The New India Assurance Company Limited - New Zealand Branch

Annual report 2021

Report contents

Directors' declaration

In the opinion of the Directors of The New India Assurance Company Limited ('the Company') the financial statements and notes, on pages 3 to 25:

- comply with New Zealand generally accepted accounting practice and present fairly the financial position of the Company as at 31 March 2021 and the result 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 Company 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 Company, 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 the annual report including the financial statements of The New India Assurance Company Limited - New Zealand Branch for the year ended 31 March 2021.

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

The Directors had no interests in contracts with the Branch except as disclosed in note 23.

The Directors do not receive any remuneration from the Branch.

One employee received remuneration and other benefits of between $130,000 - $140,000.

One employee received remuneration and other benefits of between $230,000 - $240,000.

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

The Auditor's remuneration from the Branch is as disclosed at Note 7.

Date: 02/08/2021

Date: 02/08/2021

Directory

Incorporation number	1489374
Principal activities	General insurance. There have been no changes in the main activities of the Company during the year.
Registered office	Level 5 63 Albert Street Auckland 1030 New Zealand
Directors	S.K. Banerjee (resigned 29 September 2020) S.K. Chanana (resigned 28 September 2020) A. Sahai A.K. Goel S.P. Rajeev Aerathu S. Kaushik P. Chunduru (resigned 9 July 2020) B. Swamy (appointed 1 December 2020) V. Kaul (appointed 3 July 2020) S. Mukherjee (appointed 1 December 2020, resigned 1 January 2021)
Auditor	Baker Tilly Staples Rodway Auckland

Statement of comprehensive income

For the year ended 31 March 2021
in New Zealand dollars

	Note	2021 $	2020 $
Gross earned premium revenue	6	28,831,983	25,590,617
Outwards reinsurance premium expense	23	(19,271,371)	(4,510,537)
Net premium revenue		**9,560,612**	**21,080,080**
Claims expense		(34,763,587)	(11,140,034)
Reinsurance and other recoveries revenue	6	25,590,409	2,736,975
Net claims incurred		**(9,173,178)**	**(8,403,059)**
Acquisition costs		(1,079,890)	(1,153,700)
Other expenses	7	(1,133,584)	(1,157,576)
Underwriting expense		**(2,213,474)**	**(2,311,276)**
Underwriting profit/(loss)		**(1,826,040)**	**10,365,745**
Investment income	8	2,264,481	2,309,849
Interest on lease liabilities		(35,053)	(5,321)
Profit before income tax		**403,388**	**12,670,273**
Income tax expense	9	(652,605)	(3,675,457)
Profit/(loss) for the year		**(249,217)**	**8,994,816**
Other comprehensive income for the year, net of income tax		-	-
Total comprehensive income/(loss) for the year		**(249,217)**	**8,994,816**

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

Statement of financial position

As at 31 March 2021
in New Zealand dollars

	Note	2021 $	2020 $
Assets			
Current assets			
Cash and cash equivalents		939,727	464,223
Trade and other receivables	13	6,987,288	7,456,691
Investments	12	53,717,416	54,929,606
Income tax receivable	9	4,446,714	597,827
Deferred acquisition costs	14	597,195	574,980
Total current assets		**66,688,340**	**64,023,327**
Non-current assets			
Property, plant and equipment	10	25,799	17,733
Right of use assets	11	434,009	555,336
Investments	12	45,699,157	25,833,857
Total non-current assets		**46,158,965**	**26,406,926**
Total assets		**112,847,305**	**90,430,253**
Liabilities			
Current liabilities			
Trade and other payables	15	1,206,586	1,074,275
Outstanding claim provisions	16	38,060,765	9,538,078
Lease liabilities	11	87,226	84,455
Unearned premium reserve	19	13,092,223	13,227,742
Total current liabilities		**52,446,800**	**23,924,550**
Non-current liabilities			
Lease liabilities	11	363,612	471,857
Deferred tax liability	9	434,583	101,477
Total non-current liabilities		**798,195**	**573,334**
Total liabilities		**53,244,995**	**24,497,884**
Equity			
Retained earnings		37,199,020	37,448,237
Head office account	23	22,403,290	28,484,132
Total equity		**59,602,310**	**65,932,369**
Total liabilities and equity		**112,847,305**	**90,430,253**

