Davies Financial and Actuarial Limited

25th June 2018

To: The Directors
Beneficial Insurance Limited

From: Peter Davies
Appointed Actuary

Re: Beneficial Insurance Limited ("BIL"): Report as at 31st March 2018 under Sections 77 and 78 of the Insurance (Prudential Supervision) Act 2010

You have asked me to prepare this report in terms of the above sections of the Act, and I would like to comment further as follows:

1. I have reviewed the actuarial information included in the audited accounts for BIL as at 31st March 2018. "Actuarial information" includes the following:

   - claim provisions and unexpired risk / unearned premium provisions;
   - solvency calculations in terms of the RBNZ Solvency Standard;
   - balance sheet and other information allowed for in the calculation of the company's solvency position; and
   - disclosures regarding the methodology and assumptions used for calculating claim provisions, unexpired risk provisions, and other disclosures.

2. No limitations have been placed on my work.

3. I am independent with respect to BIL as defined under professional standard ISA (NZ) 620 of the External Reporting Board.

4. I have been provided with all information that I have requested in order to carry out this review.

Level 1, Building 1, 61 Constellation Drive, Mairangi Bay, 0630 Telephone (09) 489 3551 e-mail: pdavies@actuary.co.nz
P.O. Box 35-258, Browns Bay, Auckland 10 Facsimile: (09) 489-6613 home page: www.actuary.co.nz

5. In my view the actuarial information contained in the financial statements has been appropriately included, and the actuarial information used in the preparation of the financial statements has been appropriately used.

6. As at 31st March 2018, BIL's solvency position under the RBNZ Solvency Standard for Non-Life Insurance was as follows:

Solvency history

	March 2018	March 2017
Solvency capital	7,510,000	6,213,699
Calculated minimum capital requirement	1,635,278	1,787,166
Surplus on calculated minimum capital requirement	5,874,722	4,426,533
Solvency coverage ratio on calculated margin:	459.2%	347.7%
Overall minimum capital requirement per standard	3,000,000	3,000,000
Surplus on overall minimum capital requirement	4,510,000	3,213,699
Solvency coverage ratio on overall margin	250.3%	207.1%

The solvency coverage ratio has improved appreciably over the year, and sits comfortably above the overall minimum capital requirement.

Assuming that the Company's business plans are realised and claims occur as projected, the Company is projected to exceed the minimum RBNZ requirement at all times over the next four years.

I would be very happy to answer any queries concerning this report.

Yours sincerely

Peter

Peter Davies B.Bus.Sc., FIA, FNZSA
Appointed Actuary

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Beneficial Insurance Limited

FY2018

Financial Statements for the year ended 31 March 2018

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Beneficial Insurance Limited

Statement of Comprehensive Income

for the year ended 31 March 2018

$ thousands	note	2018	2017
Premium revenue	4	9,948	7,501
Claims expense and related insurance charges		(3,924)	(3,397)
Net insurance income		6,024	4,104
Investment revenue - finance receivable	4	61	81
Investment revenue - bank		270	177
Other income		122	154
Other operating revenue		453	412
Net operating income		6,477	4,516
Employee benefits expense	6	(1,822)	(1,220)
Operating lease expenses		(268)	(245)
Depreciation	13	(38)	(37)
Profit / (loss) on sale of fixed assets		2	-
Audit fees - audit of financial statements		(62)	(57)
Audit fees - other audit compliance services		-	-
Non audit fees - agreed upon procedures engagement		-	(3)
Impairment of finance receivable	20.1	(601)	-
Other operating expenses		(1,717)	(1,625)
Total expenses		(4,506)	(3,187)
Profit / (loss) before income tax		1,971	1,329
Income tax (expense) / credit	7	248	81
Profit / (loss) after income tax		2,219	1,410
Other comprehensive income		-	-
Total comprehensive income		2,219	1,410

The above statement should be read in conjunction with the accompanying notes

RSM

Beneficial Insurance Limited

Statement of Financial Position

as at 31 March 2018

$ thousands	note	March 2018	March 2017
Assets			
Cash and cash equivalents	9	168	137
Short term investments	20.3	8,500	5,650
Insurance premiums receivable	11	5,800	4,248
Finance receivable	20.1	891	1,857
Long term investments	20.3	-	500
Other assets		225	156
Current tax asset	7	132	86
Deferred tax assets	7	223	-
Property and equipment	13	54	104
Deferred acquisition costs	12	-	218
Total assets		15,993	12,956
Liabilities			
Trade and other payables	14	1,381	875
Finance lease liability	24	25	87
Deferred tax liabilities	7	-	25
Outstanding claims liabilities	16	589	502
Unearned premium liabilities	16	6,265	4,903
Total liabilities		8,260	6,392
Net Assets		7,733	6,564
Equity			
Retained earnings		7,058	5,889
Contributed equity	18	675	675
Total equity		7,733	6,564

The above statement should be read in conjunction with the accompanying notes

The financial statements were approved for issue by the board on 25 June 2018.

