., LTD

NEW ZEALAND BRANCH

ANNUAL REPORT

FOR THE YEAR ENDED 31 MARCH 2024

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DIRECTORY

Head Office:	2 - 1 Marunouchi 1 – Chome, Chiyoda-ku Tokyo 100-8050, Japan
Principal Office for New Zealand:	PwC Towers Level 26, 188 Quay Street Auckland 1010, New Zealand
Auditors:	PricewaterhouseCoopers One International Towers Sydney Barangaroo, NSW, 2000, Australia

DIRECTORS:

Current Directors of the Branch:

Surname	First Name	Date Appointed
HIROSE	Shinichi	1-Apr-19
KITAZAWA	Kenichi	1-Apr-20
KUNIHIRO	Tadashi	21-Jun-07
OKADA	Kenji	20-Jun-19
YAMAMOTO	Kichiichiro	1-Apr-23
KAKINOKI	Kazuhiro	1-Apr-23
INOUE	Tokiko	1-Apr-23
SAKIYAMA	Hiroshi	1-Apr-23
MIKE	Kanetsugu	22-Jun-22
ISHII	Yoshinori	1-Apr-22
KOMIYA	Satoru	1-Apr-18

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2024

In NZD	Notes	2024	2023 restated
Insurance revenue		7,191,321	6,514,665
Insurance service expense	7	(1,564,395)	(2,655,460)
Insurance service result before reinsurance contracts held		**5,626,926**	**3,859,205**
Allocation of reinsurance premiums		(3,841,913)	(4,195,876)
Amounts recoverable from reinsurers for incurred claims		497,816	974,789
Net expense from reinsurance contracts held		**(3,344,097)**	**(3,221,087)**
Insurance service result		**2,282,829**	**638,119**
Interest revenue calculated using the effective		116,259	69,054
Total investment income	7.1	**116,259**	**69,054**
Insurance finance expenses for insurance contracts issued		(86,637)	149,966
Reinsurance finance income for reinsurance contracts held		(32,929)	(82,485)
Net insurance financial result	7.1	**(119,565)**	**67,481**
Other income and expense		(651,283)	(476,036)
Profit before tax		**1,628,240**	**298,617**
Income tax expense	7.2	(455,907)	(83,613)
Profit for the year		**1,172,333**	**215,004**
Other comprehensive income			
Income tax relating to items that may be reclassified		-	-
Total other comprehensive income		**-**	**-**
Total comprehensive income		**1,172,333**	**215,004**

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

For and on behalf of Tokio Marine & Nichido Fire Insurance Co., Ltd New Zealand Branch, issue these Financial Statements on 30 July 2024.

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Sirie Brooks
Manager IFRS 17

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2024

In NZD	Notes	2024	2023 restated	1 April 2022
Assets				
Cash and cash equivalents	8	3,359,536	4,642,079	3,849,115
Investments	8.1	2,042,552	-	-
Insurance contract assets		-	-	-
Reinsurance contract assets	8.2	1,300,141	1,754,619	998,138
Current tax asset	8.3	(356,418)	83,446	128,122
Deferred tax asset	8.4	41,911	79,172	91,587
Other assets		5,117	86,767	80,620
Total assets		**6,392,838**	**6,646,084**	**5,147,581**
Liabilities				
Current tax liabilities		-	-	-
Insurance contract liabilities	8.2	1,574,298	3,592,704	2,318,943
Other payables	8.5	973,816	380,988	371,251
Total liabilities		**2,548,113**	**3,973,692**	**2,690,194**
Equity				
Head office reserves		2,672,392	2,457,387	1,998,123
Retained earnings		1,172,333	215,004	459,264
Total equity		3,844,724	2,672,392	2,457,387
Total liabilities and equity		**6,392,837**	**6,646,084**	**5,147,581**

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

STATEMENT OF CHANGES IN HEAD OFFICE ACCOUNT

FOR THE YEAR ENDED 31 MARCH 2024

In NZD	Notes	Head office Reserves	Fair value reserve	Insurance/ reinsurance finance reserve	Retained earnings	Total equity
At 31 March 2022, as previously reported		**1,998,123**	**-**	**-**	**459,264**	**2,457,387**
Impact of initial application of IFRS 17		-	-	-	-	-
Impact of initial application of IFRS 9		-	-	-	-	-
Restated balance as at 1 April 2022		**1,998,123**	**-**	**-**	**459,264**	**2,457,387**
Profit for the year					215,004	215,004
Other comprehensive income for the year		-	-	-	-	-
Total comprehensive income		**-**	**-**	**-**	**215,004**	**215,004**
Restated balance as at 31 March 2023		**1,998,123**	**-**	**-**	**674,268**	**2,672,392**
Profit for the year		-	-	-	1,172,333	1,172,333
Other comprehensive income for the year		-	-	-	-	-
Total comprehensive income		**-**	**-**	**-**	**1,172,333**	**1,172,333**
Balance as at 31 March 2024		**1,998,123**	**-**	**-**	**1,846,601**	**3,844,724**

The above Statement of Changes in Head Office account should be read in conjunction with the accompanying notes.

Tokio Marine and Nichido Fire Insurance Co., Ltd. – New Zealand Branch (TMNFNZ or the Branch) with effect from 1 April 2023, holds a section 59 exemption notice from the Reserve Bank of New Zealand (RBNZ) exempting the Branch from compliance with the solvency standards issued under section 55 of the Insurance (Prudential Supervision) Act 2010. The exemption has been granted by RBNZ on the basis that the regulatory requirements of Japan are similar to the requirements of the Insurance (Prudential Supervision) Act 2010.

The Branch did not repatriate funds to Head Office Japan in the current year.

STATEMENT OF CASH FLOWS

	2024	2023
	$	$
Cash flows from operating activities		
Premium received (inclusive of FSL and GST)	8,154,284	7,643,058
Outward reinsurance premium paid	(4,397,825)	(4,101,099)
Claims paid	(1,097,062)	(462,073)
Interest received	96,692	49,424
FSL paid	(848,928)	(947,838)
Administration expenses paid	(57,981)	(35,802)
GST paid	(768,479)	(1,043,001)
Management fees paid	(85,736)	(70,394)
Refund received /(Income tax paid)	108,994	164,835
Reimbursement to related parties	(404,929)	(404,145)
Net cash inflows from operating activities	**699,030**	**792,965**
Cash flows from investing activities	-	-
Cash flows from financing activities		
Repatriation of funds to Head Office Japan	-	-
Net cash outflows from financing activities	-	-
Net increase in cash and cash equivalents	**699,030**	**792,965**
Cash and cash equivalents at the beginning of the financial year	4,642,080	3,849,115
Total cash and cash equivalents at end of year	**5,341,110**	**4,642,080**

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

NOTES TO THE FINANCIAL STATEMENTS

1. Changes in Accounting Policies and Disclosures

1.1 New and amended standards and interpretations

In these financial statements, the Branch has applied IFRS 17 and IFRS 9 for the first time. The Branch has not early adopted any other standard, interpretation or amendment that has been issued but is not yet
effective.

1.1.1 IFRS 17 Insurance Contracts

IFRS 17 replaces IFRS 4 Insurance Contracts for annual periods on or after 1 January 2023. The Branch has restated comparative information for 2023 applying the transitional provisions in Appendix C to IFRS 17. The nature of the changes in accounting policies can be summarised, as follows:

1.1.2 Changes to classification and measurement

The adoption of IFRS 17 did not change the classification of the Branch’s insurance contracts.

