

Consumer Insurance Services Limited
Audited financial statements
for the year ended 30 June 2017

Directory

Principal business	Insurance services
Directors	C M da Silva (Chairman) S G Brewis-Weston M Van Gaale P Ter Brake
Registered office	31 Highbrook Drive East Tamaki Auckland, New Zealand
Auditor	PricewaterhouseCoopers New Zealand 188 Quay Street Private Bag 92162 Auckland, New Zealand
Banker	Bank of New Zealand Limited 80 Queen Street Auckland, New Zealand
Actuary	Melville Jessup Weaver Level 6 57 Fort Street Auckland, New Zealand
Website address	www.flexicards.co.nz

Directors' report

The Board of Directors has pleasure in presenting the financial statements for the year ended 30 June 2017.

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 20 September 2017.

For and on behalf of the Board.



Consumer Insurance Services Limited

Financial statements - 30 June 2017

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Consumer Insurance Services Limited
Statement of comprehensive income
For the year ended 30 June 2017

Statement of comprehensive income

For the year ended 30 June 2017

	Note	12 months 30-Jun-17 \$000	6 months 30-Jun-16 \$000
Interest income		157	83
Premium income	4	<u>6,208</u>	<u>3,176</u>
Total operating income		6,365	3,259
Insurance commission	8	(1,238)	(667)
Operating expenses	21(d)(ii)	(2,613)	(1,109)
Net claims incurred	5	<u>(590)</u>	<u>(313)</u>
Total expenses		(4,441)	(2,089)
Profit before income tax expense		1,924	1,170
Income tax expense	7	<u>(539)</u>	<u>(327)</u>
Profit after income tax expense		1,385	843
Other comprehensive income net of tax		-	-
Total comprehensive income		<u>1,385</u>	<u>843</u>
Total comprehensive income is attributable to:			
Equity holders of Consumer Insurance Services Limited		<u>1,385</u>	<u>843</u>

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

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

Consumer Insurance Services Limited
Statement of financial position
As at 30 June 2017

Statement of financial position

As at 30 June 2017

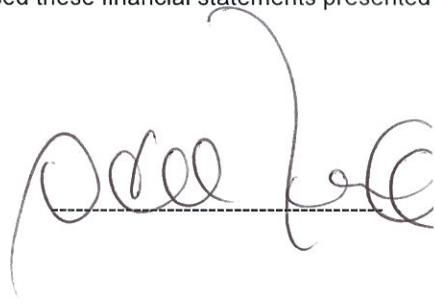
	Note	30-Jun-17 \$000	30-Jun-16 \$000
Assets			
Cash at bank		1,533	43
Short term deposits		4,000	5,500
Current tax receivables		178	53
Related party receivable	21(d)(i)	399	782
Deferred acquisition costs	8	52	74
Sundry debtors		38	36
Total assets		6,200	6,488
Liabilities			
Payables		32	35
Related party payable	21(d)(ii)	278	243
Outstanding claims liability	9	377	396
Unearned premium liability	10	260	340
Deferred tax liabilities	12	15	21
Total liabilities		962	1,035
Net assets		5,238	5,453
Equity			
Share capital	13	3,500	3,500
Retained earnings		1,738	1,953
Total equity		5,238	5,453

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 20 September 2017.

For and on behalf of Board.





Statement of changes in equity

For the year ended 30 June 2017

	Note	Attributable to equity holders of the Company		Total equity \$000
		Share capital \$000	Retained earnings \$000	
As at 1 January 2016		<u>3,500</u>	<u>1,410</u>	<u>4,910</u>
Six months ended 30 June 2016				
Profit after income tax expense		<u>-</u>	<u>843</u>	<u>843</u>
Total comprehensive income		<u>-</u>	<u>843</u>	<u>843</u>
Transactions with owners				
Dividends	14	<u>-</u>	<u>(300)</u>	<u>(300)</u>
Total transactions with owners		<u>-</u>	<u>(300)</u>	<u>(300)</u>
As at 30 June 2016		<u>3,500</u>	<u>1,953</u>	<u>5,453</u>
As at 1 July 2016		<u>3,500</u>	<u>1,953</u>	<u>5,453</u>
Year ended 30 June 2017				
Profit after income tax expense		<u>-</u>	<u>1,385</u>	<u>1,385</u>
Total comprehensive income		<u>-</u>	<u>1,385</u>	<u>1,385</u>
Transactions with owners				
Dividends	14	<u>-</u>	<u>(1,600)</u>	<u>(1,600)</u>
Total transactions with owners		<u>-</u>	<u>(1,600)</u>	<u>(1,600)</u>
As at 30 June 2017		<u>3,500</u>	<u>1,738</u>	<u>5,238</u>