S.R. Tietjens

Stephen R Tietjens
Chairman

Grant W McCurrach
Director

RSM

Beneficial Insurance Limited

Statement of Changes in Equity

for the year ended 31 March 2018

	Attributed to the owners of the company		
$ thousands	Contributed Equity	Retained earnings	Total Equity
Year ended 31 March 2018			
At the beginning of the period	675	5,889	6,564
Comprehensive income			
Profit (loss) for the period	-	2,219	2,219
Total comprehensive income	-	2,219	2,219
Transactions with shareholder,recorded directly in equity			
Dividends	-	(1,050)	(1,050)
Total transactions with the shareholder	-	(1,050)	(1,050)
At the end of the period	675	7,058	7,733
Year ended 31 March 2017			
At the beginning of the period	675	4,479	5,154
Comprehensive income			
Profit (loss) for the period	-	1,410	1,410
Total comprehensive income	-	1,410	1,410
At the end of the period	675	5,889	6,564

The above statement should be read in conjunction with the accompanying notes

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Beneficial Insurance Limited

Statement of Cash Flows

for the year ended 31 March 2018

$ thousands	note	March 2018	March 2017
Cash flows from operating activities			
Receipts from customers (fee and insurance Income)		9,717	7,658
Interest received		236	166
Other income received		122	154
Payments to suppliers and employees		(6,976)	(5,969)
Tax paid		(46)	(160)
Net cash inflow (outflow) from operating activities	10	3,053	1,849
Cash Flows from Investing Activities			
Sale of property and equipment		46	-
Purchase of property and equipment		(32)	(56)
Receipts from finance receivable		426	442
Term deposits		(2,350)	(2,200)
Net cash inflow (outflow) from investing activities		(1,910)	(1,814)
Cash Flows from Financing Activities			
Net proceeds from / (payments to) finance leases		(62)	51
Capital contributions		-	-
Dividends paid		(1,050)	-
Net cash inflow (outflow) from financing activities		(1,112)	51
Net increase (decrease) in cash and cash equivalents		31	85
Cash and cash equivalents at beginning of the period		137	52
Cash and cash equivalents at the end of the period		168	137

The above statement should be read in conjunction with the accompanying notes

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1. Summary of general accounting policies

Entity reporting

The reporting entity is Beneficial Insurance Limited (the "Company"). It is profit orientated, incorporated and domiciled in New Zealand. Its registered office is level 3, 445 Karangahape Road, Newton, Auckland.

The Company's primary activity is providing insurance by way of Consumer Credit Indemnity ("CCI"), Guaranteed Finance Protection ("GFP"), Mechanical Breakdown ("MBI"), and Pet Insurance. The company's parent entity is Beneficial Holdings Limited, a company incorporated in New Zealand. The company is ultimately owned by one of the directors.

Statutory base

The Company is a company registered under the Companies Act 1993 and is an FMC reporting entity under Part 7 of the Financial Markets Conduct Act 2013. The financial statements also comply, where relevant, with the Insurance (Prudential Supervision) Act 2010 and associated regulations.

Basis of preparation

The financial statements of the Company have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). The Company is a for-profit entity for the purposes of complying with NZ GAAP. The financial statements comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards as appropriate for profit orientated entities. The financial statements also comply with International Financial Reporting Standards (IFRS).

The financial statements have been prepared in accordance with the requirements of the Financial Markets Conduct Act 2013, Companies Act 1993, Financial Reporting Act 2013 and the Insurance (Prudential Supervision) Act 2010. The financial statements have been prepared on the historical cost basis unless the application of fair value measurement are required by the relevant accounting standards.

The preparation of financial statements in accordance with NZ IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in 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 the accompanying notes.

Presentation of financial statements

The financial statements are presented in accordance with NZ IAS 1 *Presentation of Financial Statements*. The Company has elected to present the Statement of Comprehensive Income in one statement. The Statement of Comprehensive Income discloses the analysis of expenses under the function of expense method. This clarifies expenses according to their function as part of cost of insurance sales, operating or as administration activities.

The statement of financial position discloses assets and liabilities using the liquidity format of presentation.

Significant judgements, estimates and assumptions

The preparation of financial statements requires management to make judgements, estimates, and assumptions that affect the application of accounting policies and amounts reported in the financial statements. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Estimates and underlying assumptions are reviewed on an ongoing basis. Where revisions are made to accounting estimates, any financial impact is recognised in the period in which the estimate is revised.

The key areas of significant estimates and judgements and the methodologies used to determine key assumptions are set out as follows:

- outstanding claims liability – note 19.4
- impairment of the finance receivable – note 20.1

Functional and presentation currency

The financial statements are presented in New Zealand dollars ($), which is the Company's functional and presentation currency. All financial information is rounded to the nearest thousand dollars unless otherwise stated.

Comparatives

The financial statements are for the year ended 31 March 2018. Comparatives are for the 12 months ended 31 March 2017.

Certain amounts and presentations in the comparative information have been restated (or reclassified) to conform to changes in the current financial year.

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 prior periods.

2. Impact of amendments to IFRS

(i) New or amended accounting standards adopted during the financial year:

New reporting standards, amendments to standards and interpretations that became effective in the current financial year were not applicable to the company or had no impact on these financial statements.

(ii) Standards, amendments and interpretations to existing standards that are relevant to the Company, not yet effective and have not been early adopted by the Company.

At the reporting date, the following relevant Standards and Interpretations were in issue but not yet effective and have not been applied in preparing these financial statements. The Company is currently assessing the impact of these standards on the financial statements, including the impact on presentation and disclosure:

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NZ IFRS 9 *Financial Instruments* was issued in September 2014 as a complete version of the standard. NZ IFRS 9 replaces the parts of NZ IAS 39 that relate to the classification and measurement of financial instruments, hedge accounting, and impairment. NZ IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income, and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. There is also a new expected credit loss model that replaces the incurred loss model used in NZ IAS 39. While a provision will be required, management is in the process of undertaking a full assessment of the impact of this standard.

NZ IFRS 16 *Leases* is effective for accounting periods beginning on or after 1 January 2019. The standard eliminates the distinction between operating and finance leases for lessees and will result in lessees bringing most leases onto their balance sheet, with the exception of certain short-term leases and leases of low-value assets. There are minimal changes from the current NZ IAS 17 requirements for lessors. Management is yet to perform a full assessment of the impact of this standard. However, a liability reflecting the discounted value of the lease commitment set out in note 23 is likely to be recognised on the statement of financial position.

NZ IFRS 17 Insurance Contracts is effective for accounting periods beginning on or after 1 January 2021. The standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of the standard is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. The standard can be applied retrospectively unless impracticable, in which case entities have the option of using either the modified retrospective approach or the fair value approach. Management is yet to perform a full assessment of the impact of the standard.

