Consumer Insurance Services Limited
Audited financial statements
for the year ended 31 December 2015

Directory

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

Directors' report

The Board of Directors has pleasure in presenting the financial statements for the year ended 31 December 2015.

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

The Board of Directors of Consumer Insurance Services Limited authorised these financial statements presented on pages 4 to 23 for issue on 24 February 2016.

For and on behalf of the Board.

C M da Silva
Director

D A Sullivan
Director

Consumer Insurance Services Limited
Financial statements - 31 December 2015

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Statement of comprehensive income

For the year ended 31 December 2015

	Note	31-Dec-15 $000	31-Dec-14 $000
Interest income	4	307	444
Premium income	5	7,064	8,804
Other income		-	138
Total operating income		7,371	9,386
Insurance commission		(1,618)	(2,345)
Operating expenses	6	(1,665)	(1,238)
Net claims incurred	7	(1,065)	(1,869)
Total expenses		(4,348)	(5,452)
Profit before income tax		3,023	3,934
Income tax expense	9	(846)	(1,102)
Profit after income tax expense		2,177	2,832
Other comprehensive income net of tax		-	-
Total comprehensive income		2,177	2,832
Total comprehensive income is attributable to:			
Equity holders of Consumer Insurance Services Limited		2,177	2,832

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

Statement of financial position

As at 31 December 2015

	Note	**31-Dec-15 $000**	31-Dec-14 $000
Assets			
Cash at bank		**359**	230
Short term deposits	10	**5,001**	10,135
Current tax receivables		**38**	-
Related party receivable	24(c)(i)	**375**	269
Deferred acquisition cost	11	**136**	665
Dealer debtors and sundry debtors		**11**	253
Total assets		**5,920**	11,552
Liabilities			
Payables		**43**	139
Current tax liabilities		**-**	93
Outstanding claims liability	12	**413**	533
Unearned premium liability	13	**516**	1,918
Deferred tax liabilities	15	**38**	186
Total liabilities		**1,010**	2,869
Net assets		**4,910**	8,683
Equity			
Share capital	16	**3,500**	7,500
Retained earnings		**1,410**	1,183
Total equity		**4,910**	8,683

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

The Board of Directors of Consumer Insurance Services Limited authorised these financial statements presented on pages 4 to 23 for issue on 24 February 2016.

For and on behalf of Board.

C M da Silva

Director

D A Sullivan

Director

Statement of changes in equity

For the year ended 31 December 2015

	Note	Attributable to equity holders of the Company		
		Share capital $000	Retained earnings $000	Total equity $000
As at 1 January 2014		7,500	1,351	8,851
Year ended 31 December 2014				
Profit after income tax expense		-	2,832	2,832
Total comprehensive income		-	2,832	2,832
Transactions with owners				
Dividends	17	-	(3,000)	(3,000)
Total transactions with owners		-	(3,000)	(3,000)
As at 31 December 2014		7,500	1,183	8,683
As at 1 January 2015		7,500	1,183	8,683
Year ended 31 December 2015				
Profit after income tax expense		-	2,177	2,177
Total comprehensive income		-	2,177	2,177
Transactions with owners				
Dividends	17	-	(1,950)	(1,950)
Share capital repurchased	16	(4,000)	-	(4,000)
Total transactions with owners		(4,000)	(1,950)	(5,950)
As at 31 December 2015		3,500	1,410	4,910

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

Statement of cash flows

For the year ended 31 December 2015

	Note	31-Dec-15 $000	31-Dec-14 $000
Cash flows from operating activities			
Interest received		341	507
Insurance premium received		5,904	7,250
Claims paid		(1,185)	(1,915)
Payments to suppliers and employees		(2,955)	(3,508)
Income tax paid		(126)	-
Subvention payments		(1,000)	(2,026)
Other income		-	138
Net cash inflow from operating activities		979	446
Cash flows from financing activities			
Repurchase of capital	16	(4,000)	-
Dividends paid	17	(1,950)	(3,000)
Net cash outflow from financing activities		(5,950)	(3,000)
Net decrease in cash and cash equivalents		(4,971)	(2,554)
Cash and cash equivalents at the beginning of the year		10,330	12,884
Cash and cash equivalents at end of year		5,359	10,330
Cash and cash equivalents at end of year comprise:			
Cash at bank		359	230
Short term deposits	10	5,000	10,100
		5,359	10,330

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

		31-Dec-15 $000	31-Dec-14 $000
Profit after tax for the year		2,177	2,832
Fair value loss on financial assets at fair value through profit or loss		-	26
Movement in accrued interest		21	37
Movement in current tax		(131)	(659)
Movement in other assets		665	1,165
Movement in deferred tax liabilities		(148)	(266)
Movement in payables		(1,605)	(2,689)
Net cash inflow from operating activities		979	446

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

1 General accounting policies

Reporting entity

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

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

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

Statutory base

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

Basis of preparation

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

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

The Company is a profit-oriented entity.