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

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

Consumer Insurance Services Limited
Statement of cash flows
For the year ended 30 June 2017

Statement of cash flows

For the year ended 30 June 2017

	12 months 30-Jun-17 \$000	6 months 30-Jun-16 \$000
Note		
Cash flows from operating activities		
Interest received	153	50
Insurance premium received	6,128	3,000
Claims paid	(609)	(330)
Payments to related parties	(3,412)	(1,877)
Income tax paid	(670)	(211)
Subvention payments	-	(148)
Net cash inflow from operating activities	<u>1,590</u>	<u>484</u>
Cash flows from investing activities		
Investment in short term deposits	<u>(2,000)</u>	<u>-</u>
Net cash outflow from investing activities	<u>(2,000)</u>	<u>-</u>
Cash flows from financing activities		
Dividends paid	14 <u>(1,600)</u>	<u>(300)</u>
Net cash outflow from financing activities	<u>(1,600)</u>	<u>(300)</u>
Net (decrease)/increase in cash and cash equivalents	(2,010)	184
Cash and cash equivalents at beginning of the period	<u>5,543</u>	<u>5,359</u>
Cash and cash equivalents at end of the period	<u>3,533</u>	<u>5,543</u>
Cash and cash equivalents at end of the period comprise:		
Cash at bank	1,533	43
Short term deposits	<u>2,000</u>	<u>5,500</u>
	<u>3,533</u>	<u>5,543</u>
Reconciliation of profit after income tax expense to net cash inflow from operating activities		
Profit after income tax expense for the period	1,385	843
Movement in accrued interest	(4)	(33)
Movement in current tax	(125)	(15)
Movement in related party balances	418	(164)
Movement in other assets	24	71
Movement in deferred tax liabilities	(6)	(17)
Movement in payables	<u>(102)</u>	<u>(201)</u>
Net cash inflow from operating activities	<u>1,590</u>	<u>484</u>

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

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

1 General accounting policies

Reporting entity

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

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

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

Statutory base

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

Basis of preparation

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). The financial statements comply with New Zealand Equivalents to International Financial Reporting Standards ("NZ IFRS"), other interpretations as appropriate for for-profit 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 for-profit entity.

These financial statements have been approved for issue by the Board of Directors on 20 September 2017.

Balance date and comparative figures

The Company changed its balance date from 31 December to 30 June for the period ended 30 June 2016. Current period figures are for the year ended 30 June 2017, and comparative figures cover the six month period ended 30 June 2016. Accordingly, comparative amounts for the Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows and related notes are not directly comparable.

Basis of measurement

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

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

2 Summary of significant accounting policies

(a) Interest income

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

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

2 Summary of significant accounting policies (continued)

(b) Premium revenue

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

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

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

(c) Income tax

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

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

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

(d) GST

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

(e) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held on 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, related party receivable, and sundry debtors.

The Company classifies its financial assets as measured at either amortised cost or fair value depending on the Company's business model and the contractual cash flow characteristics of the financial assets.

(i) Financial assets at amortised cost

An asset is classified as measured at 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 measured at fair value through profit or loss.

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

2 Summary of significant accounting policies (continued)

Financial liabilities

Financial liabilities are recognised when an obligation arises.

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

Financial liabilities are derecognised when the obligation is discharged, cancelled or expires.

(g) Impairment of financial assets

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.

(h) Assets backing general insurance liabilities

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

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

(i) Liability adequacy test

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

(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-Ferguson (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 period in which they are approved by the Company's directors.

(m) Offsetting

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

(n) New and amended standards adopted

The Company has not adopted any new or amended standards in the year ended 30 June 2017.

(o) Changes in accounting policies

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

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

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

- NZ IFRS 17 *Insurance Contracts* changes the accounting of insurance contracts and investment contracts with discretionary participation features. This standard is effective for periods beginning on or after 1 January 2021. The Company is in the process of assessing the potential effect of this standard and the impact on the financial statements has not yet been determined.

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 16.