Other Standards and Interpretations in issue at the reporting date but not yet effective are not expected to have an impact on the financial statements of the Group in the period of initial application.

3. Premium revenue

$ thousands	2018	2017
Pet insurance	9,257	7,268
Autolife	511	109
Consumer credit insurance	124	92
Guaranteed asset protection	56	32
Premium revenue	9,948	7,501

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

- Rendering of services comprise supplying consumer credit indemnity insurance, finance protection insurance, mechanical breakdown Insurance, and pet insurance protection.
- Gross premium is recognised from the attachment date for all indemnity insurance policies issued over the life of the policy.

4. Investment revenue

Investment revenue – finance receivable comprises the amortisation of the fair value discount.

Investment revenue – bank comprises interest received from short and long term bank deposits. This is recognised on an accrual basis.

5. Claims expense and related insurance charges

$ thousands	2018	2017
Claims expense	3,278	2,908
IBNR allowance	87	66
Other related insurance charges	559	423
Claims expense and related insurance charges	3,924	3,397

Insurance claims which arise during the reporting period and are settled during the same period are expensed in the statement of comprehensive income.

Insurance claims which arise during the reporting period but which are not settled at the reporting date are recognised based on the present value of expected future payments.

Insurance claims incurred but not yet reported (IBNR) are recognised by way of an estimation made by the Company's registered Actuary and is based upon historical claims data.

6. Employee benefits

$ thousands	March 2018	March 2017
Wages and salaries	1,715	1,171
Other employee benefits	107	49
Total employee benefits	1,822	1,220

Short term employee benefits, including holiday entitlement, are current liabilities included in payables, measured at the undiscounted amount that the Company expects to pay as a result of the unused entitlement.

7. Tax

Income tax expenses comprise current and deferred tax.

	2018	2017
Profit before tax	1,971	1,329
Tax at statutory tax rate 28% (2017: 28%)	552	372
Tax loss offset with related entities	(803)	(453)
Tax on non-deductible expenses	3	-
Adjustment to prior periods	-	-
Other	-	-
Income tax (rebate) expense	(248)	(81)

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The relationship between the expected tax expense based on the domestic effective tax rate of the Company at 28% (2017: 28%) and the reported tax expense in the Statement of Comprehensive Income can be reconciled as follows:

	2018	2017
Profit before tax	1,971	1,329
Tax at statutory tax rate 28% (2017: 28%)	552	372
Tax loss offset with related entities	(803)	(453)
Tax on non-deductible expenses	3	-
Adjustment to prior periods	-	-
Other	-	-
Income tax (rebate) expense	(248)	(81)

Current tax is the tax payable to Inland Revenue on taxable profit for the period using existing tax rates that have been enacted or substantially enacted by the end of the reporting period. Deferred tax is calculated using the balance sheet method on temporary differences between the carrying amount of assets and liabilities and their tax base.

Any tax losses available have no expiry date but are subject to shareholder continuity requirements being met from the time the tax losses arose until their utilisation. They are also subject to approval of the Inland Revenue Department.

There are no further claims / charges expected from related entities on the tax loss offset utilised in the current year.

Deferred tax liability

$ thousands	March 2018	March 2017
Balance at beginning of the period	(25)	(106)
Movement in deferred tax	248	81
Balance at end of the period	223	(25)
Comprising		
Employee benefits	21	13
Deferred acquisition costs	-	(61)
Other provisions	34	23
Finance receivable	168	-
	223	(25)

Deferred tax assets and liabilities are carried at the tax rates expected to apply when the assets are recovered or liabilities settled and they are not discounted. Deferred tax assets and liabilities are offset only when the company has a legally enforceable right and intention to set off current tax assets and liabilities from the same tax authority. Deferred tax assets and liabilities are carried on the basis that the Company expects future profits to exceed and reversal of existing temporary differences.

Imputation credit account

$ thousands	March 2018	March 2017
Balance at beginning of the period	915	536
UOMI from tax settlements	-	324
Resident withholding tax	78	55
Dividends paid	(294)	-
Other	-	-
Balance at end of the period	699	915

8. Segment reporting

An operating segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other operating segments.

There are no transactions with a single external customer that amount to 10% or more of the Company's revenue.

9. Cash and cash equivalents

$ thousands	March 2018	March 2017
Cash on hand	1	1
Cash at bank	167	136
Cash at bank and in hand	168	137

Cash and cash equivalents are on-call funds with the Company's trading bank, Westpac, current / cheque accounts, and cash on hand.

The Company has an undrawn master card credit card facility of $7,000 (2017: $7,000).

10. Reconciliation of Profit after tax to cash inflow from operating activities

$ thousands	March 2018	March 2017
Net profit (loss) after tax	2,219	1,410
Add non-cash items		
Depreciation	38	37
Impairment on finance receivable	601	-
Income from finance receivable	(61)	(81)
(Profit) loss on sales of assets	(2)	-
Add movements in other working capital items		
Insurance receivables	(1,552)	(1,250)
Deferred tax asset	(248)	(81)
Other assets	(69)	1
Deferred acquisition costs	218	210
Insurance premiums in advance	1,362	1,405
Current tax liabilities	(46)	(55)
Provisions	87	66
Payables and accruals	506	187
Cash Inflow from operating activities	3,053	1,849

11. Receivables

Aging of premiums receivable

$ thousands	not past due	0-3 mnths	3.6 mnths	6-12 mnths	over 12 mnths	Total
March 2018						
Premiums receivable	5,652	97	50	1	-	5,800
March 2017						
Premiums receivable	4,199	37	8	4	-	4,248

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the Statement of Comprehensive Income.

