Consumer Insurance Services Limited
Audited financial statements
for the year ended 30 June 2018

Directory

Principal business	Insurance services
Directors	C M da Silva (Chairman) R D Aucutt P ter Brake
Registered office	111 Carlton Gore Road Newmarket 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.flexigroup.co.nz

Directors' report

The Board of Directors has pleasure in presenting the financial statements for the year ended 30 June 2018.

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

The Board of Directors of Consumer Insurance Services Limited authorised these financial statements presented on pages 4 to 22 for issue on 30 October 2018.

For and on behalf of the Board.

Consumer Insurance Services Limited
Financial statements - 30 June 2018

Contents

Statement of comprehensive income

For the year ended 30 June 2018

	Note	30-Jun-18 $000	30-Jun-17 $000
Premium income		**5,911**	6,208
Interest income	4	**126**	157
Total operating income		**6,037**	6,365
Insurance commission	8	**(1,183)**	(1,238)
Operating expenses	21(d)(i)	**(2,349)**	(2,613)
Net claims incurred	5	**(612)**	(590)
Total expenses		**(4,144)**	(4,441)
Profit before income tax expense		**1,893**	1,924
Income tax expense	7	**(530)**	(539)
Profit after income tax expense		**1,363**	1,385
Other comprehensive income net of tax		-	-
Total comprehensive income		**1,363**	1,385
Total comprehensive income is attributable to:			
Equity holders of Consumer Insurance Services Limited		1,363	1,385

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

Statement of financial position

As at 30 June 2018

	Note	30-Jun-18 $000	30-Jun-17 $000
Assets			
Cash at bank		**3,452**	1,533
Short term deposits		**1,000**	4,000
Current tax receivables		**-**	178
Related party receivable	21(d)	**405**	399
Deferred acquisition costs	8	**52**	52
Sundry debtors		**16**	38
Total assets		**4,925**	6,200
Liabilities			
Payables		**30**	32
Current tax liabilities		**152**	-
Related party payable	21(d)(ii)	**-**	278
Outstanding claims liability	9	**367**	377
Unearned premium liability	10	**260**	260
Deferred tax liabilities	12	**15**	15
Total liabilities		**824**	962
Net assets		**4,101**	5,238
Equity			
Share capital	13	**3,500**	3,500
Retained earnings		**601**	1,738
Total equity		**4,101**	5,238

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

The Board of Directors of Consumer Insurance Services Limited authorised these financial statements presented on pages 4 to 22 for issue on 30 October 2018.

For and on behalf of Board.

Statement of changes in equity

For the year ended 30 June 2018

	Note	Attributable to equity holders of the Company		
		Share capital $000	Retained earnings $000	Total equity $000
As at 1 July 2016		3,500	1,953	5,453
Year ended 30 June 2017				
Profit after income tax expense		-	1,385	1,385
Total comprehensive income		-	1,385	1,385
Transactions with owners				
Dividends	14	-	(1,600)	(1,600)
Total transactions with owners		-	(1,600)	(1,600)
As at 30 June 2017		3,500	1,738	5,238
As at 1 July 2017		3,500	1,738	5,238
Year ended 30 June 2018				
Profit after income tax expense		-	1,363	1,363
Total comprehensive income		-	1,363	1,363
Transactions with owners				
Dividends	14	-	(2,500)	(2,500)
Total transactions with owners		-	(2,500)	(2,500)
As at 30 June 2018		3,500	601	4,101

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

Statement of cash flows

For the year ended 30 June 2018

	Note	30-Jun-18 $000	30-Jun-17 $000
Cash flows from operating activities			
Insurance premium received		5,911	6,128
Interest received		151	153
Claims paid		(622)	(609)
Net payments to related parties		(3,821)	(3,412)
Income tax paid		(200)	(670)
Net cash inflow from operating activities		1,419	1,590
Cash flows from investing activities			
Proceeds from/investment in short term deposits		1,000	(2,000)
Net cash inflow/(outflow) from investing activities		1,000	(2,000)
Cash flows from financing activities			
Dividends paid	14	(2,500)	(1,600)
Net cash outflow from financing activities		(2,500)	(1,600)
Net decrease in cash and cash equivalents		(81)	(2,010)
Cash and cash equivalents at beginning of the year		3,533	5,543
Cash and cash equivalents at end of the year		3,452	3,533
Cash and cash equivalents at end of the year comprise:			
Cash at bank		3,452	1,533
Short term deposits		-	2,000
		3,452	3,533

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

		30-Jun-18 $000	30-Jun-17 $000
Profit after income tax expense for the year		1,363	1,385
Movement in accrued interest		25	(4)
Movement in current tax		330	(125)
Movement in related party balances		(284)	418
Movement in other assets		(3)	24
Movement in deferred tax liabilities		-	(6)
Movement in payables		(2)	(83)
Movement in outstanding claims liability		(10)	(19)
Net cash inflow from operating activities		1,419	1,590

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

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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.