The Branch was previously permitted under IFRS 4 to continue accounting using its previous (NZ GAAP) accounting policies. However, IFRS 17 establishes specific principles for the recognition and measurement of insurance contracts issued and reinsurance contracts held by the Branch.

Under IFRS 17, the Branch’s insurance contracts issued, and reinsurance contracts held are all eligible to be measured by applying the premium allocation approach (PAA). The PAA simplifies the measurement of insurance contracts in comparison with the general model in IFRS 17.

The measurement principles of the PAA differ from the ‘earned premium approach’ used by the Branch under IFRS 4 in the following key areas:

- The liability for remaining coverage reflects premiums received less deferred insurance acquisition cash
  flows and less amounts recognised in revenue for insurance services provided
- Measurement of the liability for remaining coverage includes an adjustment for the time value of money
  and the effect of financial risk where the premium due date and the related period of services are more than 12 months apart
- Measurement of the liability for remaining coverage involves an explicit evaluation of risk adjustment for
  non-financial risk when a group of contracts is onerous in order to calculate a loss component (previously these may have formed part of the unexpired risk reserve provision)
- Measurement of the liability for incurred claims (previously claims outstanding and incurred-but-not reported (IBNR) claims) is determined on a discounted probability-weighted expected value basis, and includes an explicit risk adjustment for non-financial risk. The liability includes the Branch’s obligation to pay other incurred insurance expenses.
- Measurement of the asset for remaining coverage (reflecting reinsurance premiums paid for reinsurance
  held) is adjusted to include a loss-recovery component to reflect the expected recovery of onerous contract losses where such contracts reinsure onerous direct contracts.

The Branch expenses its insurance acquisition cash flows for all insurance product lines immediately upon payment, however the Branch capitalises insurance acquisition cash flows relating to commissions or brokerage incurred on all product lines.

Insurance acquisition cash flows include those that are directly attributable to a group and to future groups that are expected to arise from renewals of contracts in that group. Where such insurance acquisition cash flows are paid (or where a liability has been recognised applying another IFRS standard) before the related group of insurance contracts is recognised, an asset for insurance acquisition cash flows is recognised. When insurance contracts are recognised, the related portion of the asset for insurance acquisition cash flows is derecognised and subsumed into the measurement at initial recognition of the insurance liability for remaining coverage of the related group.

The Branch's classification and measurement of insurance and reinsurance contracts is explained in Note 2.1.

1.1.3 Changes to presentation and disclosure

For presentation in the statement of financial position, the Branch aggregates insurance and reinsurance
contracts issued and reinsurance contracts held, respectively and presents separately:

- Portfolios of insurance and reinsurance contracts issued that are assets
- Portfolios of insurance and reinsurance contracts issued that are liabilities
- Portfolios of reinsurance contracts held that are assets
- Portfolios of reinsurance contracts held that are liabilities

The portfolios referred to above are those established at initial recognition in accordance with the IFRS 17
requirements.

Portfolios of insurance contracts issued include any assets for insurance acquisition cash flows.

The line item descriptions in the statement of profit or loss and other comprehensive income have been changed significantly compared with last year. Previously, the Branch reported the following line items:

- Gross written premiums
- Net written premiums
- Changes in premium reserves
- Gross insurance claims
- Net insurance claims

Instead, IFRS 17 requires separate presentation of:

- Insurance revenue
- Insurance service expenses
- Insurance finance income or expenses
- Income or expenses from reinsurance contracts held

The Branch provides disaggregated qualitative and quantitative information about:

- Amounts recognised in its financial statements from insurance contracts
- Significant judgements, and changes in those judgements, when applying the standard

1.1.4 Transition

On transition date, 1 April 2023, the Branch:

- Has identified, recognised and measured each group of insurance contracts as if IFRS 17 had always applied
- Has identified, recognised and measured assets for insurance acquisition cash flows as if IFRS 17 has always applied. However, no recoverability assessment was performed before the transition date. At transition date, a recoverability assessment was performed, and no impairment loss was identified
- Derecognised any existing balances that would not exist had IFRS 17 always applied
- Recognised any resulting net difference in equity

1.2 IFRS 9 Financial Instruments

IFRS 9 replaced IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018. However, the Branch elected, under the amendments to IFRS 4, to apply the temporary exemption from IFRS 9, thereby deferring the initial application date of IFRS 9 to align with the initial application of IFRS 17.

The Branch in applying IFRS 9 retrospectively, has not recorded any differences from the adoption of IFRS 9, due to the composition of investments being wholly comprised of cash and term deposits. A restatement of comparative information for 2023 for financial instruments is therefore not required.

2. Summary of Significant Accounting Policies

2.1 Insurance and reinsurance contracts classification

TMNFNZ is a Branch of Tokio Marine & Nichido Fire Insurance Co., Ltd (TMNFJ), an overseas company, domiciled in Japan.

The Branch is domiciled in New Zealand and registered under the New Zealand Companies Act 1993. The address of its registered office is Level 26, PwC Towers, 188 Quay Street, Auckland New Zealand. This financial report is for the current reporting period ending 31 March 2024.

The Branch is designated as a profit-oriented entity for financial reporting purposes. The principal operations of TMNFNZ comprise the underwriting of various classes of direct insurance contracts. These contracts transfer significant insurance risk from its policyholders. These contracts are defined as general insurance.

2.2 Insurance and reinsurance contracts accounting treatment

2.2.1.Separating components from insurance and reinsurance contracts

The Branch assesses its non-life insurance and reinsurance products to determine whether they contain distinct components which must be accounted for under another IFRS instead of under IFRS 17.

2.2 Insurance and reinsurance contracts accounting treatment (*continued*)

After separating any distinct components, the Branch applies IFRS 17 to all remaining components of the (host) insurance contract. Currently, the Branch's products do not include any distinct components that require separation.

2.2.2. Level of aggregation

IFRS 17 requires a company to determine the level of aggregation for applying its requirements. The Branch previously applied aggregation levels under NZ GAAP, which were significantly higher than the level of aggregation required by IFRS 17. The level of aggregation for the Branch is determined firstly by dividing the business written into portfolios. Portfolios comprise groups of contracts with similar risks which are managed together. Portfolios have not been further divided based on expected profitability at inception due to concession granted by Financial Markets Authority (FMA) to exclude onerous contracts compliance with IFRS 17 requirements. This concession is limited to the unaudited financial statements at March 2024 due for lodgement by 31 July, 2024.

This means that, for determining the level of aggregation, the Branch identifies a contract as the smallest 'unit', i.e., the lowest common denominator. However, the Branch makes an evaluation of whether a series of contracts need to be treated together as one unit based on reasonable and supportable information, or whether a single contract contains components that need to be separated and treated as if they were stand-alone contracts. As such, what is treated as a contract for accounting purposes may differ from what is considered as a contract for other purposes (i.e., legal or management). IFRS 17 also requires that no group for level of aggregation purposes may contain contracts issued more than one year apart.