12. Deferred acquisition costs

$ thousands	March 2018	March 2017
Balance at the beginning of the period	218	428
Acquisition costs deferred	-	-
Amortised to statement of comprehensive income	(218)	(210)
Balance at the end of the period	-	218

Directors review the nature of insurance and indemnity contracts on an ongoing basis. These are now predominantly one year term and sold directly by the company rather than through brokers or third party arrangements. The acquisition costs associated with these policies and income benefits from these policies are similarly short term. Directors consider deferring costs is no longer appropriate and are better matched within current reporting period revenues.

13. Property, plant and equipment

$ thousands	Furniture & fittings	Leasehold improvements	Office & computers	Motor vehicles	Total
March 2018					
Cost					
Opening balance	6	9	121	97	233
Additions	-	-	7	26	33
Disposals	-	-	-	(72)	(72)
Closing balance	6	9	128	51	194
Accumulated depreciation					
Opening balance	(3)	(5)	(92)	(29)	(129)
Depreciation	(1)	(1)	(15)	(21)	(38)
Eliminated on Disposals	-	-	-	27	27
Closing balance	(4)	(6)	(107)	(23)	(140)
Closing balance					
At cost	6	9	128	51	194
Accumulated depreciation	(4)	(6)	(107)	(23)	(140)
Net book value	2	3	21	28	54
March 2017					
Cost					
Opening balance	3	9	118	47	177
Additions	3	-	3	50	56
Disposals	-	-	-	-	-
Closing balance	6	9	121	97	233
Accumulated depreciation					
Opening balance	(2)	(5)	(67)	(19)	(93)
Depreciation	(1)	-	(25)	(10)	(36)
Eliminated on Disposals	-	-	-	-	-
Closing balance	(3)	(5)	(92)	(29)	(129)
Closing balance					
At cost	6	9	121	97	233
Accumulated depreciation	(3)	(5)	(92)	(29)	(129)
Net book value	3	4	29	68	104

Certain motor vehicles and computer equipment with a carrying value of $26,512 as at 31 March 2018 (2017: $88,446) are pledged as security over finance lease obligations.

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

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

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Depreciation is provided on leasehold improvements, computers and software, office furniture and equipment and motor vehicles. Depreciation is recognised in the Statement of Comprehensive Income to write off the cost of an item of property, plant and equipment, less any residual value, and is calculated using the diminishing value method to allocate the cost of assets over their expected useful life, at the following rates:

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

Leasehold Improvements	12.0%
Furniture and Fittings	15.6%
Office Furniture and Equipment	36.6% - 80.4%
Motor Vehicles	36.0%

There were no impairment losses for the Company for the year ended 31 March 2018 (2017: $nil).

14. Payables

Trade and other payables represent liabilities for goods and services provided to the Company prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

GST is recognised on those insurance contracts subject to GST as they are written. The GST is accounted for to the Inland Revenue Department according to the timing of the insurance receivable debt due.

15. Employee benefits

$ thousands	March 2018	March 2017
Employee entitlements	84	57
Total provisions	84	57

Employee benefits comprise holiday pay entitlements in accordance with individual employment contracts.

16. Insurance liabilities

$ thousands	March 2018	March 2017
Unearned premiums		
Balance at beginning of the year	4,903	3,497
Net premiums written	11,310	8,907
Premiums earned during the year	(9,948)	(7,501)
Unearned premiums at end of the year	6,265	4,903
Outstanding claims	589	502
Unexpired risk premium	-	-
Total insurance liabilities	6,854	5,405

All insurance liabilities are measured at amortised cost using the effective interest method.

Liability adequacy test

The liability adequacy test which was performed as at 31 March 2018 identified a surplus for the company (31 March 2017: a surplus). Please see note 19.2 for details.

Unearned premiums

Unearned premiums represent that portion of premiums received or receivable that relates to risks that have not yet expired at the reporting date. It is recognised when contracts are entered into and premiums are charged, and is brought to account as premium income over the term of the contract in accordance with the pattern of insurance service provided under the contract. Unearned premiums are calculated on a daily pro rata basis, and the proportion attributable to subsequent periods is deferred as unearned premiums.

Outstanding claims

Outstanding claims comprise claims received but not settled at the reporting date. Outstanding claims also include a provision for the cost of claims incurred but not yet reported to the company at the reporting date.

The outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore, the ultimate cost of these cannot be known with certainty at the reporting date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation. The liabilities are derecognised when the obligation to pay a claim expires, is discharged or is cancelled.

The Company's process for establishing the outstanding claims provision involves consultation with the appointed actuary. This process includes a bi-annual and annual review and calculation of provision for claims by Peter Davies who is a fully accredited member of the New Zealand Society of Actuaries.

Actuarial assumptions used to determine the outstanding claims provision are as follows:

- Discount Rate - The outstanding claims liability represents payments that will be made in the future, discounted to reflect the time value of money effectively recognising that the asset held to back insurance liabilities will earn a return during that period. Discount rates are based on gross yields to maturity of NZ Government bonds of appropriate terms at each reporting date.
- Future settlement patterns and weighted average term to settlement - The weighted average term to settlement is an aggregate figure for all classes of business based on expected claims development patterns which are in turn derived from an analysis of historical claim settlement patterns.
- Assumed loss ratios - Assumed loss ratios were determined from a consideration of observed loss ratios for historical loss quarters.
- Risk Margin - The overall risk margin is determined allowing for diversification between classes of business and the relative uncertainty of the outstanding claims estimates for each class. The assumptions regarding uncertainty for each class are applied to the net central estimates and the results are aggregated, allowing for diversification, in order to arrive at an overall net provision that is intended to provide a probability of sufficiency of 75 per cent.
- Expense allowance - An estimate of outstanding claims liabilities will typically incorporate an allowance for the future cost of administering the claims. This allowance is determined after analysing claims related expenses incurred, adjusted for the expected pattern of payment of claim handling expenses during the life of the claim.