Director
Date: 02/08/2021

Director
Date: 02/08/2021

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 2021
in New Zealand dollars

	Note	Head office $	Retained earnings $	Total $
Balance at 1 April 2020		28,484,132	37,448,237	65,932,369
Total comprehensive expense for the year				
Profit for the year		-	(249,217)	(249,217)
Other comprehensive income/(expense)		-	-	-
Movement in Head Office Account	23	(6,080,842)	-	(6,080,842)
Total comprehensive expense for the year		(6,080,842)	(249,217)	(6,330,059)
Balance at 31 March 2021		22,403,290	37,199,020	59,602,310
Balance at 1 April 2019		23,843,109	28,453,421	52,296,530
Total comprehensive income for the year				
Profit for the year		-	8,994,816	8,994,816
Other comprehensive income/(expense)		-	-	-
Movement in Head Office Account	23	4,641,023	-	4,641,023
Total comprehensive income for the year		4,641,023	8,994,816	13,635,839
Balance at 31 March 2020		28,484,132	37,448,237	65,932,369

Statement of cash flows

For the year ended 31 March 2021
In New Zealand dollars

	Note	2021 $	2020 $
Cash flows from operating activities			
Premiums received		29,089,067	28,791,004
Reinsurance and other recoveries received		242,219	2,346,961
Interest received		2,364,980	2,249,923
Interest paid		(35,053)	(5,321)
Claims paid		(6,240,900)	(7,508,973)
Outwards reinsurance premiums paid		-	(153,065)
Acquisition expenses recovered/(paid)		(1,102,105)	(1,144,694)
Other underwriting expenses paid		(914,080)	(1,300,770)
Income tax received/(paid)		(4,168,386)	(4,950,256)
Net cash from operating activities	21	19,235,742	18,324,809
Cash flows from investing activities			
Investment in term deposits at banking institutes		(18,653,110)	(19,909,664)
Purchase of property, plant and equipment		(26,676)	(8,858)
Net cash used in investing activities		(18,679,786)	(19,918,522)
Cash flows from financing activities			
Payment of lease liabilities		(80,452)	(14,645)
Net cash used in financing activities		(80,452)	(14,645)
Net increase/(decrease)		475,504	(1,608,358)
Opening cash and cash equivalents 1 April		464,223	2,072,581
Closing cash and cash equivalents 31 March		939,727	464,223

Notes to the financial statements

1 Reporting entity

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

The Company is a for-profit reporting entity.

The Company provides general insurance services directly to other entities.

The financial statements presented are for The New India Assurance Company Limited as at and for the year ended 31 March 2021. The financial statements were authorised for issue by the Directors on date included on page 1.

2 Basis of preparation

These financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'). They comply with the New Zealand Equivalents to International Financial Reporting Standards and other applicable Financial Reporting Standards, as appropriate for 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 Company's functional and presentation currency. All amounts are rounded to the nearest dollar.

Except as described below, all accounting policies set out below have been consistently applied to all periods presented in these financial statements. Where applicable, certain comparatives have been restated to comply with the accounting presentation adopted in the current year to ensure consistency with the current year classification.

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.

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.

Key sources of estimation uncertainty

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

COVID-19

The Branch has also applied professional judgement when considering the impacts of the COVID-19 pandemic, including its impact on cash flow forecasts, continued liquidity, and impairment of assets. Despite there being uncertainty around the duration and broader impact of COVID-19, it is not expected to have a material impact on the recoverability of the assets of the Branch or its ability to meet their financial obligations as they come due in the foreseeable future.

Notes to the financial statements (continued)

2 Basis of preparation (continued)

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 claims incurred but not reported (IBNR) and claims incurred but not enough reported (IBNER) to the Branch.

The Company 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 from 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:

- change in economic environment
- changes in the mix of business
- changes in claim 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.

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.

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.

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.

Assets Backing General Insurance Liabilities

The Company 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.

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.

Cash and cash equivalents that have fixed or determinable payments that are not quoted in an active market are classified as financial assets.

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.

Equity Retention

It is the policy of the directors to ensure that equity retained provides an adequate level of solvency when measured against capital requirements to support the assets of the Branch. The Branch equity in form of a Head Office Account represents funding provided by the Head office together with accumulated retained earnings, repayable at the discretion of the Branch which is the amount retained for the purpose of financial soundness.