The profitability of groups of contracts is assessed by actuarial valuation models that take into consideration existing and new business. The Branch assumes that no contracts in the portfolio are onerous at initial recognition unless facts and circumstances indicate otherwise. For contracts that are not onerous, the Branch assesses, at initial recognition, that there is no significant possibility of becoming onerous subsequently by assessing the likelihood of changes in applicable facts and circumstances. The Branch considers facts and circumstances to identify whether a group of contracts are onerous based on:

- Pricing information
- Results of similar contracts it has recognised
- Environmental factors, e.g., a change in market experience or regulations

The Branch divides portfolios of reinsurance contracts held applying the same principles set out above,
except that the references to onerous contracts refer to contracts on which there is a net gain on initial
recognition. For some groups of reinsurance contracts held, a group can comprise a single contract.

Please note that for the purposes of these accounts, the Branch has been granted exemption from applying IFRS 17 to onerous contracts.

2.2 Insurance and reinsurance contracts accounting treatment (*continued*)

2.2.3 Recognition

The Branch recognises groups of insurance contracts it issues from the earliest of the following:

- The beginning of the coverage period of the group of contracts
- The date when the first payment from a policyholder in the group is due or when the first payment is received if there is no due date
- For a group of onerous contracts, if facts and circumstances indicate that the group is onerous

The Branch recognises a group of reinsurance contracts held it has entered into from the earlier of the following:

- The beginning of the coverage period of the group of reinsurance contracts held. (However, the Branch delays the recognition of a group of reinsurance contracts held that provide proportionate coverage until the date any underlying insurance contract is initially recognised, if that date is later than the beginning of the coverage period of the group of reinsurance contracts held.

  The Branch adds new contracts to the group in the reporting period in which that contract meets one of the criteria set out above.

2.2.4 Contract Boundary

The Branch includes in the measurement of a group of insurance contracts all the future cash flows within the boundary of each contract in the group. Cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the Branch can compel the policyholder to pay the premiums, or in which the Branch has a substantive obligation to provide the policyholder with insurance contract services. A substantive obligation to provide insurance contract services ends when:

- The Branch has the practical ability to reassess the risks of the particular policyholder and, as a result, can set a price or level of benefits that fully reflects those risks

Or

- Both of the following criteria are satisfied:
- The Branch has the practical ability to reassess the risks of the portfolio of insurance contracts that contain the contract and, as a result, can set a price or level of benefits that fully reflects the risk of that portfolio
- The pricing of the premiums up to the date when the risks are reassessed does not take into account the risks that relate to periods after the reassessment date

A liability or asset relating to expected premiums or claims outside the boundary of the insurance contract is not recognised. Such amounts relate to future insurance contracts.

2.2 Insurance and reinsurance contracts accounting treatment (*continued*)

2.2.5 Measurement – Premium Allocation Approach

	IFRS 17 Options	Adopted approach
Premium Allocation Approach (PAA) Eligibility	Subject to specified criteria, the PAA can be adopted as a simplified approach to the IFRS 17 general model.	Coverage period for all direct insurance and reinsurance contracts held is assumed as one year or less and so qualifies automatically for PAA.
Insurance acquisition cash flows for insurance contracts issued	Where the coverage period of all contracts within a group is not longer than one year, insurance acquisition cash flows can either be expensed as incurred, or allocated, using a systematic and rational method, to groups of insurance contracts (including future groups containing insurance contracts that are expected to arise from renewals) and then amortised over the coverage period of the related group.	For all business, directly attributable insurance acquisition cash flows are allocated to related groups of insurance contracts and amortised over the coverage period of the related group. All overhead expenses are expensed immediately.
Liability for Remaining Coverage (LFRC), adjusted for financial risk and time value of money	Where there is no significant financing component in relation to the LFRC, or where the time between providing each part of the services and the related premium due date is no more than a year, an entity is not required to make an adjustment for accretion of interest on the LFRC.	For all direct business, there is no allowance as the premiums are received within one year of the coverage period.
Liability for Incurred Claims, (LFIC) adjusted for time value of money	Where claims are expected to be paid within a year of the date that the claim is incurred, it is not required to adjust these amounts for the time value of money.	For majority of claims, the incurred claims are expected to be paid out in less than one year. Hence, no adjustment is made for the time value of money. For all liability business, the LFIC is adjusted for the time value of money.
Insurance finance income and expense	There is an option to disaggregate part of the movement in LFIC resulting from changes in discount rates and present this in OCI.	For the liability product line, the impact on LFIC of changes in discount rates will be captured within profit or loss, in line with the accounting for assets backing this product line. For all other business, the change in LFIC as a result of changes in discount rates will be captured within profit or loss.

2.2 Insurance and reinsurance contracts accounting treatment (*continued*)

2.2.3 Insurance contracts – initial measurement

The Branch applies the premium allocation approach (PAA) to all the insurance contracts that it issues and
reinsurance contracts that it holds, as:

- The coverage period of each contract in the group is one year or less, including insurance contract services arising from all premiums within the contract boundary (refer to 2.2.4)

Or

- For contracts longer than one year, the Branch has modelled possible future scenarios and reasonably expects that the measurement of the liability for remaining coverage for the group containing those contracts under the PAA does not differ materially from the measurement that would be produced applying the general model. In assessing materiality, the Branch has also considered qualitative factors such as the nature of the risk and types of its lines of business. The Branch does not apply the PAA if, at the inception of the group of contracts, it expects significant variability in the fulfilment cash flows that would affect the measurement of the liability for the remaining coverage during the period before a claim is incurred. Variability in the fulfilment cash flows increases with, for example:
- The extent of future cash flows related to any derivatives embedded in the contracts
- The length of the coverage period of the group of contracts

For a group of contracts that is not onerous at initial recognition, the Branch measures the liability for remaining coverage as:

- The premiums, if any, received at initial recognition
- Minus any insurance acquisition cash flows at that date, with the exception of contracts which are one year or less where this is expensed,
- Plus or minus any amount arising from the derecognition at that date of the asset recognised for insurance acquisition cash flows and
- Any other asset or liability previously recognised for cash flows related to the group of contracts that
  the Branch pays or receives before the group of insurance contracts is recognised.

For the liability for remaining coverage, there is no allowance for time value of money as the premiums are received within one year of the coverage period. Onerous contracts are not separately grouped from other contracts and the Branch does not recognise a loss in profit or loss for the net outflow, this is due to the concession granted by FMA, allowing the Branch to prepare financial accounts without having to strictly comply with onerous contracts provisions of IFRS 17. In normal circumstances, a loss component would be established by the Branch for the liability for remaining coverage for such onerous group depicting the losses recognised.

2.2.7 *Reinsurance contracts held – initial measurement*

The Branch measures its reinsurance assets for a group of reinsurance contracts that it holds on the same basis as insurance contracts that it issues. However, they are adapted to reflect the features of reinsurance contracts held that differ from insurance contracts issued, for example the generation of expenses or reduction in expenses rather than revenue.

2.2.1 Insurance and reinsurance contracts accounting treatment (*continued*)

2.2.4 Insurance contracts – subsequent measurement

The Branch measures the carrying amount of the liability for remaining coverage at the end of each reporting period as the liability for remaining coverage at the beginning of the period:

- Plus premiums received in the period Minus insurance acquisition cash flows
- Plus any amounts relating to the amortisation of the insurance acquisition cash flows recognised as an expense in the reporting period for the group
- Plus any adjustment to the financing component, where applicable
- Minus the amount recognised as insurance revenue for the services provided in the period
- Minus any investment component paid or transferred to the liability for incurred claims

The Branch estimates the liability for incurred claims as the fulfilment cash flows related to incurred claims. The fulfilment cash flows incorporate, in an unbiased way, all reasonable and supportable information available without undue cost or effort about the amount, timing and uncertainty of those future cash flows, they reflect current estimates from the perspective of the Branch and include an explicit adjustment for non-financial risk (the risk adjustment). The Branch does not adjust the future cash flows for the time value of money and the effect of financial risk for the measurement of liability for incurred claims that are expected to be paid within one year of being incurred.