Unexpired risk premium

At each reporting date, an assessment is made of whether the recognised insurance liabilities are adequate, net of Deferred Acquisition Costs, by using an existing liability adequacy test in accordance with NZ GAAP. The liability value is adjusted to the extent that it is insufficient to meet expected future benefits and expenses. In performing the adequacy test, current best estimates of future contractual cash flows, including related cash flows such as claims handling and policy administration expenses, are used.

17. Distributions to shareholder

Directors declared and paid the following dividends to the shareholder; Beneficial Holdings Limited. The two independent directors signed the Solvency certificate.

$ thousands		payment date	value
Dividend	FY2017 final	27/04/2017	350
Dividend	FY2018 interim	19/10/2017	400
Dividend	FY2018 final	26/03/2018	300
Total dividends to shareholder			1,050

18. Contributed equity

The Company does not have authorised capital or par value in respect of the one issued. The share is fully paid. The share entitles the holder to dividends and the residual assets of the Company. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity.

Contributed equity also includes capital contributions of $675,000 by the shareholder in March 2016 to meet the cash flows relating to the settlement of an outstanding tax liability at the time.

Retained earnings include all current and prior period retained profits and losses. All transactions with the owner of the company including other capital commitments are recorded separately within equity.

19. Insurance business disclosures

19.1 Solvency Standard

Under Section 55 of the Insurance Prudential Supervision Act 2010, "IPSA", the Company is regulated by a Solvency Standard. Under this standard, Beneficial is required to maintain a Solvency Margin whereby the company's Actual Solvency Capital must be in excess of the minimum Solvency Capital as defined under the standard. Beneficial's independent Actuary performs this calculation based on the Financial Statements.

$ thousands	March 2018	March 2017
Actual solvency capital	7,510	6,214
Minimum solvency capital requirement	3,000	3,000
Solvency margin	4,510	3,214
Solvency ratio	250%	207%

19.2 Liability adequacy test

At each reporting date, the Company reviews its unexpired risk and a liability adequacy test is performed in accordance with NZ GAAP to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums. This calculation uses current estimates of future contractual cash flows after taking account of the investment return expected to arise on assets relating to the relevant non-life insurance technical provisions. If these estimates show that the carrying amount of the unearned premiums (less related deferred acquisition costs) is inadequate, the deficiency is recognised in profit or loss within the Statement of Comprehensive Income by setting up a provision for premium deficiency.

The LAT has identified a surplus for other portfolios of contracts that are subject to broadly similar risks that are managed together as a single portfolio. The process of determining the overall risk margin, including the way in which diversification of risk has been allowed for. As with outstanding claims, the overall risk margin is intended to achieve a 75% probability of adequacy.

The Actuary has determined from his review that the full unearned premium provision net of deferred acquisition costs is recoverable and the provision meets the LAT prescribed by NZIFRS 4 "Insurance Contracts". A provision at 31 March 2018 is therefore not required (March 2017: $nil).

19.3 Credit rating

On 15 September 2017 credit rating agency, AM Best upgraded the company's Financial Strength Rating from B+ (outlook Positive), to B++ (outlook Stable).

19.4 Outstanding claims

Significant estimates and judgements are made by the Company's approved actuary to arrive at certain key liability amounts disclosed in the financial statements. These estimates are determined by a qualified and experienced practitioner with reference to historical data and reasoned expectations of future events. These estimates are then reviewed by the Directors. The key areas in which critical estimates and judgements are applied are described below.

The company takes all reasonable steps to ensure it has appropriate information regarding its claims exposures. Given the uncertainty in establishing claims provisions it is likely that the final outcome will prove to be different from the original liability established.

The estimation of claims incurred but not recorded (IBNR) is generally subject to a greater degree of uncertainty than the estimation of the costs of settling claims already notified to the Company, where more information about the claim event is generally available.

The claims liabilities have been assessed by Peter Davies, an actuary who is a fully accredited member of the New Zealand Society of Actuaries. The actuary based his claims provision on the following assumptions:

For the pet insurance business, the claim administration allowance is estimated to be 15% (2017: 15%) of outstanding claims. A loss ratio of 35.8% (2017: 39.7%) is used based on the pet insurance products available in New Zealand. A 5% (2017: 5%) risk margin is maintained so as to achieve a 75% likelihood of sufficiency.

For the CCI and GFP insurance business a nominal allowance for one unreported claim of $1,500 was provided (2017: $1,500) based on historical financial performance of these products.

For MBI insurance business a nominal allowance for five unreported claims totalling $5,000 was provided (2017: $2,000).

The provision for claims at 31 March 2018 was $589,014 (2017: $501,683).

20. Financial instruments

$ thousands	March 2018	March 2017
Financial assets		
Loans and receivables :		
Cash and cash equivalents	168	137
Insurance premium receivables	5,800	4,248
Finance receivable	891	1,857
Held to maturity:		
Short term investments	8,500	5,650
Long term investments	-	500
Total financial assets	15,359	12,392
Financial Liabilities		
Other amortised cost:		
Payables	429	294
Total financial liabilities	429	294

The carrying amounts approximate fair value.

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets and financial liabilities are measured initially at fair value plus transactions costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

For financial instruments traded in active markets, the quoted market prices or dealer price quotations are used as a measure of fair value. Where quoted market prices do not exist, fair values are estimated using present value or other market accepted valuation techniques, using methods and assumptions that are based on market conditions and risks existing as at the reporting date. Financial assets and financial liabilities are measured subsequently as described below.

Financial assets

For the purpose of subsequent measurement, financial assets other than those designated as hedging instruments are classified into the following categories upon initial recognition:

- loans and receivables;
- financial assets at fair value through profit or loss;
- held to maturity investments; and
- available-for-sale financial assets.