Notes to the financial statements (continued)

2 Basis of preparation (continued)

New accounting standards and interpretations

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

Significant accounting standards adopted during the year that are first operative

There were no accounting standards which are first operative adopted during the year.

Standards issued but not yet effective

The Company will adopt the following new and revised standards when they become mandatory:

Standards	Effective for periods beginning
NZ IFRS 17 *Insurance Contracts*	1 January 2023
NZ IFRS 9 *Financial Instruments*	1 January 2023

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. This standard became effective for periods beginning on or after 1 January 2018. 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. As the Branch's activities are predominantly connected with insurance contracts within the scope of IFRS 4, the Branch qualifies for the temporary exemption outlined in NZIFRS 4.20A-20B to defer the application of IFRS 9 until 2023. The Branch expects that the measurement bases of the Branch's financial assets and liabilities under NZ IAS 39 and NZ IFRS 9 will have no material impact on the financial statements.

NZ 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 2023. The Branch is yet to assess the impact of IFRS 17.

With the exception of NZ IFRS 17 *Insurance Contracts*, the Company does not expect the adoption of these standards to result in a material impact on the financial statements.

Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of Company at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date.

The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Notes to the financial statements (continued)

2 Basis of preparation (continued)

Impairment

The carrying amounts of the Company's non-financial assets (property, plant and equipment and right of use assets) are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets.

Impairment losses are recognised in profit or loss. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3 Actuarial assumptions and methods

The actuary who carried out the valuation of the claims reserving of the Branch is Simon Ferry from the actuarial team at Aon New Zealand . The Branch has appointed Simon Ferry to act as the Appointed Actuary.

Report Date: 15 July 2021

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.

Unexpired risk liability

The unearned premium liability was found to be adequate as at 31 March 2021.

The probability of sufficiency (POS) adopted in performing the liability adequacy test (LAT) is set at the 75th percentile (2020: 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.

Assumptions

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

	2021	2020
Inflation rate	1.82%	1.70%
Discount rate	0.38%	1.04%
Discounted mean term (years)	2	2
Claim handling expense ratio	1.10%	4.70%
Risk margin	15.00%	15.00%

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. The Chain Ladder Method computes incurred but not reported (IBNR) losses by way of run-off triangles, a probabilistic binomial tree that contains losses for the current year as well as premiums and prior loss estimators. The Payments Per Claim Incurred Method assumes that after adjusting for the total number of claims in the accident period, from accident period to accident period the average amount paid is consistent for each development point in time.

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 1.82% per annum. Most claims are of a short to medium term duration.

Notes to the financial statements (continued)

3 Actuarial assumptions and methods (continued)

Discount Rate

The discount rate used is 0.38% 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 2021. 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 at 31 March 2021 (2020: 75%). The risk margin reflects the predominantly short tail nature of the business.

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 Expense ratio, from 1.1% to 1.2%, will result in a 0.1% increase ($35,500) in Outstanding Claims Liability, decreasing the reported profit and equity by the same amount. Likewise a 10% increase in Risk Margin, from 15% to 16.5%, will result in a 1.3% increase ($485,200) in Outstanding Claims Liability, decreasing profit and equity by the same amount.

Refer notes 17 and 18 for further details of the development of claims and concentration of risk.

Solvency

As at 31 March 2021, The New India Assurance Company Limited had an audited Solvency Ratio (Total Available Solvency Margin/ Total Required Solvency Margin) of 2.13 (= Rs148.52bn/Rs69.74bn or $2.894bn/$1.359bn) in accordance with Section 64VA of the Insurance Act, 1938 and the Insurance Regulatory and Development Authority of India (Assets, Liabilities and Solvency Margin of General Insurance Business) Regulation 2016. The Solvency ratio was audited by Mukund M. Chitale & Co. and Kailash Chand Jain & Co.

	31 March 2021		31 March 2020	
	Rs billions	NZ$ billions	Rs billions	NZ$ billions
Actual solvency capital	148.52	2.894	142.96	3.155
Minimum solvency capital	69.74	1.359	67.70	1.494
Solvency margin	78.78	1.535	75.26	1.661
Solvency ratio	2.13	2.13	2.11	2.11

4 Insurance Contracts Risk Management Policies and Procedures

The Company writes general commercial insurance in New Zealand.