Insurance acquisition cash flows are allocated on a straight-line basis as a portion of premium to profit or loss (through insurance revenue).

2.2.9 *Reinsurance contracts held – subsequent measurement*

The subsequent measurement of reinsurance contracts held follows the same principles as those for insurance contracts issued and has been adapted to reflect the specific features of reinsurance held.

2.2.10 *Insurance acquisition cash flows*

Insurance acquisition cash flows arise from the costs of selling, underwriting and starting a group of insurance contracts (issued or expected to be issued) that are directly attributable to the portfolio of insurance contracts to which the group belongs.

The Branch uses a systematic and rational method to allocate:

Insurance acquisition cash flows that are directly attributable to a group of insurance contracts:

(i) to that group; and

(ii) to groups that include insurance contracts that are expected to arise from the renewals of the insurance contracts in that group.

The Branch assesses the recoverability of the asset for insurance acquisition cash flows, if facts and circumstances indicate the asset may be impaired. When assessing the recoverability, the Branch applies:

- An impairment test at the level of an existing or future group of insurance contracts; and
- An additional impairment test specifically covering the insurance acquisition cash flows allocated to expected future contract renewals.

2.2.1 Insurance and reinsurance contracts accounting treatment (*continued*)

If an impairment loss is recognised, the carrying amount of the asset is adjusted and an impairment loss is recognised in profit or loss. The Branch recognises in profit or loss a reversal of some or all of an impairment loss previously recognised and increases the carrying amount of the asset, to the extent that the impairment conditions no longer exist or have improved.

2.2.11 *Insurance contracts – modification and derecognition*

The Branch derecognises insurance contracts when:

- The rights and obligations relating to the contract are extinguished (i.e., discharged, cancelled or expired)

Or

- The contract is modified such that the modification results in a change in the measurement model or
  the applicable standard for measuring a component of the contract, substantially changes the contract boundary, or requires the modified contract to be included in a different group. In such cases, the Branch derecognises the initial contract and recognises the modified contract as a new contract.

When a modification is not treated as a derecognition, the Branch recognises amounts paid or received for the modification with the contract as an adjustment to the relevant liability for remaining coverage.

2.2.12 *Presentation*

The Branch has presented separately, in the statement of financial position, the carrying amount of portfolios of insurance contracts issued that are assets, portfolios of insurance contracts issued that are liabilities, portfolios of reinsurance contracts held that are assets and portfolios of reinsurance contracts held that are liabilities.

Any assets for insurance acquisition cash flows recognised before the corresponding insurance contracts are included in the carrying amount of the related groups of insurance contracts are allocated to the carrying amount of the portfolios of insurance contracts that they relate to.

The Branch disaggregates the total amount recognised in the statement of profit or loss and other comprehensive income into an insurance service result, comprising insurance revenue and insurance service expense, and insurance finance income or expenses.

The Branch does not disaggregate the change in risk adjustment for non-financial risk between a financial and non-financial portion and includes the entire change as part of the insurance service result.

The Branch separately presents income or expenses from reinsurance contracts held from the expenses or income from insurance contracts issued.

2.2 Insurance and reinsurance contracts accounting treatment (*continued*)

2.2.13 *Insurance revenue*

The insurance revenue for the period is the amount of expected premium receipts (excluding any investment component) allocated to the period. The Branch allocates the expected premium receipts to each period of insurance contract services on the basis of the passage of time.

If facts and circumstances change. The change is accounted for prospectively as a change in accounting estimate. For the periods presented, all revenue has been recognised on the basis of the passage of time.

2.2.14 *Loss components*

The Branch assumes that no contracts are onerous at initial recognition as the FMA has granted the Branch an exemption from complying with onerous contracts requirements. Normally where this is not the case, and if at any time during the coverage period, the facts and circumstances indicate that a group of insurance contracts is onerous, the Branch would establish a loss component of the excess of the fulfilment cash flows that relate to the remaining coverage of the group over the carrying amount of the liability for remaining coverage of the group.

2.2.15 *Insurance finance income and expense*

Insurance finance income or expenses comprise the change in the carrying amount of the group of insurance contracts arising from:

- The effect of the time value of money and changes in the time value of money; and
- The effect of financial risk and changes in financial risk.

The impact of changes in market interest rates on the value of the insurance assets and liabilities are reflected in P/L in order to minimise accounting mismatches between the accounting for financial assets and insurance assets and liabilities. The Branch's financial assets backing insurance portfolios are predominantly measured FVPL, the Branch does not disaggregate finance income and expenses because the related financial assets are managed on a fair value basis and measured at FVPL.

2.2.16 *Net income or expense from reinsurance contracts held*

The Branch presents separately on the face of the statement of profit or loss and other comprehensive income, the amounts expected to be recovered from reinsurers, and an allocation of the reinsurance premiums paid. The Branch treats reinsurance cash flows that are contingent on claims on the underlying contracts as part of the claims that are expected to be reimbursed under the reinsurance contract held, and includes exchange commissions in the allocation of reinsurance premiums presented on the face of the statement of profit or loss and other comprehensive income.

2.3 Financial assets

2.3.1 *Initial recognition*

The classification of financial instruments at initial recognition depends on their contractual terms. Financial instruments are initially recognised on the trade date measured at their fair value, transaction costs are added to this amount.

2.3.2 *Measurement*

The Branch has non-complex, low risk financial assets. The Branch classifies its financial assets based on the business model for managing the assets and the asset's contractual terms. The Branch holds financial assets to generate returns and provide a capital base to provide for settlement of claims as they arise. The Branch measures its financial assets at fair value through profit or loss (FVPL).

2.3.3 *Subsequent measurement*

After initial measurement financial assets at FVPL are recorded in the statement of financial position at fair value. Interest earned on assets mandatorily required to be measured at FVPL is recorded using contractual interest rate.

2.3.4 *Reclassification of financial assets and liabilities*

The Branch does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Branch acquires, disposes of, or terminates a business line.

2.3.5 *Impairment of financial assets*

The Branch's financial assets comprise solely of term deposits with authorised banks graded as strong by Fitch credit agency and, therefore, are considered to be low credit risk investments.

The Branch considers a financial asset to be in default (credit impaired) when contractual payments are 180 days past due. However, in certain cases, the Branch may also consider a financial asset to be in default when internal or external information indicates that the Branch is unlikely to receive the outstanding contractual amounts. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

2.3.6 *The effective interest rate method*

Under IFRS 9, interest income is recorded using the effective interest rate (EIR) method for all financial assets measured at amortised cost. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or, when appropriate, a shorter period, to the gross carrying amount of the financial asset.

2.3 Financial assets (*continued*)

2.3.7 *Interest and similar income*

Interest income comprises amounts calculated using the effective interest method and other methods. These are disclosed separately on the face of the income statement.

