AIG INSURANCE NEW ZEALAND LIMITED

ANNUAL REPORT

For the financial year ended 31 December 2022

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DIRECTORS' REPORT

The directors of AIG Insurance New Zealand Limited (the "Company") present their report to the shareholder together with the audited financial statements of the Company for the financial year ended 31 December 2022.

Directors

The directors of the Company in office at the date of this report are as follows:

C H Stobo	(resigned 30 June 2022)
J A Dawson	(resigned 01 April 2022)
A J McHarg	(resigned 01 April 2022)
T J Ferrier	
P J Tynan	(resigned 30 November 2022)
T Nagy	
M J Daly	(appointed 01 July 2022)
M Schubert	(appointed 01 August 2022)

Nature of operations and principal activities

The principal activities of the Company during the year were the underwriting of various classes of general insurance and reinsurance of risks.

Dividends

Dividends totalling $25.0m were paid during the financial year ended 31 December 2022 (2021: $66.0m).

Review and result of operations

The operating profit after tax of the Company for the year ended 31 December 2022 was $27.3m (2021: $26.8m). According to the register of directors' shareholdings, none of the directors holding office at the end of the financial year had any interest in the shares or debentures of the Company or its related corporations.

Directors' use of Company information

During the reporting period the Board received no notices from directors of the Company requesting to use Company information received in their capacity as directors, which would not otherwise have been available to them.

Disclosures

Pursuant to Section 211 (3) of the Companies Act 1993, the shareholder has agreed that the annual report of the Company need not comply with Sections 211 (1) (e) to (h) and (j) of the Companies Act 1993.

Auditor

PricewaterhouseCoopers were appointed to undertake the audit of the financial statements for the year ended 31 December 2022.

This report is made in accordance with a resolution of the directors.

In the opinion of the directors,

DIRECTORS' REPORT

(a) the Statement of Financial Position of the Company as set out on page 10 is drawn up so as to present fairly in all material respects, the state of affairs of the Company as at 31 December 2022 and of the results of the business, changes in equity and cash flows of the Company for the financial year then ended; and

(b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the directors

M J Daly
Director

M Schubert
Director

06 April 2023

Independent auditor's report

To the shareholder of AIG Insurance New Zealand Limited

Our opinion

In our opinion, the accompanying financial statements of AIG Insurance New Zealand Limited (the Company), present fairly, in all material respects, the financial position of the Company as at 31 December 2022, 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).

What we have audited

The financial statements comprise:

- the statement of financial position as at 31 December 2022;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and International Standards on Auditing (ISAs). 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

Our firm provides an assurance service over the solvency return for the Company. In addition, our firm has insurance contracts with the Company. All contract terms were negotiated on normal commercial terms and conditions within the ordinary course of trading activities of the Company. Subject to certain restrictions, partners and employees of our firm may deal with the Company on normal terms within the ordinary course of trading activities of the Company. These matters have not impaired our independence as auditor of the Company.

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.

Description of the key audit matter	How our audit addressed the key audit matter
Valuation of gross claims outstanding **2022: $265,604,000 2021: $203,139,000** We considered the valuation of gross claims outstanding a key audit matter because of the complexity involved in the estimation process and the significant judgements the Company makes in determining the balance. Claim reserves are based on the best estimate of all claims incurred but not settled at a given date, regardless of whether these have been reported to the Company. Judgement arises over the estimation of the liability for claims that have been incurred at the reporting date but have not yet been reported to the Company as there is generally less information available in relation to these claims. For claims that have been reported there is uncertainty over the amount which will be settled. The estimation process relies on the quality of underlying claims data and the use of informed estimates to determine the quantum of the ultimate loss. The Company has exercised particular attention to large and catastrophe claims, as for these, case estimates are taken as being the best estimate of the ultimate loss unless there is specific other information available, against which specific manual allowance for claims incurred but not enough reported (IBNER) is applied on a case to case basis. Large losses are defined differently for classes of business. The estimate of expected future payments is discounted to present value using a risk free rate of return in order to reflect the time value of money. Judgement is involved in estimating the period over which claims are expected to settle. Outstanding claims (other than large losses noted above) include a risk margin that allows for the inherent uncertainty in the central estimate of the future claim payments. In determining the risk margin, the Company takes into account various factors, such as portfolio mix, previous periods' claims statistics and the level of uncertainty in the net discounted central estimate. Refer to the following notes in the financial statements: 2.21, 3.1, 3.3-3.10 and 22 of the financial statements, which also describe the elements and judgements that make up the balance.	Our audit procedures included obtaining an understanding of key claims and actuarial processes and controls, including key data reconciliations and the Company's review of the actuarial estimates. Claims case estimate data is a key input to the actuarial estimates. Accordingly, we: • assessed a sample of claim case estimates at the year end to confirm that they were supported by appropriate management assessment and documentation; • assessed on a sample basis the accuracy of the previous claim case estimates by comparing with actual amounts settled during the year; • inspected a sample of claims paid during the year to confirm that they were supported by appropriate documentation and approved within delegated authority limits; and • re-performed key actuarial data reconciliations. Together with PwC actuarial experts we: • considered the work and findings of the Company's actuary; • evaluated the actuarial models and methodologies used by comparing with generally accepted models and methodologies applied in the sector and with the prior year, seeking justification for any variances; • on a sample basis checked the accuracy of the calculations within the models; • assessed key actuarial judgements and assumptions including projected claims, discount rates, inflation rates, indirect claim management expenses, risk margins and payment patterns, comparing these with our expectations based on the Company's historical experience and our own sector knowledge.

Our audit approach

Overview

Materiality	Overall materiality: $2,525,380, which represents 1% of insurance premium revenue. We chose insurance premium revenue as the benchmark because, in our view, it is a key metric used in assessing the performance of the Company and is a generally accepted benchmark for insurance companies. We selected 1% based on our professional judgement, noting that it is also within the range of commonly accepted revenue related benchmarks.
Key audit matters	As reported above, we have one key audit matter, being: • Valuation of gross claims outstanding

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance about whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual report, but does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the financial statements

The Directors are responsible, on behalf of the Company, 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company'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 Company 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) and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

https://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/audit-report-2/

This description forms part of our auditor's report.

Who we report to

This report is made solely to the Company's shareholder. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholder, for our audit work, for this report or for the opinions we have formed.

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
6 April 2023

Auckland

AIG INSURANCE NEW ZEALAND LIMITED

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2022

$ '000	Notes	Year ended 31 Dec 2022	Year ended 31 Dec 2021
Income			
Insurance premium revenue	5	252,538	229,027
Insurance premium ceded to reinsurers	5	(172,918)	(157,760)
Net earned insurance premium revenue	5	79,620	71,267
Reinsurance commission income		55,530	53,910
Total income		**135,150**	**125,177**
Expenses			
Insurance claims	8	(143,980)	(101,105)
Insurance claims recovered from reinsurers	8	101,078	63,523
Net insurance claims	8	(42,902)	(37,582)
Acquisition costs		(20,474)	(19,680)
Net operating expenses	9	(34,771)	(28,096)
Total expenses		**(98,147)**	**(85,358)**
Underwriting result		**37,003**	**39,819**
Net investment income	6	6,193	5,330
Other net (losses)	7	(5,312)	(7,883)
Finance costs		(77)	(31)
Profit before tax		**37,807**	**37,235**
Income tax expense	10	(10,520)	(10,434)
Profit and total comprehensive income for the year		**27,287**	**26,801**

The accompanying notes form an integral part of these financial statements.

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AIG INSURANCE NEW ZEALAND LIMITED

STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

$ '000	Notes	As at 31 Dec 2022	As at 31 Dec 2021
ASSETS			
Cash and cash equivalents	11	62,294	41,721
Trade receivables	13	113,849	108,301
Other receivables	18	6,415	4,481
Reinsurance recoverables	14	28	12
Financial assets at fair value through profit or loss	12	144,020	147,652
Deferred acquisition costs	15	15,942	14,914
Current tax assets		4,095	3,673
Provision for reinsurance on unearned premiums	21	99,321	95,232
Provision for reinsurance on outstanding claims	22	181,181	125,837
Property, plant and equipment	16	1,936	365
Right of use assets	20	2,379	284
Intangible assets	17	1,447	2,087
Deferred tax assets	23	5,672	5,222
Total assets		**638,579**	**549,781**
LIABILITIES			
Trade and other payables	19	82,592	77,392
Lease liabilities	20	2,962	324
Deferred reinsurance commission	15	32,286	29,863
Provision for gross unearned premiums	21	150,944	137,159
Provision for gross claims outstanding	22	265,604	203,139
Total liabilities		**534,388**	**447,877**
EQUITY			
Share capital	25	105,250	105,250
Accumulated losses		(1,059)	(3,346)
Total equity attributable to owners of the company		**104,191**	**101,904**
Total liabilities and equity		**638,579**	**549,781**

On behalf of the directors

M J Daly
Chair

M Schubert
Director

06 April 2023

The accompanying notes form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2022

$ '000	Note	Share capital	Retained earnings / Accumulated losses	**Total**
At 1 January 2021		**105,250**	**35,853**	**141,103**
Total comprehensive income				
Profit for the year		-	26,801	26,801
Total comprehensive income for the year		**-**	**26,801**	**26,801**
Dividend to equity holders	25	-	(66,000)	(66,000)
At 31 December 2021		**105,250**	**(3,346)**	**101,904**
Total comprehensive income				
Profit for the year		-	27,287	27,287
Total comprehensive income for the year		**-**	**27,287**	**27,287**
Dividend to equity holders	25	-	(25,000)	(25,000)
At 31 December 2022		**105,250**	**(1,059)**	**104,191**

STATEMENT OF CASH FLOWS
For the year ended 31 December 2022

$ '000	Notes	Year ended 31 Dec 2022	Year ended 31 Dec 2021
Cash flow from operating activities:			
Premiums received		262,557	226,327
Reinsurance claim recoveries		43,930	74,570
Interest received		3,668	2,136
Claims paid		(81,843)	(77,272)
Outwards reinsurance premiums paid		(175,270)	(159,263)
Net acquisition costs		(21,493)	(18,549)
Net reinsurance commission		57,953	52,541
Income tax paid		(8,254)	(12,704)
General operating expenses		(33,488)	(20,244)
Net cash provided by operating activities	4	**47,760**	**67,542**
Cash flow from investing activities:			
Purchases of financial assets		(28,040)	(75,440)
Maturities and disposal of financial assets		28,473	63,807
Purchases of property, plant, equipment and software		(2,059)	(697)
Proceeds from sale of property, plant, equipment and software		2	-
Net cash (used in) investing activities		**(1,624)**	**(12,330)**
Cash flow from financing activities:			
Principal paid on leases		(563)	(1,097)
Dividend paid	25	(25,000)	(66,000)
Net cash used in financing activities		**(25,563)**	**(67,097)**
Net increase /(decrease) in cash and cash equivalents		**20,573**	**(11,885)**
Cash and cash equivalents at the beginning of year	11	41,721	53,606
Cash and cash equivalents at the end of year	11	62,294	41,721

The accompanying notes form an integral part of these financial statements.

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

1 General information

AIG Insurance New Zealand Limited ("the Company") is a limited liability company and is domiciled in New Zealand. The Company is rated "A" (strong) by Standard & Poors (2021: "A" strong). The sole shareholder of the Company is AIG Asia Pacific Insurance Pte Ltd incorporated in Singapore. The ultimate parent company is American International Group Inc, ("AIG") and is registered in the state of Delaware, USA. The nature of the operations and principal activities of the Company during the year were the underwriting of various classes of general insurance and reinsurance risks.

The registered office of the Company is Level 7, Jarden House, 21 Queen Street, Auckland.

The financial statements have been authorised for issue by the Board of Directors on 06 April 2023. The directors do not have the power to amend these financial statements after issue.

2 Significant accounting policies

2.1 Basis of preparation

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZGAAP). The financial statements comply with New Zealand Equivalents to International Financial Reporting Standards ("NZIFRS") and International Financial Reporting Standards ("IFRS") as appropriate for for-profit entities. The financial statements have been prepared in accordance with the Financial Markets Conduct Act 2013 and the Companies Act 1993. They have been prepared under the historical cost convention, as modified by the revaluation of certain assets as identified in specific accounting policies below. AIG Insurance New Zealand Limited is a for-profit entity for the purposes of complying with NZ GAAP.