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The category determines subsequent measurement and whether any resulting income and expense is recognised in profit or loss or in other comprehensive income.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

20.1 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest method, less allowance for impairment. The Company's cash, cash equivalents, finance receivables, and other receivables (other than prepayments) fall into this category of financial assets.

Finance receivables and other receivables are considered for impairment when there is objective evidence that the Company will not be able to collect all expected amounts, and having regard to the Company's credit risk assessments.

Finance Receivable

$ thousands	March 2018	March 2017
Gross finance receivable	1,492	1,857
less impairment allowance	(601)	-
Total finance receivable	891	1,857

The finance receivable comprises the right to collect cash flows as security holder from a stream of cash flows represented by an underlying number of consumer loans. This right was acquired from Broadlands Finance Limited (BFL), a related entity, on 30 March 2012.

BFL agreed to lend up to $20 million to MRL Finance Limited (now known as Mordarth Limited) (MRL) under a Master Assignment and Facility Agreement dated 21 August 2006. Under the facility agreement, MRL assigned certain qualifying customer loans to Broadlands as security for periodic advances of the loan. The repayment of advances and payment of interest was guaranteed by the principals of MRL (guarantors). Under a General Security Agreement dated 29 March 2006, MRL granted BFL a security interest over all its present and after acquired property (which included the customer loans) as security for the loan. Following default by MRL, BFL filed court proceedings against the guarantors for the repayment of the loan and payment of interest in early 2008. These proceedings were eventually discontinued after one of the guarantors was adjudicated bankrupt in August 2008.

BFL assigned its rights and interest in the MRL loan and supporting securities to the Company under an agreement relating to the transfer of certain assets dated 30 March 2012. The General Security Agreement provides collection rights on the customer loans to the security holder. As owner of these rights, the Company continues to collect the amounts payable under the customer loans.

The Company considers financial risk on these loans. The consideration paid for the finance receivable originally acquired of $3.7 million comprised gross receivable of $12.7 million with a discount for credit losses of $9.0 million.

The Company separately performs a sensitivity review of the underlying streams of cash flows. The impairment assessment involves grouping loans according to instalment payment frequency and their legal status (such as court judgements and attachment orders). A present value technique has been applied to the expected cash flows using an appropriate adjusted discount rate.

During FY2018 cash flows from the Finance receivable achieved the expectations established at 31 March 2017. The cash flows included receipts from a number of settlement arrangements.

At 31 March 2018 directors revised down expected future cash flows due to the level of client settlements in FY2018, the impact of those settlements on forecast cash flows and the limited opportunity to achieve similar settlement programs in future years.

Future forecasts anticipate an annual reduction in performance of the underlying cash flows.

Based on the above assumptions the recoverable amount of the finance receivable was determined to be $891,186.

- A change of ten percent in forecast collections at the reporting date would have increased or decreased the recoverable amount of the finance receivable by $89,153
- A change of 1% in the discount rate applied would have increased or decreased the fair value of the finance receivable by $21,335

20.2 Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include items that are either classified as held for trading or that meet certain conditions and are designated at fair value through profit or loss upon initial recognition. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply. The Company did not have any financial assets designated into this category.

20.3 Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables. Investments are classified as held to-maturity if the Company has the intention and ability to hold them until maturity.

Short Term Investments

$ thousands	March 2018	March 2017
Bank deposits		
Maturity from balance date		
0 - 3 months	3,100	1,750
4 - 6 months	450	1,800
7 - 9 months	2,200	2,100
10 - 12 months	2,750	-
Total bank deposits	8,500	5,650

All short term investments are bank deposits with Westpac, Kiwibank, Bank of New Zealand and JB Were with maturity dates within 12 months of balance date.

Long Term Investments

$ thousands	March 2018	March 2017
Bank deposits		
Maturity from balance date		
12 - 18 months	-	200
19 - 24 months	-	300
Total bank deposits	-	500

All long term investments are bank deposits with Bank of New Zealand with maturity dates within 13 - 24 months of balance date.

20.4 Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Company did not have any financial assets designated into this category.

21. Risk management

The financial condition and operational results of the company are impacted by a number of risks:

- Financial – market risk, credit risk, financing and liquidity risk
- Non-financial – insurance risk, compliance risk, operational risk

The board's objective is to satisfactorily manage these risks in line with the board approved Risk Management Policy. Procedures are in place to control, mitigate, and report on risks faced by the Company in a timely matter to the board. Managers are responsible for understanding and managing their operational and compliance risks.

The Board is actively involved in reviewing the effectiveness and efficiency of management processes, risk management and financial controls to ensure adequate oversight and compliance. Assets are regularly monitored to ensure there are no material asset and liability mismatching issues and exposure to risks including liquidity and credit risks are maintained within acceptable limits.

21.1 Market risk

Market risk is the risk arising from adverse movements in equity market prices, exchange rates and interest rates or in related derivatives.

- Interest rate risk is the risk that the value of assets or liabilities will change because of changes in interest rates. The Company manages its exposure by holding its Held-to-maturity investments as predominately short term deposits the major NZ trading banks – refer note 20.3. An investment sub-committee of the board regularly establishes and monitors concentration and maturities. Interest rates on the term deposits are fixed at inception and paid at maturity.
- The Company's assets and liabilities are denominated in NZ dollars, with only domestic operations, therefore is not exposed to exchange rate risk.
- Price risk arises from changes in the prices of equity instruments. The Company does not invest in equities so is not currently exposed to this risk.

21.2 Credit risk

Credit risk is the risk of loss arising from a party to a contract or transaction not being able to meet its obligations or defaulting on its commitments.

The Company is exposed to credit risk through its finance receivable, insurance premium receivables and term deposits. The underlying loans were subject to significant write down prior to acquisition and their current cash flow supports the purchase valuation. The board monitors ongoing performance of these loans an a monthly basis and conducts an impairment review at each reporting date – refer note 20.1.

