Consumer Insurance Services Limited
Audited financial statements
for the six months ended 30 June 2016

Directory

Principal business	Insurance services
Directors	C M da Silva (Chairman) S G Brewis-Weston H B Rennie, QC D J Stevens
Registered office	31 Highbrook Drive East Tamaki Auckland, New Zealand
Auditors	PricewaterhouseCoopers New Zealand 188 Quay Street Private Bag 92162 Auckland, New Zealand
Solicitors	Bell Gully 48 Shortland Street Auckland, New Zealand
Banker	Bank of New Zealand Limited 80 Queen Street Auckland, New Zealand
Actuary	Melville Jessup Weaver Level 6 57 Fort Street Auckland, New Zealand
Website address	www.flexicards.co.nz

Directors' report

The Board of Directors has pleasure in presenting the financial statements for the six months ended 30 June 2016.

With the agreement of its shareholder, the Company has adopted the reporting concessions available to it under section 211(3) of the Companies Act 1993.

The Board of Directors of Consumer Insurance Services Limited authorised these financial statements presented on pages 4 to 22 for issue on 28 September 2016.

For and on behalf of the Board.

C M da Silva
Director

D J Stevens
Director

Consumer Insurance Services Limited
Financial statements - 30 June 2016

Contents

Statement of comprehensive income

For the six months ended 30 June 2016

	Note	6 months 30-Jun-16 $000	12 months 31-Dec-15 $000
Interest income		83	307
Premium income	4	3,176	7,064
Total operating income		3,259	7,371
Insurance commission		(667)	(1,618)
Operating expenses	5	(1,109)	(1,665)
Net claims incurred	6	(313)	(1,065)
Total expenses		(2,089)	(4,348)
Profit before income tax		1,170	3,023
Income tax expense	8	(327)	(846)
Profit after income tax expense		843	2,177
Other comprehensive income net of tax		-	-
Total comprehensive income		843	2,177
Total comprehensive income is attributable to:			
Equity holders of Consumer Insurance Services Limited		843	2,177

Refer to note 1 for information on the change in balance date.

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Statement of financial position

As at 30 June 2016

	Note	30-Jun-16 $000	31-Dec-15 $000
Assets			
Cash at bank		43	359
Short term deposits		5,500	5,000
Current tax receivables		53	38
Related party receivable	22(c)(i)	539	375
Deferred acquisition cost	9	74	136
Dealer debtors and sundry debtors		36	12
Total assets		6,245	5,920
Liabilities			
Payables		35	43
Outstanding claims liability	10	396	413
Unearned premium liability	11	340	516
Deferred tax liabilities	13	21	38
Total liabilities		792	1,010
Net assets		5,453	4,910
Equity			
Share capital	14	3,500	3,500
Retained earnings		1,953	1,410
Total equity		5,453	4,910

Refer to note 1 for information on the change in balance date.

The above statement of financial position should be read in conjunction with the accompanying notes.

The Board of Directors of Consumer Insurance Services Limited authorised these financial statements presented on pages 4 to 22 for issue on 28 September 2016.

For and on behalf of Board.

C M da Silva
Director

D J Stevens
Director

Statement of changes in equity

For the six months ended 30 June 2016

	Note	Attributable to equity holders of the Company		
		Share capital $000	Retained earnings $000	Total equity $000
As at 1 January 2015		7,500	1,183	8,683
Year ended 31 December 2015				
Profit after income tax expense		-	2,177	2,177
Total comprehensive income		-	2,177	2,177
Transactions with owners				
Dividends	15	-	(1,950)	(1,950)
Share capital repurchased	14	(4,000)	-	(4,000)
Total transactions with owners		(4,000)	(1,950)	(5,950)
As at 31 December 2015		3,500	1,410	4,910
As at 1 January 2016		3,500	1,410	4,910
Six months ended 30 June 2016				
Profit after income tax expense		-	843	843
Total comprehensive income		-	843	843
Transaction with owners				
Dividend	15	-	(300)	(300)
Total transaction with owners		-	(300)	(300)
As at 30 June 2016		3,500	1,953	5,453

Refer to note 1 for information on the change in balance date.

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Statement of cash flows

For the six months ended 30 June 2016

	Note	6 months 30-Jun-16 $000	12 months 31-Dec-15 $000
Cash flows from operating activities			
Interest received		50	341
Insurance premium received		3,000	5,904
Claims paid		(330)	(1,185)
Payments to suppliers and employees		(1,877)	(2,955)
Income tax paid		(211)	(126)
Subvention payments		(148)	(1,000)
Net cash inflow from operating activities		484	979
Cash flows from financing activities			
Repurchase of capital	14	-	(4,000)
Dividends paid	15	(300)	(1,950)
Net cash outflow from financing activities		(300)	(5,950)
Net increase/(decrease) in cash and cash equivalents		184	(4,971)
Cash and cash equivalents at beginning of the period		5,359	10,330
Cash and cash equivalents at end of the period		5,543	5,359
Cash and cash equivalents at end of the period comprise:			
Cash at bank		43	359
Short term deposits		5,500	5,000
		5,543	5,359
Reconciliation of profit after income tax to net cash inflow from operating activities			
Profit after tax for the period		843	2,177
Movement in accrued interest		(33)	21
Movement in current tax		(15)	(131)
Movement in other assets		(93)	665
Movement in deferred tax liabilities		(17)	(148)
Movement in payables ·		(201)	(1,605)
Net cash inflow from operating activities		484	979

Refer to note 1 for information on the change in balance date.