These financial statements have been approved for issue by the Board of Directors on 24 February 2016.

Basis of measurement

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

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

2 Summary of significant accounting policies

(a) Interest income and expense

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

The effective interest method allocates the interest income or interest expense over the life of the contract or when appropriate a shorter period using the effective interest rate. The effective interest rate is the discount rate at which the present value of the future cash flows equals the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate the Company estimates the future cash flows considering all the contractual terms of the contract but does not include future credit losses. The calculation of the effective interest rate includes all fees, transaction costs and all other premiums or discounts that are an integral part of the effective interest rate.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(b) Premium revenue

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

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

2 Summary of significant accounting policies (continued)

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

(c) Income tax

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

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

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

(d) GST

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

(e) Cash and cash equivalents

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

(f) Financial assets and liabilities

Financial assets

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

The Company adopted NZ IFRS 9 (2013) *Financial Instruments* on 1 January 2015. The impact of the retrospective application of the classification and measurement sections of NZ IFRS 9 (2013) is not material and the Company has not restated comparative information.

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

(i) Financial assets at amortised cost

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

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

(ii) Financial assets at fair value

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

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

Financial liabilities

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

2 Summary of significant accounting policies (continued)

(g) Impairment of financial assets

(i) Assets carried at amortised cost

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

(ii) Assets carried at fair value

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

(h) Assets backing general insurance liabilities

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

The Company has determined that its money market deposits are held to back general insurance liabilities. These assets are stated at amortised cost using the effective interest method. In prior periods, deposits were stated at fair value through profit or loss.

(i) Liability adequacy test

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

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

(j) Acquisition costs

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

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

(k) Outstanding claims liability

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

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

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

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

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

2 Summary of significant accounting policies (continued)

(l) Share capital

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

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

(m) Offsetting

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

(n) New and amended standards adopted

The Company adopted NZ IFRS 9 (2013) *Financial Instruments* which includes the new hedge accounting requirements but excludes the expected credit losses model effective 1 January 2015. The new hedge accounting model prescribed by this standard more closely aligns hedge accounting with risk management activities. The adoption of this standard did not have a material impact on the financial statements.

(o) Changes in accounting policies

From 1 January 2015, on adoption of NZ IFRS 9 (2013) *Financial Instruments* the Company has classifed its short term deposits at amortised cost using the effective interest rate method. In prior periods, deposits were stated at fair value through profit or loss.

All other accounting policies have been applied on a basis consistent with the prior year.

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

The following new standards and amendments to standards relevant to the Company have been issued:

- NZ IFRS 9 (2014) *Financial Instruments* was issued on 4 September 2014 and is applicable for accounting periods beginning on or after 1 January 2018. This standard includes a new expected credit loss impairment model which will replace the current incurred loss impairment model. The Company is in the process of assessing the potential effect of the September 2014 version and determining whether to adopt the standard early.
- NZ IFRS 15 *Revenue from Contracts with Customers* addresses recognition of revenue from contracts with customers. This standard replaces NZ IAS 18 *Revenue* and NZ IAS 11 *Construction Contracts*. It sets out a five step model for revenue recognition to depict the transfer of goods and services that reflects the consideration to which an entity is entitled to. This standard is effective for periods beginning on or after 1 January 2018. The Company is in the process of assessing the potential effect of this standard.

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

3 Critical accounting estimates and judgements

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

Outstanding claims liability

The estimated cost of claims includes direct expenses to be incurred in settling claims. IBNR claims may not be apparent to the Company until several months after the events. In calculating the estimated cost of unpaid claims the Company uses a variety of estimation techniques. Refer note 19.