4 Premium income

	12 months 30-Jun-17 \$000	6 months 30-Jun-16 \$000
Gross written premiums	6,128	3,000
Movement in unearned premiums (note 10)	<u>80</u>	<u>176</u>
Premium income	<u>6,208</u>	<u>3,176</u>

5 Net claims incurred

	12 months 30-Jun-17 \$000	6 months 30-Jun-16 \$000
Gross claims expense		
Risks borne in the current year	359	228
Reassessment of risks borne in previous periods	235	87
Other recoveries revenue		
Reassessment of risks borne in previous periods	<u>(4)</u>	<u>(2)</u>
	<u>590</u>	<u>313</u>

6 Net underwriting result

	12 months 30-Jun-17 \$000	6 months 30-Jun-16 \$000
Analysis of insurance operating result		
Premium revenue	6,208	3,176
Gross claims expense	(594)	(315)
Other recoveries revenue	4	2
Net claims incurred	<u>(590)</u>	<u>(313)</u>
Acquisition costs	(1,238)	(667)
Other underwriting expenses	(87)	(46)
Expenses	<u>(1,325)</u>	<u>(713)</u>
Net underwriting result	4,293	2,150
Interest income	157	83
Operating surplus before income tax expense	<u>4,450</u>	<u>2,233</u>

7 Income tax expense

	12 months 30-Jun-17 \$000	6 months 30-Jun-16 \$000
(a) Income tax expense		
Current tax	545	344
Deferred tax - temporary differences (note 12)	<u>(6)</u>	<u>(17)</u>
Total income tax expense	<u>539</u>	<u>327</u>
(b) Reconciliation of income tax expense to prima facie tax payable		
Profit before income tax expense	<u>1,924</u>	<u>1,170</u>
Tax at the New Zealand tax rate of 28.0% (30 June 2016: 28.0%)	<u>539</u>	<u>327</u>

8 Deferred acquisition costs

	12 months 30-Jun-17 \$000	6 months 30-Jun-16 \$000
Opening balance	74	136
Acquisition cost deferred	1,216	605
Amortisation charged to statement of comprehensive income	<u>(1,238)</u>	<u>(667)</u>
Closing balance	<u>52</u>	<u>74</u>
Current	48	66
Non-current	<u>4</u>	<u>8</u>
Total deferred acquisition costs	<u>52</u>	<u>74</u>

9 Outstanding claims liability

	30-Jun-17 \$000	30-Jun-16 \$000
(a) Outstanding claims liability		
Central estimate	256	275
Discount to present value	<u>(3)</u>	<u>(3)</u>
	253	272
Claims handling costs	<u>87</u>	<u>85</u>
	340	357
Risk margin	<u>37</u>	<u>39</u>
Gross outstanding claims liability	<u>377</u>	<u>396</u>
Gross claims incurred - undiscounted	380	399
Current	315	333
Non-current	<u>62</u>	<u>63</u>
Total	<u>377</u>	<u>396</u>

(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 provision that is intended to provide a probability of sufficiency of 75% (30 June 2016: 75%).

	30-Jun-17 %	30-Jun-16 %
<i>Risk margin applied</i>		
Overall risk margin	12.5	12.4

9 Outstanding claims liability (continued)

(c) Reconciliation of movement in outstanding claims liability

	12 months 30-Jun-17 \$000	6 months 30-Jun-16 \$000
Opening balance	396	413
Incurred claims recognised in the statement of comprehensive income	590	313
Claim payments	<u>(609)</u>	<u>(330)</u>
Closing balance	<u>377</u>	<u>396</u>

(d) Claims development tables

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

10 Unearned premium liability

	12 months 30-Jun-17 \$000	6 months 30-Jun-16 \$000
Opening balance	340	516
Deferral of premiums	6,128	3,000
Earning of premiums	<u>(6,208)</u>	<u>(3,176)</u>
Closing balance	<u>260</u>	<u>340</u>
Current	242	305
Non-current	<u>18</u>	<u>35</u>
Total	<u>260</u>	<u>340</u>

11 Liability adequacy test

The liability adequacy test has identified a surplus for the Company's insurance contracts.