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

All amounts in the financial statements and notes are shown in thousands of New Zealand dollars, rounded to the nearest thousand, unless otherwise stated.

2.2 New standards and interpretations adopted

No new standards have been adopted by the Company for the first time that have had a material financial or disclosure impact on the Company.

New standards and interpretations applicable to the Company not yet adopted

The following are new standards, amendments and interpretations issued but which are not effective for the financial year beginning on 1 January 2022 and have not been adopted early by the Company.

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2. Significant accounting policies (continued)

NZ IFRS 17: Insurance Contracts

NZ IFRS 17 "Insurance Contracts" (effective from 1 January 2023) replaces the current guidance in NZ IFRS 4. It establishes the principles for recognition, measurement, presentation, and disclosure of insurance contracts. NZ IFRS 17 is effective for accounting periods beginning on or after 01 January 2023. The adoption of NZ IFRS 17 will result in significant changes to the accounting for insurance contracts issued and reinsurance contracts held by the Company. AIG globally has established a multi-functional project team to implement IFRS 17 across the entire business.

All references to 'insurance contracts' within this note should be read as being equally applicable to both insurance contracts issued and reinsurance contracts held unless explicitly stated otherwise.

Scope

When identifying contracts in the scope of IFRS 17, in some cases the Company will have to assess whether:

- a set or series of individual insurance contracts are required to be combined and treated as a single contract for measurement purposes; and
- any embedded derivatives, distinct investment components and transfers of distinct goods and services have to be separated from the contract and accounted for under another standard.

The Company does not expect significant changes arising from the application of these requirements.

Level of aggregation

Under NZ IFRS 17, the Company recognises and measures contracts on the basis of groups rather than individual contracts. In determining groups, the Company first identifies portfolios of insurance contracts that are subject to similar risks and managed together. Each portfolio is then further disaggregated into groups of insurance contracts with insurance contracts allocated to a group on the basis of expected profitability at initial recognition and annual cohorts. Once established at initial recognition, the composition of the groups is not reassessed subsequently.

Contract boundary

The measurement of a group of insurance contracts includes all the 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 Company can compel the policyholder to pay premiums or the Company has a substantive obligation to provide the policyholder with insurance contract services (the 'coverage period').

For groups of reinsurance contracts held, cash flows are within the contract boundary if they arise from substantive rights and obligations of the Company that exist during the reporting period in which the Company is compelled to pay amounts to the reinsurer or in which the Company has a substantive right to receive insurance contract services from the reinsurer.

Measurement

NZ IFRS 17 introduces a new measurement model, the general measurement model (GMM), that comprises the fulfilment cash flows and the contractual service margin. The fulfilment cash flows represent the expected cash flows attributable to insurance contracts discounted to a present value and an explicit risk adjustment for non-financial risk. The contractual service margin represents the unearned profit that the Company will recognise as it provides insurance services over the coverage period of the insurance

2 Significant accounting policies (continued)

contract. NZ IFRS 17 also introduces two modifications to the GMM: the variable fee approach (VFA) which is mandatory for insurance contracts where the policyholder has a direct participating interest; and the premium allocation approach (PAA) which is an optional simplification of the general measurement model where certain criteria are met.

The Company has no insurance contracts within the scope of the VFA.

The Company has evaluated the eligibility for applying the PAA to all groups of insurance contracts in force at the transition date (1 January 2022) and for the current period, and PAA is expected to be applied to all insurance lines. The Company therefore expects to measure all groups of insurance contracts applying the PAA and consequently no insurance contracts are measured applying the GMM.

The PAA eligibility assessment has considered the measurement of the liability for remaining coverage (LRC) under the PAA and GMM at the inception and throughout the coverage period of the group. Where the measurement of the LRC under both measurement models is not expected to be materially different from one another throughout the coverage period, the insurance contract is deemed to be eligible to be measured using the PAA. Contracts with coverage period of one year or less automatically qualify for the PAA and no further analysis was considered necessary. Contracts with coverage period greater than one year with substantially similar characteristics and measurement factors have been tested for eligibility through further analysis to determine whether the PAA or GMM will be applied.

Measurement – PAA

The main changes the Company expects to arise from NZ IFRS 17 include: the requirement to discount the liability for incurred claims (LIC) and, in certain circumstances, the liability for remaining coverage (LRC) – and related assets for remaining coverage (ARC) and assets for incurred claims (AIC) for reinsurance contracts held; the potential earlier recognition of losses for onerous contracts due to the lower granularity of assessment compared to the loss adequacy review under NZ IFRS 4; and the introduction of an explicit risk adjustment for non-financial risk.

Additionally, under NZ IFRS 17 all components of insurance contract measurement are considered monetary items which is a change from NZ IFRS 4 where certain components, such as the unearned premium reserve, were considered non-monetary items.

Discount rates

The LRC and LIC (and ARC and AIC for reinsurance contracts held) are discounted where applicable. The Company will apply a bottom-up approach to derive the discount rates applied to its insurance based on the risk-free rates for the currency of each insurance contract with an illiquidity adjustment to adjust the risk-free curves to reflect the illiquid nature of the insurance contracts.

Onerous contracts

Insurance contracts measured applying the PAA are assumed to be profitable unless facts and circumstances indicate otherwise. At initial recognition, insurance contracts that are expected to result in a net cash outflow are allocated to a group of onerous contracts and measured separately from insurance contracts within the portfolio that are expected to be profitable. Where a group of insurance contracts is determined to be onerous, a loss component of the LRC is recognised as an insurance service expense.

Risk adjustment for non-financial risk

The risk adjustment for non-financial risk is the compensation the Company requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk as the Company

2 Significant accounting policies (continued)

fulfils insurance contracts. For reinsurance contracts held, the risk adjustment for non-financial risk represents the amount of risk being transferred by the Company to the reinsurer. The Company estimates the risk adjustment for non-financial risk separately from all other estimates.

Presentation and Disclosure

NZ IFRS 17 will also significantly change how insurance contracts and reinsurance contracts are presented and disclosed in the Company's financial statements.

On adoption, the Company will present insurance contract liabilities and reinsurance contract assets as a single amount on the balance sheet. This will replace the current presentation of insurance contract liabilities (unearned premiums and liability for incurred claims, including IBNR) separately from any deferred acquisition costs and insurance receivables and payables. These items will be derecognised and incorporated into the single measure of insurance contracts on adoption of NZ IFRS 17.

Additionally, under NZ IFRS 17, presentation is determined at the portfolio of insurance contracts level, with any portfolios of insurance contracts issued that are in a net asset position shown separately from those portfolios that are in a liability position. Similarly, portfolios of reinsurance contracts held that are in a net liability position are shown separately from those that are in a net asset position.

The Company will disaggregate the amount recognised in the statement of profit or loss into: (a) an insurance service result, comprising insurance revenue and insurance service expenses; and (b) insurance finance income or expenses – which will comprise the effects of discounting and any foreign exchange movements. Amounts from reinsurance contracts will be presented separately. Presentation of premium information on the face of the income statement, such as gross written premiums currently shown, is prohibited under NZ IFRS 17.

Transition

The Company will adopt NZ IFRS 17 for its financial statements for the year ending 31 December 2023 and will apply the requirements retrospectively from the transition date of 1 January, 2022 (the transition date). The Company has determined that all insurance contracts that had not been derecognised prior to the transition date expect to be eligible to apply the PAA.

The Company will recognise and measure each group of insurance contracts as if NZ IFRS 17 had always applied; derecognise any existing balances that would not exist had NZ IFRS 17 always applied; and will recognise any resulting net difference in equity as at the transition date.

The Company's implementation project has made significant progress. The financial impact of NZ IFRS 17 on AIG at the reporting date remains subject to uncertainty. Considering the complexity and estimation involved in NZ IFRS 17, the impact assessment is subject to change and as the implementation progresses the Company would continue to analyse the impact of the standard and recent amendments. The Company also notes that the impact to the financial statements resulting from the adoption of this standard will significantly be influenced by the overall macroeconomic environment, including interest rate sensitivity and are subject to change.

2.3 Premiums earned

Direct and inwards reinsurance premiums comprise amounts charged to the policyholder, excluding fire service and earthquake levies collected on behalf of statutory bodies. The earned portion of premiums received and receivable, including unclosed business is recognised on a straight-line basis as revenue.

2 Significant accounting policies (continued)

Premium revenue is treated as earned from the date of attachment of risk over the period of the contract for direct business and over the period of indemnity for reinsurance contracts. Premiums on unclosed business, known as pipeline premiums, are brought to account by reference to historic patterns of premium processing delays, with due allowance for any changes in the pattern of new business and renewals.

The pattern of recognition of revenue over the policy or indemnity periods is based on time, which closely approximates the patterns of risks underwritten. The proportion of premiums received and receivable not earned in the Statement of Comprehensive Income at the reporting date is recognised in the Statement of Financial Position as an unearned premium reserve.

2.4 Insurance contracts

An insurance contract is defined as a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (insured event) adversely affects the policyholders.

Insurance contracts involve the acceptance of significant insurance risk. Insurance risk is defined as significant if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (i.e. have no discernible effect on the economics of the transaction).

Insurance contracts include those where the insured benefit is payable on the occurrence of a specified event or loss. The insured benefit is either not linked or only partly linked to the market value of the investment held by the insurer, and the financial risks are substantially borne by the insurer.

2.5 Outwards reinsurance premium expense

Reinsurance contracts are entered into during the normal course of business for the purpose of limiting net loss potential through the diversification of risk. Reinsurance arrangements do not affect direct obligations to policyholders. Premiums ceded to reinsurers are recorded as an outward reinsurance expense and recognised in the Statement of Comprehensive Income in accordance with the indemnity period of the relevant reinsurance contract.

2.6 Commission income

Commission income is received from reinsurers for the placement of reinsurance and is recorded as reinsurance commission income and is recognised in the Statement of Comprehensive Income.

The earned portion of reinsurance commission received and receivable, including unclosed business is recognised on a straight-line basis as revenue.

The unearned portions of commission income are deferred and shown as deferred reinsurance commissions in the Statement of Financial Position.

2.7 Deferred acquisition costs (DAC)

Policy acquisition costs represent those costs, including commissions, premium taxes and other underwriting expenses that vary with and are primarily related to the acquisition of new and renewal of existing insurance contracts.

Policy acquisition costs are deferred and amortised over the period in which the related premiums written are earned. DAC is grouped consistent with the manner in which the insurance contracts are acquired,

2 Significant accounting policies (continued)

serviced and measured for profitability and is reviewed for recoverability based on the profitability of the underlying insurance contracts.

The unearned portion of commission expense and other acquisition costs are deferred and shown as deferred acquisition costs and deferred reinsurance commission in the Statement of Financial Position.

2.8 Net investment income

Interest income and expenses for all interest-bearing financial instruments including financial instruments measured at fair value through profit or loss, are recognised within net investment income in the Statement of Comprehensive Income using the effective interest rate method. When a receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument and continues unwinding the discount as interest income.

2.9 Net realised gains/(losses)

Net realised gains and losses are determined by specific identification of individual investments sold. The net realised gains and losses are generated primarily from the following sources:
- Sales of investments, and other invested assets.
- Exchange gains and losses resulting from foreign currency transactions.

2.10 Insurance claims

Claims expense represents payment for claims, claims related expenses and the movement in outstanding claims liabilities. Claims represent the benefits paid or payable to the policyholder on the occurrence of an event giving rise to a loss or accident according to the terms of the policy. Claims expenses are recognised in the Statement of Comprehensive Income as losses are incurred, which is the point in time when the event giving rise to the claim occurs.

Reinsurance and other recoveries received or receivable on paid claims and on outstanding claims (notified and not yet notified) are recognised as income. Reinsurance and other recoveries receivable on outstanding claims are measured as the present value of the expected future receipts calculated on the same basis as the outstanding claims liability. Reinsurance does not relieve the originating insurer of its liabilities to policyholders and is presented separately on the Statement of Financial Position.

