

18th July 2019

To: The Directors
Beneficial Insurance Limited

From: Peter Davies
Appointed Actuary

Re: Beneficial Insurance Limited (“BIL”): Report as at 31st March 2019 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 2019. “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.

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 2019, BIL's solvency position under the RBNZ Solvency Standard for Non-Life Insurance was as follows:

	March 2019	March 2018
Solvency capital	6,298,000	7,510,000
Calculated minimum capital requirement	1,431,491	1,635,278
Surplus on calculated minimum capital requirement	4,866,509	5,874,722
Solvency coverage ratio on calculated margin:	440.0%	459.2%
Overall minimum capital requirement per standard	3,000,000	3,000,000
Surplus on overall minimum capital requirement	3,298,000	4,510,000
Solvency coverage ratio on overall margin	209.9%	250.3%

The solvency coverage ratio has reduced from 250% to 210% as a result of a \$2m dividend payment over the year, and allowing for a further \$3m dividend declaration post-balance date.

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

Beneficial
Insurance
Limited

FY2019

Financial
Statements
for the year
ended 31
March 2019

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Statement of Comprehensive Income

for the year ended 31 March 2019

\$ thousands	note	2019	2018
Premium revenue	3	11,766	9,948
Claims expense and related insurance charges		(4,365)	(3,924)
Net insurance income		7,401	6,024
Investment revenue - finance receivable	4	50	61
Investment revenue - bank		370	270
Other income		122	122
Other operating revenue		542	453
Net operating income		7,943	6,477
Employee benefits expense	6	(1,889)	(1,822)
Operating lease expenses		(268)	(268)
Depreciation	12	(23)	(38)
Loss on sales of finance receivable	19.2	(149)	-
Profit / (loss) on sale of fixed assets		(3)	2
Audit fees - audit of financial statements		(52)	(62)
Impairment of finance receivable	19.2	-	(601)
Other operating expenses		(1,729)	(1,717)
Total expenses		(4,113)	(4,506)
Profit / (loss) before income tax		3,830	1,971
Income tax (expense) / credit	7	(185)	248
Profit / (loss) after income tax		3,645	2,219
Other comprehensive income		-	-
Total comprehensive income		3,645	2,219

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

Beneficial Insurance Limited
Statement of Financial Position
as at 31 March 2019

\$ thousands	note	March 2019	March 2018
Assets			
Cash and cash equivalents	8	257	168
Short term investments	19.3	11,300	8,500
Insurance premiums receivable	10	6,262	5,800
Finance receivable	19.2	-	891
Long term investments	19.4	-	-
Other assets		246	225
Current tax asset	7	170	132
Deferred tax assets	7	38	223
Property and equipment	12	104	54
Deferred acquisition costs	11	-	-
Total assets		18,377	15,993
Liabilities			
Trade and other payables	13	1,254	1,324
Finance lease liability	23	6	25
Outstanding claims liabilities	15	709	589
Unprocessed claims		54	57
Unearned premium liabilities	15	7,018	6,265
Total liabilities		9,041	8,260
Net Assets		9,336	7,733
Equity			
Retained earnings		8,661	7,058
Contributed equity	17	675	675
Total equity		9,336	7,733

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

The financial statements were approved for issue by the board on 16 July 2019.


Stephen R Tietjens
Chairman


Grant W McCurrach
Director

Beneficial Insurance Limited
Statement of Changes in Equity
for the year ended 31 March 2019

\$ thousands	Attributed to the owners of the company		
	Contributed Equity	Retained earnings	Total Equity
Year ended 31 March 2019			
At the beginning of the year	675	7,058	7,733
Comprehensive income			
Profit for the year	-	3,645	3,645
Total comprehensive income	-	3,645	3,645
Transactions with shareholder, recorded directly in equity			
Dividends	-	(2,042)	(2,042)
Total transactions with the shareholder	-	(2,042)	(2,042)
At the end of the year	675	8,661	9,336
Year ended 31 March 2018			
At the beginning of the year	675	5,889	6,564
Comprehensive income			
Profit for the year	-	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 year	675	7,058	7,733