The principal risk the Company 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 Company 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 Company purchases reinsurance as part of its risk mitigation programme. Reinsurance ceded is placed on both a proportional and non-proportional basis. The majority of proportional reinsurance is treaty reinsurance placements which is taken out to reduce the overall exposure of the Company 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.

The Company has received an B++ (Good) Financial Strength Rating from A M Best Company, an approved agency by the Reserve Bank of New Zealand, dated 17 July 2020. The credit rating is an indication of the Branch's ability to pay current and future claims.

Notes to the financial statements (continued)

5 Insurance and Financial Risks

Credit risk

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

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

The Branch has investments in bank fixed deposits mostly for 1-3 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.

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.

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

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 2021	Rated	Unrated
Financial assets	$	$
Term deposit with credit institutions	99,416,573	-
Trade receivables	-	5,129,031
Cash and cash equivalents	939,727	-
Accrued Interest	135,661	-
Total	100,491,961	5,129,031

31 March 2020	Rated	Unrated
Financial assets	$	$
Term deposit with credit institutions	80,763,463	-
Trade receivables	-	5,521,634
Cash and cash equivalents	464,223	-
Accrued interest	236,160	-
Total	81,463,846	5,521,634

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 Standard & Poor's, A+ of Fitch and A1 of Moody's, Bank of India (New Zealand) Limited having a credit rating of BB+ of Standard and Poor's and Bank of Baroda having a credit rating of BBB- of Fitch. 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.

Deposits held in:	2021	2020
	%	%
Bank of India	28	21
ANZ	64	76
Bank of Baroda	7	3
Total	100	100

Age analysis of financial assets past due but not impaired

For assets to be classified as "past-due" but not 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 2021, there were $402,466 of financial assets past due but not impaired (2020: $888,298).

Notes to the financial statements (continued)

5 Insurance and Financial Risks (continued)

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.

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.

2021	Less than 1 year	1-5 years	5+ years	Total
Financial Liabilities				
Outstanding claims	29,032,532	9,028,233	-	38,060,765
Non-interest bearing payables	1,206,586	-	-	1,206,586
	30,239,118	9,028,233	-	39,267,351

2020	Less than 1 year	1-5 years	5+ years	Total
Financial Liabilities				
Outstanding claims	8,010,761	1,527,317	-	9,538,078
Non-interest bearing payables	1,074,275	-	-	1,074,275
	9,085,036	1,527,317	-	10,612,353

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 equity comprising accumulated profits and the Head Office account 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.

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 rigourous 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.

Notes to the financial statements (continued)

5 Insurance and Financial Risks (continued)

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.

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

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.

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
2021					
Non-interest bearing					
Cash		939,727	-	-	939,727
Trade and other receivables		6,987,288	-	-	6,987,288
Fixed interest rate instruments					
Short term deposits	1.96%	53,717,416	-	-	53,717,416
Medium term deposits	1.60%	-	45,699,157	-	45,699,157
		61,644,431	45,699,157	-	107,343,588

	Weighted average interest rate	Less than 1 year	1-5 years	5+ years	Total
2020					
Non-interest bearing					
Cash		464,223	-	-	464,223
Trade and other receivables		7,456,691	-	-	7,456,691
Fixed interest rate instruments					
Short term deposits	3.31%	54,929,606	-	-	54,929,606
Medium term deposits	2.91%	-	25,833,857	-	25,833,857
		62,850,520	25,833,857	-	88,684,377

A change of 25 basis points in interest rates would increase or decrease net profit before tax by $248,541 (2020: $201,909).

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 (2020: nil).

Notes to the financial statements (continued)

6 Revenue

	2021	2020
	$	$
Gross written premium	28,896,186	29,496,897
Movement in unearned premium	(64,203)	(3,906,280)
Gross earned premium reserve	28,831,983	25,590,617
Reinsurance and other recoveries revenue	25,590,409	2,736,975
	54,422,392	28,327,592

Revenue policy

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 365ths method which is considered to closely approximate the pattern of incidence of risk.

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

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.