The above statement of cash flows should be read in conjunction with the accompanying notes.

1 General accounting policies

Reporting entity

These financial statements are for Consumer Insurance Services Limited as a separate legal entity.

Consumer Insurance Services Limited (the "Company") provides insurance services in New Zealand. Effective 13 May 2013, the Reserve Bank of New Zealand issued the Company a license to carry on non-life insurance business in New Zealand pursuant to the Insurance (Prudential Supervision) Act 2010.

The address of its registered office is 31 Highbrook Drive, East Tamaki, Auckland.

Statutory base

The Company is a limited liability company incorporated and domiciled in New Zealand. It is registered under the Companies Act 1993.

Basis of preparation

The financial statements have been prepared in accordance with New Zealand generally accepted accounting practice ("NZ GAAP"). The financial statements comply with New Zealand Equivalents to International Financial Reporting Standards ("NZ IFRS"), other interpretations as appropriate for profit-oriented entities and International Financial Reporting Standards ("IFRS").

The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 2013, the Financial Markets Conduct Act 2013 and the Companies Act 1993. The Company is a Financial Markets Conduct reporting entity under the Financial Markets Conduct Act 2013.

The Company is a profit-oriented entity.

These financial statements have been approved for issue by the Board of Directors on 28 September 2016.

Balance date and comparative figures

The Company changed its balance date from 31 December to 30 June for the period ended 30 June 2016. Current period figures are for the six month period ended 30 June 2016, and comparative figures cover the full year ended 31 December 2015. Accordingly, comparative amounts for the Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows and related notes are not directly comparable.

Basis of measurement

The financial statements are based on the general principles of historical cost accounting, as modified by the fair value accounting for financial assets and financial liabilities at fair value through profit or loss.

These financial statements are presented in New Zealand dollars, which is the Company's functional currency. All amounts in these financial statements have been rounded in thousands unless otherwise stated.

2 Summary of significant accounting policies

(a) Interest income

Interest income is recognised in the statement of comprehensive income for all financial assets measured at amortised cost using the effective interest method.

The effective interest method allocates the interest income over the life of the contract or when appropriate a shorter period using the effective interest rate. The effective interest rate is the discount rate at which the present value of the future cash flows equals the net carrying amount of the financial asset.

2 Summary of significant accounting policies (continued)

(b) Premium revenue

Premium revenue includes amounts charged to the insured but excludes fire service levies, goods and services tax ("GST") and other amounts collected on behalf of third parties.

Premium revenue is recognised in the statement of comprehensive income when it has been earned. Premium revenue is recognised in the statement of comprehensive income from the attachment date over the period of the contract.

The portion of premium received or receivable not earned in the statement of comprehensive income at the balance date is recognised in the statement of financial position as an unearned premium liability.

(c) Income tax

The income tax expense on the profit for the period is the taxation payable on the current period's taxable income at tax rates that have been enacted or substantively enacted as at the balance date. This is adjusted by changes in deferred tax assets and liabilities. Income tax expense is recognised in the statement of comprehensive income except where it relates to items recognised directly in equity, in which case it is recognised in equity.

Deferred tax is provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted as at the balance date and are expected to apply when the related deferred tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are only recognised to the extent that it is probable that future taxable amounts will be available against which the asset can be utilised.

(d) GST

Revenue, expenses and assets are recognised net of GST except to the extent that GST is not recoverable from the Inland Revenue. In these circumstances, GST is recognised as part of of the expense or cost of the asset.

(e) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks and other short term highly liquid investments with original maturities of three months or less.

(f) Financial assets and liabilities

Financial assets

The Company's financial assets comprise such items as cash, short term deposits, and sundry debtors.

The Company classifies its financial assets as measured at either amortised cost or fair value depending on the Company's business model and the contractual cash flow characteristics of the financial assets. A financial asset is measured at amortised cost if it is held under a business model to collect contractual cash flows and the contractual cash flows comprise of principal and interest payments.

(i) Financial assets at amortised cost

An asset is classified as amortised cost only if both the following criteria are met:

- the objective of the Company's business model is to hold the asset to collect the contractual cash flows; and
- the contractual terms give rise to cash flows that are solely payments of principal and interest on the principal outstanding.

(ii) Financial assets at fair value

If either of the two criteria above are not met, the asset is classified as fair value through profit or loss.

Purchases and sales of the financial assets are recognised at trade date. Financial assets are derecognised when the rights to receive the cash flows have expired or the Company has transferred substantially all risks and rewards of ownership.