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

Beneficial Insurance Limited
Statement of Cash Flows
for the year ended 31 March 2019

\$ thousands	note	March 2019	March 2018
Cash flows from operating activities			
Receipts from customers (fee and insurance income)		12,422	9,717
Interest received		281	236
Other income received		115	122
Payments to suppliers and employees		(8,529)	(6,976)
Tax paid		(29)	(46)
Net cash inflow (outflow) from operating activities	10	4,260	3,053
Cash Flows from Investing Activities			
Sale of property and equipment		2	46
Purchase of property and equipment		(78)	(32)
Receipts from finance receivable		198	426
Term deposits		(2,800)	(2,350)
Sale of finance receivable		572	-
Net cash inflow (outflow) from investing activities		(2,106)	(1,910)
Cash Flows from Financing Activities			
Net proceeds from / (payments to) finance leases		(23)	(62)
Capital contributions		-	-
Dividends paid		(2,042)	(1,050)
Net cash inflow (outflow) from financing activities		(2,065)	(1,112)
Net increase (decrease) in cash and cash equivalents		89	31
Cash and cash equivalents at beginning of the year		168	137
Cash and cash equivalents at the end of the year		257	168

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

Beneficial Insurance Limited

Notes to the Financial statements

for the year ended 31 March 2019

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 15
- impairment of the finance receivable – note 19.2

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 2019. Comparatives are for the 12 months ended 31 March 2018.

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 except for the adoption of NZ IFRS 9 as detailed below.

2. Impact of amendments to IFRS

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

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.

In accordance with the transitional provisions in NZ IFRS 9, comparative information for the 2018 period have not been restated. As a result, the comparative information provided continues to be accounted for in accordance with the company's previous accounting policies.

The measurement basis of the Company's financial assets and liabilities under NZ IAS 39 and NZ IFRS 9, showing changes in classification of financial instruments are:

Impact of amendments to accounting standards

Financial Asset / Liability	Measurement basis under IAS 39	Measurement basis under IFRS 9	Carrying amount IAS 39 & NZIFRS 9 as at 31 March 2018 \$'000s
Cash and cash equivalents held by insurance companies	Loans and receivables	At amortised cost	168
Short term investments (maturity within 12 months)	Held to maturity	At amortised cost	8,500
Finance receivable	Loans and receivables	At amortised cost	891

The reclassification of the financial instruments on adoption of NZ IFRS 9 did not result in any material changes to carrying amounts.

New reporting standards, amendments to standards and interpretations that became effective in the current financial year were otherwise 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:

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.

The Company intends to adopt NZ IFRS 16 on its effective date and has assessed the impact as not being significant in comparison to existing treatment.

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	2019	2018
Pet insurance	10,795	9,257
Auto life	794	511
Consumer credit insurance	126	124
Guaranteed asset protection	51	56
Premium revenue	11,766	9,948

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:

- Premium revenue comprises 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 until its sale in February 2019 – refer note 19.2.

Investment revenue – bank comprises interest received from short term bank deposits. This is recognised on an accrual basis using the effective interest rate method.

5. Claims expense and related insurance charges

\$ thousands	2019	2018
Claims expense	3,828	3,278
IBNR allowance	120	87
Other related insurance charges	417	559
Claims expense and related insurance charges	4,365	3,924

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	2019	2018
Wages and salaries	1,778	1,715
Other employee benefits	111	107
Total employee benefits	1,889	1,822

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 expense comprises current and deferred tax.