7 Expenses

	2021	2020
The following are included in Other expenses:	$	$
Depreciation	114,915	24,699
Salaries and wages	572,136	575,349
Auditor's remuneration comprises:		
Audit of financial statements - Baker Tilly Staples Rodway Auckland	34,500	34,500
Audit of financial statements (underaccrual of 2019) - Baker Tilly Staples Rodway Auckland	-	10,000
Other assurance services - Baker Tilly Staples Rodway Auckland	28,500	28,500
Total auditor's remuneration	63,000	73,000

8 Investment Income

	2021	2020
	$	$
Interest income	2,264,481	2,309,849
Total investment income	2,264,481	2,309,849

Investment income policy

Investment income comprises interest income. Interest income is recognised in the Statement of Comprehensive Income as it accrues using the effective interest method.

Notes to the financial statements (continued)

9 Income tax

	2021 $	2020 $
Tax recognised in profit or loss		
Current tax expense		
Current period	325,332	3,659,227
Adjustment for prior periods	(5,834)	-
Total current tax expense	319,498	3,659,227
Deferred tax expense		
Origination and reversal of temporary differences	(8,622)	15,760
Adjustment for prior periods	470	470
Adjustment for Non-resident reinsurance	341,259	-
Total deferred tax expense	333,107	16,230
Total income tax expense	652,605	3,675,457
Reconciliation of effective tax rate		
Profit before tax	403,388	12,670,273
Income tax using the Company's domestic tax rate of 28%	112,951	3,547,677
Income tax liability on "as agent" tax return	203,101	126,295
Permanent differences	658	1,015
Prior period adjustment	(5,364)	470
Adjustment for Non-resident reinsurance	341,259	-
Income tax expense	652,605	3,675,457
Deferred tax		
Provisions and accruals	51,966	42,031
Receivables	17,212	17,213
Deferred acquisition cost	(167,214)	(160,994)
Leases	4,712	273
Non-resident reinsurance	(341,259)	-
Net deferred tax liability	(434,583)	(101,477)

The current tax receivable of $4,446,714 (2020: $597,827 receivable) represents the amount of income taxes recoverable and payable in respect of current and prior periods.

Income tax policy

Current 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 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)

10 Property, plant and equipment

	2021				
	Furniture and fittings	Motor vehicles	Office equipment	Other assets	Total
	$	$	$	$	$
Cost					
Balance at 1 April 2020	49,709	46,923	50,717	8,868	156,217
Additions	-	-	-	26,675	26,675
Balance at 31 March 2021	49,709	46,923	50,717	35,543	182,892
Depreciation and impairment losses					
Balance at 1 April 2020	(42,013)	(42,658)	(47,127)	(6,686)	(138,484)
Depreciation for the year	(1,548)	(973)	(298)	(15,790)	(18,609)
Balance at 31 March 2021	(43,561)	(43,631)	(47,425)	(22,476)	(157,093)
Carrying amount at 31 March 2021	6,148	3,292	3,292	13,067	25,799

	2020				
	Furniture and fittings	Motor vehicle	Office equipment	Other assets	Total
	$	$	$	$	$
Cost					
Balance at 1 April 2019	48,566	46,923	50,717	1,153	147,359
Additions	1,143	-	-	7,715	8,858
Balance at 31 March 2020	49,709	46,923	50,717	8,868	156,217
Depreciation and impairment losses					
Balance at 1 April 2019	(40,207)	(41,345)	(46,777)	(1,078)	(129,407)
Depreciation for the year	(1,806)	(1,313)	(350)	(5,608)	(9,077)
Balance at 31 March 2020	(42,013)	(42,658)	(47,127)	(6,686)	(138,484)
Carrying amount at 31 March 2020	7,696	4,265	3,590	2,182	17,733

Property, plant and equipment policy

Recognition and measurement

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

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

Depreciation

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

Furniture and fittings	15% to 19% diminishing value
Motor vehicles	26% diminishing value
Office equipment	14% to 60% diminishing value
Other assets	19% to 25% diminishing value

The residual value of assets is reassessed annually.

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.

Notes to the financial statements (continued)

11 Leases

	2021	2020
	$	$
Balance at 1 April	555,336	-
Additions	-	570,957
Lease modification	(25,022)	-
Depreciation charge for the year	(96,305)	(15,621)
Balance at 31 March	434,009	555,336

	2021	2020
	$	$
Current	(87,226)	(84,455)
Non-current	(363,612)	(471,857)
Total lease liabilities	(450,838)	(556,312)

The interest rate applied to lease liabilities is 6.5%, and the leases mature between 31 March 2022 and 31 December 2027.