2 Summary of significant accounting policies (continued)

Financial liabilities

The Company's financial liabilities are measured at amortised cost.

(g) Impairment of financial assets

(i) Assets carried at amortised cost

An assessment is made at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are recognised if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event(s) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

(ii) Assets carried at fair value

At each balance date an assessment is made as to whether there is objective evidence that a financial asset or group of financial assets is impaired.

(h) Assets backing general insurance liabilities

As part of its investment strategy the Company actively manages its money market deposits to ensure that sufficient liquid funds are available to meet the expected pattern of future cash flows arising from general insurance liabilities.

The Company has determined that its money market deposits are held to back general insurance liabilities. These assets are stated at amortised cost using the effective interest method.

(i) Liability adequacy test

Liability adequacy testing is performed in order to recognise in the statement of comprehensive income any deficiencies arising from the carrying amount of the unearned premium liability less any related deferred acquisition costs and intangible assets not meeting the estimated future claims under current insurance contracts. The estimated future claims under current insurance contracts are measured using the present value of the expected cash flows relating to future claims and associated expenses (discounted using a risk free interest rate) plus an additional risk margin to reflect the inherent uncertainty of those estimated cash flows.

Liability adequacy testing is performed at the portfolio level where contracts that are subject to broadly similar risks are managed together as a single portfolio.

(j) Acquisition costs

Acquisition costs incurred in obtaining general insurance contracts are deferred and recognised as assets when they can be reliably measured and it is probable that they will give rise to premium revenue in subsequent reporting periods.

Deferred acquisition costs are amortised in accordance with the expected pattern of risk under the insurance contracts to which they relate. This pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue.

(k) Outstanding claims liability

The liability for outstanding claims is measured as the central estimate of the present value of expected future payments against claims incurred at the balance 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 anticipated claims handling costs.

Claims handling costs include costs that can be associated directly with individual claims, such as legal and other professional fees, and costs that can only be indirectly associated with individual claims, such as claims administration costs.

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

2 Summary of significant accounting policies (continued)

The outstanding claims liability has been determined using the Bornhuetter-Fergusson (incurred claims) methodology (an actuarial method). It has been assumed that future incurred claims patterns for each group of business will continue to follow observed historic patterns.

(l) Share capital

Ordinary shares are recognised at the amount paid up per ordinary share, net of directly attributable issue costs.

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's directors.

(m) Offsetting

The Company does not apply offsetting. The Company does not have any material assets or liabilities which are subject to offsetting enforceable master netting arrangements or similar agreements.

(n) New and amended standards adopted

The Company has not adopted any new or amended standards in the period ended 30 June 2016.

(o) Changes in accounting policies

There have been no significant changes in accounting policies during the current period. Accounting policies have been applied on a basis consistent with the prior year.

(p) Standards, interpretations and amendments to published standards that are not yet effective

The following new standard relevant to the Company has been issued:

- NZ IFRS 15 *Revenue from Contracts with Customers* addresses recognition of revenue from contracts with customers. This standard replaces NZ IAS 18 *Revenue* and NZ IAS 11 *Construction Contracts*. It sets out a five step model for revenue recognition to depict the transfer of goods and services that reflects the consideration to which an entity is entitled to. This standard is effective for periods beginning on or after 1 January 2018. The Company is in the process of assessing the potential effect of this standard.

Other interpretations and amendments are unlikely to have a material impact on the Company's financial statements and have therefore not been analysed.

3 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and expectations of future events. The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Outstanding claims liability

The estimated cost of claims includes direct expenses to be incurred in settling claims. IBNR claims may not be apparent to the Company until several months after the events. In calculating the estimated cost of unpaid claims the Company uses a variety of estimation techniques. Refer note 17.

4 Premium income

	6 months 30-Jun-16 $000	12 months 31-Dec-15 $000
Gross written premiums	3,000	5,662
Movement in unearned premiums (note 11)	176	1,402
Premium income	3,176	7,064

5 Operating expenses

	6 months 30-Jun-16 $000	12 months 31-Dec-15 $000
Expense recharged from related parent (note 22(c)(i))	1,109	1,682
Other	-	(17)
	1,109	1,665

6 Net claims incurred

	6 months 30-Jun-16 $000	12 months 31-Dec-15 $000
Gross claims expense		
Risks borne in the current period	228	609
Reassessment of risks borne in previous years	87	463
Other recoveries revenue		
Reassessment of risks borne in previous years	(2)	(7)
	313	1,065