	30-Jun-17 \$000	30-Jun-16 \$000
Unearned premium liability	260	340
Deferred acquisition costs	<u>(52)</u>	<u>(74)</u>
Net premium unearned liability	<u>208</u>	<u>266</u>
Central estimate of present value of expected future cash flows arising from future claims on contracts issued	66	86
Risk margin 19.4% (30 June 16: 18.5%)	<u>9</u>	<u>12</u>
Present value of expected future cash flows for future claims	<u>75</u>	<u>98</u>
Net surplus	<u>133</u>	<u>168</u>

The process for determining the overall risk margin, including the way in which diversification of risks has been allowed for, is discussed in note 9(b). As with outstanding claims, the overall risk margin is intended to achieve a 75% probability of adequacy.

12 Deferred tax liabilities

	12 months 30-Jun-17 \$000	6 months 30-Jun-16 \$000
The balance comprises temporary differences attributable to:		
Deferred acquisition costs	<u>15</u>	<u>21</u>
Opening balance	21	38
Credited to income tax expense (note 7)	<u>(6)</u>	<u>(17)</u>
Closing balance	<u>15</u>	<u>21</u>

13 Share capital

	30-Jun-17 Shares 000	30-Jun-16 Shares 000	30-Jun-17 \$000	30-Jun-16 \$000
Ordinary shares fully paid	<u>3,500</u>	<u>3,500</u>	<u>3,500</u>	<u>3,500</u>

At 30 June 2017 the total number of authorised shares was 3.5 million (30 June 2016: 3.5 million) with no par value. All issued shares are fully paid.

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

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

14 Dividends

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

On 22 December 2016 a dividend of 28.6 cents per fully paid share amounting to \$1,000,000 was paid.

On 18 May 2017 a dividend of 17.1 cents per fully paid share amounting to \$600,000 was paid.

On 20 September 2017 a dividend of 14.3 cents per fully paid share amounting to \$500,000 was declared.

15 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 two classes of business: Payment Protection Cover and Goods Cover. Payment Protection Cover protects customers' ability to meet or partially meet their repayment of credit or loan if the customers face circumstances that may prevent them from earning an income to service the debt. Goods Cover protects customers in the event of the accidental loss, damage, destruction or theft of the goods.

(c) Insurance company rating

At 30 June 2017 and 30 June 2016 the Company had an insurer financial strength rating of "B++ (good)" and an issuer credit rating of "bbb+" from AM Best Company Limited. The outlook for both ratings is stable at 30 June 2017 (30 June 2016: Stable).

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

(d) Licence

The Company holds a licence 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.

16 Insurance - assumptions and methods

The insurance written by the Company is short tail in nature meaning that claims are typically settled within one year of being reported.

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

Actuarial assumptions

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

	30-Jun-17	30-Jun-16
Average weighted term to settlement from balance date	7.2 mths	5.4 mths
Expense rate	29.8%	27.7%

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-Ferguson (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 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, loss ratios, claim settlement patterns and expense rate) is not expected to have a material impact on the Company's profit or equity.

17 Actuarial information

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

An Insurance Liability Valuation Report effective 30 June 2017 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 16.

18 Imputation credits

The Company is a member of the FlexiGroup consolidated income tax group and imputation group and can access imputation credits of the imputation group. The amount of imputation credits available to the Company as at 30 June 2017 is \$20,582,000 (30 June 2016: \$11,878,000).

19 Financial risk management

(a) Interest rate risk

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

The Company is part of the Flexi Cards Limited 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%	
30 June 2017	Carrying amount \$000	Profit after income tax expense \$000	Equity \$000	Profit after income tax expense \$000	Equity \$000
Financial assets					
Cash at bank	1,533	(11)	(11)	11	11
Short term deposits	4,000	(29)	(29)	29	29
Related party receivable	399	-	-	-	-
Other financial assets	38	-	-	-	-
Financial liabilities					
Related party payable	278	-	-	-	-
Total (decrease)/increase		<u>(40)</u>	<u>(40)</u>	<u>40</u>	<u>40</u>

	Cash flow interest rate risk				
		-1%		+1%	
30 June 2016	Carrying amount \$000	Profit after income tax expense \$000	Equity \$000	Profit after income tax expense \$000	Equity \$000
Financial assets					
Cash at bank	43	-	-	-	-
Short term deposits	5,500	(40)	(40)	40	40
Related party receivable	782	-	-	-	-
Other financial assets	36	-	-	-	-
Financial liabilities					
Related party payable	243	-	-	-	-
Other financial liabilities	4	-	-	-	-
Total (decrease)/increase		<u>(40)</u>	<u>(40)</u>	<u>40</u>	<u>40</u>