The Company is exposed to future cash flows arising from variable payments, extension options and termination options, residual value guarantees and leases not yet commenced to which the Company is committed to.

	2021	2020
	$	$
Interest on lease liabilities	35,053	5,321
Expenses relating to short-term leases	-	100,120
Expenses relating to leases of low-value assets, excluding short-term of low-value assets	4,329	4,329

Cash outflows for leases totalled $119,835 during the year (2020:$124,415).

Leases policy

Recognition and measurement

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

Notes to the financial statements (continued)

11 Leases (continued)

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets, including office equipment. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Extension options

Some leases of buildings contain extension options exercisable by the Company up to one year before the end of the non-cancellable contract period. The extension options held are exercisable only by the Company as the lessee and not by the lessors. The Company assesses at lease commencement whether it is reasonably certain to exercise the extension options. The Company reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within its control.

Impairment

The right-of-use asset is regularly assessed for impairment (see further detail in note 2).

12 Investments

	2021 $	2020 $
Current		
Term deposits	53,717,416	54,929,606
	53,717,416	54,929,606
Non-current		
Term deposits	45,699,157	25,833,857
	45,699,157	25,833,857
Total investments	99,416,573	80,763,463

Investments policy

Term deposits are held with various financial institutions and are held to maturity measured at amortised cost at balance date.

Notes to the financial statements (continued)

13 Trade and other receivables

	2021	2020
	$	$
Premium due from policyholders and intermediaries	5,190,502	5,583,105
Provision for doubtful debts - trade receivables	(61,471)	(61,471)
Total trade receivables	5,129,031	5,521,634
Other receivables	315,921	462,354
Accrued interest	135,661	236,160
Prepayments	1,406,675	1,236,543
Total other receivables	1,858,257	1,935,057
Total receivables	6,987,288	7,456,691

Trade and other receivables policy

Trade receivables are stated at their cost less allowance for impairment 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.

A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered objective evidence of impairment. In the current year the Branch has recognised an increase in doubtful debts of $nil (2020: $nil).

Trade receivables that have fixed or determinable payments that are not quoted in an active market are classified as financial assets, and measured at at amortised cost using the effective interest method less impairment.

14 Deferred acquisition costs

	2021	2020
	$	$
Opening balance at 1 April	574,980	583,986
Additions	1,102,105	1,144,693
Amortisation	(1,079,890)	(1,153,699)
Total deferred acquisition cost	597,195	574,980

Deferred acquisition costs policy

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.

Notes to the financial statements (continued)

15 Trade and other payables

	2021	2020
	$	$
Trade payables	274,668	279,261
Non trade payables and accrued expenses	863,544	757,631
Liability for annual leave	68,374	37,383
	1,206,586	1,074,275

Trade and other payables policy

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.

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

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 financial liabilities at amortised cost. These financial liabilities are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

16 Outstanding claims provision

	2021	2020
	$	$
Central estimate of outstanding claims provisions (including risk margin)	36,950,519	8,329,464
Claim handling expenses	361,272	372,628
Claims incurred but not reported	635,615	711,232
Claims but not enough reported	113,359	124,754
Total outstanding claims provision	38,060,765	9,538,078

The risk margin used to determine claims incurred but not reported included in total outstanding claims is 15% (2020: 15%) of the central estimate.

Outstanding claims provision policy

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.

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

Notes to the financial statements (continued)