7 Net underwriting result

	6 months 30-Jun-16 $000	12 months 31-Dec-15 $000
Analysis of insurance operating result		
Premium revenue	3,176	7,064
Gross claims expense	(315)	(1,072)
Other recoveries revenue	2	7
Net claims incurred	(313)	(1,065)
Acquisition costs	(667)	(1,618)
Other underwriting expenses	(46)	(86)
Expenses	(713)	(1,704)
Net underwriting result	2,150	4,295
Interest income	83	307
Operating surplus before income tax	2,233	4,602

pwc

8 Income tax expense

	6 months 30-Jun-16 $000	12 months 31-Dec-15 $000
(a) Income tax expense		
Current tax	344	994
Deferred tax - temporary differences (note 13)	(17)	(148)
Total income tax expense	327	846
(b) Reconciliation of income tax expense to prima facie tax payable		
Profit before income tax	1,170	3,023
Tax at the New Zealand tax rate of 28.0% (31 December 2015: 28.0%)	327	846

9 Deferred acquisition costs

	6 months 30-Jun-16 $000	12 months 31-Dec-15 $000
Opening balance	136	665
Acquisition cost deferred	605	1,089
Amortisation charged to statement of comprehensive income	(667)	(1,618)
Closing balance	74	136
Current	66	120
Non-current	8	16
Total deferred acquisition costs	74	136

10 Outstanding claims liability

	30-Jun-16 $000	31-Dec-15 $000
(a) Outstanding claims liability		
Central estimate	275	306
Discount to present value	(3)	(6)
	272	300
Claims handling costs	85	71
	357	371
Risk margin	39	42
Gross outstanding claims liability	396	413
Gross claims incurred - undiscounted	399	419
Current	333	352
Non-current	63	61
Total	396	413

(b) Risk margin

Process for determining risk margin

The overall risk margins for both outstanding claims and liability adequacy testing have been determined using stochastic techniques allowing for diversification and having regard to the inherent variation observed in historical claims development. The risk margins for the portfolio are applied to the central estimates in order to arrive at an overall net provision that is intended to provide a probability of sufficiency of 75% (31 December 2015: 75%).

	30-Jun-16 %	31-Dec-15 %
Risk margin applied		
Overall risk margin	12.4	12.6

10 Outstanding claims liability (continued)

(c) Reconciliation of movement in outstanding claims liability

	6 months 30-Jun-16 $000	12 months 31-Dec-15 $000
Opening balance	413	533
Incurred claims recognised in the statement of comprehensive income	313	1,065
Claim payments	(330)	(1,185)
Closing balance	396	413

(d) Claims development tables

Claims development tables have not been provided as claims are typically resolved within one year.

11 Unearned premium liability

	6 months 30-Jun-16 $000	12 months 31-Dec-15 $000
Opening balance	516	1,918
Deferral of premiums	3,000	5,662
Earning of premiums	(3,176)	(7,064)
Closing balance	340	516
Current	305	459
Non-current	35	57
Total	340	516

12 Liability adequacy test

The liability adequacy test has identified a surplus for the Company's portfolio of insurance contracts. These contracts are subject to broadly similar risks and are managed together as a single portfolio.

	30-Jun-16 $000	31-Dec-15 $000
Unearned premium liability	340	516
Deferred acquisition costs	(74)	(136)
Net premium unearned liability	266	380
Central estimate of present value of expected future cash flows arising from future claims on contracts issued	86	134
Risk margin 18.5% (31 December 2015: 16.6%)	12	18
Present value of expected future cash flows for future claims	98	152
Net surplus	168	228

The process for determining the overall risk margin, including the way in which diversification of risks has been allowed for is discussed in note 10(b). As with outstanding claims, the overall risk margin is intended to achieve 75% probability of adequacy.

pwc

13 Deferred tax liabilities

	6 months 30-Jun-16 $000	12 months 31-Dec-15 $000
The balance comprises temporary differences attributable to:		
Deferred acquisition costs	21	38
Opening balance	38	186
Credited to income tax expense (note 8)	(17)	(148)
Closing balance	21	38
Current	19	34
Non-current	2	4
	21	38

14 Share capital

	30-Jun-16 Shares 000	31-Dec-15 Shares 000	30-Jun-16 $000	31-Dec-15 $000
Ordinary shares fully paid	3,500	3,500	3,500	3,500

On 28 May 2015, the Company undertook a capital release by way of a share buyback of 4 million shares at $1 each.

At 30 June 2016 the total number of authorised shares was 3.5 million (31 December 2015: 3.5 million) with no par value. All issued shares are fully paid.

Ordinary shares entitle the holder to participate in dividends and proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy is entitled to one vote and upon a poll each share is entitled to one vote.

15 Dividends

On 30 July 2015 a dividend of 28.6 cents per fully paid share amounting to $1,000,000 was paid.

On 21 December 2015 a dividend of 27.1 cents per fully paid share amounting to $950,000 was paid.

On 24 February 2016 a dividend of 8.6 cents per fully paid share amounting to $300,000 was paid.

16 Insurance contracts - risk management policies and procedures

The general insurance business of the Company involves a number of non-financial risks.

The risk management activities include prudent policy guidelines, pricing and management of risk, together with claims management, reserving and investment management. The objective of these disciplines is to enhance the financial performance and manage the risk profile of the insurance operations.