4 Interest income

	31-Dec-15 $000	31-Dec-14 $000
Short term deposits	307	470
Fair value loss on financial assets	-	(26)
Total interest income	307	444

5 Premium income

	31-Dec-15 $000	31-Dec-14 $000
Gross written premiums	5,662	6,378
Movement in unearned premiums (note 13)	1,402	2,426
Premium income	7,064	8,804

6 Operating expenses

	31-Dec-15 $000	31-Dec-14 $000
Administration costs	-	(171)
Expense recharged from related parent (note 24(c)(i))	1,682	1,202
Expense recharged from commonly controlled party (note 24(c)(i))	-	93
Marketing	-	54
Operational	-	29
Pension costs - defined contribution plans	-	19
Professional and consultancy	-	56
Wages and salaries	-	8
Other	(17)	(52)
Total operating expenses	1,665	1,238

7 Net claims incurred

	31-Dec-15 $000	31-Dec-14 $000
Gross claims expense		
Risks borne in the current year	609	1,350
Reassessment of risks borne in previous years	463	531
Other recoveries revenue		
Reassessment of risks borne in previous years	(7)	(12)
Net claims incurred	1,065	1,869

8 Net underwriting result

	31-Dec-15 $000	31-Dec-14 $000
Analysis of insurance operating result		
Premium revenue	7,064	8,804
Gross claims expense	(1,072)	(1,881)
Other recoveries revenue	7	12
Net claims incurred	(1,065)	(1,869)
Acquisition costs	(1,618)	(2,345)
Other underwriting expenses	(86)	(328)
Expenses	(1,704)	(2,673)
Net underwriting result	4,295	4,262
Interest income	307	444
Operating surplus before income tax from insurance activities	4,602	4,706

9 Income tax expense

	31-Dec-15 $000	31-Dec-14 $000
(a) Income tax expense		
Current tax	994	1,368
Deferred tax - temporary differences (note 15)	(148)	(266)
Total income tax expense	846	1,102
(b) Reconciliation of income tax expense to prima facie tax payable		
Profit before income tax	3,023	3,934
Tax at the New Zealand tax rate of 28.0% (31 December 2014: 28.0%)	846	1,102

10 Short term deposits

Deposits are held to back general insurance liabilities and are stated at amortised cost using the effective interest rate method. In prior periods, deposits were stated at fair value through profit or loss. Included in carrying value is principal of $5,000,000 (31 December 2014: $10,100,000).

11 Deferred acquisition costs

	31-Dec-15 $000	31-Dec-14 $000
Opening balance	665	1,613
Acquisition cost deferred	1,089	1,397
Amortisation charged to statement of comprehensive income	(1,618)	(2,345)
Closing balance	136	665
Current	120	515
Non-current	16	150
Total deferred acquisition costs	136	665

12 Outstanding claims liability

	31-Dec-15 $000	31-Dec-14 $000
(a) Outstanding claims liability		
Central estimate	306	395
Discount to present value	(6)	(7)
	300	388
Claims handling costs	71	91
	371	479
Risk margin	42	54
Gross outstanding claims liability	413	533
Gross claims incurred - undiscounted	419	540
Current	352	465
Non-current	61	68
Total	413	533

(b) Risk margin

Process for determining risk margin

The overall risk margins for both outstanding claims and liability adequacy testing have been determined using stochastic techniques allowing for diversification and having regard to the inherent variation observed in historical claims development. The risk margins for the portfolio are applied to the central estimates in order to arrive at an overall net provision that is intended to provide a probability of sufficiency of 75% (31 December 2014: 75%).

	31-Dec-15 %	31-Dec-14 %
Risk margin applied		
Overall risk margin	12.6	12.5

(c) Reconciliation of movement in outstanding claims liability

	31-Dec-15 $000	31-Dec-14 $000
Opening balance	533	579
Incurred claims recognised in the statement of comprehensive income	1,065	1,869
Claim payments	(1,185)	(1,915)
Closing balance	413	533

(d) Claims development tables

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

13 Unearned premium liability

	31-Dec-15 $000	31-Dec-14 $000
Opening balance	1,918	4,344
Deferral of premiums	5,662	6,378
Earning of premiums	(7,064)	(8,804)
Closing balance	516	1,918
Current	459	1,485
Non-current	57	433
Total	516	1,918

14 Liability adequacy test

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

	31-Dec-15 $000	31-Dec-14 $000
Unearned premium liability	516	1,918
Deferred acquisition costs	(136)	(665)
Net premium unearned liability	380	1,253
Central estimate of present value of expected future cash flows arising from future claims on contracts issued	134	616
Risk margin 16.6% (31 December 2014: 16.1%)	18	79
Present value of expected future cash flows for future claims	152	695
Net surplus	228	558

The process for determining the overall risk margin, including the way in which diversification of risks has been allowed for is discussed in note 12(b). As with outstanding claims, the overall risk margin is intended to achieve 75% probability of adequacy.