2.11 Net operating expenses

Net operating expenses includes salaries, depreciation, amortisation of deferred acquisition costs, costs of employee retention awards, impairment of non-financial assets and other operating expenses. Net operating expenses are included in the Statement of Comprehensive Income and are recognised on an accrual basis.

2.12 Taxation

Current and Deferred Tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company operates and generates taxable

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2 Significant accounting policies (continued)

income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Goods and Services Tax ("GST")

Revenue, expenses and assets are recognised net of the amount of goods and services tax ("GST"), unless the GST incurred is not recoverable from the Inland Revenue Department. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of GST. The net amount of GST recoverable from, or payable to, the Inland Revenue Department is included as other receivables or other payables in the Statement of Financial Position.

2.13 Financial assets

Classification and measurement

The Company classifies its financial assets into the following measurement categories:
- those to be measured subsequently at fair value through profit or loss (FVPL); and
- those to be measured subsequently at amortised cost.

The classification depends on the Company's business model for managing its financial assets and the contractual terms of the cash flows. A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as measured at fair value through profit or loss.
- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

2 Significant accounting policies (continued)

Management designates its financial assets at fair value through profit or loss upon initial recognition when the designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them, on a different basis.

Financial assets are designated at fair value through profit or loss when they are deemed to be backing insurance liabilities of the Company.

For assets measured at fair value, gains and losses will either be recorded in profit or loss. The Company reclassifies financial assets when, and only when its business model for managing those assets changes.

Regular purchases and sales of investments are recognised on the trade date – the date on which the Company commits to purchase or sell the investment.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

At initial recognition the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Interest income from financial assets at amortised cost is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in the profit and loss component of the Statement of Comprehensive Income.

A gain or loss on a financial asset that is subsequently measured at fair value through profit or loss is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of financial assets and liabilities traded in active markets are based on quoted market prices at the close of trading. The fair value of financial assets and liabilities that are not traded in an active market (for example, fixed interest securities) is determined using valuation techniques.

The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions the Company holds. Valuations are therefore adjusted, where appropriate, to allow for additional factors including model risk, liquidity risk and counterparty risk.

The fair value hierarchy has the following levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

2 Significant accounting policies (continued)

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

The Company uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Valuation techniques used include:

Debt securities at fair value through profit or loss: Whenever available, the Company obtains quoted prices in active markets for identical assets at the reporting date to measure fixed maturity securities at fair value. Market price data is generally obtained from dealer markets.

Management is responsible for the determination of the value of the investments carried at fair value and the supporting methodologies and assumptions. The Company uses market information and derives fair values based upon relevant methodologies and assumptions for individual instruments.

Fair Value Hierarchy

Financial assets and liabilities recorded at fair value in the Statement of Financial Position are measured and classified in a hierarchy for disclosure purposes consisting of three levels based on the characteristic of inputs available in the marketplace that are used to measure the fair values.

- The fair value of financial instruments that are not traded in an active market is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

The Company recognises all debt securities at Level 2.

Impairment of financial assets
The Company assesses on a forward looking basis the expected credit losses associated with its financial assets carried at amortised cost which are subject to NZ IFRS 9. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

The majority of the Company's financial assets represent rights and obligations arising under insurance contracts as defined in NZ IFRS 4 Insurance Contracts which are out of scope and therefore not subject to NZ IFRS 9 impairment model.

The Company's financial assets subject to NZ IFRS 9 (interest accrued and sundry debtors) are considered to have low credit risk, and as such the impairment provision recognised during the period was limited to 12 months expected losses. Management consider 'low credit risk' for interest accrued to be an investment grade credit rating with at least one major rating agency. Sundry debtors are considered to be low credit risk when they have a low risk of default and the counterparty has a strong capacity to meet its contractual cash flow obligations in the near term. The impairment charge is recognised in the profit and loss component of the Statement of Comprehensive Income.

2.14 Cash and cash equivalents

Cash and cash equivalents comprises cash on hand and demand deposits with banks together with short-term highly liquid investments that are readily convertible into known amounts of cash and that are not subject to a significant risk of a change in value. Such investments are classified as cash equivalents where they have maturity dates of three months or less from the date of acquisition.

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2 Significant accounting policies (continued)

The Company has applied the direct method for preparing the Statement of Cash Flows. This statement shows the movement in cash and cash equivalents for the period including bank overdrafts.

2.15 Trade and other receivables

Policies for accrued investment income and sundry debtors in scope of NZ IFRS 9 are described in note 2.13.

Trade and other receivables are initially recognised at fair value, being the amounts due and generally have credit terms of 30-90 days. They are subsequently measured at amortised cost using the effective interest rate method, less provision for impairment.

A provision for doubtful debts 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. The amount of the provision is the difference between the asset's carrying amount and the present value of the estimated future cash flows. The impairment charge is recognised in the profit and loss component of the Statement of Comprehensive Income.

When there is objective evidence that an impairment loss has been incurred, the carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit and loss component of the Statement of Comprehensive Income. Any subsequent recoveries of amounts previously written off against the allowance account are credited against net operating expenses in the profit and loss component of the Statement of Comprehensive Income.

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables are measured initially at fair value plus transaction costs and subsequently carried at amortised cost using the effective rate of interest method, less provision for impairment. A provision for impairment is established when there is objective evidence that the Company will not be able to collect all amounts due as to their original terms.

Other receivables include accrued investment income, prepaid expenses, third party claim floats and sundry receivables.

2.16 Reinsurance recoverables

Reinsurance recoverables include the balances due from reinsurance and insurance companies under the terms of the Company's reinsurance agreements for unpaid claims, claim adjustment expenses and prepaid reinsurance premiums.

2.17 Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Expenditures for repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

2 Significant accounting policies (continued)

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets as follows:

Leasehold improvement	over the term of the lease
Furniture and fittings	5 years
Office equipment	5 years
Computer equipment	3 years

The assets' residual values, length of the economic lives and depreciation methods applied are reviewed on a regular basis, and at least at every reporting date, and adjusted as appropriate.

An asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are included in profit or loss and are determined by comparing proceeds with carrying amount.

2.18 Intangible assets

Intangible assets include capitalised software costs and work in progress.

Capitalised software costs represent costs directly related to obtaining, developing or upgrading internal use software controlled by the Company that will contribute to future period financial benefits through revenue generation and/or cost reduction. Such costs are capitalised and amortised on a straight-line method over the software's useful life which is a period generally not exceeding five years.

Work in Progress represents development costs for internally generated software and is stated at historical cost. No amortisation is charged for assets in this category. The costs will be transferred from work in progress to capitalised software costs once the software is in use and amortisation will start.

Software-as-a-Service (SaaS) arrangements
SaaS arrangements are service contracts providing the Company with the right to access a vendor's cloud computing application software over the contract period. Costs incurred to configure or customise, and the ongoing fees to obtain access to the cloud provider's application software, are recognised as operating expenses in the profit or loss when the services are received. Where costs are paid upfront to significantly configure or customise the vendor's application software they are recorded as a prepayment for services and subsequently amortised over the expected term of the cloud computing arrangement.

2.19 Leases

The Company leases various office buildings, motor vehicles and equipment. Rental contracts are typically made for fixed periods of 3 to 10 years but may have extension options included in them. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Leased assets may not be used as security for borrowing purposes.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Assets and liabilities arising from a lease are initially measured on a present value basis. Measurement is based on all expected contractual payments over the lease term which begins on the lease commencement date and extends for the non-cancellable lease period (including any rent-free periods) during which the Company has the right-to-use the identified asset or assets. The lease term will include any periods covered by contractual renewal options that the Company is reasonably certain to exercise; but will exclude any periods covered by early termination options that the Company is reasonably certain to exercise.

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2 Significant accounting policies (continued)

Lease liabilities include the net present value of the following lease payments (where applicable):

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payments that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Where the lease includes variable lease payments based on an index or a rate, any potential changes to future lease payments are excluded from the measurement of the lease liability until they actually take effect. When future lease payments are adjusted based on an index or a rate, the lease liability is reassessed based on the revised payments and adjusted against the carrying value of the right-of-use asset.

Lease payments are allocated between the principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining lease liability for each period.
Right-of-use assets are measured at cost comprising the following:

- amount of the initial measurement of lease liability;
- lease payments made at or before commencement date less any lease incentives received;
- any initial direct costs; and
- any restoration costs.

The right-of-use asset is depreciated over the lease term on a straight-line basis. Depreciation is recorded within net operating expenses and is included in the Statement of Comprehensive Income.

Payments associated with short-term leases of equipment and motor vehicles, where the lease term is 12 months or less, and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets include IT equipment and small items of office furniture.

Extension and termination options are included in a number of property and equipment leases held by the Company. These are used to maximise operational flexibility in terms of managing the assets used in the Company's operations.

2.20 Impairment of non-financial assets

The Company reviews at each reporting date the carrying amounts of its tangible and intangible assets to determine whether there is any indication that an asset may be impaired. If any such indication exists, an impairment loss is recognised for the amount by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

An impairment loss is recognised in the profit or loss component of the Statement of Comprehensive Income whenever the carrying amount of the asset exceeds its recoverable amount. Where an impairment

2 Significant accounting policies (continued)

loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying value does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised in the profit or loss component of the Statement of Comprehensive Income within net operating expenses.

2.21 Insurance liabilities

Insurance liabilities comprise of a provision for outstanding claims and a provision for unearned premiums.

Claims and claims adjustment expenses are charged to expenses as incurred. The provision for outstanding claims represents the accumulation of estimates for unpaid reported claims and loss adjustment expenses and includes provisions for claims incurred but not reported.

The liability for outstanding claims is measured as the central estimate of expected future claim payments and related settlement costs against claims incurred at the reporting date under general insurance contracts issued by the Company, with an additional risk margin to allow for the inherent uncertainty in the central estimate.

The expected future payments include those in relation to claims reported but not yet paid, claims incurred but not reported ('IBNR'), claims incurred but not enough reported ('IBNER') and their associated allocated costs as well as anticipated claims handling costs.

Claims handling costs include those costs that cannot be directly associated with individual claims, such as claims administration costs.

The methods of determining such estimates and establishing resulting reserves are regularly reviewed and updated. If the existing liability is determined to be inadequate or redundant, the liability is adjusted and the increase or decrease is reflected in income in the period in which the estimates are changed.

The expected future payments are discounted to present value using a risk-free rate.

2.22 Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method. These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year and which are unpaid.

2.23 Provisions and contingent liabilities

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. A provision is measured at the best estimate that the Company would pay to settle the obligation or transfer it to a third party.

A contingent liability is an obligation where it is more likely than not that an outflow of resources will be required, or the amount of the obligation cannot be reasonably estimated. Contingent liabilities are disclosed if there is more than a remote possibility that an outflow of resources will be required to settle the obligation.

2 Significant accounting policies (continued)

In many cases, it is not possible to determine whether a liability has been incurred or to estimate the ultimate or minimum amount of that liability until years after the contingency arises, in which case, no accrual is made until that time.

2.24 Foreign currency translation

Functional and presentation currency
Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates ('the functional currency'). The financial statements are presented in New Zealand dollars, which is the Company's functional and presentation currency.

Translation of foreign currency transactions and balances
Foreign currency transactions during the year are translated into the functional currency using the rates of exchange prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rates of exchange ruling at the reporting date.

Non-monetary assets and liabilities are translated into functional currency at the rates of exchange prevailing at the date of the transaction or most recent date of valuation where they are held at fair value.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and the translation of foreign currency denominated monetary assets and liabilities at year end exchange rates are recognised in the Statement of Comprehensive Income.

2.25 Employee benefits

The costs associated with employee benefits for services rendered during the reporting period are recognised in the Statement of Comprehensive Income. An associated liability is recognised to the extent that any amount of employee benefit remains unpaid at reporting date.

Short-term employee benefits
Short-term employee benefits, including compensated absences, are benefits to be paid within one year after the end of the reporting period in which the related services are rendered. A liability and an expense are recognised for the undiscounted amount expected to be paid for short-term employee benefits in the period in which the employee renders services in exchange for the benefits.