(a) Financial soundness

The Company ensures the financial soundness of its operations by: (i) maintaining a strong capital base to safeguard its ability to continue as a going concern and (ii) investing its assets in accordance with Board approved treasury policy.

(b) Concentration of insurance risk

The Company is exposed to three classes of business: Goods Cover, Payment Protection Cover and Extended Warranty Cover. The Company discontinued writing new business for the Extended Warranty Cover in the year ended 31 March 2012. As at 30 June 2016, the Company offers two insurance products to a broad spread of consumers across New Zealand.

16 Insurance contracts - risk management policies and procedures (continued)

(c) Insurance company rating

At 30 June 2016 and 31 December 2015 the Company had an insurer financial strength rating of "B++ (good)" and an issuer credit rating of "bbb+" from AM Best Company Limited. The outlook for both ratings is stable at 30 June 2016 (31 December 2015: Stable).

(d) License

The Company holds a license from the Reserve Bank of New Zealand to carry on insurance business in New Zealand. The requirement to be licensed is a requirement of the Insurance (Prudential Supervision) Act 2010.

17 Insurance - assumptions and methods

The Company has three classes of business (as detailed in note 16(b)). All three classes are short tail in nature meaning that claims are typically settled within one year of being reported.

The cost of claims notified to the Company at the balance date are estimated on a case by case basis to reflect the individual circumstances of each claim.

Actuarial assumptions

The following assumptions have been made in determining the outstanding claims liabilities.

	30-Jun-16	31-Dec-15
Average weighted term to settlement from balance date	**5.4 mths**	5.4 mths
Expense rate	**27.7%**	22.8%

Process used to determine assumptions

Average weighted term to settlement

The average weighted term to settlement is calculated separately by class of business based on historic settlement patterns.

Assumed loss ratios

The assumed loss ratios were determined by a consideration of observed ultimate loss ratios for earlier loss quarters. This process requires professional judgement due to variation from quarter to quarter due to the relatively small size of the portfolio.

Future incurred claim settlement patterns

The outstanding claims liability has been determined using the Bornhuetter-Fergusson (incurred claims) methodology. It has been assumed that future incurred claims patterns for each group of business will continue to follow observed historic patterns.

Expense rate

Claims handling expenses were calculated by reference to past experience of claims handling costs.

Inflation and discount rates

For outstanding claims liabilities the period between the valuation date and the settlement date of most claims is expected to be short and the increase in costs as a result of inflation is not likely to be material. The outstanding claims liabilities have not been discounted for the time value of money.

Sensitivity analysis - insurance contracts

An increase/decrease of 10% in the key variables (average weighted term to settlement, average claim frequency and expense rate) is not expected to have a material impact on the Company's profit or equity.

18 Actuarial information

Melville Jessup Weaver was appointed as the Actuary of Consumer Insurance Services Limited in accordance with the Insurance (Prudential Supervision) Act 2010.

An Insurance Liability Valuation Report effective 30 June 2016 was provided by MJW to the Company. Overall, the Actuary considered that the information provided was adequate and appropriate for the purpose of the valuation.

The key assumptions used by the Actuary in determining the outstanding claims liability are included in note 17.

19 Imputation credits

Effective 18 March 2016, the Company became a member of the FlexiGroup consolidated income tax group and imputation group and can access imputation credits of the imputation group. The amount of imputation credits available to the Company as at 30 June 2016 is $11,878,000.

Prior to this date, the Company was a member of the Fisher & Paykel Appliances Holdings Limited imputation group and could access imputation credits of the imputation group. The amount of imputation credits available to the Company as at 31 December 2015 was $Nil.

20 Financial risk management

(a) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Interest revenues may increase or decrease as a result of changes in market interest rates.

The Company is part of a Group which operates an Asset and Liability Committee ("ALCO") which is responsible for managing interest rate risk in accordance with its charter and treasury risk management policies. In addition, the Company operates an Insurance Committee ("INSCO"), which along with ALCO, oversees the management of interest rate risks.

Cash flow sensitivity analysis

The following tables summarise the sensitivity of the Company's financial assets and financial liabilities to cash flow interest rate risk.

		Cash flow interest rate risk			
		-1%		+1%	
Thursday, 30 June 2016	Carrying amount $000	Profit after tax $000	Equity $000	Profit after tax $000	Equity $000
Financial assets					
Cash at bank	43	-	-	-	-
Short term deposits	5,500	(40)	(40)	40	40
Other financial assets	575	-	-	-	-
Financial liabilities					
Other financial liabilities	4	-	-	-	-
Total (decrease)/increase		(40)	(40)	40	40

20 Financial risk management (continued)

		Cash flow interest rate risk			
		-1%		+1%	
Thursday, 31 December 2015	Carrying amount $000	Profit after tax $000	Equity $000	Profit after tax $000	Equity $000
Financial assets					
Cash at bank	359	(3)	(3)	3	3
Short term deposits	5,001	(36)	(36)	36	36
Other financial assets	386	-	-	-	-
Financial liabilities					
Other financial liabilities	10	-	-	-	-
Total (decrease)/increase		(39)	(39)	39	39

(b) Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its payment obligations. It includes the risk that the Company may have insufficient liquid funds, or may not be able to raise sufficient funds to meet its payment obligations. This situation can arise if there is a significant mismatch of its financial assets and financial liabilities.