15 Deferred tax liabilities

	31-Dec-15 $000	31-Dec-14 $000
The balance comprises temporary differences attributable to:		
Deferred acquisition costs	38	186
Opening balance	186	452
Credited to income tax expense (note 9)	(148)	(266)
Closing balance	38	186
Current	34	144
Non-current	4	42
	38	186

16 Share capital

	31-Dec-15 Shares 000	31-Dec-14 Shares 000	31-Dec-15 $000	31-Dec-14 $000
Ordinary shares fully paid	3,500	7,500	3,500	7,500

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

At 31 December 2015 the total number of authorised shares was 3.5 million (31 December 2014: 7.5 million) with no par value. All issued shares are fully paid.

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

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

17 Dividends

On 27 March 2014 a dividend of 4.0 cents per fully paid share amounting to $300,000 was paid.

On 31 July 2014 a dividend of 21.3 cents per fully paid share amounting to $1,600,000 was paid.

On 18 December 2014 a dividend of 14.7 cents per fully paid share amounting to $1,100,000 was paid.

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

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

18 Insurance contracts - risk management policies and procedures

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

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

(a) Financial soundness

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

(b) Concentration of insurance risk

The Company is exposed to three classes of business: Goods Cover, Payment Protection Cover and Extended Warranty Cover. The Company discontinued writing new business for the Extended Warranty Cover in the year ended 31 March 2012. As at 31 December 2015, the Company offers two insurance products to a broad spread of consumers across New Zealand.

(c) Insurance company rating

At 31 December 2015 and 31 December 2014 the Company had an insurer financial strength rating of "B++ (good)" and an issuer credit rating of "bbb+" from AM Best Company Limited. The outlook for both ratings is stable at 31 December 2015 (31 December 2014: Stable).

(d) License

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

19 Insurance - assumptions and methods

The Company has three classes of business (as detailed in note 18(b)). All three classes are short tail in nature meaning that claims are typically settled within one year of being reported.

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

Actuarial assumptions

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

	31-Dec-15	31-Dec-14
Average weighted term to settlement from balance date	**5.4 mths**	5.4 mths
Expense rate	**22.8%**	22.8%

19 Insurance - assumptions and methods (continued)

Process used to determine assumptions

Average weighted term to settlement

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

Assumed loss ratios

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

Future incurred claim settlement patterns

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

Expense rate

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

Inflation and discount rates

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

Sensitivity analysis - insurance contracts

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

20 Actuarial information

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

An Insurance Liability Valuation Report effective 31 December 2015 was provided by MJW to the Company. Overall, the Actuary considered that the information provided was adequate and appropriate for the purpose of the valuation.

The key assumptions used by the Actuary in determining the outstanding claims liability are included in note 19.

21 Imputation credits

The Company is a member of the Fisher & Paykel Appliances Holdings Limited imputation group and can access imputation credits of the imputation group. The amount of imputation credits available to the Company as at 31 December 2015 was $Nil (31 December 2014: $Nil).

22 Financial risk management

(a) Interest rate risk

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

22 Financial risk management (continued)

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

Cash flow sensitivity analysis

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

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

		Cash flow interest rate risk			
		-1%		+1%	
31 December 2014	Carrying amount $000	Profit after tax $000	Equity $000	Profit after tax $000	Equity $000
Financial assets					
Cash at bank	230	(2)	(2)	2	2
Short term deposits	10,135	(73)	(73)	73	73
Other financial assets	522	-	-	-	-
Financial liabilities					
Other financial liabilities	116	-	-	-	-
Total (decrease)/increase		(75)	(75)	75	75

Fair value sensitivity analysis

The following table summarises the sensitivity of the Company's short term deposits (which were measured at fair value in the prior year) to fair value interest rate risk.