19 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
30 June 2017	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Financial assets							
Cash at bank	1,533	-	-	-	-	-	1,533
Short term deposits	-	4,000	-	-	-	-	4,000
Related party receivable	-	399	-	-	-	-	399
Other financial assets	-	38	-	-	-	-	38
	<u>1,533</u>	<u>4,437</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,970</u>
Financial liabilities							
Related party payable	-	278	-	-	-	-	278
	<u>-</u>	<u>278</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>278</u>
30 June 2016	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Financial assets							
Cash at bank	43	-	-	-	-	-	43
Short term deposits	1,468	4,032	-	-	-	-	5,500
Related party receivable	-	782	-	-	-	-	782
Other financial assets	-	36	-	-	-	-	36
	<u>1,511</u>	<u>4,850</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,361</u>
Financial liabilities							
Related party payable	-	243	-	-	-	-	243
Other financial liabilities	-	4	-	-	-	-	4
	<u>-</u>	<u>247</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>247</u>

19 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.

	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
30 June 2017	\$000	\$000	\$000	\$000	\$000	\$000
Insurance assets						
Deferred acquisition costs	52	-	-	-	-	52
Insurance liabilities						
Outstanding claims liability	267	48	33	28	1	377
Unearned premium liability	260	-	-	-	-	260
	<u>527</u>	<u>48</u>	<u>33</u>	<u>28</u>	<u>1</u>	<u>637</u>
	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
30 June 2016	\$000	\$000	\$000	\$000	\$000	\$000
Insurance assets						
Deferred acquisition costs	74	-	-	-	-	74
Insurance liabilities						
Outstanding claims liability	281	52	35	27	1	396
Unearned premium liability	340	-	-	-	-	340
	<u>621</u>	<u>52</u>	<u>35</u>	<u>27</u>	<u>1</u>	<u>736</u>

(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 relation to deposits held with other entities.

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

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

	30-Jun-17 \$000	30-Jun-16 \$000
Cash at bank	1,533	43
Short term deposits	4,000	5,500
Related party receivable	399	782
Other assets	38	36
	<u>5,970</u>	<u>6,361</u>

The above table shows the maximum credit risk exposure at 30 June 2017 and 30 June 2016. 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 (30 June 2016: "AA-").

19 Financial risk management (continued)

(d) Fair value estimation

The carrying value of all 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, short term deposits, related party receivable, sundry debtors, and payables approximate their fair values.

(e) Foreign exchange risk

As at 30 June 2017 the Company had no foreign currency exposure (30 June 2016: \$Nil).

(f) Other activities

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

(g) Financial instruments by category

	At amortised cost \$000	Total \$000
At 30 June 2017		
Cash at bank	1,533	1,533
Short term deposits	4,000	4,000
Related party receivable	399	399
Other assets	38	38
	<u>5,970</u>	<u>5,970</u>
At 30 June 2016		
Cash at bank	43	43
Short term deposits	5,500	5,500
Related party receivable	782	782
Other assets	36	36
	<u>6,361</u>	<u>6,361</u>
	At amortised cost \$000	Total \$000
At 30 June 2017		
Related party payable	<u>278</u>	<u>278</u>
At 30 June 2016		
Related party payable	243	243
Payables	<u>4</u>	<u>4</u>
	<u>247</u>	<u>247</u>

20 Contingencies

There were no material contingent assets or liabilities at 30 June 2017 (30 June 2016: \$Nil).

21 Related parties

(a) Parent entities

The company is controlled by Flexi Cards Limited ("FCL"), a New Zealand company, which in turn is a wholly owned subsidiary of FlexiGroup (New Zealand) Limited, a New Zealand company. FlexiGroup (New Zealand) Limited is a wholly owned subsidiary of FlexiGroup Limited, an Australian company.

(b) Directors

The names of persons who were directors of the Company at any time during the year ended 30 June 2017 were as follows: C M da Silva; S G Brewis-Weston (appointed 22 September 2016); M E Van Gaalen (appointed 8 June 2017); P Ter Brake (appointed 8 June 2017); H B Rennie, QC; D J Stevens (ceased 27 February 2017); and M R Beaman (ceased 28 September 2016).

Effective 1 August 2017, H B Rennie has resigned as a director of the Company.

(c) Key management and personnel compensation

Key management personnel are defined as being Directors and executives of the Company. Compensation to key management personnel for the year ended 30 June 2017 of \$137,000 (six months ended 30 June 2016: \$92,000) was paid by FCL and reimbursed by the Company.