\$ thousands	2019	2018
Current tax	-	-
Deferred tax	185	(248)
Tax expense (credit)	185	(248)

The relationship between the expected tax expense based on the domestic effective tax rate of the Company at 28% (2018: 28%) and the reported tax expense in the Statement of Comprehensive Income can be reconciled as follows:

\$ thousands	2019	2018
Profit before tax	3,830	1,971
Tax at statutory tax rate 28% (2018: 28%)	1,072	552
Tax loss offset with related entities	(887)	(803)
Tax on non-deductible expenses	-	3
Adjustment to prior periods	-	-
Other	-	-
Income tax (rebate) expense	185	(248)

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 2019	March 2018
Balance at beginning of the period	223	(25)
Movement in deferred tax	(185)	248
Balance at end of the period	38	223

Comprising

Employee benefits	16	21
Deferred acquisition costs	-	-
Other provisions	22	34
Finance receivable	-	168
	38	223

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 2019	March 2018
Balance at beginning of the period	699	915
UOM I from tax settlements	-	-
Resident withholding tax	93	78
Dividends paid	(572)	(294)
Other	-	-
Balance at end of the period	220	699

The balance at year end was utilised by dividend payments in April and May 2019 (refer note 27), and a tax refund from the 31 March 2018 tax year of \$77,581.

8. Cash and cash equivalents

\$ thousands	March 2019	March 2018
Cash on hand	1	1
Cash at bank	256	167
Cash at bank and in hand	257	168

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 \$10,000 (2018: \$7,000).

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

\$ thousands	March 2019	March 2018
Net profit (loss) after tax	3,645	2,219
Add non-cash items		
Depreciation	24	38
Impairment on finance receivable	-	601
Income from finance receivable	(50)	(61)
Disbursements to finance receivable	21	-
(Profit) loss on sales of assets	152	(2)
Add movements in other working capital items		
Insurance receivables	(462)	(1,552)
Deferred tax asset	185	(248)
Other assets	(21)	(69)
Deferred acquisition costs	-	218
Insurance premiums in advance	753	1,362
Current tax liabilities	(38)	(46)
Provisions	120	87
Payables and accruals	(69)	506
Cash Inflow from operating activities	4,260	3,053

10. Receivables

Aging of premiums receivable

\$ thousands	not past due	0-3 mths	3-6 mths	6-12 mths	over 12 mths	Total
March 2019						
Premiums receivable	6,186	63	11	2	-	6,262
March 2018						
Premiums receivable	5,652	97	50	1	-	5,800

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 less any impairment allowances.

11. Deferred acquisition costs

\$ thousands	March 2019	March 2018
Balance at the beginning of the period	-	218
Acquisition costs deferred	-	-
Amortised to statement of comprehensive income	-	(218)
Balance at the end of the period	-	-

Directors review the nature of insurance and indemnity contracts on an ongoing basis. These are now predominantly one year term and sold mainly direct 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.

12. Property, plant and equipment

\$ thousands	Furniture & fittings	Leasehold improvements	computers	Office & vehicles	Motor	Total
March 2019						
Cost						
Opening balance	6	9	128	51	194	
Additions	10	-	56	11	77	
Disposals	-	-	-	(11)	(11)	
Closing balance	16	9	184	51	260	
Accumulated depreciation						
Opening balance	(4)	(6)	(107)	(23)	(140)	
Depreciation	(1)	-	(13)	(10)	(24)	
Eliminated on Disposals	-	-	-	7	7	
Closing balance	(5)	(6)	(120)	(26)	(157)	
Closing balance						
At cost	16	9	184	51	260	
Accumulated depreciation	(5)	(6)	(120)	(26)	(157)	
Net book value	11	3	64	25	103	
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	

Certain assets with a carrying value of \$12,581as at 31 March 2019 (2018: \$26,512) 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 2019 (2018: \$nil).

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

14. Employee benefits

\$ thousands	March 2019	March 2018
Employee entitlements	78	84
Total provisions	78	84

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

15. Insurance liabilities

\$ thousands	March 2019	March 2018
Unearned premiums		
Balance at beginning of the year	6,265	4,903
Net premiums written	12,519	11,310
Premiums earned during the year	(11,766)	(9,948)
Unearned premiums at end of the year	7,018	6,265
Outstanding claims	709	589
Unexpired risk premium	-	-
Total insurance liabilities	7,727	6,854

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

Liability adequacy test

The liability adequacy test (LAT) which was performed as at 31 March 2019 identified a surplus for the company (31 March 2018: a surplus).