Bonus plans
Bonuses awarded in respect of service in the past, are spread over the period of services rendered to the vesting date.

Leave obligations
The liability for long service leave and annual leave is recognised in the provision for employee benefits and measured as the present value of the payments to be made in respect of services provided by employees up to the reporting date. For long service leave consideration is given to salary levels and years of service.

2.26 Liability adequacy

At each reporting date, the Company assesses whether the unearned premium liability is sufficient to cover all expected future cash flows relating to future claims covered by current insurance contracts. This assessment is referred to as the liability adequacy test and is performed at a portfolio level of contracts that are subject to broadly similar risks and managed together as a single portfolio.

2 Significant accounting policies (continued)

If the present value of the expected future cash flows relating to future claims plus an additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned premium liability less the related deferred acquisition costs, future reinsurance premium and prepaid reinsurance expense then the unearned premium liability is deemed to be deficient.

The deficiency is recognised immediately in the Statement of Comprehensive Income. The deficiency is recognised first by writing down any related deferred acquisition costs, with any excess being recorded in the Statement of Financial Position as an unexpired risk liability.

2.27 Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.28 Assets backing insurance business

The Company has determined that all assets are held to back insurance liabilities, with the exception of property, plant and equipment.

2.29 Changes in accounting policies

There have been no changes in accounting policies during the year.

3 Critical accounting estimates and judgements

In preparing the financial statements, the Company makes estimates and assumptions that affect the reported amounts of certain assets and liabilities. These estimates and judgements are continually assessed and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The major areas where such estimates and assumptions are applied are as follows:

3.1 Liability arising from claims made under insurance contracts

At the end of the year a provision is made for the estimated cost of claims incurred but not paid at the reporting date, including the cost of claims incurred but not reported (IBNR) to the Company.

The estimation of outstanding claims incurred but not paid takes into account all expected future gross claim payments and associated claim handling costs. The Company takes all reasonable steps to ensure that it has the most appropriate and up-to-date information available when making these estimates. However, whilst the Company considers that the provision for outstanding claims is fairly stated on the basis of information currently available to them, the ultimate liability may vary as a result of subsequent information and events and may result in significant adjustments to the amounts provided.

The Company recognises large claims based on case estimates on the basis that these case estimates represent best estimates and does not hold Incurred But Not Enough Reported ("IBNER") provision unless there is specific information available against which specific manual allowance for IBNER is applied on a case to case basis. Large claims are defined differently for classes of business.

When estimating the future claims liability, each class of business is examined separately and some or all of the following will be considered in the projections:

- Previous periods claims statistics
- Impact of large losses
- Inflationary measures
- Changes in regulatory environment
- Historical and likely future trends of recoveries from third parties
- Relevant industry data.

The estimation of claims IBNR is generally subject to a higher degree of uncertainty than those claims already notified. IBNR claims may not be apparent to the insured until many years after the event that gave rise to the claims.

In estimating the liability for claims incurred but not paid at reporting date the Company makes use of models. Through analysis of all available past experience with respect to numbers of claims, claim payments and changes in estimates of outstanding liabilities, patterns can be detected. Using these patterns and past experiences, future payments on outstanding claims can be projected. Data is examined for potential distortions of any abnormal losses, and where abnormal losses do exist these are assessed separately to relieve any possible distortive effect from the projections.

3.2 Assets arising from contracts with reinsurers

Assets arising from contracts with reinsurers are determined using the same methods described above. Impairment is recognised when there is objective evidence that the Company may not receive amounts due to it, and these amounts can be measured reliably.

3 Critical accounting estimates and judgements (continued)

The Company has extensive reinsurance in place since December 2011. The Company is satisfied that appropriate layers of reinsurance are in place in respect of the Kaikoura earthquake.

3.3 Actuarial assumptions

The actuarial services for the valuation of the outstanding claims were provided by Eric Lew B.Com (Hons.) LLB (Hons.) FIAA, Actuary, employed within the regional actuarial department of AIG Australia Limited. Eric Lew is our appointed actuary pursuant to the Insurance (Prudential Supervision) Act 2010 and is satisfied as to the nature, sufficiency and accuracy of the data used to determine the outstanding claims liability.

The outstanding claims liability has been determined in accordance with Professional Standard No. 30 of the New Zealand Society of Actuaries and NZ IFRS 4: Insurance Contracts and incorporates the following assumptions:

	As at 31 Dec 2022	As at 31 Dec 2021
Weighted average term to settlement for net claims	1 year	1 year
Discount rate for succeeding and subsequent years	5.14%	1.58%
Claim inflation for succeeding and subsequent years	Implicit based on historical experience plus excess inflation for Property and Energy, Financial Lines and Liabilities.	
Risk margins were applied by line ranging	12-24%	12-24%
Indirect claim management expenses	5.0%	4.6%
Probability of sufficiency	75.00%	75.00%

The principal assumption underlying the liability estimates is that the Company's future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and claim numbers for each accident year. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example: one-off occurrences, changes in market factors such as public attitude to claiming, economic conditions, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgement is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates. Other key circumstances affecting the reliability of assumptions include variation in interest rates and delays in settlement.

The implied interest rate is derived from the internal investment yield based on an average term of liabilities of one year, which is consistent with yield on government bonds.

The risk margin assumptions remained the same as the previous years' valuation. The last review of the risk margins was done as at 31 December 2020. In line with the regional reserving policy, the next risk margin review will be considered again prior to 31 December 2025.

The indirect claim management expense assumption has increased from the previous years' valuation, reflecting the gradual increase in the indirect claims expense from 2020.

3.4 Probability of adequacy

The statistical estimates of outstanding claims are "central estimates". Risk margins over and above the central estimates have been included, such that there is a 75% level of probability that the resulting estimates will be sufficient to meet the eventual insurance liabilities.

3 Critical accounting estimates and judgements (continued)

3.5 Methodology

The methodology for determining risk margins is based on 'A Framework for Assessing Risk Margins', as issued to the 2008 Australian Institute of Actuaries General Insurance Seminar. This is considered appropriate for New Zealand. The methodology considers the following components of risk explicitly:

- Independent risk reflects uncertainty associated from purely random effects.
- Systemic risk – Internal refers to uncertainty stemming from the actuarial valuation model's imperfect representation of the insurance process.
- Systemic risk – External refers to the uncertainty arising from non-random risks external to the actuarial modelling process. It covers future episodes of systemic risk e.g. from unexpected economic inflation or the emergence of new classes of claims.

3.6 Risk margin classes

The valuation risks have been grouped broadly into seven risk margin classes so each class contains sufficient data. These classes are Accident & Health, Personal Lines, Casualty, Financial Lines, Property, Energy, and Other Lines.

3.7 Adaptive reserve modelling system software ("ARMs")

The assessment of independent risk management uses the Adaptive Reserve Modelling System software (ARMs). This tool fits Generalized Linear Models (GLMs) to the paid and incurred claim ladder models. This is consistent with the previous valuation.

The regional reserving policy requires the risk margins to be updated once every three to five years unless a substantial change in the underlying risk profile requires an earlier update. In line with the regional reserving policy, the risk margins were last updated as at 31 December 2020.

3.8 Diversification benefits

As the correlations between different classes of business are less than perfect, i.e. the correlation coefficients are less than 1, the risk margin for all classes as a total will be less than the sum of the risk margin for each class. The diversification benefit allows for this reduction in the overall risk margin.

In this year's valuation, the assumed total diversification benefit was approximately 20% (2021: 20%) for outstanding claims liabilities (gross and net) and 35% (2021: 35%) for premium liabilities (gross and net).

3.9 Sensitivity Analysis

A sensitivity analysis has been performed on the outstanding claims liabilities.

The impact of the changes net of tax in key outstanding claims variables are summarised below. Each change has been calculated in isolation of the other changes and each change shows the relevant impact assuming that there is no change to any other variables.

3.10 Claims Inflation

The payment patterns were based on historic claim values. An implicit assumption in the chain ladder projections is automatically included that future claims inflation will be similar to that experienced in the past. This is consistent with the previous valuation. However, due to the recent excessive inflationary pressures, the 2022 Bornhuetter-Ferguson (B-F) loss ratios for commercial property and energy risks were based on the re-baselined 2022 budget loss ratios adjusted for actual inflation experienced during the year. For longer tailed portfolios such as Financial Lines and Liabilities, additional inflationary allowance was incorporated broadly based on the following inflation scenarios:

3 Critical accounting estimates and judgements (continued)

- Financial lines: 2% excess legal expense inflation persists over the next 1.5 year period impacting 40% of the reserves.
- Casualty: 7.4% excess construction costs inflation (based on the 2023 budget inflation assumption) persists over the next 1.5 year period impacting 70% of the reserves.

2022

Variables	Movement in variables	Profit (Loss) before tax NZD '000	Equity NZD '000
Discount rates	+1%	721	519
	-1%	-735	-529
Inflation rates	+1%	-735	-529
	-1%	721	519
Indirect claim management expenses	+1%	-2,035	-1,465
	-1%	2,035	1,465
Weighted average term to settlement	+0.5 year	2,091	1,505
	-0.5 year	-2,144	-1,543

2021

Variables	Movement in variables	Profit (Loss) before tax NZD '000	Equity NZD '000
Discount rates	+1%	726	522
	-1%	-740	-533
Inflation rates	+1%	-740	-533
	-1%	726	522
Indirect claim management expenses	+1%	-1,336	-962
	-1%	1,336	962
Weighted average term to settlement	+0.5 year	604	435
	-0.5 year	-609	-438

3.11 Covid-19 Pandemic

The Company has continued to monitor its financial reporting procedures and related governance practices and has considered the impact of Covid-19 in preparing these financial statements.

While the effects of Covid-19 do not change those areas requiring significant estimation and judgement in the preparation of financial statements as set out in note 3, Critical Accounting Estimates and

3 Critical accounting estimates and judgements (continued)

Judgements, it has resulted in estimation uncertainty in the measurement of outstanding claims liabilities arising from potential claims impacts from Covid-19.

The Covid-19 claims are covered under the Company's comprehensive treaty reinsurance program. Any further developments are capped by the Accident Year Stop Loss Treaty for 2019/20, with nil net impact to the Statement of Comprehensive Income.

The Company will continue to closely monitor emerging claims experience, legislative outcomes, and wider market developments.

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4. Reconciliation of profit after tax to net cash flows from operating activities

$ '000	Year ended 31 Dec 2022	Year ended 31 Dec 2021
Profit after income tax	27,287	26,801
Investment revenue – net changes in market value	3,198	4,592
Disposal of fixed asset	72	137
Depreciation and amortisation expense	1,736	1,991
Leases recognised	348	-
Finance cost - interest on leases	76	33
Change in operating assets and liabilities		
(Increase) / decrease in trade receivables	(5,548)	17,614
(Increase) in deferred reinsurance premiums	(4,089)	(2,405)
(Increase) in tax asset	(422)	(2,861)
Increase in provision for unearned premiums	13,785	4,495
(Increase) / decrease in other receivables	(1,933)	294
(Increase) / decrease in net acquisition costs	(1,028)	325
Increase / (decrease) in net reinsurance commission	2,423	(1,369)
(Increase) / decrease in net deferred tax asset	(450)	207
Increase in trade and other payables	5,200	7,276
(Increase) in reinsurance and other recoveries	(55,360)	(13,770)
Increase in provision for gross claims outstanding	62,465	24,182
Net cash inflow from operating activities	**47,760**	**67,542**

5 Net earned insurance premium revenue

$ '000	Year ended 31 Dec 2022	Year ended 31 Dec 2021
Premium revenue from insurance contracts issued:		
Gross written premium in the year	266,323	233,522
Change in unearned premium provision	(13,785)	(4,495)
	252,538	**229,027**
Premium revenue ceded to reinsurers on insurance contracts issued:		
Premium ceded to reinsurers in the year	(177,007)	(160,166)
Change in unearned premium provision	4,089	2,406
	(172,918)	**(157,760)**
Net earned insurance premium revenue	**79,620**	**71,267**

Gross written premium in the year includes $0.02m of reinsurance risks. (2021: $0.1m)

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6 Net investment income

$ '000	Year ended 31 Dec 2022	Year ended 31 Dec 2021
Cash and fixed interest securities interest income	6,331	5,470
Investment expenses	(138)	(140)
Net investment income	**6,193**	**5,330**

7 Other net (losses)/gains

$ '000	Year ended 31 Dec 2022	Year ended 31 Dec 2021
Financial assets at fair value through profit or loss		
- Fair value losses	(7,050)	(8,194)
- Fair value gains	1,265	441
Realised capital (loss) / gain on sale of financial asset	-	(139)
Foreign exchange gains	473	9
Other net (losses)	**(5,312)**	**(7,883)**

8 Net insurance claims

Claims and claim liabilities include loss adjustment expenses and provision for loss adjustment expenses.