ALCO oversees all aspects of balance sheet risk assessment and management, including liquidity risk. This committee has a formal charter which outlines its role and responsibilities. All treasury related activity must comply with formal treasury risk management policies.

The Company manages liquidity risk by monitoring day to day funding requirements and balance sheet liquidity ratios.

Maturity analysis

The tables below present the Company's cash flows by remaining contractual maturities at balance date. The amounts disclosed are the contractual undiscounted cash flows and therefore may not agree to the carrying values on the balance sheet.

Thursday, 30 June 2016	Call $000	Up to 6 months $000	Over 6 months and up to 1 year $000	Over 1 year and up to 2 years $000	Over 2 years and up to 5 years $000	Over 5 years $000	Total $000
Financial assets							
Cash at bank	43	-	-	-	-	-	43
Short term deposits	1,468	4,032	-	-	-	-	5,500
Other assets	-	575	-	-	-	-	575
	1,511	4,607	-	-	-	-	6,118
Financial liabilities							
Other liabilities	-	4	-	-	-	-	4

31 December 2015	Call $000	Up to 6 months $000	Over 6 months and up to 1 year $000	Over 1 year and up to 2 years $000	Over 2 years and up to 5 years $000	Over 5 years $000	Total $000
Financial assets							
Cash at bank	359	-	-	-	-	-	359
Short term deposits	1,000	4,001	-	-	-	-	5,001
Other assets	-	386	-	-	-	-	386
	1,359	4,387	-	-	-	-	5,746
Financial liabilities							
Other liabilities	-	10	-	-	-	-	10

20 Financial risk management (continued)

The tables below analyse the Company's cash flows from insurance assets and insurance liabilities by expected maturities at balance date.

30 June 2016	Up to 6 months $000	Over 6 months and up to 1 year $000	Over 1 year and up to 2 years $000	Over 2 years and up to 5 years $000	Over 5 years $000	Total $000
Insurance assets						
Deferred acquisition cost	48	18	6	2	-	74
Insurance liabilities						
Outstanding claims liability	281	52	35	27	1	396
Unearned premium liability	222	83	28	7	-	340
	503	135	63	34	1	736

Thursday, 31 December 2015	Up to 6 months $000	Over 6 months and up to 1 year $000	Over 1 year and up to 2 years $000	Over 2 years and up to 5 years $000	Over 5 years $000	Total $000
Insurance assets						
Deferred acquisition cost	82	38	13	3	-	136
Insurance liabilities						
Outstanding claims liability	299	53	35	26	-	413
Unearned premium liability	313	146	47	10	-	516
	612	199	82	36	-	929

(c) Credit risk

The Company is exposed to credit risk, which is the risk that a counterparty will cause a financial loss for the Company by failing to discharge an obligation. Credit exposures arise principally in deposits held with other entities.

The Company is part of a Group which has a Credit Committee which oversees all aspects of credit risk assessment and management. The Credit Committee operates within formal credit policies and guidelines approved by the Board.

Maximum exposure to credit risk before collateral held or other credit enhancements

	30-Jun-16 $000	31-Dec-15 $000
Credit exposures relating to on-balance sheet assets		
Cash at bank	43	359
Short term deposits	5,500	5,001
Other assets	575	386
	6,118	5,746

The above table shows the maximum credit risk exposure at 30 June 2016 and 31 December 2015. No collateral is held by the Company for the assets listed in the table above. Deposits are held with various financial institutions. At balance date all counterparties have a long term credit rating of "AA-" from Standard & Poor's.

20 Financial risk management (continued)

(d) Fair value estimation

The carrying value of certain financial assets and financial liabilities, due to the short term nature of the receivable or obligation, approximates their fair value. The carrying values of cash at bank, related party receivable, other assets, and payables approximate their fair values.

The Company categorises the fair value of financial instruments according to the following fair value hierarchy:

Level 1: inputs are quoted prices in active markets;

Level 2: fair values are estimated using present value or other valuation techniques using inputs that are observable; and

Level 3: fair values are estimated using inputs that are not observable.

(e) Foreign exchange risk

As at 30 June 2016 the Company had no foreign currency exposure (31 December 2015: $Nil).

(f) Other activities

The Company has no involvement in funds management, securitisation, custodial or trust activities.

(g) Financial instruments by category

	At amortised cost $000	Total $000
At 30 June 2016		
Cash at bank	43	43
Short term deposits	5,500	5,500
Other assets	575	575
	6,118	6,118
At 31 December 2015		
Cash at bank	359	359
Short term deposits	5,001	5,001
Other assets	386	386
	5,746	5,746

	At amortised cost $000	Total $000
At 30 June 2016		
Payables	4	4
At 31 December 2015		
Payables	10	10

pwc

21 Contingencies

There were no material contingent assets or liabilities at 30 June 2016 (31 December 2015: $Nil).