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. 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 further provision at 31 March 2019 is therefore not required (March 2018: \$nil).

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. 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.

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'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.

The company takes all reasonable steps to ensure it has appropriate information regarding its claims exposure. 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.

Assumptions applied in 2019

For the pet insurance business, the claim administration allowance is estimated to be 15% (2018: 15%) of outstanding claims. A loss ratio of 36.1% (2018: 35.8%) is used based on the pet insurance products available in New Zealand. A 6% (2018: 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 (2018: \$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 (2018: \$2,000).

The provision for claims at 31 March 2019 was \$708,868 (2018: \$589,014).

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.

16. Distributions to shareholder

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

\$ thousands		payment date	value
Dividend	FY2019 interim	29/10/2018	750
Dividend	special	28/02/2019	572
Dividend	FY2019 final	28/03/2019	720
Total dividends to shareholder			2,042

17. Contributed equity

The Company does not have authorised capital or par value in respect of the one share 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.

18. Insurance business disclosures

18.1 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.

	March 2019	March 2018
\$ thousands		
Actual solvency capital	6,298	7,510
Minimum solvency capital requirement	3,000	3,000
Solvency margin	3,298	4,510
Solvency ratio	210%	250%

18.2 Credit rating

On 6 September 2018 credit rating agency, AM Best reaffirmed the company's Financial Strength Rating at B++ (outlook Stable).

19. Financial instruments

	March 2019	March 2018
\$ thousands		
Financial assets		
Cash and cash equivalents	257	168
Insurance premium receivables	6,262	5,800
Finance receivable	-	891
Short term investments	11,300	8,500
Long term investments	-	-
Total financial assets	17,819	15,359
Financial Liabilities		
Other amortised cost:		
Payables	332	429
Total financial liabilities	332	429

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.

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.

19.1 Financial assets – under NZ IFRS 9 (2019)

The Company classifies its financial assets in the following categories:

- Financial assets at fair value through profit or loss
- Measured at amortised cost

The classification depends on the company's business model for managing the financial assets and the contractual terms of the cash flows.

Given all of the company's financial assets have been held with a business model to collect contractual cash flows that represent solely principal and interest all were measured at amortised cost.

Impairment of financial assets

The Company assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The Company applies the simplified approach to providing for expected credit losses prescribed by NZ IFRS 9, which permits the use of the lifetime expected losses for all trade receivables. Given the low risk of default on other financial assets (primarily short-term deposits with financial institutions with a strong credit rating), other expected credit losses have been assessed to be immaterial.

19.2 Financial assets – under NZ IAS 39 (2018 comparative)

For the purpose of subsequent measurement, financial assets other than those designated as hedging instruments were 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.

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 were subject to review for impairment at least at each reporting date. Financial assets were impaired when there was any objective evidence that a financial asset or group of financial assets was impaired. Different criteria to determine impairment were applied for each category of financial assets, which are described below.

Loans and receivables were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market. After initial recognition, these were 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 were considered for impairment when there is objective evidence that the Company was not able to collect all expected amounts, and having regard to the Company's credit risk assessments.

Finance Receivable

\$ thousands	March 2019	March 2018
Gross finance receivable	-	1,492
less impairment allowance	-	(601)
Total finance receivable	-	891

The finance receivable comprised 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 continued to collect the amounts payable under the customer loans until sold to a related party.

During FY2019, until its sale on 28 February 2019, cash flows from the Finance receivable approximated the expectations established at 31 March 2018.

The finance receivable was sold to BFL, a related entity, on 28 February 2019. The finance receivable was sold for \$572,000 following an independent valuation. The sale proceeds realised a loss of \$149,423 to the carry value of the asset at 28 February 2019.