$ '000	Year ended 31 Dec 2022	Year ended 31 Dec 2021
Insurance claims		
Gross claims incurred	151,976	104,993
Discount movement	(7,996)	(3,888)
	143,980	**101,105**
Insurance claims recovered from reinsurers		
Reinsurance recoveries	106,359	66,344
Discount movement	(5,281)	(2,821)
	101,078	**63,523**
Net insurance claims	**42,902**	**37,582**

2022 Incurred claims

$'000	**2022**	**2021**	**Total**
Gross claims incurred	115,422	36,554	151,976
Discounted claims incurred	110,602	33,378	143,980
Discount movement	(4,820)	(3,176)	(7,996)
Reinsurance and other recoveries	70,566	35,793	106,359
Discounted reinsurance and other recoveries	67,544	33,534	101,078
Discount movement	(3,022)	(2,259)	(5,281)
Net claims incurred (undiscounted)	44,856	761	45,617
Net claims incurred (discounted)	43,058	(156)	42,902

8 Net insurance claims (continued)

2021 Incurred claims

$'000	2021	2020 & prior	Total
Gross claims incurred	116,324	(11,331)	104,993
Discounted claims incurred	114,523	(13,418)	101,105
Discount movement	(1,801)	(2,087)	(3,888)
Reinsurance and other recoveries	71,980	(5,636)	66,344
Discounted reinsurance and other recoveries	70,842	(7,319)	63,523
Discount movement	(1,138)	(1,683)	(2,821)
Net claims incurred (undiscounted)	44,344	(5,695)	38,649
Net claims incurred (discounted)	43,681	(6,099)	37,582

9 Net operating expenses

$ '000	Note	Year ended 31 Dec 2022	Year ended 31 Dec 2021
Employee benefits expenses (see below)		14,079	13,388
Depreciation of property, plant and equipment	16	404	239
Amortisation of intangible assets	17	650	837
Depreciation of leases	20	682	915
Auditors' remuneration – audit fee		399	305
Auditors' remuneration – reasonable assurance - solvency return		35	32
Third party claims administrators		1,525	2,279
AIG Group service fees	26	7,803	3,961
AIG APAC Holdings service fees	26	2,200	1,993
AIG Shared services charges	26	-	45
AIG Global IT services charges	26	168	813
AIG Global operations charges	26	2,276	1,083
Other expenses		4,550	2,206
Net operating expenses		**34,771**	**28,096**

$ '000	Year ended 31 Dec 2022	Year ended 31 Dec 2021
Wages and salaries	11,099	10,876
Other employee benefit expenses	2,980	2,512
Employee benefits expenses	**14,079**	**13,388**

10 Income tax

$ '000	Year ended 31 Dec 2022	Year ended 31 Dec 2021
Current income tax	(10,970)	(10,227)
Total current tax	**(10,970)**	**(10,227)**
Deferred tax	450	(207)
Total deferred tax	**450**	**(207)**
Income tax expense	**(10,520)**	**(10,434)**

$ '000	Year ended 31 Dec 2022	Year ended 31 Dec 2021
Profit before tax	**37,807**	**37,235**
Tax calculated at the current rate 28%	(10,586)	(10,426)
Effects of:		
Non deductible expenses	(13)	(5)
(Under) over provision from prior year	79	(3)
Income tax expense	**(10,520)**	**(10,434)**

Imputation Credits

$ '000	As at 31 Dec 2022	As at 31 Dec 2021
Imputation credits available for use in subsequent reporting periods	31,582	30,000

The above amounts represent the balance of the imputation account as at the end of the reporting period, adjusted for:

- Imputation credits that will arise from the payment of the amount of the provision for income tax
- Imputation debits that will arise from the payment of dividends recognised as a liability at the reporting date; and
- Imputation credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

11 Cash and cash equivalents

$ '000	As at 31 Dec 2022	As at 31 Dec 2021
Cash at bank	34,294	22,721
Short term deposits	28,000	19,000
Cash and cash equivalents	**62,294**	**41,721**

Cash at bank earns interest at floating rates based on daily deposit rates. Cash and short term deposits are made for varying periods of between one day and 90 days and earn interest at the respective short term deposit rates.

12 Financial assets at fair value through profit or loss

The Company's financial investments are summarised by measurement category in the table below.

$ '000	As at 31 Dec 2022	As at 31 Dec 2021
At fair value through profit or loss		
Fixed interest securities	136,269	139,860
Floating rate notes	7,751	7,792
Financial assets at fair value through profit or loss	**144,020**	**147,652**

There are no financial assets held for trading.

Changes in fair value of financial assets at fair value through profit or loss are recorded in other net losses.

The movement in the Company's financial assets at fair value through profit or loss is summarised in the table below by measurement category.

$ '000	Year ended 31 Dec 2022	Year ended 31 Dec 2021
Balance at the beginning of the year	147,652	140,611
Purchases	28,040	75,440
Disposals and maturities	(25,887)	(60,646)
Fair value net losses	(5,785)	(7,753)
Financial assets at fair value through profit or loss	**144,020**	**147,652**

13 Trade receivables

$ '000	Note	As at 31 Dec 2022	As at 31 Dec 2021
Premium debtors receivables		89,318	85,319
Less: Provision for impairment from premium debtors		(359)	(126)
Amount due from related parties	26	24,890	23,108
Less: Provision for impairment from related parties		-	-
Total trade receivables		**113,849**	**108,301**
Movement in provision for impairment			
Opening balance		(126)	(523)
Provisions added during the year		(255)	(126)
Provisions released during the year		22	498
Amounts written off during the year		-	25
Closing Balance		**(359)**	**(126)**
Current		113,849	108,301
Non-Current		-	-
Total trade receivables		**113,849**	**108,301**

Trade receivables are non-interest bearing and are generally on 90-120 day credit terms. An allowance for doubtful debts is made when there is objective evidence that a trade receivable is impaired. The fair value of trade receivables does not differ from their amortised cost.

14 Reinsurance recoverables

$ '000	As at 31 Dec 2022	As at 31 Dec 2021
Due from reinsurers excluding related parties	63	47
Less: Provision for impairment for reinsurers	(35)	(35)
Total reinsurance recoverables	**28**	**12**
Movement in provision for impairment		
Opening balance	(35)	(39)
Provisions added during the year	(2)	(17)
Provisions released during the year	2	21
Closing Balance	**(35)**	**(35)**
Current	28	12
Non-Current	-	-
Total reinsurance recoverables	**28**	**12**

Reinsurance recoverables are non-interest bearing and are generally on 30-90 day credit terms. An allowance for doubtful debts is made when there is objective evidence that a trade receivable is impaired. The fair value of reinsurance recoverables does not differ from their amortised cost.

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15 Deferred acquisition costs

$ '000	Year ended 31 Dec 2022	Year ended 31 Dec 2021
Opening deferred acquisition costs	14,914	15,239
Acquisition costs deferred	29,490	26,531
Amortisation charge	(28,462)	(26,856)
Deferred acquisition costs at 31 December	**15,942**	**14,914**
Current	15,212	14,053
Non-Current	730	861
Deferred acquisition costs	**15,942**	**14,914**

$ '000	Year ended 31 Dec 2022	Year ended 31 Dec 2021
Opening deferred reinsurance commissions	29,863	31,232
Reinsurance commission costs deferred	57,953	50,984
Amortisation charge	(55,530)	(52,353)
Deferred reinsurance commission at 31 December	**32,286**	**29,863**
Current	30,906	28,082
Non-Current	1,380	1,781
Deferred reinsurance commission	**32,286**	**29,863**

16 Property, plant and equipment

Movements in the property, plant and equipment assets are as follows:

$ '000	Furniture & Fittings & Leasehold Improvements	Office Equipment	Total
Cost			
Balance 1 January 2021	2,657	167	2,824
Additions	59	61	120
Transfers	-	-	-
At 31 December 2021	**2,716**	**228**	**2,944**
Additions	2,032	17	2,049
Disposals	(2,160)	-	(2,160)
Transfers	-	-	-
At 31 December 2022	**2,588**	**245**	**2,833**
Accumulated Depreciation			
Balance 1 January 2021	(2,181)	(159)	(2,340)
Depreciation charge	(218)	(21)	(239)
Transfers	-	-	-
At 31 December 2021	**(2,399)**	**(180)**	**(2,579)**
Depreciation charge	(378)	(26)	(404)
Disposals	2,086	-	2,086
Transfers	-	-	-
At 31 December 2022	**(691)**	**(206)**	**(897)**
Carrying Amount			
At 1 January 2021	**476**	**8**	**484**
At 31 December 2021	**317**	**48**	**365**
At 31 December 2022	**1,897**	**39**	**1,936**

17 Intangible Assets

Movements in capitalised software and work in progress are as follows:

$ '000	Computer Software	Work in Progress	Total
Cost			
Balance 1 January 2021	8,149	618	8,767
Additions	-	577	577
Disposals	-	(137)	(137)
Transfers	661	(661)	-
At 31 December 2021	**8,810**	**397**	**9,207**
Additions	-	10	10
Disposals	-	-	-
Transfers	-	-	-
At 31 December 2022	**8,810**	**407**	**9,217**
Accumulated Amortisation			
Balance 1 January 2021	(6,283)	-	(6,283)
Amortisation charge	(837)	-	(837)
At 31 December 2021	**(7,120)**	**-**	**(7,120)**
Amortisation charge	(650)	-	(650)
At 31 December 2022	**(7,770)**	**-**	**(7,770)**
Carrying Amount			
At 1 January 2021	**1,866**	**618**	**2,484**
At 31 December 2021	**1,690**	**397**	**2,087**
At 31 December 2022	**1,040**	**407**	**1,447**

18 Other receivables

$ '000	As at 31 Dec 2022	As at 31 Dec 2021
Accrued investment income	1,280	1,203
Prepayments	698	130
Third party administration – claim floats	3,659	2,759
Sundry debtors	778	389
Other receivables	**6,415**	**4,481**
Current	6,415	4,481
Non-Current	-	-
Other receivables	**6,415**	**4,481**

19 Trade and other payables

$ '000	Note	As at 31 Dec 2022	As at 31 Dec 2021
Trade payables		7,954	7,522
Reinsurance payables		1,765	1,835
Amount due to related companies	26	60,160	56,899
Taxes and levies payable		11,443	9,791
Provision for holiday pay		1,270	1,345
Trade and other payables		**82,592**	**77,392**
Current		82,465	77,337
Non-Current		127	55
Trade and other payables		**82,592**	**77,392**

20 Leases

During the current financial year, the Company relocated its Auckland premises. A new six-year lease agreement was entered into effective 01 April 2022.

The Company's right-of-use assets are presented in the table below.

As at 31 December 2022

$ '000	Opening 1-Jan	Additions	Modifications	Depreciation	Closing 31-Dec
Premises	128	2,424	-	570	1,982
Motor vehicles	21	123	-	28	116
Equipment	135	234	(4)	84	281
Total right-of-use assets	**284**	**2,781**	**(4)**	**682**	**2,379**

As at 31 December 2021

$ '000	Opening 1-Jan	Additions	Modifications	Depreciation	Closing 31-Dec
Premises	895	-	-	767	128
Motor vehicles	57	-	-	36	21
Equipment	247	-	-	112	135
Total right-of-use assets	**1,199**	**-**	**-**	**915**	**284**

$ '000	As at 31 Dec 2022	As at 31 Dec 2021
Expense relating to short-term leases (included in other operating expense)	91	30

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20 Leases (continued)

A maturity analysis of the Company's lease liabilities is provided below.