There are otherwise very limited credit or other counterparty exposures. Arrears of insurance premiums are closely monitored and reported on. Payment default will also result in the termination of the insurance contract with the policyholders, eliminating both the credit risk and insurance risk for the unpaid balance.

Concentration of risk.

The Company's exposure is principally through the term deposits held with three major trading banks in New Zealand.

21.3 Financing and liquidity risk

Maturity analysis

$ thousands	0-6 mnths	7-12 mnths	13-24 mnths	25-60 mnths	over 60 mnths	Total
March 2018						
Insurance assets						
Deferred acquisition cost	-	-	-	-	-	-
Financial assets						
Cash and equivalents	168	-	-	-	-	168
Short term investments	3,550	4,950	-	-	-	8,500
Premium receivables	5,652	97	50	1	-	5,800
Finance receivable	140	137	235	379	-	891
Long term investments	-	-	-	-	-	-
	9,510	5,184	285	380	-	15,359
Insurance liabilities						
Provision for claims	512	54	23	-	-	589
Unexpired risk premium	-	-	-	-	-	-
Unearned premium liabilities	4,167	1,516	350	232	-	6,265
	4,679	1,570	373	232	-	6,854
Financial liabilities						
Payables	429	-	-	-	-	429
March 2017						
Insurance assets						
Deferred acquisition cost	133	85	-	-	-	218
Financial assets						
Cash and equivalents	137	-	-	-	-	137
Short term investments	3,550	2,100	-	-	-	5,650
Premium receivables	4,199	37	8	4	-	4,248
Finance receivable	225	214	433	1,063	296	1,857
Long term investments	-	-	500	-	-	500
	8,111	2,351	941	1,067	296	12,392
Insurance liabilities						
Provision for claims	434	50	18	-	-	502
Unexpired risk premium	-	-	-	-	-	-
Unearned premium liabilities	2,634	1,798	180	291	-	4,903
	3,068	1,848	198	291	-	5,405
Financial liabilities						
Payables	294	-	-	-	-	294

Financing and liquidity risk is the risk that the Company will not be able to meet its cash outflows as they fall due, because of a lack of liquid assets or access to funding on acceptable terms.

The Company mitigates these risks by actively managing its operational risks. These include:

- The maintenance and use of sophisticated management information systems, which provide up to date, reliable data on the risks to which the business is exposed at any point in time.
- The use of actuarial models based on historical data to calculate premiums and monitor claim patterns.

- The management of assets and liabilities is closely monitored to match the expected pattern of liability payments with the maturity dates of assets.
- Terms and conditions of insurance contracts. The majority of direct insurance contracts written are entered into on a standard form. There are no special terms and conditions in any non-standard contracts that have a material impact on the financial statements.
- Active claims management by analysing experience, trends and other relevant factors.

22. Capital risk management

The Company's capital includes its share capital and retained earnings.

The Company's policy is to maintain a strong capital base to ensure it continues to operate as a going concern, to maintain policyholder, supplier and market confidence and to sustain future development of the business. The board regularly monitors current and future capital requirements and costs.

The Company also manages capital in accordance with the requirements of the Act and the solvency standard for non-life insurance businesses issued by the Reserve Bank of New Zealand.

Outside the solvency requirements detailed in note 19.1, there are no externally imposed financial covenants arrangements that must be observed.

There has been no change in the Company's management of capital during the periods ended 31 March 2017 and 31 March 2018.

23. Operating leases

	March 2018	March 2017
Within one year	268	268
1-5 years	45	313
More than five years	-	-
Total capital commitments	313	581

The company has entered into operating leases for its premises, with a lease term of four years. The Company has the option to lease for an additional term of four years.

With the consent of the landlord, part of this property is sub-leased to a related party for the same term and with the same commencement date as the head lease. The annual base rent for the office premises from the sub-lease is $114,591. The amount of the sub-lease has not been netted against the lease commitments as there is no right of offset.

24. Finance leases

	March 2018		March 2017	
$ thousands	Min. pmts.	PV of pmts.	Min. pmts.	PV of pmts.
Within one year	44	25	56	47
1-5 years	-	-	44	40
More than five years	-	-	-	-
Total minimum Lease payments	44	25	100	87

The Company has hire purchase contracts for its computer equipment and motor vehicles. The liability is secured as detailed in note 13.

25. Transactions with related parties

		March 2018		March 2017	
$ thousands	Transaction	Transaction value	Receivable (Payable)	Transaction value	Receivable (Payable)
Goods and services					
Broadlands Finance Limited	Management fee	66	-	81	-
	Other shared services	179	(16)	135	5
	Rent received	(132)	-	(168)	-
	Insurance commission	57	-	123	-
Executive Trustees Limited	Rent	268	-	245	-
NatWest Finance Limited	Leases	99	(25)	47	(87)
Penrose Enterprises Limited	Insurance commission	43	-	34	-
Subvention payment					
Broadlands Finance Limited		-	-	105	-
Funds collected and refunded					
Broadlands Finance Limited	Insurance premiums	206	-	248	-
	Finance Receivable	166	-	57	1
Penrose Enterprises Limited	Insurance premiums	90	-	43	1
		1,042	(41)	950	(80)

The parent company of Beneficial Insurance Limited is Beneficial Holdings Limited, a company incorporated in New Zealand.

Broadlands Finance Limited, Executive Trustees Limited, Natwest Finance Limited, and Penrose Enterprises Limited are related to the Company by way of common shareholding.

The amounts receivable / (payable) are unsecured and no guarantees are in place. No interest is charged on amounts owing between related entities. No balances receivable are impaired as at 31 March 2018 (2017: $Nil).

Part of the cash flows attributed to the Finance receivable were realised through a discounted settlement arrangement with Broadlands Finance Limited. The amount received from BFL was approximately $122,000.