19.3 Bank Deposits

In the prior year, short term deposits were classified as held-to-maturity investments as they were non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables. Investments were classified as held-to-maturity if the Company had the intention and ability to hold them until maturity.

Deposits have been classified as at amortised cost in the 2019 year under NZ IFRS 9.

\$ thousands	March 2019	March 2018
Bank deposits		
Maturity from balance date		
0 - 3 months	4,000	3,100
4 - 6 months	2,000	450
7 - 9 months	2,800	2,200
10 - 12 months	2,500	2,750
Total bank deposits	11,300	8,500

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

19.4 Long Term Investments

The company held no long-term investments at the reporting date (31 March 2018: nil).

20. 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.

20.1 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 predominately short-term deposits with 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.

20.2 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 was 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 on 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.

20.3 Financing and liquidity risk

Maturity analysis

\$ thousands	0-6 mnts	7-12 mnts	13-24 mnts	25-60 mnts	over 60 mnts	Total
March 2019						
Insurance assets						
Deferred acquisition cost	-	-	-	-	-	-
Financial assets						
Cash and equivalents	257	-	-	-	-	257
Short term investment	6,204	5,486	-	-	-	11,690
Premium receivables	6,186	63	11	2	-	6,262
Finance receivable	-	-	-	-	-	-
Long term investments	-	-	-	-	-	-
	12,647	5,549	11	2	-	18,209
Insurance liabilities						
Provision for claims	620	63	26	-	-	709
Unexpired risk premium	-	-	-	-	-	-
Unearned premium liabilities	4,611	1,819	233	355	-	7,018
	5,231	1,882	259	355	-	7,727
Financial liabilities						
Payables	386	-	-	-	-	386
March 2018						
Insurance assets						
Deferred acquisition cost	-	-	-	-	-	-
Financial assets						
Cash and equivalents	168	-	-	-	-	168
Short term investment	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

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.

21. 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 2018 and 31 March 2019.

22. Operating leases

	March 2019	March 2018
\$ thousands		
Within one year	268	268
1-5 years	1,074	1,342
More than five years	-	-
Total capital commitments	1,342	1,610

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.

On 1 April 2019 the Company exercised its option to renew its lease arrangements with Executive Trustees Limited, a related party, and also expanded its lease space. The annual increase from these changes was \$189,119. There was no change to the term of the lease.

23. Finance leases

	March 2019	March 2018		
	M in. pmts.	PV of pmts.	M in. pmts.	PV of pmts.
\$ thousands				
Within one year	6	6	44	25
1- 5 years	-	-	-	-
M o r e than five years	-	-	-	-
Total minimum Lease payments	6	6	44	25

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

24. Transactions with related parties

		March 2019	March 2018
	Transaction	Transaction value	Receivable (Payable)
\$ thousands			
Goods and services			
Broadlands Finance Limited	Management fee	30	66
	Other shared services	381	(31)
	Rent received	(15)	(15)
	Insurance commission	89	57
Executive Trustees Limited	Rent	268	268
NatWest Finance Limited	Leases	31	(6)
Penrose Enterprises Limited	Insurance commission	94	43
Fixed assets and investments			
Broadlands Finance Limited	Loan settlements	-	(122)
	Sale of finance receivable	(572)	-
Penrose Enterprises Limited	Fixed asset purchases	11	24
	Fixed asset sales	(2)	(38)
Funds collected and remitted from related parties			
Broadlands Finance Limited	Insurance premiums	(182)	(206)
	Finance receivable	(20)	(44)
Penrose Enterprises Limited	Insurance premiums	(207)	(128)
		(194)	(37)
		83	(41)

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 receivables or payables are impaired as at 31 March 2019 (2018: \$Nil).

In the year end 31 March 2018 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. In the 2019 year the entire remaining receivable balance was transferred for a cash consideration of \$572,000.