As at 31 December 2022 $ '000	Due in 1 Year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Total	Carrying Amount
Lease Liabilities:					
Premises	423	1,996	141	2,560	2,560
Motor vehicles	29	87	-	116	116
Equipment	130	156	-	286	286
Total	**582**	**2,239**	**141**	**2,962**	**2,962**

As at 31 December 2021 $ '000	Due in 1 Year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Total	Carrying Amount
Lease Liabilities:					
Premises	159	-	-	159	159
Motor vehicles	23	-	-	23	23
Equipment	63	79	-	142	142
Total	**245**	**79**	**-**	**324**	**324**

21 Provision for net unearned premium

$ '000	As at 31 Dec 2022	As at 31 Dec 2021
Gross unearned premium reserve	150,944	137,159
Less: Reinsurance unearned premium reserve	(99,321)	(95,232)
Provision for net unearned premium	**51,623**	**41,927**
Unearned premium at beginning of year	41,927	39,837
Deferral of premiums on contracts written in period	48,600	38,430
Earning of premiums written in previous period	(38,904)	(36,340)
Provision for net unearned premium	**51,623**	**41,927**
Current	48,089	38,904
Non-Current	3,534	3,023
Provision for net unearned premium	**51,623**	**41,927**

The liability adequacy test is used to assess the sufficiency of the unearned premium liability to cover all expected future cash flows relating to future claims against in-force insurance contracts. The liability adequacy test is applied at a level of portfolios of contracts that are subject to broadly similar risks and that are managed together as a single portfolio.

As with outstanding claims, the overall risk margin is intended to achieve a 75% probability of adequacy in 2022 (2021: 75%). The process for determining the overall risk margin, including the way in which diversification of risks has been allowed for, is discussed in note 3.8.

21 Provision for net unearned premium (continued)

The application of the liability adequacy test in respect of the net premium liabilities identified a surplus at December 2022 (2021: Surplus).

For the purposes of the liability adequacy test at 31 December 2022, the present value of expected future cash flows for future claims (including risk margin) is equal to $40.4 million (2021: $36.5m), made up as follows:

- Discounted central estimate (net of reinsurance) of $25.5 million (2021: $23.2m);
- Indirect claims expense provision of $9.0 million (2021: $8.0m); and
- Risk margins at the 75th percentile probability of sufficiency (after allowing for diversification benefit) of 17% or $5.8million (2021: $5.3m).

22 Provision for net claims outstanding

The Company establishes claim reserves, which are estimates of future payments of reported and unreported claims for claims and claim adjustment expenses, with respect to insured events that have occurred. Reserving is a complex process dealing with uncertainty, requiring the use of informed estimates and judgements. Any changes in estimates or judgements are reflected in the results of operations in the period in which estimates and judgements are changed.

Significant delays may occur in the notification and settlement of claims, and a substantial measure of experience and judgement is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty as of the reporting date. The reserves for claims and claims adjustment expenses are determined on the basis of information currently available; however, it is inherent in the nature of the business written that the ultimate liabilities may vary as a result of subsequent developments.

At 31 December $ '000	2022	2021
Central estimate	224,493	168,184
Undiscounted risk margin	44,663	34,192
Undiscounted indirect expenses	8,902	5,215
Outstanding claims reserve	**278,058**	**207,591**
Discount to present value	(12,454)	(4,452)
Provision for gross outstanding claims	**265,604**	**203,139**

At 31 December $ '000	2022	2021
Gross reinsurance and other recoveries	189,630	129,022
Less: discount to present value	(8,449)	(3,185)
Provision for reinsurance on outstanding claims	**181,181**	**125,837**
Net outstanding claims	**84,423**	**77,302**

22 Provision for net claims outstanding (continued)

Reconciliation of movements in discounted outstanding claims liability

As at 31 December

NZD '000	2022 Gross	2022 Reinsurance	2022 Net	2021 Gross	2021 Reinsurance	2021 Net
Balance bought forward	203,139	125,837	77,302	178,957	112,073	66,884
Unwind of interest	2,837	1,782	1,055	395	244	151
Claims incurred in the current year (last year's basis)	113,587	69,627	43,960	115,953	71,748	44,205
Claims cost paid during the year	-77,443	-45,728	-31,715	-73,591	-49,766	-23,825
Claims handling expenses during the year	-4,065	0	-4,065	-3,340	0	-3,340
Total effect of change in assumptions:	-7,595	-5,829	-1,766	-2,706	-1,753	-953
- indirect claims expenses	817	0	817	0	0	0
- interest rate	-8,412	-5,829	-2,583	-2,706	-1,753	-953
- risk margin	0	0	0	0	0	0
- methodology	0	0	0	0	0	0
Development on prior year outstanding claims liability	35,144	35,492	-348	-12,529	-6,709	-5,820
Balance carried forward	265,604	181,181	84,423	203,139	125,837	77,302

Future expected cash flows for the outstanding claims liability

As at 31 December 2022

Outstanding Claims Liabilities	1 year or less $'000	1 to 3 years $'000	3 to 5 years $'000	Over 5 years $'000	Total $'000	Carrying Amount $'000
Gross	182,007	76,679	15,442	3,930	278,058	278,058
Reinsurance	124,340	51,618	11,123	2,549	189,630	189,630
Net	57,667	25,061	4,319	1,381	88,428	88,428

22 Provision for net claims outstanding (continued)

Net undiscounted ultimate claims costs for the nine most recent accident years from 2014 to 2022

As at 31 December 2022

Ultimate indemnity
Inflated value

November Y.E.	Dec 2014	Dec 2015	Dec 2016	Dec 2017	Dec 2018	Dec 2019	Dec 2020	Dec 2021	Dec 2022	Cumulative net payments to date	Net undiscounted outstanding claims for the nine most recent accident years (inflated , undiscounted, without margins)
2014	6,861	7,180	7,466	6,738	6,736	6,850	6,709	6,549	6,549	6,538	11
2015		14,252	14,081	13,267	12,150	11,832	12,545	13,233	13,229	13,193	36
2016			28,920	29,057	29,057	29,057	29,057	29,057	28,980	28,979	1
2017				22,306	21,753	20,646	20,545	20,036	20,122	19,568	554
2018					26,001	23,151	22,780	24,359	24,442	22,534	1,908
2019						24,079	22,528	22,407	34,397	17,760	16,637
2020							31,815	28,660	27,967	19,818	8,149
2021								31,129	30,236	14,456	15,780
2022									30,779	9,747	21,032
										Total	**64,108**
										From prior years	524
										Travel	718
										Warranty	86
											65,436
										Net undiscounted outstanding claims for the 2022/12 loss month	1,962
										Effect of discounting	-2,989
										Net discounted oustanding claims (without margins)	**64,409**
										Indirect expenses	8,527
										Risk margins	11,487
										Net discounted oustanding claims (with margins)	**84,423**

23 Deferred tax

The movement in deferred income tax assets and liabilities is as follows:

At 31 December 2022	Opening Balance at 01 January	(Charged) credited to Income Statement	Closing balance at 31 December
Movement in deferred tax assets			
Provision for doubtful debts	45	65	110
Provision for bonus	434	(30)	404
Provision for holiday pay	377	(21)	356
Deferred acqusitions costs - exps	8,362	678	9,040
Intangible and SaaS arrangement	342	(342)	-
IFRS16 real estate leases	(69)	132	63
Fixed assets	(93)	256	163
Total deferred tax assets	**9,398**	**738**	**10,136**
Movement in deferred tax liabilities			
Deferred acquisition costs	4,176	288	4,464
Total deferred tax liabilities	**4,176**	**288**	**4,464**
Net deferred tax	**5,222**	**450**	**5,672**

23 Deferred Tax (continued)

At 31 December 2021	Opening Balance at 01 January	(Charged) credited to Income Statement	Closing balance at 31 December
Movement in deferred tax assets			
Provision for doubtful debts	158	(113)	45
Provision for bonus	422	12	434
Provision for holiday pay	324	53	377
Deferred acqusitions costs - exps	8,745	(383)	8,362
Intangible and SaaS arrangement	156	186	342
IFRS16 real estate leases	(23)	(46)	(69)
Fixed assets	(86)	(7)	(93)
Total deferred tax assets	**9,696**	**(298)**	**9,398**
Movement in deferred tax liabilities			
Deferred acquistion costs	4,267	(91)	4,176
Total deferred tax liablities	**4,267**	**(91)**	**4,176**
Net deferred tax	**5,429**	**(207)**	**5,222**

24 Contingencies and commitments

In the normal course of business, various commitments and contingent liabilities are entered into by the Company or asserted by third parties.

Contingent liabilities at 31 December 2022 are noted as follows:

Culture and conduct review

In 2019 the Financial Markets Authority (FMA) and the Reserve Bank of New Zealand (RBNZ) asked NZ general insurers to review their operations to ensure no material conduct issues were present within their businesses following the review of NZ life insurers. It is expected that insurers demonstrate good conduct in their dealings with consumers that result in good outcomes for customers. The Company engaged an external party to assist with a review of all products sold across the business and provide recommendations to strengthen the conduct framework of the Company. The review has identified that some accident and health products sold to individual customers were lacking certain information that resulted in a potential overcharging of premium for a subset of these customers. The Company commenced remedial action for all in-force policies at the end of 2021. For historical policies no longer active the Company has engaged an external party to assist with remediation efforts. Assessment conducted to date estimates the potential overcharged amount to be in the range of $0.3m to $0.5m.

Rental Guarantee
AIG International Group has instructed a demand guarantee on behalf of the Company in respect to the leased premises. The rental guarantee is for a maximum amount of $0.36m with an expiry of 30 September 2028 unless otherwise revoked, paid or returned by the beneficiary.

Capital Commitments

The Company has capital commitments of $1.106m for IT development costs at 31 December 2022 which are contracted for but not provided for in the financial statements. (2021: $0.948m IT Development and $1.745m Property, plant and equipment).

25 Share capital

As at 31 December 2022, the Company had 105,250,001 (2021: 105,250,001) ordinary shares that were issued for $1 per share (2021: $1 per share). All shares are fully paid. There is one class of ordinary shares. All shares issued carry equal voting rights.

$ '000	As at 31 Dec 2022	As at 31 Dec 2021
Opening Balance	105,250	105,250
Total	**105,250**	**105,250**

On 13 September 2022 a dividend of $25,000,000 (23.75 cents per share) was declared. The dividend was paid to AIG Asia Pacific Pte Ltd on 13 October 2022. (2021: $66.0m, 62.71 cents per share)

26 Ownership and transactions with related parties

The parent entity of the Company is AIG Asia Pacific Insurance Pte Ltd, incorporated in Singapore. The ultimate controlling entity is American International Group Inc, ("AIG"), incorporated in the State of Delaware, USA.

The Company is party to various cost sharing arrangements with entities within the AIG Group. Generally, these agreements provide for the allocation of corporate costs based upon a proportional allocation of costs to all AIG entities. AIG performs certain services including legal, tax, investment management and investment accounting. In addition, the Company has transactions within the AIG Group such as claims management services and information management services.

Service and Expense Agreements:
The Company receives a number of services from AIG Group, which include:

- Consulting and other services associated with restructuring programs
- Corporate wide services related to marketing and information systems
- Legal services
- HR and payroll related services
- Facilities management
- Financial advisory services including tax consulting, treasury, financial reporting and risk management
- Investment portfolio management
- Computer and communications services
- Corporate stewardship services, which include public relations, internal audit and executive services.
- Global banking relationship for issuance of demand guarantee (refer note 24, Rental guarantee)

The costs of these services and other costs incurred by AIG Group have been directly charged or allocated to the Company, using methods management believes are reasonable, and are included in net operating expenses in the Statement of Comprehensive Income. These methods include various measures of direct usage and corporate formulas involving proportionate measures of assets, revenues and employee headcount.