Interest income calculated using the effective interest method, the Branch only includes interest on financial instruments at amortised cost or FVPL.

The Branch calculates interest income on financial assets, other than those considered credit-impaired, by applying the EIR to the gross carrying amount of the financial asset.

3 Insurance and financial risk

3.1 *Insurance risk*

The Branch principally issues the following types of non-life insurance contracts: commercial motor; marine; property; liability; and travel.

For non-life insurance contracts, the most significant risks arise from climate changes, natural disasters and other accident activities. For longer tail claims that take some years to settle, there is also inflation risk.

The objective of the Branch is to ensure that sufficient reserves are available to cover the liabilities associated with these insurance contracts that it issues. The risk exposure is mitigated by diversification across the portfolios of insurance contracts. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance held arrangements. Furthermore, strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are established to reduce the risk exposure of the Branch. The Branch further enforces a policy of actively managing and promptly settling claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the business. Inflation risk is mitigated by taking expected inflation into account when estimating insurance contract liabilities and pricing appropriately.

The Branch purchases reinsurance as part of its risk mitigation programme. Reinsurance held is placed on a proportional basis. Proportional reinsurance is quota–share reinsurance which is taken out to reduce the overall exposure of the Branch to its property, cyber and commercial motor business, whilst its marine and liability is managed via excess of loss reinsurance.

Amounts recoverable from reinsurers are estimated in a manner consistent with underlying insurance contract liabilities and 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 reinsurance held, to the extent that any reinsurer is unable to meet its obligations. The Branch's placement of reinsurance is predominantly with Tokio Marine Insurance Singapore (TMIS) a part of the Tokio Marine Group. The following tables show the concentration of net insurance contract liabilities by type of contract:

3. *Insurance and financial risk* (continued)

3.2 Sensitivities

The liability for incurred claims is sensitive to the key assumptions in the table below. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process.

The following sensitivity analysis shows the impact on gross and net liabilities, profit before tax and equity for reasonably possible movements in key assumptions with all other assumptions (refer Note 5.1.2) held constant. The correlation of assumptions will have a significant effect in determining the ultimate impacts, but to demonstrate the impact due to changes in each assumption, assumptions have been changed on an individual basis. It should be noted that movements in these assumptions are non linear. The method used for deriving sensitivity information and significant assumptions did not change from the previous period.

Sensitivities

		Impact on profit before tax	
Assumption 2024	Change in assumption	**Gross**	**Net**
Weighted average term to settlement	+0.5 years	(12)	(4)
Expected loss	+10%	(56)	(7)
Inflation rate	+1%	(31)	(8)
Weighted average term to settlement	-0.5 years	12	5
Expected loss	-10%	56	7
Inflation rate	-1%	30	8

		Impact on profit before tax	
Assumption 2023	Change in assumption	**Gross**	**Net**
Weighted average term to settlement	+0.5 years	(12)	(4)
Expected loss	+10%	(56)	(7)
Inflation rate	+1%	(31)	(8)
Weighted average term to settlement	-0.5 years	12	5
Expected loss	-10%	56	7
Inflation rate	-1%	30	8

3.3 *Claims development table*

The following tables show the estimates of cumulative incurred claims, including both claims notified and IBNR for each successive accident year at each reporting date, together with cumulative payments to date.

As required by IFRS 17, in setting claims provisions, the Branch gives consideration to the probability and magnitude of future experience being more adverse than assumed which is reflected in the risk adjustment. In general, the uncertainty associated with the ultimate cost of settling claims is greatest

3 *Insurance and financial risk* (continued)

when the claim is at an early stage of development. As claims develop, the ultimate cost of claims becomes more certain.

The Branch has not disclosed previously unpublished information about claims development that occurred earlier than five years before the end of the annual reporting period in which it first applies IFRS 17.

Gross undiscounted liabilities for incurred claims for 2024

Accident year	**Before 2020**	**2020**	**2021**	**2022**	**2023**	**2024**	**Total**
At end of accident year		2,259	583	931	1,273	1,269	
One year later		1,738	309	627	1,016		
Two years later		2,070	152	731			
Three years later		2,045	141				
Four years later		1,886					
Gross estimates of undiscounted amount of claims		**1,886**	**141**	**731**	**1,016**	**1,269**	**5,043**
Accident year	**Before 2020**	**2020**	**2021**	**2022**	**2023**	**2024**	**Total**
At end of accident year		(206)	(69)	(201)	(263)	(751)	
One year later		(1,640)	(119)	(464)	(839)		
Two years later		(1,657)	(131)	(471)			
Three years later		(1,697)	(131)				
Four years later		(1,861)					
Cumulative gross payments to date		**(1,861)**	**(131)**	**(471)**	**(839)**	**(751)**	**(4,053)**
Gross undiscounted liability for incurred claims	**6**	**25**	**9**	**259**	**178**	**518**	**996**
Expenses							**130**
Discounting							(120)
Total gross liabilities for incurred claims							**1006**

3.1 *Insurance and financial risk (continued)*

Net undiscounted liabilities for incurred claims

Accident year	Before 2020	2020	2021	2022	2023	2024	Total
At end of accident year		2,237	417	434	243	615	
One year later		1,734	302	371	209		
Two years later		2,066	143	315			
Three years later		2,039	133				
Four years later		1,882					
Net estimates of undiscounted amount of claims		**1,882**	**133**	**315**	**209**	**615**	**3,155**
Accident year	**Before 2020**	**2020**	**2021**	**2022**	**2023**	**2024**	**Total**
At end of accident year		(205)	(62)	(175)	(142)	(438)	
One year later		(1,636)	(113)	(303)	(156)		
Two years later		(1,653)	(125)	(301)			
Three years later		(1,693)	(125)				
Four years later		(1,857)					
Cumulative net payments to date		**(1,857)**	**(125)**	**(301)**	**(156)**	**(438)**	**(2,877)**
Gross undiscounted liability for incurred claims	**6**	**25**	**8**	**13**	**53**	**178**	**284**
Expenses							**130**
Discounting							(31)
Total net liabilities for incurred claims							**383**

3.3 Financial risk

3.3.1 *Liquidity risk*

Liquidity risk is the risk that the Branch will encounter difficulty in meeting obligations associated with insurance liabilities that are settled by delivering cash or another financial asset. 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 policies and procedures are in place to mitigate the Branch's exposure to liquidity risk: The Branch's liquidity risk policy sets out the assessment and determination of what constitutes liquidity risk for the Branch. Compliance with the policy is monitored and exposures and breaches are reported to the Branch's risk committee. The policy is regularly reviewed and updated for changes in the risk environment.

3.3 *Financial risk* (*continued*)

The Branch maintains a portfolio of highly liquid cash assets that can be easily liquidated in the event of an unforeseeable interruption of cash flow. The Branch also has ability to request additional capital injections from its parent entity in Japan.

3.3.2 *Maturity profiles*

Maturity analysis for insurance and reinsurance contract liabilities (present value of future cash flows basis).

The following table summarises the maturity profile of portfolios of insurance contracts issued that are liabilities of the Branch based on the estimates of the present value of the future cash flows expected to be paid out in the periods presented.