22 Related parties

(a) Parent entities

The company is controlled by Flexi Cards Limited ("FCL"), a New Zealand company.

Prior to 18 March 2016, FCL was a wholly owned subsidiary of Fisher & Paykel Appliance Holdings Limited ("FPAHL"), a New Zealand company, which is a wholly-owned subsidiary of Haier New Zealand Investment Holding Company Limited, a subsidiary of Haier Group Corporation. On 18 March 2016, FPAHL sold all of its shares in FCL to Flexigroup (New Zealand) Limited, a subsidiary of Flexigroup Limited, an Australian company.

(b) Directors

The names of persons who were directors of the Company at any time during the six months ended 30 June 2016 were as follows: C M da Silva; M R Beaman (appointed 18 March 2016), H B Rennie, QC; D J Stevens (appointed 18 March 2016), D A Sullivan (ceased 18 March 2016); and C G Wakefield (ceased 17 July 2016).

Effective 28 September 2016, M R Beaman has resigned as a director and S G Brewis-Weston has been appointed as a director of the Company.

(c) Transactions with related parties

(i) Net related party receivables

The movement in net related party receivables during the year is shown below:

	6 months 30-Jun-16 $000	12 months 31-Dec-15 $000
Opening balance	**375**	269
Amounts collected/(paid) by related party on Company's behalf	**183**	(464)
Overheads recharges	**(1,159)**	(1,682)
Repayments	**1,140**	2,252
	539	375

FCL recharges expenses and overheads to the Company for expenses incurred on its behalf.

(ii) Other transactions

Other transactions with related parties are shown below:

	6 months 30-Jun-16 $000	12 months 31-Dec-15 $000
Dividends paid to parent (note 15)	**300**	1,950
Insurance premiums collected by commonly controlled entity on behalf of Company	**1,720**	3,240
Insurance commissions paid to commonly controlled entities	**605**	1,214
Subvention payments to Fisher & Paykel Appliances Limited	**148**	1,000

23 Capital risk management

The Company's objectives when managing capital are:

- to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns to its shareholder; and
- to maintain a strong capital base to support the development of its business.

The level of capital is determined by the Board taking into account the requirements of the Insurance (Prudential Supervision) Act 2010 and the Solvency Standard for Non-life Insurance Business as well as internal policies.

23 Capital risk management (continued)

The Solvency Standard for Non-life Insurance Business requires a licensed insurer to:

- at all times, maintain a Solvency Margin as defined in the solvency standard. The Solvency Margin must always be a positive amount, and a licensed insurer must maintain Actual Solvency Capital in excess of the amount required to maintain this Solvency Margin.
- if a licensed insurer has reasonable grounds to believe that a failure to maintain a solvency margin is likely to occur at any time within the next three years, the licensed insurer must report the likely failure to the Reserve Bank of New Zealand as soon as is reasonably practicable.

The Company has complied with these minimum capital requirements during the periods reported.

The tables below show the calculation of the solvency capital.

(a) Actual solvency capital

	30-Jun-16 $000	31-Dec-15 $000
Share capital	3,500	3,500
Retained earnings	1,953	1,410
Dividend	-	(300)
Total tier one capital	5,453	4,610

(b) Mimimum solvency capital

	30-Jun-16 $000	31-Dec-15 $000
Capital charges		
Insurance risk	59	70
Catastrophe risk	40	40
Asset risk	621	459
Interest rate risk	27	27
Total capital charges	747	596
Mimimum solvency capital required *	3,000	3,000
Solvency margin	2,453	1,610
Solvency ratio	182%	154%

* Minimum solvency capital is the greater of the sum of the capital charges or $3.0 million.

24 Events occurring after the balance date

There have been no material subsequent events other than as already disclosed after the balance date.

Independent Auditor's Report

to the shareholder of Consumer Insurance Services Limited

Report on the Financial Statements

We have audited the financial statements of Consumer Insurance Services Limited (the "Company") on pages 4 to 22, which comprise the statement of financial position as at 30 June 2016, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the period then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The Directors are responsible on behalf of the Company for the preparation and fair presentation of these financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal controls relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

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

We are independent of the Company. Other than in our capacity as auditors and providers of other related assurance services we have no relationship with, or interests in, the Company.

PricewaterhouseCoopers, 188 Quay Street, Private Bag 92162, Auckland 1142, New Zealand
T: +64 9 355 8000, F: +64 9 355 8001, pwc.co.nz

Independent Auditor's Report

Consumer Insurance Services Limited

Opinion

In our opinion, the financial statements on pages 4 to 22 present fairly, in all material respects, the financial position of the Company as at 30 June 2016, and its financial performance and cash flows for the period then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards.

Restriction on Use of our Report

This report is made solely to the Company's shareholder in accordance with the Companies Act 1993. 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.