31 December 2014					
Short term deposits	10,135	13	13	(13)	(13)

22 Financial risk management (continued)

(b) Liquidity risk

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

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

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

Maturity analysis

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

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

	Call	Up to 6 months	Over 6 months and up to 1 year	Over 1 year and up to 2 years	Over 2 years and up to 5 years	Over 5 years	Total
31 December 2014	$000	$000	$000	$000	$000	$000	$000
Financial assets							
Cash at bank	230	-	-	-	-	-	230
Short term deposits	1,100	9,099	-	-	-	-	10,199
Other assets	-	522	-	-	-	-	522
	1,330	9,621	-	-	-	-	10,951
Financial liabilities							
Other liabilities	-	116	-	-	-	-	116

22 Financial risk management (continued)

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

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

31 December 2014	Up to 6 months $000	Over 6 months and up to 1 year $000	Over 1 year and up to 2 years $000	Over 2 years and up to 5 years $000	Over 5 years $000	Total $000
Insurance assets						
Deferred acquisition cost	286	229	134	16	-	665
Insurance liabilities						
Outstanding claims liability	399	66	41	27	-	533
Unearned premium liability	824	661	386	47	-	1,918
	1,223	727	427	74	-	2,451

(c) Credit risk

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

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

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

	31-Dec-15 $000	31-Dec-14 $000
Credit exposures relating to on-balance sheet assets:		
Cash at bank	359	230
Short term deposits	5,001	10,135
Other assets	386	522
	5,746	10,887

The above table shows the maximum credit risk exposure at 31 December 2015 and 31 December 2014. No collateral is held by the Company for the assets listed in the table above. Deposits are held with various financial institutions. At balance date all counterparties have a long term credit rating of "AA-" from Standard & Poor's.

22 Financial risk management (continued)

(d) Fair value estimation

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

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

Level 1: inputs are quoted prices in active markets;

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

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

At 31 December 2015, short term deposits are stated at amortised cost using the effective interest method. In the prior year, these deposits were stated at fair value through profit or loss. The fair value was calculated as the present value of estimated cash flows based on BKBM rates, and as such these deposits were categorised as level 2.

(e) Foreign exchange risk

As at 31 December 2015 the Company had no foreign currency exposure (31 December 2014: $Nil).

(f) Other activities

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

(g) Financial instruments by category

	Fair value through profit or loss $000	At amortised cost $000	Total $000
At 31 December 2015			
Cash at bank	-	359	359
Short term deposits	-	5,001	5,001
Other assets	-	386	386
	-	5,746	5,746
At 31 December 2014			
Cash at bank	-	230	230
Short term deposits	10,135	-	10,135
Other assets	-	522	522
	10,135	752	10,887

As at 31 December 2015, short term deposits are held to back general insurance liabilities and are stated at amortised cost using the effective interest rate method. In the prior year, deposits were stated at fair value through profit or loss.

	At amortised cost $000	Total $000
At 31 December 2015		
Payables	10	10
At 31 December 2014		
Payables	116	116

23 Contingencies

There were no material contingent assets or liabilities at 31 December 2015 (31 December 2014: $Nil).

24 Related parties

(a) Parent entities

On 1 December 2014, all of the Company's shares were acquired by Fisher & Paykel Finance Holdings Limited ("FPFHL") from Consumer Finance Limited. FPFHL is a New Zealand company, which in turn is a wholly owned subsidiary of Fisher & Paykel Appliance Holdings Limited, a New Zealand company. Fisher & Paykel Appliance Holdings Limited is a wholly-owned subsidiary of Haier New Zealand Investment Holding Company Limited, a subsidiary of Haier Group Corporation.

On 27 October 2015, FlexiGroup Limited, an Australian company, announced that it had entered into an agreement to acquire FPFHL from Fisher & Paykel Appliance Holdings Limited. This transaction is subject to Overseas Investment Office ("OIO") and Reserve Bank of New Zealand ("RBNZ") approvals. As at the date of signing these accounts, approvals had not been received from the OIO or the RBNZ.

(b) Directors

The names of persons who were directors of the Company at any time during the year ended 31 December 2015 were as follows: C M da Silva; H B Rennie, QC; D A Sullivan; and C G Wakefield.