Directors remuneration

$ thousands	March 2018	March 2017
S.R. Tietjens	36	36
A.S. Radisich	36	-
G.W. McCurrach	36	36
Total directors remuneration	108	72

Key management personnel remuneration

$ thousands	March 2018	March 2017
Short term benefits	199	168

26. Contingent liabilities

There are no contingent assets or liabilities at the reporting date (March 2017: $Nil).

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27. Capital commitments

There are no capital commitments at the reporting date (March 2017: $Nil).

28. Subsequent events

The Directors are not aware of any other matters or circumstances since the end of the reporting period, not, otherwise dealt with in the financial statements that have significantly or may significantly affect the operations of the Company (2017: none).

Corporate governance and disclosures

Statement of responsibility for financial statements

The Directors are responsible for the maintenance of adequate accounting records and the preparation and integrity of the financial statements and related information.

The Directors are also responsible for the systems of internal control and risk management. These are designed to provide reasonable, but not absolute, assurance as to the reliability of the financial statements, and to adequately safeguard, verify and maintain accountability for assets, and to prevent and detect material misstatements. Appropriate systems of internal control have been employed to ensure that all transactions have been executed in accordance with authority and correctly processed and accounted for in the financial statements. The systems are implemented and monitored by suitably trained personnel with an appropriate segregation of authority and duties. Nothing has come to the attention of the Directors to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year ended 31 March 2018.

The financial statements are prepared on a going concern basis. Nothing has come to the attention of the Directors to indicate that the Company will not remain a going concern in the foreseeable future.

In the opinion of the Directors:

- the Statement of Comprehensive Income is drawn up so as to present fairly, in all material respects, the results of operations of the Company for the year ended 31 March 2018;
- the Statement of Financial Position is drawn up so as to present fairly, in all material respects, the state of affairs of the Company as at 31 March 2018;
- the Statement of Cash Flows is drawn up so as to present fairly, in all material respects, the cash flows of the Company for the year ended 31 March 2018; and,
- there are no reasons to believe that the Company will not be able to pay its debts as and when they fall due.

Signed on behalf of the Board by:

Stephen R Tietjens
Chairman

Grant W McCurrach
Director

Annual report to the shareholder of Beneficial Insurance Limited
For the year ended 31 March 2018

Pursuant to sections 208 and 209 of the Companies Act 1993, the directors present their annual report comprising these audited Financial Statements for the year ended 31 March 2018 and the independent auditor's report thereon.

This report is to be read in conjunction with the Financial Condition report for the year ended 31 March 2018 from the appointed Actuary

With the agreement of the shareholder, the Company has taken advantage of reporting concessions available to it under section 211 (3) of the Companies Act 1993. The information required by paragraphs (a) and (e) to (j) of section 211 (1) of the Companies Act 1993 is therefore not disclosed.

Directors further advise that certain of the above waived disclosures appear in the respective statements.

Signed in accordance with a resolution of the directors:

Dated: 25/6/2018

S R Tietjens
Director

G W McCurrach
Director

Company Directory

Date of Incorporation	20 March 2002
Nature of Business	The Company is an insurance provider of consumer credit indemnity, finance protection, mechanical breakdown, and pet insurance products.
Registered Office	Level 3, 445 Karangahape Road Newton Auckland 1010 PO Box 68-548 Wellesley Street, Auckland 1141
Company Number	1196170
Directors	Stephen R Tietjens (Chairman) Anthony S Radisich Grant W McCurrach
Auditors	RSM Hayes Audit PO Box 9588 Newmarket, Auckland 1149
Appointed Actuary	Davies Financial and Actuarial Limited PO Box 35-258 Browns Bay Auckland
Financial disputes resolution service	FairWay Resolution Limited PO Box 2272 Wellington 6140
Solicitors	Glaister Ennor PO Box 63 Auckland 1140
Bankers	Westpac New Zealand Limited Otahuhu, Auckland
Shareholder	Beneficial Holdings Limited
Place of Business	Level 3, 445 Karangahape Road Newton Auckland 1010
Tax Accountants	nsaTax Limited P O Box 3697 Auckland 1140

RSM Hayes Audit
PO Box 9588
Newmarket, Auckland 1149
Level 1, 1 Broadway
Newmarket, Auckland 1023
T +64 (9) 367 1656
www.rsmnz.co.nz

Independent Auditor's Report

To the shareholder of Beneficial Insurance Limited

Opinion

We have audited the financial statements of Beneficial Insurance Limited (the company), which comprise:

- the statement of financial position as at 31 March 2018;
- 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.

In our opinion, the financial statements on pages 3 to 16 present fairly, in all material respects, the financial position of the company as at 31 March 2018, and of its financial performance and its cash flows for the year then ended in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

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

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 business of the company. Our firm has also provided other services to the company in relation to regulatory assurance. The provision of these services has not impaired our independence as auditor of the company. Except in these regards, and other than in our capacity as auditor we have no relationship with, or interests in, the company.

Other information

The directors are responsible for the other information. The other information comprises the Statement of Responsibility, Directors' Report, and Company Directory on pages 17 to 19 (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report. Our opinion on the financial statements does not cover the other information and we do not and will not express any form of audit opinion or assurance conclusion thereon.

RSM Hayes Audit is a member of the RSM network and trades as RSM. RSM is the trading name used by the members of the RSM network. Each member of the RSM network is an independent accounting and consulting firm which practises in its own right. The RSM network is not itself a separate legal entity in any jurisdiction.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above 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 New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards, 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 on behalf of the company 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 those charged with governance 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) 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 decisions of users taken on the basis of these financial statements. A further description of the auditor's responsibilities for the audit of the financial statements is located at the XRB's website at:

https://xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page6.aspx

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 Aravinda Ramanathan.

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RSM Hayes Audit
Auckland

25 June 2018