PricewaterhouseCoopers

Chartered Accountants
28 September 2016

Auckland

MELVILLE JESSUP WEAVER

Willis Towers Watson Alliance Partner

28 September 2016

Ms S Nakanishi
Head of Financial Control
Fisher & Paykel Finance Limited
Private Bag 94013
MANUKAU 2241

Dear Susan

Consumer Insurance Services Ltd - Section 78 Review

Sections 77 and 78 of the Insurance (Prudential Supervision) Act 2010 require that the Appointed Actuary must review and comment on the appropriateness of the actuarial information contained in, or used in the preparation of the Insurer's financial statements as at 30 June 2016.

I note that I produced the Insurance Liability Valuation Report (ILVR) for Consumer Insurance Services Ltd ("CISL") as at 30 June 2016 (dated 1 August 2016) and the Financial Condition Report as at 30 June 2016 (dated 31 August 2016).

Scope & investigation

A key aspect of my review as appointed actuary is what constitutes actuarial information.

The Appendix to this letter details the regulatory requirements on actuarial information and my interpretation of these requirements. It also details the investigations that have been carried out as part of the review.

Summary and conclusion of review

I have reviewed all actuarial information contained in or used to prepare the financial statements of CISL as at 30 June 2016.

In my opinion, all actuarial information has been materially included and used appropriately in the financial statements of CISL as at 30 June 2016.

Declaratory statements

I confirm that I have no relationship with, or interests in CISL, other than as Appointed Actuary.

I have obtained all information and explanations that have been required to carry out this review.

Yours sincerely

Craig Lough FNZSA
Appointed Actuary

csl608aag.Section78_30Jun16_Final.let.docx

Scope and review of actuarial information **Appendix**

Under section 77 of the IPSA, a licensed insurer is required to ensure that *actuarial information* contained in, or used in the preparation of, the insurer's financial statements and any group financial statements is reviewed by the appointed actuary.

Actuarial information is stated in section 77(4) to mean:

a) Information relating to an insurer's calculation of premiums, claims, reserves, dividends, insurance and annuity rates and technical provisions; and

b) Information relating to assessments of the probability of uncertain future events occurring and the financial implications of the insurer if these uncertain events do occur; and

c) Information specified in the applicable solvency standards as being actuarial information for the purposes of this section.

In relation to c) above, section 130 of the Solvency Standard for Non-Life Insurance Business adds the following to the IPSA specifics of *actuarial information*:

a) The Premium Liabilities as defined in the Solvency Standard;

b) The Net Outstanding Claims Liability as defined in the Solvency Standard;

c) The reinsurance and any other recovery asset(s) relevant to the reinsurance recovery risk capital charge;

d) Any deferred acquisition cost or deferred fee revenue relevant to the premium liabilities; and

e) Any other information deemed by the appointed actuary to warrant actuarial review for the purpose of profit or solvency reporting.

In respect of (e), the only additional piece of information that I considered appropriate to warrant actuarial review was the Liability Adequacy test and in particular the Unearned Premium Reserve.

In respect of the financial accounts, it is recognised that these have been subject to an independent audit.

The scope and review of the actuarial information is detailed below.

1 IPSA section 77(4)(a) - Information relating to an insurer's calculation of premiums, claims, reserves, dividends, insurance and annuity rates and technical provisions.

1.1 Premiums and Claims

In respect of premium and claim information, as part of the ILVR, I have carried out reconciliations between the valuation data (premiums and claims) and the financial information. These reconciliations showed that the premium and claim information was consistent.

1.2 Dividends

In respect of dividends, I note that CISL's capital policy requires that the RBNZ solvency margin must be at least 150%. The total dividends that were paid relating to the period ending 30 June 2016 satisfy these criteria.

1.3 Reserves and technical provisions

I have covered the references to reserves and technical provisions under Insurance Liabilities below.

References to annuity rates are not applicable to CISL.

2 IPSA section 77(4)(b) - Information relating to assessments of the probability of uncertain future events occurring and the financial implications of the insurer if these uncertain events do occur.

Such assessments were used in the preparation of the financial statements. In my calculation of the Insurance Liabilities, a risk margin has been included which makes implicit allowance for these uncertain events.

In my view, the assumptions have been appropriately included in the financial statements and used appropriately therein.

3 IPSA section 77(4)(c) and Solvency Standard

3.1 Insurance Liabilities

The insurance liabilities (premium liabilities and outstanding claims liabilities) used in the accounts were provided by MJW as part of the insurance liability valuation report.

In my view, the insurance liabilities have been used appropriately in the financial statements.

3.2 Reinsurance recoveries

There are no reinsurance or other recoveries for CISL.

3.3 Liability Adequacy Test

The Liability Adequacy Test is described in Note 16 of the Accounts.

In my view, the Liability Adequacy Test has been carried out correctly in the financial statements.

Unearned Premium Reserve

We consider that the UPR and DAC have been determined appropriately

3.4 Other items

In my view, all other items included in the financial statements are considered non-actuarial.