(d) Transactions with related parties

(i) Commonly controlled entities

The movement in related party receivable balances with commonly controlled entities during the year is shown below:

	12 months 30-Jun-17 \$000	6 months 30-Jun-16 \$000
Opening balance	782	418
Amounts (paid)/collected by related party on Company's behalf	<u>(383)</u>	<u>364</u>
Closing balance	<u>399</u>	<u>782</u>

(ii) FCL

The movement in related party payable balances with FCL during the year is shown below:

	12 months 30-Jun-17 \$000	6 months 30-Jun-16 \$000
Opening balance	(243)	(43)
Overheads recharged	(2,613)	(1,109)
Other expenses paid on behalf of Company	(481)	(231)
Repayments	<u>3,059</u>	<u>1,140</u>
Closing balance	<u>(278)</u>	<u>(243)</u>

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

21 Related parties (continued)

(iii) Other transactions

Other transactions with related parties are shown below:

	12 months 30-Jun-17 \$000	6 months 30-Jun-16 \$000
Amounts paid to auditor by FCL on behalf of Company:		
- Audit of financial statements	26	26
- Other assurance related services (solvency return)	4	4
Dividends paid to FCL (note 14)	1,600	300
Insurance premiums collected by commonly controlled entities on behalf of Company	3,866	1,720
Insurance commissions paid to commonly controlled entities	1,216	605
Subvention payments to Fisher & Paykel Appliances Limited	-	148

22 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.

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

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

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

22 Capital risk management (continued)

The tables below show the calculation of the solvency capital.

(a) Actual solvency capital

	30-Jun-17 \$000	30-Jun-16 \$000
Share capital	3,500	3,500
Retained earnings	1,738	1,953
Dividend	(500)	-
Total tier one capital	<u>4,738</u>	<u>5,453</u>

(b) Minimum solvency capital

	30-Jun-17 \$000	30-Jun-16 \$000
Capital charges		
Insurance risk	53	59
Catastrophe risk	40	40
Asset risk	521	621
Interest rate risk	28	27
Total capital charges	<u>642</u>	<u>747</u>
Minimum solvency capital required *	3,000	3,000
Solvency margin	1,738	2,453
Solvency ratio	158%	182%

* Minimum solvency capital is the greater of the sum of the capital charges or \$3.0 million, as required by the Insurance (Prudential Supervision) Act 2010 and the Solvency Standard for Non-life Insurance Business.

23 Events occurring after the balance date

On 20 September 2017, the Company declared a dividend of \$500,000 to FCL.

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



Independent auditor's report

To the shareholder of Consumer Insurance Services Limited

The financial statements comprise:

- the statement of financial position as at 30 June 2017;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the financial statements of Consumer Insurance Services Limited (the Company), present fairly, in all material respects, the financial position of the Company as at 30 June 2017, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

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

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

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

Our firm carries out other services for the Company in the area of other assurance related services. The provision of these other services has not impaired our independence as auditor of the Company.

Information other than the financial statements and auditor's report

The Directors are responsible for the annual report. Our opinion on the financial statements does not cover the other information included in the annual report and we do not express any form of assurance conclusion on the other information.

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



Responsibilities of the Directors for the financial statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

<https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-6/>

This description forms part of our auditor's report.

Who we report to

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

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
21 September 2017

Auckland



20 September 2017

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

Dear Susan

Consumer Insurance Services Ltd - Section 78 Review

Sections 77 and 78 of the Insurance (Prudential Supervision) Act 2010 require that the Appointed Actuary must review and comment on the appropriateness of the actuarial information contained in, or used in the preparation of the Insurer's financial statements as at 30 June 2017.

I note that I produced the Insurance Liability Valuation Report (ILVR) for Consumer Insurance Services Ltd ("CISL") as at 30 June 2017 (dated 2 August 2017) and the Financial Condition Report as at 30 June 2017 (dated 12 September 2017).

Scope & investigation

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

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

Summary and conclusion of review

I have reviewed all actuarial information contained in or used to prepare the financial statements of CISL as at 30 June 2017.

In my opinion, all actuarial information has been materially included and used appropriately in the financial statements of CISL as at 30 June 2017.

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 capital policy requires that the RBNZ solvency margin must be at least 150%. The total dividends that were paid relating to the period ending 30 June 2017 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.