Gross outstanding claim liabilities 2024, inflated and discounted by class and payment year

Class	2025	2026	2027	2028	2029 and later	Total
Motor	154	19	7	2	1	182
Property	12	3	0	0	0	15
Marine	101	17	5	1	0	125
Accident	87	68	0	0	-	156
Casualty	85	70	67	64	240	527
Total	440	177	80	68	241	1,006

Net outstanding claim liabilities 2024, inflated and discounted by class and payment year

Class	2025	2026	2027	2028	2029 and later	Total
Motor	154	19	7	2	1	182
Property	8	0	0	0	0	8
Marine	42	11	3	1	0	58
Accident	11	8	0	0	-	19
Casualty	19	16	16	15	49	116
Total	234	55	26	18	50	383

3.3 *Financial risk* (*continued*)

Gross outstanding claim liabilities 2023, inflated and discounted by class and payment year

Class	2024	2025	2026	2027	2028 and later	Total
Motor	53	7	2	1	0	63
Property	497	118	27	6	2	651
Marine	103	19	5	1	0	129
Accident	26	26	0	-	-	53
Casualty	466	348	321	182	177	1,493
Total	1,146	517	355	190	180	2,388

Net outstanding claim liabilities 2023, inflated and discounted by class and payment year

Class	2024	2025	2026	2027	2028 and later	Total
Motor	53	7	2	1	0	63
Property	39	8	2	0	0	49
Marine	38	7	2	0	0	47
Accident	2	2	0	-	-	4
Casualty	432	320	284	146	98	1,279
Total	563	345	289	147	98	1,443

3.3.3 *Maturity analysis for financial assets*

	2024			
Financial assets	0 - 90 days	90 - 180 days	> 180 days	Total
Cash and cash equivalents	3,359,536	0	0	3,359,536
Term deposits	0	2,042,552	0	2,042,552
Total	3,359,536	2,042,552		5,402,088

	2023			
	0 - 90 days	90 - 180 days	> 180 days	Total
Cash and cash equivalents	4,642,079	0	0	4,642,079
Term deposits	0	0	0	0
Total	4,642,079	0	0	4,642,079

3.3.4 *Market risk*

Market risk is the risk that the fair value or future cash flows of a financial instrument, insurance contract issued or reinsurance contract held will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign exchange rates (currency risk); market interest rates (interest rate risk); and market prices (price risk).

The Branch's market risk policy sets out the assessment and determination of what constitutes market risk for it. Compliance with the policy is monitored and exposures and breaches are reported to the Branch's risk committee. The policy is reviewed regularly for pertinence and for changes in the risk environment.

Guidelines are set for asset allocation and portfolio limit structure, to ensure that assets back specific policyholders' liabilities and that assets are held to deliver income and gains needed to meet the Branch's contractual requirements.

The nature of the Branch's exposure to market risks and its objectives, policies and processes used to manage and measure the risks have not changed from the previous period.

3.3.5 *Currency risk*

Currency risk is the risk that the fair value of future cash flows of a financial instrument, insurance contract assets and/or liabilities will fluctuate because of changes in foreign exchange rates.

The Branch's principal transactions are carried out in New Zealand dollars. The Branch's financial assets are primarily denominated in the same currencies as its insurance contract liabilities.

3.3.6 *Financial risk*

The Branch has no significant concentration of interest rate risk.

The Branch is exposed to interest rate risk through its term deposit and in respect of liabilities or assets for incurred claims where cash flows are not expected to be settled within a year from when claims are incurred. The Branch's exposure to interest rate risk sensitive insurance and reinsurance contracts and debt instruments are, as follows:

3.3 *Financial risk* (*continued*)

Insurance contract assets

Class	2023	2024
Motor	-	-
Property	782	10
Marine	106	88
Accident	63	178
Casualty	278	534
Total	1,228	810

Insurance contract liabilities

Class	2023	2024
Motor	78	228
Property	846	20
Marine	167	163
Accident	68	203
Casualty	1,942	685
Total	3,101	1,298

3.3.7 Price risk

Price risk is the risk that the fair value or future cash flows of financial instruments or insurance contract assets and/or liabilities will fluctuate because of changes in market prices (other than those arising from interest rate or foreign exchange rate risk), whether those changes are caused by factors specific to the individual financial instrument or contract, or by factors affecting all similar contracts or financial instruments traded in the market.

The Branch's price risk exposure relates to financial assets and financial liabilities whose values will fluctuate as a result of changes in market prices. The Branch does not issue any participating contracts. Therefore, there are no insurance or reinsurance contracts which are exposed to price risk.

The Branch's price risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plans, limits on individual and total equity instruments.

The Branch has no significant concentration of price risk.

3.3 *Financial risk* (*continued*)

3.3.8 *Operational risk*

Operational risk is the risk of loss arising from system 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 effective 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's strategic planning and budgeting process.

3.3.9 *Credit risk*

Credit risk is the risk that one party to a financial instrument, insurance contract issued in an asset position or reinsurance contract held will cause a financial loss for 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's credit risk policy sets out the assessment and determination of what constitutes credit risk for the Branch. Compliance with the policy is monitored and exposures and breaches are reported to the Branch's risk committee. The policy is regularly reviewed for pertinence and for changes in the risk environment.

Credit risk relating to financial instruments is monitored by the Branch's investment team. It is their responsibility to review and manage credit risk, including environmental risk for all counterparties. The Branch manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits. It is the Branch's policy to invest in high quality financial instruments with a low risk of default. If there is a significant increase in credit risk, the policy dictates that the instrument should be sold and amounts recovered reinvested in high quality instruments. 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 by the board of directors and are subject to regular reviews. At each reporting date, management performs an assessment of creditworthiness of reinsurers and updates the reinsurance purchase strategy.

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. Commission paid to intermediaries is netted off against amounts receivable from them to reduce the risk of default.

The nature of the Branch's exposure to credit risk and its objectives, policies and processes used to manage and measure the risks have not changed from the previous period.

3.3 *Financial risk* (*continued*)

3.3.10 *Credit exposure*

The table below provides information regarding the credit risk exposure of the Branch by classifying Very good+ as the highest possible rating. Assets that fall outside the range of Very good+ to Good are classified as non-investment grade. The amounts represent the maximum amount exposure to credit risk. The credit risk analysis below is presented in line with how the Branch manages the risk. The Branch manages its credit exposure based on the carrying value of the financial instruments and insurance and reinsurance contract assets.

3.3.11 *Impairment assessment*

The Branch continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Branch assesses whether there has been a significant increase in credit risk since initial recognition.

The Branch considers that there has been a significant increase in credit risk when any contractual payments are more than 30 days past due. In addition, the Branch also considers a variety of instances that may indicate unlikeliness to pay by assessing whether there has been a significant increase in credit risk. Such events include:

- Internal rating of the counterparty indicating default or near-default.
- The counterparty having past due liabilities to public creditors or employees.
- The counterparty (or any legal entity within the debtor's group) filing for bankruptcy application/ protection.
- Counterparty's listed debt or equity suspended at the primary exchange because of rumours or facts about financial difficulties.

The Branch considers a financial instrument defaulted and, therefore, credit-impaired for ECL calculations in all cases when the counterparty becomes 90 days past due on its contractual payments. The Branch may also consider an instrument to be in default when internal or external information indicates that the Branch is unlikely to receive the outstanding contractual amounts in full. In such cases, the Branch recognises a lifetime ECL.