Reinsurance:
In the ordinary course of business, the Company reinsures certain risks with affiliated entities, predominately American International Overseas Association. Such arrangements serve to limit the Group's maximum loss on catastrophes and other large and unusually hazardous risks. The Company also has assumed written premiums generated by affiliated entities of AIG Group and for these reinsurance transactions they have agreements related

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26 Ownership and transactions with related parties (continued)

to reinsurance, cost sharing, administrative services and marketing. The Company receives reinsurance commission from affiliated entities of AIG Group for the placement of reinsurance.

Related party transactions

$ '000	Year ended 31 Dec 2022	Year ended 31 Dec 2021
Expenses with parent		
- AIG (services provided for NZ operations)	(7,803)	(3,961)
Income/(expenses) with other related parties		
- American International Overseas Association	(169,410)	(153,963)
- American International Overseas Association	102,338	100,634
- AIG Employee Services	(10)	348
- AIG Bermuda	(10)	49
- AIG Australia Insurance Ltd	(1,011)	(843)
- AIG US (Global Claims)	(117)	(120)
- AIG Shared Services – Philippines	-	(45)
- Service Net Warranty LLC	(80)	-
- AIG APAC Holdings Pte Ltd	683	593
- AIG APAC Holdings Pte Ltd	(2,883)	(2,586)
- AIG Travelguard	(294)	(220)
- AIG Global Services (web billing services)	(168)	(813)
- AIG Capital Corporation	(121)	(123)
- AIG Global Operations	(1,185)	(1,083)
- AIG Global Operations Ireland	(1,091)	-
- Other	42	321
Related party transactions	**(81,120)**	**(61,812)**

Dividend

$ '000	Year ended 31 Dec 2022	Year ended 31 Dec 2021
Dividend declared and paid		
- AIG Asia Pacific Insurance Pte Ltd	(25,000)	(66,000)
Total	**(25,000)**	**(66,000)**

Key Management Compensation

$ '000	Year ended 31 Dec 2022	Year ended 31 Dec 2021
Salaries and other short term employee benefits	1,426	1,137
Other long term benefits accrual	73	44
Post-employment (retirement) benefits (reversal of accrual)	-	(59)
External directors	216	216
Total	**1,715**	**1,338**

26 Ownership and transactions with related parties (continued)

Loans to directors and key management personnel
No loans were advanced to directors or key management personnel during the year (2021: nil).

Other transactions with entities controlled by key management personnel
During the year the Company issued an insurance policy for another entity that the Company's Chief Executive serves as a director on the board. The transaction amount was $88.17 and was included in trade receivable balances as at 31 December 2022.

Other related party balances receivable

$ '000	As at 31 Dec 2022	As at 31 Dec 2021
American International Overseas Association	23,035	21,753
National Union Fire Insurance Co	32	41
AIG Employee Services	21	36
American International Group	4	4
AIG Europe UK Limited	775	612
AIG Global Reinsurance	62	48
AIG Bermuda	118	223
AIG APAC Holdings Pte. Ltd	381	119
AIG Worldsource	274	149
AIG Europe Limited (France)	34	34
AIG Europe Limited (Belgium)	18	18
AIG Europe Ireland	56	31
AIG Other	80	40
Related party receivables	**24,890**	**23,108**

Other related party balances payable

$ '000	As at 31 Dec 2022	As at 31 Dec 2021
American International Overseas Association	54,712	53,553
AIG APAC Holdings Pte. Ltd	957	225
AIG Australia Insurance Ltd	95	12
AIG Global Reinsurance Operations	441	-
AIG Global Services	-	77
AIG Bermuda	263	101
AIG Property Casualty International	2,835	2,059
AIG Global Operations	174	818
AIG Global Operations Ireland	513	-
Other	170	54
Related party payables	**60,160**	**56,899**

All balances are unsecured and repayable on demand.

27 Fair value measurement

The Company classifies all financial assets as either financial assets at fair value through profit or loss or at amortised cost.

The following tables present the carrying amounts of the Company's financial assets and financial liabilities.

At 31 December 2022	Carrying amount			Fair Value	
	Fair value through profit or loss $000	Financial assets/liabilities at amortised cost $000	Total $000	Level 2 $000	Total $000
Financial assets measured at fair value					
Financial assets at fair value through profit or loss	144,020	-	144,020	144,020	144,020
Financial assets not measured at fair value					
Cash and cash equivalents	-	62,294	62,294	-	-
Trade receivables and sundry debtors	-	114,627	114,627	-	-
Reinsurance recoverables	-	28	28	-	-
Third Party Administration Claim Floats	-	3,659	3,659		
Accrued investment income	-	1,280	1,280	-	-
	144,020	**181,888**	**325,908**	**144,020**	**144,020**
Financial liabilities not measured at fair value					
Amounts due to related companies	-	60,160	60,160	-	-
Reinsurance payables	-	1,765	1,765	-	-
Other payables	-	7,954	7,954	-	-
Lease Liabilities	-	2,962	2,962	-	-
	-	**72,841**	**72,841**	-	-

At 31 December 2021	Carrying amount			Fair Value	
	Fair value through profit or loss $000	Financial assets/liabilities at amortised cost $000	Total $000	Level 2 $000	Total $000
Financial assets measured at fair value					
Financial assets at fair value through profit or loss	147,652	-	147,652	147,652	147,652
Financial assets not measured at fair value					
Cash and cash equivalents	-	41,721	41,721	-	-
Trade receivables and sundry debtors	-	108,690	108,690	-	-
Reinsurance recoverables	-	12	12	-	-
Third Party Administration Claim Floats	-	2,759	2,759		
Accrued investment income	-	1,203	1,203	-	-
	147,652	**154,385**	**302,037**	**147,652**	**147,652**
Financial liabilities not measured at fair value					
Amounts due to related companies	-	56,899	56,899	-	-
Reinsurance payables	-	1,835	1,835	-	-
Other payables	-	7,522	7,522	-	-
Lease Liabilities	-	324	324	-	-
	-	**66,580**	**66,580**	-	-

The carrying amount of assets included in the above tables represents the maximum credit exposure. The carrying value of financial instruments expected to be settled within 12 months (after taking into account impairments, where applicable) is not considered to be materially different from the fair value.

28 Risk management framework

The Company's operations are exposed to a number of key risks including insurance risk and financial risk. The Company's risk management framework includes policies and procedures in respect of managing these risks which are set out below.

The managed acceptance of risk is fundamental to the Company's insurance business model. The Company's risk management framework seeks to effectively manage, rather than eliminate, the risks the Company faces.

In accordance with the Insurance (Prudential Supervision) Act 2010, the Company has developed and implemented a prudent Risk Management Programme ('RMP').

The objective of the RMP is to identify the Company's policies and procedures, processes and controls that comprise its risk management and control systems. These systems address all material risks, financial and non-financial, likely to be faced by the Company. Quarterly, the Company certifies to the Board that adequate strategies have been put in place to monitor those risks, that the Company has systems in place to ensure compliance with legislative and prudential requirements, and that the Board has satisfied itself as to compliance with the RMP.

The Company's RMP has been developed in accordance with AIG's global approach to the management of risk. As such, the RMP aligns with the key global risk management policies and strategies per the AIG risk management framework and are formulated to take account of the local legislative, regulatory and business environment.

The Company's risk management framework requires all operations to establish processes for identifying, evaluating and managing the key risks faced by the organisation. The risk management framework has evolved in recent years and encompasses an established risk governance structure with clear oversight and assignment of responsibility for the monitoring and management of financial, operational and strategic risks.

The Audit and Risk Committees oversee the risk management framework and process. It also ensures the implementation of the RMP, and the reporting of outcomes to the Board of Directors.

The RMP has been approved by the Board. The Company's underlying underwriting philosophy is designed to ensure underwriters address all aspects of a risk before offering terms including rating, deductible level, extent of coverage, the insured's risk management/loss control practices, financial condition and prior loss experience. Key aspects of the processes embedded within the business to mitigate risk arising from insurance contracts include:

- The maintenance and use of appropriate management information systems, which provide up to date reliable data, thus ensuring integrity of data to management and financial models.

- Formally delegated authorities and documented guidelines are followed for underwriting and accepting insurance risks.

- Reinsurance is used to limit the Company's exposure to large scale single claims and catastrophes. When selecting a reinsurer only those companies that provide high security are considered. Procedures are in place to ensure that all reinsurers are approved and that authorised liability limits are adhered to.

- Comprehensive documented claims guidelines and procedures are followed, supported by training and workshops on regulatory and legal requirements.

The Company's investment strategy is governed by Board approved investment guidelines, reflecting a low appetite for investment risk. The mix of assets in which the Company invests is driven by the nature and term of the insurance liabilities. The management of assets and liabilities is closely monitored to broadly align the maturity dates of assets compared to the expected pattern of claim payments.

29 Insurance risk

Terms and conditions of insurance and inwards reinsurance business
The terms and conditions attaching to insurance contracts affect the level of insurance risk accepted by the Company. The majority of direct insurance contracts and inwards reinsurance business written are entered into on a standard form basis. Any non-standard terms and conditions are signed off by appropriately experienced underwriters within a framework, which includes delegated authorities, in line with the RMS.

Concentration of insurance risk
Concentration of insurance risk can be a cause of elevated claims volatility risk and refers to the possibility of significant financial losses arising from a lack of diversification, either geographical or by product type, of the Company's portfolio. Certain events may give rise to higher levels of adverse development and exhibit geographical concentrations.

The Company's exposure to concentration of insurance risk is mitigated by a diverse portfolio of business written across a broad range of locations and industries. Concentrations of risk are managed within each market through the monitoring of product sales and size of the in-force book by product.

The Company has a specific concentration risk associated with natural catastrophes. The Company mitigates this risk by adhering to underwriting and claims management policies and procedures that have been developed based on extensive historical experience. Reinsurance is used to help reduce concentration risk.

Claims volatility risk
Claims volatility refers to the possibility that the frequency or severity of claims arising from insurance contracts exceeds the level assumed when the products were priced.

Insurance liabilities are difficult to predict and may exceed the related reserves for losses and loss expenses. Although the Company regularly reviews the adequacy of the established liability for unpaid claims and claims adjustment expense and conduct an extensive analysis of reserves at each year end, there can be no assurance that our loss reserves will not develop adversely and have a material adverse effect on our results of operations. Estimation of ultimate net losses, loss expenses and loss reserves is a complex process for long-tail lines of business, which include excess liability, D&O, professional liability, medical malpractice, workers' compensation, general liability, products liability and related classes. Generally, actual historical loss development factors are used to project future loss development. However, there can be no assurance that future loss development patterns will be the same as in the past.

The Company seeks to mitigate claims volatility risk by conducting regular experience studies reviewing internal and external data, and considering the impact of these on product design, pricing and reinsurance needs. As a result of the Company's history and scale, a substantial volume of experience data has been accumulated which assists in evaluation and pricing of insurance risk.

30 Financial risk

The Company's operations are exposed to a variety of financial risks including credit risk, liquidity risk and market risk. The Company manages its exposure to key financial risks in accordance with the Company's RMS. The RMS focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Company.

The Company's principal financial instruments comprise cash and cash equivalents, financial assets at fair value through profit or loss, premiums receivable, interest receivable, reinsurance recoveries on paid claims, insurance payables, trade payables and other payables.

The following financial risks are considered and addressed as part of the Company's financial risk management policies and procedures.

30 Financial risk (continued)

Credit risk

Credit risk arises from the possibility of financial loss arising from default by borrowers and transactional counterparties and the decrease in the value of financial instruments due to deterioration in credit quality. The key areas where the Company is exposed to credit risk include repayment risk in respect of:

- Cash and cash equivalents
- Financial assets at fair value through profit or loss (on non-equity instruments)
- Trade receivables and sundry debtors
- Reinsurance recoverables
- Accrued investment income
- Third party administration claim floats

The maximum exposure of credit risk for cash and cash equivalents, financial assets at fair value through profit or loss, trade and other receivables, reinsurance recoverables, accrued investment income and third party administration claim floats is the carrying value (net of allowances) in the Statement of Financial Position.

All credit exposures are subject to AIG's global limits and requirements. The risk management strategy outlines the framework and procedures in place to ensure an adequate and appropriate level of monitoring and management of credit quality throughout the Company.