17 Development of claims

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

	2016	2017 $	2018 $	2019 $	2020 $	2021 $	Total $
Ultimate claims cost estimate							
At the end of incident year	2,803,264	2,258,942	9,642,344	4,292,620	9,387,054	6,794,826	
One year later	3,895,868	2,223,118	2,398,129	5,117,448	5,037,319	-	
Two years later	3,612,675	1,465,372	8,387,957	5,279,579	-	-	
Three years later	3,574,582	2,119,622	8,311,163	-	-	-	
Four years later	2,108,335	2,106,827	-	-	-	-	
Five years later	2,080,221	-	-	-	-	-	
Earlier	-	-	-	-	-	-	
Current estimate of ultimate cost	2,080,221	2,106,827	8,311,163	5,279,579	5,037,319	6,794,826	
Cumulative payments	(2,027,787)	(2,106,827)	(8,293,580)	(5,181,584)	(4,672,281)	(941,281)	
Undiscounted central estimate	52,433	-	17,583	97,995	365,038	5,853,545	6,386,593
Discount to present value	(46)	-	(15)	(86)	(319)	(5,123)	(5,589)
Discounted central estimate	52,388	-	17,568	97,909	364,719	5,848,422	6,381,004
Claims management expenses							360,127
IBNR							633,600
Risk margin							4,948,708
Net outstanding claims liability							12,323,439
Reinsurance and third party recoveries on outstanding claim liability							25,737,327
Gross outstanding claims liability							38,060,765

18 Concentration of Insurance Risk

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

2021	No. of Risks	Building $	Contents $	BI $	Total $
Northland	44	25	11	29	65
Auckland	1,127	1,249	536	557	2,342
Waikato/Hamilton	171	212	143	77	432
Bay of Plenty/Tauranga/Rotorua	143	364	123	81	568
Taranaki/New Plymouth	52	65	56	25	146
East Coast/Gisbourne	21	20	11	34	65
Manawatu/Wanganui/P. North	154	305	60	81	446
Napier/Hastings/Hawkes Bay	144	295	109	68	472
Wairarapa/Masterton	-	-	-	-	-
Wellington/Lower Hutt/Porirua	188	360	71	103	534
Nelson	295	215	149	89	453
Marlborough/Blenheim	38	65	47	14	126
Canterbury/Christchurch	407	395	214	158	767
Westland/Greymouth	40	24	25	8	57
Otago/Dunedin	91	101	51	46	198
Southland/Invercargill	159	66	66	32	164
Pacific Islands of NZ	94	86	34	41	161
	3,168	3,847	1,706	1,443	6,996

Notes to the financial statements (continued)

18 Concentration of Insurance Risk (continued)

2020	No. of Risks	Building	Contents	BI	Total
		$	$	$	$
Northland	33	39	8	8	55
Auckland	1,286	2,420	434	604	3,458
Waikato/Hamilton	216	248	208	64	520
Bay of Plenty/Tauranga/Rotorua	116	290	111	59	460
Taranaki/New Plymouth	213	66	35	16	117
East Coast/Gisbourne	1	4	-	-	4
Manawatu/Wanganui/P. North	133	273	61	79	413
Napier/Hastings/Hawkes Bay	219	360	99	99	558
Wellington/Lower Hutt/Porirua	498	545	39	68	652
Nelson	212	198	109	109	416
Marlborough/Blenheim	9	40	2	3	45
Canterbury/Christchurch	265	550	241	181	972
Westland/Greymouth	35	24	21	10	55
Otago/Dunedin	190	175	25	15	215
Southland/Invercargill	189	147	28	21	196
Pacific Islands of NZ	431	534	92	90	716
	4,046	5,913	1,513	1,426	8,852

19 Unearned premium reserve

	2021	2020
	$	$
Opening balance at 1 April	13,227,742	9,331,791
Deferral of premium on contracts written during the year	13,092,223	13,227,742
Earning of premiums deferred in prior years	(13,227,742)	(9,331,791)
Closing balance at 31 March	13,092,223	13,227,742

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	2021	2020
	$	$
Unearned premium	13,092,223	13,227,742
Related deferred acquisition costs	(597,195)	(574,980)
Net unearned premium	12,495,028	12,652,762
Premium liabilities (*)	(7,610,837)	(7,644,894)
Liability surplus	4,884,191	5,007,868
Deferred acquisition cost to be written off	-	-

(*)including risk margin and claims management expenses

Notes to the financial statements (continued)

20 Liability adequacy test (continued)

The Appointed Actuary calculated the Premium Liabilities as Unearned Premiums x Claims Ratio of the last five years x Risk Margin loading x Claims Management Expenses loading ($7,610,837 = $13,092,223 x 50% x 1.15 x 1.0110).

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.

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.