(c) Transactions with related parties

(i) Net related party receivables

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

	31-Dec-15 $000	31-Dec-14 $000
Opening balance	269	253
Amounts (paid)/collected by related party on Company's behalf	(464)	(640)
Overheads recharges	(1,682)	(1,295)
Repayments	2,252	1,974
Other	-	(23)
Closing balance	375	269

On 1 January 2015, the accounts payable and payroll functions for the Fisher & Paykel Finance Holdings Limited Group transferred from Fisher & Paykel Finance Limited to FPFHL. FPFHL recharges expenses and overheads to the Company for expenses incurred on its behalf.

(ii) Other transactions

Other transactions with related parties are shown below:

	31-Dec-15 $000	31-Dec-14 $000
Dividends paid to parent (note 17)	1,950	3,000
Insurance premiums collected by parent on behalf of Company	-	2,888
Insurance premiums collected by commonly controlled entity on behalf of Company	3,240	256
Insurance commissions paid to commonly controlled entities	1,214	1,228
Subvention payments to Fisher & Paykel Appliances Limited	1,000	875

25 Capital risk management

The Company's objectives when managing capital are:

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

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

25 Capital risk management (continued)

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

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

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

The tables below show the calculation of the solvency capital.

(a) Actual solvency capital

	31-Dec-15 $000	31-Dec-14 $000
Share capital	**3,500**	7,500
Retained earnings	**1,410**	1,183
Dividend (note 26)	**(300)**	-
Total tier one capital	**4,610**	8,683

(b) Mimimum solvency capital

	31-Dec-15 $000	31-Dec-14 $000
Capital charges		
Insurance risk	70	170
Catastrophe risk	40	40
Asset risk	459	1,333
Interest rate risk	27	60
Total capital charges	596	1,603
Mimimum solvency capital required *	3,000	3,000
Solvency Margin	1,610	5,683

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

26 Events occurring after the balance date

On 24 February 2016, the Company declared and paid a dividend of $300,000 to FPFHL.

There have been no other material subsequent events after the balance date.

Independent Auditors' Report

to the shareholder of Consumer Insurance Services Limited

Report on the Financial Statements

We have audited the financial statements of Consumer Insurance Services Limited (the "Company") on pages 4 to 23, which comprise the statement of financial position as at 31 December 2015, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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

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pwc

Opinion

In our opinion, the financial statements on pages 4 to 23 present fairly, in all material respects, the financial position of the Company as at 31 December 2015, and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards.

Restriction on Use of our Report

This report is made solely to the Company's shareholder in accordance with the Companies Act 1993. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholder for our audit work, for this report or for the opinions we have formed.

PricewaterhouseCoopers

Chartered Accountants
24 February 2016

Auckland

MELVILLE JESSUP WEAVER
Towers Watson Alliance Partner

7 March 2016

R Clark
Chief Financial Officer
Fisher & Paykel Finance Limited
Private Bay 94013
MANUKAU 2241

Dear Rhys

Consumer Insurance Services Ltd - Section 78 Review

Sections 77 and 78 of the Insurance (Prudential Supervision) Act 2010 require that the Appointed Actuary must review and comment on the appropriateness of the actuarial information contained in, or used in the preparation of the Insurer's financial statements as at 31 December 2015.

I note that I produced the Insurance Liability Valuation Report (ILVR) for Consumer Insurance Services Ltd ("CISL") as at 31 December 2015 (dated 22 January 2016) and the Financial Condition Report as at 31 December 2015 (dated 12 February 2016).

Scope & investigation

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

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

Summary and conclusion of review

I have reviewed all actuarial information contained in or used to prepare the financial statements of CISL as at 31 December 2015.

In my opinion, all actuarial information has been materially included and used appropriately in the financial statements of CISL as at 31 December 2015.

Declaratory statements

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

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

Yours sincerely

Craig Lough FNZSA
Appointed Actuary

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Scope and review of actuarial information **Appendix**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1.1 Premiums and Claims

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

1.2 Dividends

In respect of dividends, I note that CISL's dividend policy requires that at least 90% of the profit must be distributed as dividend subject to an RBNZ solvency margin being at least 150%. The total dividends that were paid relating to the period ending 31 December 2015 satisfy these criteria.

1.3 Reserves and technical provisions

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

References to annuity rates are not applicable to CISL.

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

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

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

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

3.1 Insurance Liabilities

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

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

3.2 Reinsurance recoveries

There are no reinsurance or other recoveries for CISL.

3.3 Liability Adequacy Test

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

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

Unearned Premium Reserve

We consider that the UPR and DAC have been determined appropriately

3.4 Other items

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