Most premium revenue is derived from brokers operating in the New Zealand market who are subject to industry credit terms. Credit risk arising from reinsurance recoveries is managed by collecting the majority of reinsurance recoveries within 90 days following payment by the Company of the direct claim and monitoring the credit rating of reinsurers on a continual basis.

Reinsurance is used to manage insurance risk. This does not however discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Company remains liable for the full payment to the policyholder.

The Company further manages its exposure to credit risk by accepting business from intermediaries that meet the Company's corporate guidelines. New intermediaries are accepted on a case-by-case basis and are only accepted after having gone through an internal screening process. All intermediaries are subject to the Company's credit terms.

Credit exposure

The maximum exposure to credit risk is the carrying amount of the financial assets on the Statement of Financial Position. Past due and impaired as at reporting date are $0.395m and are fully provided for. (2021: $0.161m).

The Company has a concentration of credit risk in respect of the amount outstanding from related parties for reinsurance balances. The Company has no other significant concentrations of credit risk.

Age analysis of financial assets past due but not impaired

As at 31 December 2022 $ '000	0 - 90 days	91 - 180 days	181 - 360 days	> 1 year	Total past-due but not impaired
Assets:					
Trade receivables and sundry debtors	-	1,047	1,328	1,224	3,599
Reinsurance recoverable	-	-	5	-	5
Total	**-**	**1,047**	**1,333**	**1,224**	**3,604**

30 Financial risk (continued)

Credit risk (continued)

As at 31 December 2021 $ '000	0 - 90 days	91 - 180 days	181 - 360 days	> 1 year	Total past-due but not impaired
Assets:					
Trade receivables and sundry debtors	-	457	873	547	1,877
Reinsurance recoverable	-	2	-	-	2
Total	**-**	**459**	**873**	**547**	**1,879**

The tables below provide information regarding the credit risk exposure of the Company at 31 December 2022 by classifying assets according to Standard and Poor's equivalent credit rating of the counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as speculative grade.

As at 31 December 2022 $ '000	AAA	AA	A	BBB	Not rated	Total
Assets:						
Cash and cash equivalents	-	34,294	28,000	-	-	62,294
Financial assets at fair value	85,760	37,781	17,967	2,512	-	144,020
Trade receivables and sundry debtors	-	-	-	-	114,627	114,627
Third party administration claims floats	-	-	-	-	3,659	3,659
Reinsurance recoverable	-	15	15	27	5	62
Accrued investment income	776	318	160	26	-	1,280
Total	**86,536**	**72,408**	**46,142**	**2,565**	**118,291**	**325,942**

As at 31 December 2021 $ '000	AAA	AA	A	BBB	Not rated	Total
Assets:						
Cash and cash equivalents	-	22,200	19,521	-	-	41,721
Financial assets at fair value	49,991	74,573	20,402	2,686	-	147,652
Trade receivables and sundry debtors	-	-	-	-	108,690	108,690
Third party administration claims floats	-	-	-	-	2,759	2,759
Reinsurance recoverable	-	4	4	-	4	12
Accrued investment income	474	606	97	26	-	1,203
Total	**50,465**	**97,383**	**40,024**	**2,712**	**111,453**	**302,037**

30 Financial risk (continued)

Liquidity risk

Liquidity risk primarily refers to the possibility of having insufficient cash available to meet the payment obligations to counterparties when they become due.

The Company's cash position is monitored daily and funding requirements are managed through a structured investment portfolio that allows flexibility in funding and includes suitable floats of readily realisable assets. Liquidity risk controls include regular actuarial reviews of insurance reserves, matching asset and liability duration and cash flow monitoring.

A maturity analysis of the Company's financial liabilities is provided below.

As at 31 December 2022

$ $'000	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Total	Carrying Amount
Financial liabilities:					
Amounts due to related companies	60,033	127	-	**60,160**	**60,160**
Reinsurance payables	1,765	-	-	**1,765**	**1,765**
Other payables	8,010	-	-	**8,010**	**8,010**
Lease liabilities	582	2,239	141	**2,962**	**2,962**
Total	**70,390**	**2,366**	**141**	**72,897**	**72,897**

As at 31 December 2021

$ '000	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Total	Carrying Amount
Financial liabilities:					
Amounts due to related companies	56,844	55	-	**56,899**	**56,899**
Reinsurance payables	1,835	-	-	**1,835**	**1,835**
Other payables	7,522	-	-	**7,522**	**7,522**
Lease liabilities	245	79	-	**324**	**324**
Total	**66,446**	**134**	-	**66,580**	**66,580**

Market risk

Market risk represents the risk that the fair value or cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk reflects interest rate risk, foreign currency risk and other price risks. The extent of the Company's exposure to market risk is mitigated by the formulation of, and adherence to, strict investment guidelines, as approved by the Board of Directors and the utilisation of appropriately qualified and experienced personnel to manage the Company's portfolio.

Foreign exchange rate risk

Foreign currency risk is the risk of the Company's asset values changing as a result of changes in currency exchange rates. The Company may be exposed to foreign currency risk as a result of premium collection, claim payment, reinsurance payment and recovery and intercompany expense transactions.

30 Financial risk (continued)

Market risk (continued)

The Company seeks to mitigate its exposure to foreign currency risk by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency, where there is material exposure to currency movements.

A sensitivity analysis showing the impact on profit or loss after tax and equity for changes in foreign exchange rate for exposure as at the reporting date is shown below. The analysis is based on the assumption that the movement in foreign currencies had increased/(decreased) by 10% with all variables held constant. The Company's net open position at balance date for AUD is $1.028m (2021: $0.634m) and USD is $3.770m (2021: $2.303m). Other foreign currency movements are not material.

2022

Change in FX Rate %	Profit (Loss) before tax $'000	Equity $'000
+10%	(480)	(345)
-10%	480	345

2021

Change in FX Rate %	Profit (Loss) before tax $'000	Equity $'000
+10%	(294)	(211)
-10%	294	211

Interest rate risk

The Company's exposure to interest rate risk relates primarily to the impact of market interest rates on the market value of financial assets at fair value through profit or loss and on interest earned on cash and cash equivalents and these financial assets.

Interest rate risk exposure arises mainly from investment in interest-bearing securities and from ongoing valuation of insurance liabilities. The investment portfolios hold significant interest-bearing securities in support of corresponding outstanding claims liabilities and are invested in a manner consistent with the expected duration of claims payments. The Company manages its exposure to interest rate risk primarily through investing funds in securities with maturity dates which are appropriate to the liabilities.

The sensitivity of profit or loss after tax and equity to movements in interest rates in relation to interest-bearing financial assets held at the reporting date is shown in the table below. The analysis is based on the assumption that the movement in interest rates had increased/decreased by 1.75% (absolute change) with all other variables held constant. It is assumed that all residual exposures for the shareholder after tax are included in the sensitivity analysis, that the percentage point change occurs at the reporting date and there are concurrent movements in the interest rates and parallel shifts in yield curves.

30 Financial risk (continued)

Interest rate risk (continued)

2022

Change in interest rate %	Profit (Loss) before tax $'000	Equity $'000
+1.75%	(252)	(182)
-1.75%	252	182

2021

Change in interest rate %	Profit (Loss) before tax $'000	Equity $'000
+1.75%	(2,220)	(1,599)
-1.75%	2,220	1,599

Price Risk

Price risk is the risk of loss resulting from the decline in prices of equity securities or other assets. Price risk is managed through diversification of the investment portfolio in accordance with investment guidelines established under the governance of the various investment committees which the Company operates locally and reports into at regional and global levels.

The Company has minimal exposure to price risk as the investment portfolio does not currently include equity securities (2021: Nil).

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 risk can cause damage to reputation, have legal or regulatory implications or can lead to financial loss. The Company cannot expect to eliminate all operational risks, but by initiating a rigorous control framework and by monitoring and responding to potential risks the Company 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 Group's strategic planning and budgeting process.

31 Capital Adequacy

The Company manages its capital to ensure that it will be able to continue to operate as a going concern and comply with capital requirements imposed by the relevant legislation, Insurance (Prudential Supervision) Act 2010, and the industry regulator the Reserve Bank of New Zealand.

The Company maintains a capital management policy that provides guidance on the level of capital maintained in accordance with regulatory requirements and is approved by the Directors. The objective of this policy is to hold sufficient levels of capital that is commensurate with the Company's overall risk profile and to maintain a level of capital that enables efficient use of the capital.

31 Capital Adequacy (continued)

The capital objectives are achieved through ongoing management of the Statement of Financial Position and capital mix. The Company uses a range of strategies to effectively manage capital including continual refinement of business plans, ongoing reviews of solvency levels based on actuarial analysis, movement in asset valuations and profitability and capital planning in conjunction with budget and financial projections. The Company works with the regulator and monitors regulatory developments across its operations to assess their potential impact on its ability to meet solvency and other requirements.

The capital adequacy ratio of the Company at the reporting date is as follows:

$ '000	Year ended 31 Dec 2022	Year ended 31 Dec 2021
Actual solvency capital	97,071	94,595
Minimum solvency	44,814	41,032
Solvency margin	52,257	53,563
Solvency ratio	**2.17**	**2.31**

32 Events occurring after balance sheet date

The Company is aware of the following matters that may significantly affect, the operations of the Company, the result of those operations, or the state of affairs of the Company in the financial year subsequent to 31 December 2022:

During January and February 2023 New Zealand was impacted by two separate weather-related catastrophe (CAT) events; the Auckland Anniversary Weekend floods and Cyclone Gabrielle. The Company is still quantifying the impact of both events at the reporting date, and as a result cannot reliably estimate the potential future impact of this exposure.

These CAT events are covered under the Company's comprehensive treaty reinsurance program which includes an all lines Quota Share Treaty and an Accident Year Stop Loss (AYSL) Treaty. The net impact of these events will be capped by the AYSL Treaty for 2023, should the AYSL treaty attachment point be triggered during 2023.

INSURANCE (PRUDENTIAL SUPERVISION) ACT 2010

("Act')

APPOINTED ACTUARY'S REPORT

Pursuant to section 78 of the Act

Name of Licensed Insurer: **AIG Insurance New Zealand Limited**

I, Eric Han Soo Lew of Melbourne in the state of Victoria, Australia report as follows:

1. I am the Appointed Actuary of the Licensed Insurer (*Actuary*).

2. This report is given in accordance with section 78 of the Act and relates to my review of the actuarial information contained in, or used in the preparation of, the financial statements of the Licensed Insurer for the 12 months ending 31 December 2022 (*Review*).

2.1 The Work done by me in relation to the Review was:

(i) The Premium Liabilities as defined in the Standard;
(ii) The Net Outstanding Claims Liability as defined in the Standard;
(iii) The reinsurance and any other recovery asset(s) relevant to the Reinsurance Recovery Risk Capital Charge;
(iv) Application of the Liability Adequacy Test and any deferred acquisition cost or deferred fee revenue relevant to the Premium Liabilities;
(v) Disclosures made in the financial statements in relation to actuarial valuation methodologies, and assumptions; and
(vi) Claims development tables.

2.2 The Scope and Limitations of the Review: None

2.3 There is no relationship (other than that of actuary) that I have with, or any interests that I have in, the Licensed Insurer

2.4 I have obtained all information and explanations that I have required.

2.5 In my opinion and from an actuarial perspective:

(i) The actuarial information contained in the financial statements has been appropriately included in those statements;
(ii) The actuarial information used in the preparation of the financial statements has been used appropriately.

2.6 The required opinions are from an actuarial perspective and are not intended to alter the scope or role of the auditor in respect of audited financial statements or group financial statements.

2.7 The Licensed Insurer has an established policy to seek the advice of the appointed actuary in respect of part or all of the actuarial information and to always adopt that advice in its financial statements or group financial statements. I have verified that my advice has been adopted in the relevant financial statements and note the reliance on this provision within the associated report.

2.6 In my opinion and from an actuarial perspective the Licensed Insurer is maintaining the solvency margin that applies under a condition imposed under section 21(2)(b) of the Act (as at the balance date of the Licensed Insurer.

(i) The Licensed Insurer is not required to maintain a statutory fund and so no opinion is required.

Dated: 22 March 2023

Signed: Eric Han Soo Lew