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

Operating activities	2021 $	2020 $
Net profit/(loss) after tax	(249,217)	8,994,816
Add: Non-cash items		
Depreciation	114,915	24,698
Decrease/(increase) in trade and other receivables	469,403	(1,438,147)
(Decrease)/increase in deferred acquisition cost	(22,215)	9,006
Increase/(decrease) in trade and other payables	132,311	(158,800)
Increase in outstanding claim provision	28,522,687	3,631,061
(Decrease)/increase in unearned premiums	(135,519)	3,895,951
Decrease in income tax receivable	(3,848,887)	(1,291,029)
(Decrease) in deferred tax liability	333,106	16,230
Decrease/(increase) in head office account	(6,080,842)	4,641,023
	19,235,742	18,324,809

22 Contingencies and commitments

The Branch had no capital commitments or contingencies as at balance date (2020: nil).

23 Related parties

Key management personnel

Remuneration of key management personnel during the year amounted to short term employee benefits of $368,808 (2020: $371,819). No other types of remuneration were paid to key management personnel during the year.

Transactions and balances

The Head Office has charged the New Zealand branch for Treaty Reinsurance in the amount of $7,253,671 (2020: $4,929,128)

The Head Office has provided funding to support the New Zealand branch and as at 31 March 2021 the funding provided to the New Zealand branch was $22,403,290 (2020: $28,484,132).

Head office account:	2021 $	2020 $
Opening balance	28,484,132	23,843,109
Revision of reinsurance recovery receivable	-	1,880,377
Reinsurance recovery income	(25,525,614)	(2,171,508)
Reinsurance premium expense	19,271,371	4,510,537
Pension contribution expense	3,269	3,028
Prepaid reinsurance premium expense	170,132	418,589
Closing balance	22,403,290	28,484,132

Notes to the financial statements (continued)

24 Subsequent events

There have been no events subsequent to balance date which would materially affect the financial statements.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of The New India Assurance Company Limited - New Zealand Branch

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of The New India Assurance Company Limited - New Zealand Branch ('the Branch') on pages 3 to 25, which comprise the statement of financial position as at 31 March 2021, 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 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 2021, 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') and International Financial Reporting Standards ('IFRS').

Our report is made solely to the Shareholders of the Branch. Our audit work has been undertaken so that we might state to the Shareholders of the Branch 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 Shareholders of the Branch as a body, for our audit work, for our report or for the opinions we have formed.

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 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) *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. 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 auditor and provider of other assurance services we have no relationship with, or interests in, The New India Assurance Company Limited - New Zealand Branch. The provision of these other assurance services has not impaired our independence.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Valuation of Outstanding Claims Provision As disclosed in Note 16 of the Branch's financial statements the Branch has outstanding claims provision of \$38.1m. The Branch's insurance contract liabilities were significant to our audit due to the size of the liabilities and the subjectivity, complexity and uncertainty inherent in estimating the impact of claims events that have occurred but for which the eventual outcome remains uncertain. Management has engaged an external actuarial expert to estimate the Branch's insurance contract liabilities as at 31 March 2021.	Our audit procedures among others included: • Understanding and evaluating the Branch's internal controls relevant to the accounting estimates used to determine the valuation of the Branch's outstanding claims provision. • Evaluating the design and operating effectiveness of the key controls over insurance contract origination, ongoing administration, claims management and reporting and the integrity of the related data. • Evaluating the competence, capabilities, objectivity and expertise of Management's external actuarial expert and the appropriateness of the expert's work as audit evidence for the relevant assertions. • Agreeing the data provided to Management's external actuarial expert to the Branch's records. • Engaging our own actuarial expert to assist in understanding and evaluating: o the work and findings of the Branch's external actuarial expert engaged by Management; and o the Branch's actuarial methods and assumptions to assist us in challenging the appropriateness of actuarial methods and assumptions used by Management. • Evaluating the selection of methods and assumptions with a view to identifying Management bias. • Evaluating the related disclosures (including the accounting policies and accounting estimates) about insurance contract liabilities, and the risks attached to them which are included in Note 3, 4 and 16 in the Branch's financial statements.

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 IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible on behalf of the Branch for assessing the Branch's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Branch or 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.

As part of an audit in accordance with ISAs (NZ), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Branch's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting by the Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Branch's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Branch to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent fairly the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is N S de Frere.

Baker Tilly Staples Rodway

BAKER TILLY STAPLES RODWAY AUCKLAND

Auckland, New Zealand

2 August 2021