In rare cases when an instrument identified as defaulted, it is the Branch's policy to consider a financial instrument as 'cured' and, therefore, re-classified out of credit-impaired when none of the default criteria have been present for at least twelve consecutive months.

There has been no significant increase in credit risk or default for financial assets during the year. The Branch assesses the possible default events within 12 months for the calculation of the 12mECL. Given the investment policy, the probability of default for new instruments acquired is generally determined to be minimal and the expected loss given default ratio assumed to be 100%.

In rare cases where a lifetime ECL is required to be calculated, the probability of default is estimated based on economic scenarios.

4 Capital

4.1 *Capital management objectives, policies and approach*

The Branch has established the following capital management objectives, policies and approach to managing the risks that affect its capital position:

- To maintain the required level of stability of the Branch thereby providing a degree of security to policyholders
- To allocate capital efficiently and support the development of business by ensuring that returns on capital employed meet the requirements of its capital providers and shareholders
- To retain financial flexibility by maintaining strong liquidity and access to a range of capital markets
- To align the profile of assets and liabilities, taking account of risks inherent in the business
- To maintain financial strength to support new business growth and to satisfy the requirements of
  the policyholders, regulators and stakeholders
- To maintain strong credit ratings and healthy capital ratios in order to support its business objectives and maximise shareholders value

The Branch is also subject to regulatory requirements within the jurisdictions in which it operates. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g., capital adequacy) to minimise the risk of default and insolvency on the part of the insurance companies to meet unforeseeable liabilities as they arise.

The Branch has met all of these requirements throughout the financial year.

In reporting financial strength, capital and solvency are measured using the rules prescribed by the Euroland Financial Services Authority (EFSA). These regulatory capital tests are based upon required levels of solvency, capital and a series of prudent assumptions in respect of the type of business written.

The Branch's capital management policy is to hold sufficient capital to cover the statutory requirements based on the EFSA directives, including any additional amounts required by the regulator.

In determining groups of contracts, the Branch has elected to include in the same group contracts where the Branch's ability to set prices or levels of benefits for policyholders with different characteristics is constrained by regulation.

Approach to capital management.

The Branch seeks to optimise the structure and sources of capital to ensure that it consistently maximises returns to the shareholders.

The Branch's approach to managing capital involves managing assets, liabilities and risks in a coordinated way, assessing shortfalls between reported and required capital levels on a regular basis and taking appropriate actions to influence the capital position of the Branch in the light of changes in economic conditions and risk characteristics. An important aspect of the Branch's overall capital management process is the setting of target risk adjusted rates of return, which are aligned to performance objectives and ensure that the Branch is focused on the creation of value for shareholders.

4 *Capital* (continued)

The primary source of capital used by the Branch is total equity. The Branch also uses, where it is efficient to do so, sources of capital such as reinsurance, in addition to more traditional sources of funding.

The capital requirements are routinely forecast on a periodic basis and assessed against both the forecast available capital and the expected internal rate of return, including risk and sensitivity analyses. The process is ultimately subject to approval by the Board.

The Branch has developed an Individual Capital Assessment (ICA) framework to identify the risks and quantify their impact on the economic capital. The ICA estimates how much capital is required to reduce the risk of insolvency to a remote degree of probability. The ICA has also been considered in assessing the capital requirements.

The Branch has made no significant changes, from previous years, to its policies and processes for its capital structure.

5 Significant judgements and estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The Branch based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Branch. Such changes are reflected in the assumptions when they occur. The Branch disaggregates information to disclose major product lines namely, marine, property, personal accident insurance and liability reinsurance issued. This disaggregation has been determined based on how the Branch is managed.

6 Insurance and reinsurance contracts

The Branch applies the PAA to simplify the measurement of insurance contracts. When measuring liabilities for remaining coverage, the PAA is broadly similar to the Branch's previous accounting treatment under IFRS 4. However, when measuring liabilities for incurred claims, the Branch now discounts cash flows that are expected to occur more than one year after the date on which the claims are incurred and includes an explicit risk adjustment for non-financial risk.

6.1 *Liability for remaining coverage*

Insurance acquisition cash flows

The Branch is eligible and chooses to recognise insurance acquisition cash flows as an expense immediately as incurred. This is because all insurance contracts issued within that product line have a coverage period of one year or less.

Insurance acquisition cash flows that are directly attributable to related groups of insurance contracts such as commissions and brokerage, are recognised in the statement of financial position (including those groups that will include insurance contracts expected to arise from renewals).

6 *Insurance and reinsurance contracts* (continued)

The effect of electing to recognise indirect insurance acquisition cash flows as an expense when incurred, there would be an increase charge to profit or loss on incurring the expense, offset by an increase in profit released over the coverage period.

Time value of money

For all insurance product lines, the Branch does not adjust the carrying amount of the liability for remaining coverage to reflect the time value of money due to all cash flows being settled within one year.

6.2 Liability for incurred claims

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques.

The main 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. These methods extrapolate the development of paid and incurred losses, average costs per claim (including claims handling costs), and claim numbers based on the observed development of earlier years and expected loss ratios.

Historical claims development is mainly analysed by accident years. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based.

Additional qualitative judgement is used to assess the extent to which past trends may not apply in future, (e.g., 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) in order to arrive at the estimated ultimate cost of claims that present the probability weighted expected value outcome from the range of possible outcomes, taking account of all the uncertainties involved.

Estimates of salvage recoveries and subrogation reimbursements are considered as an allowance in the measurement of ultimate claims costs.

6.3 *Discount rates*

Insurance contract liabilities are calculated by discounting expected future cash flows at a risk free rate. Risk free rates are determined by reference to the yields of highly liquid AAA-rated sovereign

securities in the currency of the insurance contract liabilities. The illiquidity premium is determined by reference to observable market rates.

6 *Insurance and reinsurance contracts* (continued)

2024 Assumption	Change in assumption	Impact on profit before tax Gross	Net
Discount rate	1%	(29)	(8)
Discount rate	-1%	31	8

2023 Assumption	Change in assumptions	Impact on profit before tax Gross	Net
Discount rate	1%	(47)	(31)
Discount rate	-1%	49	32

6.4 Risk adjustment for non-financial risk

The risk adjustment for non-financial risk is the compensation that the Branch requires for bearing the uncertainty about the amount and timing of the cash flows of groups of insurance contracts. The risk adjustment reflects an amount that an insurer would rationally pay to remove the uncertainty that future cash flows will exceed the expected value amount.

The Branch has estimated the risk adjustment using a confidence level (probability of sufficiency) approach at the 75th percentile. That is, the Branch has assessed its indifference to uncertainty for all product lines (as an indication of the compensation that it requires for bearing non-financial risk) as being equivalent to the 75th percentile confidence level less the mean of an estimated probability distribution of the future cash flows. The Branch has estimated the probability distribution of the future cash flows, and the additional amount above the expected present value of future cash flows required to meet the target percentiles.

6.5 Asset for insurance acquisition cash flows

The Branch applies judgement in determining the inputs used in the methodology to systematically and rationally allocate insurance acquisition cash flows to groups of insurance contracts. This includes judgements about the amounts allocated to insurance contracts expected to arise from renewals of existing insurance contracts in a group and the volume of expected renewals from new contracts issued in the period.

In the current and prior year, for other product lines, the Branch did not identify any facts and circumstances indicating that the assets may be impaired.