Directors remuneration

	March 2019	March 2018
\$ thousands		
S. R. Tietjens	45	36
A. S. Radisich	45	36
G. W. McCurrach	45	36
Total directors remuneration	135	108

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 (2018: none).

Key management personnel remuneration

	March 2019	March 2018
\$ thousands		
Short term benefits	199	199

25. Contingent liabilities

There are no contingent assets or liabilities at the reporting date (March 2018: \$Nil).

26. Capital commitments

There are no capital commitments at the reporting date (March 2018: \$Nil).

27. Subsequent events

On 15 April 2019 the directors resolved to reduce cash reserves by \$3 million by way of dividends to its shareholder, Beneficial Insurance Limited. Seven dividends were paid from 15 April to 24 May 2019 totalling \$3 million. The solvency calculation reflects this distribution.

Distributions to shareholder

		payment date	value
\$ thousands			
Dividend	Surplus cash	15/04/2019	400
Dividend	Surplus cash	17/04/2019	500
Dividend	Surplus cash	24/04/2019	500
Dividend	Surplus cash	2/05/2019	500
Dividend	Surplus cash	8/05/2019	500
Dividend	Surplus cash	17/05/2019	300
Dividend	Surplus cash	24/05/2019	300
Total dividends to shareholder			3,000

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.

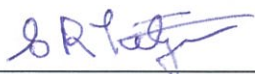
The Directors are also responsible for the systems of internal control and risk management. These are designed to provide reasonable, but not absolute, assurance as to the reliability of the financial statements, and to adequately safeguard, verify and maintain accountability for assets, and to prevent 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 2019.

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 2019;
- 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 2019;
- 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 2019; 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 2019

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 2019 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 2019 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: 16 July 2019



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

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 2019;
- 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 flow 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 2 to 15 present fairly, in all material respects, the financial position of the company as at 31 March 2019, 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.

Key audit matters

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

Valuation of outstanding claims

Why we considered this to be a key audit matter

The estimation of outstanding claims as detailed in note 15 involves significant judgement given the inherent uncertainty in estimating the expected future payments for claims incurred. The valuation of outstanding claims involves estimation of all claims incurred but not settled at a given date, regardless of whether these have been reported to the Company.

The valuation of the outstanding claims liability requires a higher level of estimation and judgement in determining the appropriateness of the assumptions used in valuing the liability. This includes estimating the payments for claims incurred at the reporting date but not reported, given there is generally less information available in relation to these claims, as well as estimating the period over which claims are expected to settle thereby impacting the estimation of expected future payments.

A risk margin, relating to the inherent uncertainty in the estimation of the present value of expected future payments, is determined by making judgments on the volatility to the business written.

The insurance claims incurred but not yet reported at the reporting date (IBNR) are recognised through an estimation made by a Registered Actuary and is based upon historical claims data.

How our audit addressed the key audit matter

We have evaluated and assessed the design effectiveness and implementation of relevant key claims controls, including the reconciliation of data inputs to both the GL and historical data.

Historical claims data is a key input to the actuarial estimates. Accordingly, we performed tests of details and tested the operating effectiveness of controls to confirm the claims were supported by appropriate documentation and approved within delegated authority limits.

We performed tests of details around the cut off of the insurance claims process at year end.

To evaluate the methodologies and assumptions utilised by management's actuary, we, together with an independent registered actuary we have separately engaged to work for us:

- considered the work and findings of the Company's actuary;
- developed an understanding of and evaluated the risk margin applied;
- evaluated whether actuarial methodologies were consistent with those used in the industry and in prior years; and
- assessed the reasonableness of key actuarial assumptions and judgements.

We also evaluated the related disclosures within Note 15 in relating to the insurance activities.

We have no matters to report from the procedures performed.

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 express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information 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://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/audit-report-2/>

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 Kumar Aravinda.



RSM Hayes Audit
Newmarket

18 July 2019