7 Insurance service expense

The breakdown of insurance service expenses by major product lines is presented below:

	Commercial motor	Marine and aviation	Liability	Other commercial	Travel	Inwards reinsurance Marine	Total
Incurred claims and other expenses	69,628	78,454	(186,457)	370,625	396	1,537	334,182
Amortisation of insurance acquisition cash flows	76,218	143,857	141,874	864,992	671	2,601	1,230,213
Total	145,845	222,311	-44,583	1,235,617	1,067	4,138	1,564,395

	2023						
	Commercial motor	Marine and aviation	Liability	Other commercial	Travel	Inwards reinsurance Marine	Total
Incurred claims and other expenses	130,911	231,898	298,163	1,838,910	1,348	11,625	2,512,855
Amortisation of insurance acquisition cash flows	7,429	13,160	16,921	104,359	77	660	142,605
Total	138,340	245,058	315,083	1,943,268	1,425	12,285	2,655,460

7.1 Total investment income and net insurance financial result

	2024							
	Insurance related						Non insurance related	Total
	Commercial motor	Marine and aviation	Liability	Other commercial	Travel	Inwards reinsurance Marine		
Investment income								
Amounts recognised in the profit or loss								
Interest revenue calculated using the effective interest method							116,259	116,259
Total investment income							**116,259**	**116,259**
Insurance finance income/(expense) from insurance contracts issued								
Due to changes in interest rates and other financial assumptions	(5,368)	(10,131)	(9,991)	(60,916)	(47)	(183)		(86,637)
Total insurance finance income/(expense) from insurance contracts issued recognised in profit or loss	**(5,368)**	**(10,131)**	**(9,991)**	**(60,916)**	**(47)**	**(183)**	**0**	**(86,637)**
Reinsurance finance income/(expense)								
Interest accreted to reinsurance contracts	(2,040)	(3,851)	(3,798)	(23,153)	(18)	(70)		(32,929)
Reinsurance finance income/(expense) from insurance contracts held	**(2,040)**	**(3,851)**	**(3,798)**	**(23,153)**	**(18)**	**(70)**	**0**	**(32,929)**
Net Insurance finance result	**(7,408)**	**(13,982)**	**(13,789)**	**(84,069)**	**(65)**	**(253)**	**0**	**(119,565)**

7.1 Total investment income and net insurance financial result (continued)

	2023							
	Insurance related						Non insurance related	Total
	Commercial motor	Marine and aviation	Liability	Other commercial	Travel	Inwards reinsurance Marine		
Investment income								
Amounts recognised in the profit or loss								
Interest revenue calculated using the effective interest method							69,054	69,054
Total investment income							**69,054**	**69,054**
Insurance finance income/(expense)								
Due to changes in interest rates and other financial assumptions	7,813	13,840	17,794	109,826	0	694		149,966
Total insurance finance income/(expense) from insurance contracts issued recognised in profit or loss	**7,813**	**13,840**	**17,794**	**109,826**	**0**	**694**	**0**	**149,966**
Reinsurance finance income/(expense)								
Interest accreted to reinsurance contracts	(4,297)	(7,612)	(9,787)	(60,407)	0	(382)		(82,485)
Reinsurance finance income/(expense) from insurance contracts held recognised in profit or loss	**(4,297)**	**(7,612)**	**(9,787)**	**(60,407)**	**0**	**(382)**	**0**	**(82,485)**
Net Insurance finance result	**3,516**	**6,227**	**8,007**	**49,419**	**0**	**312**	**0**	**67,481**

7.2 Income tax expense

	2024	2023
		$
Current tax expense	493,170	71,199
Deferred tax expense	(37,263)	12,414
Prior year (overs)/unders		-
Income tax expense	**455,907**	**83,613**

8 Cash and cash equivalents

Maturity analysis for financial assets

	2024			
Financial assets	0 - 90 days	90 - 180 days	> 180 days	Total
Cash and cash equivalents	3,359,536	0	0	3,359,536
Term deposits	0	2,042,552	0	2,042,552
Total	3,359,536	2,042,552		5,402,088

	2023			
	0 - 90 days	90 - 180 days	> 180 days	Total
Cash and cash equivalents	4,642,079	0	0	4,642,079
Term deposits	0	0	0	0
Total	4,642,079	0	0	4,642,079

8.1 Investments

Investments at fair value through profit and loss.

	31 March		1 April
	2024	2023	2022
Term deposit financial institution	2,042,552	-	-

8.2 Reinsurance and Insurance contract assets and liabilities

The breakdown of groups of insurance and reinsurance contracts issued, and reinsurance contracts held, that are in an asset position and those in a liability position is set out in the table below:

	2024			2023		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Insurance contracts issued						
Commercial motor	-	97,535	97,535	-	187,167	187,167
Marine and aviation	-	184,093	184,093	-	331,552	331,552
Liability	-	181,556	181,556	-	426,292	426,292
Other commercial	-	1,106,926	1,106,926	-	2,631,073	2,631,073
Travel	-	859	859	-	-	-
Inwards reinsurance marine	-	3,329	3,329	-	16,621	16,621
Total insurance contracts issued	**-**	**1,574,298**	**1,574,298**	**-**	**3,592,704**	**3,592,704**
Reinsurance contracts held						
Commercial motor	80,550	-	80,550	91,410		91,410
Marine and aviation	152,034	-	152,034	161,925		161,925
Liability	149,939	-	149,939	208,194		208,194
Other commercial	914,160	-	914,160	1,284,973		1,284,973
Travel	709	-	709	-	-	-
Inwards reinsurance marine	2,749	-	2,749	8,117		8,117
Total reinsurance contracts held	**1,300,141**	**-**	**1,300,141**	**1,754,619**	**-**	**1,754,619**

8.3 Current tax asset

	2024	**2023**
	$	$
Current tax asset / (liability)	**(356,294)**	**83,446**

The provisional tax paid during the current year is $84,625 (2023: $83,446) via quarterly instalments and net of current year income tax.

8.4 Deferred tax asset

	2024	2023
Deferred Tax Asset Composition:	$	$
Expense accruals		79,771
Claims handling provision	149,681	202,991
Total	149,681	282,762
Taxed at 28%	41,911	79,173
Total deferred tax asset	**41,911**	**79,173**

8.5 Other payables

	2024	2023
Related entities	$	$
Reinsurance payable	576,406	230,839
Management fee payable to Tokio Marine Management (Australasia) Pty Ltd	26,380	25,949
Total payables to related entities	**602,786**	**256,788**
Other payables		
Accrued expenses	199,012	79,771
GST Payable	16,173	40,989
Others	155,845	3,445
Total Trade and other payables	**371,030**	**124,205**
Total Other payables	**973,816**	**380,993**

9 Financial reporting segments

The entity operates and underwrites general insurance contracts in New Zealand.

10 Capital expenditure commitments.

There are no capital expenditure commitments that have been entered but not provided for in these accounts (2022 Nil).

11 Contingent liabilities

There are no contingent liabilities outstanding as at balance date (2022 Nil).

12 Credit rating

The entity was assigned the financial rating of A+ by rating agency Standard and Poor's (Australia) Pty Ltd.

13 Events after reporting date

Since the end of the financial year, 31 March 2024, the directors are not aware of any matter or circumstance not otherwise dealt with in the financial statements that has any material impact or may affect the operations of the Branch or the results of those operations in subsequent financial years.