The address of its registered office is 111 Carlton Gore Road, Newmarket, 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 Generally Accepted Accounting Practice ("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 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 for the purposes of complying with Generally Accepted Accounting Practice ("GAAP").

These financial statements have been approved for issue by the Board of Directors on 30 October 2018.

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. The going concern and accrual basis for accounting have been applied.

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 interest bearing financial assets 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.

(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. Premium revenue is earned in accordance with the pattern of the underlying exposure to risk expected under the insurance contract.

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

(c) Income tax

The income tax expense 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 deferred tax liabilities. Income tax expense is recognised in the profit and loss except where it relates to items recognised directly in equity, in which case it is recognised in equity.

2 Summary of significant accounting policies (continued)

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 tax liability is settled.

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

(d) GST

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

(e) Cash and cash equivalents

Cash and cash equivalents includes 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 financial liabilities

Financial assets

The Company's financial assets comprise such items as cash at bank, 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 other comprehensive income or through profit or loss depending on whether the objective of the business model is to hold to collect and sell or hold to sell. Short term deposits held to back insurance liabilities are designated at fair value.

Those financial assets have been classified as such because either:

- The classification eliminates or significantly reduces a measurement or recognition inconsistency that otherwise would arise from measuring assets or liabilities or recognizing the gains or losses on a different basis; or

- The assets and liabilites are part of a group of financial assets, financial liabilities or both, which are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management strategy or investment strategy.

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.

Financial liabilities

Financial liabilities are recognised when an obligation arises.

The Company's financial liabilities are measured initially at fair value and subsequently 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

2 Summary of significant accounting policies (continued)

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.

(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 class of business will continue to follow observed historic patterns.

(l) Share capital

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

Dividends on ordinary shares are recognised in equity in the 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 financial assets or financial liabilities which are subject to enforceable master netting arrangements or similar agreements.

(n) Statment of Cash Flows

The proceeds/(investment) in short term deposits and net payments to related parties have been shown on a net basis in the statement of cash flows in accordance with NZ IAS 7 Statement of Cash Flows

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2 Summary of significant accounting policies (continued)

(o) New and amended standards adopted

The Company has not adopted any new or amended standards in the year ended 30 June 2018 that have had a material impact on the financial statments.

(p) 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 year.

(q) 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 new standards interpretations and amendments are not considered to have a material impact on the Company's financial statements.

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 used estimation techniques. Refer note 16.

4 Premium income

	30-Jun-18 $000	30-Jun-17 $000
Gross written premiums	5,911	6,128
Movement in unearned premiums (note 10)	-	80
Premium income	5,911	6,208

5 Net claims incurred

	30-Jun-18 $000	30-Jun-17 $000
Gross claims expense		
Risks borne in the current year	598	608
Reassessment of risks borne in previous periods	18	(14)
Other recoveries revenue		
Reassessment of risks borne in previous periods	(4)	(4)
	612	590

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6 Net underwriting result

	30-Jun-18 $000	30-Jun-17 $000
Analysis of insurance operating result		
Premium revenue	5,911	6,208
Gross claims expense	(616)	(594)
Other recoveries revenue	4	4
Net claims incurred	(612)	(590)
Acquisition costs	(1,183)	(1,238)
Other underwriting expenses	-	(87)
Expenses	(1,183)	(1,325)
Net underwriting result	4,116	4,293

7 Income tax expense

	30-Jun-18 $000	30-Jun-17 $000
(a) Income tax expense		
Current tax	530	545
Deferred tax - temporary differences (note 12)	-	(6)
Total income tax expense	530	539
(b) Reconciliation of income tax expense to prima facie tax payable		
Profit before income tax expense	1,893	1,924
Tax at the New Zealand tax rate of 28.0% (30 June 2017: 28.0%)	530	539

8 Deferred acquisition costs

	30-Jun-18 $000	30-Jun-17 $000
Opening balance	52	74
Acquisition cost deferred	1,183	1,216
Amortisation charged to statement of comprehensive income	(1,183)	(1,238)
Closing balance	52	52
Current	52	52
Non-current	-	-
	52	52

9 Outstanding claims liability

	30-Jun-18 $000	30-Jun-17 $000
(a) Outstanding claims liability		
Central estimate	246	256
Discount to present value	(3)	(3)
	243	253
Claims handling costs	67	87
	310	340
Risk margin	57	37
Gross outstanding claims liability	367	377
Gross claims incurred - undiscounted	370	380
Current	305	315
Non-current	62	62
Total	367	377

(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 2017: 75%).

	30-Jun-18 %	30-Jun-17 %
Risk margin applied		
Overall risk margin	20.6	12.5

(c) Reconciliation of movement in outstanding claims liability

	30-Jun-18 $000	30-Jun-17 $000
Opening balance	377	396
Incurred claims recognised in the statement of comprehensive income	612	590
Claim payments	(622)	(609)
Closing balance	367	377

(d) Claims development tables

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

10 Unearned premium liability

	30-Jun-18 $000	30-Jun-17 $000
Opening balance	260	340
Deferral of premiums	5,911	6,128
Earning of premiums	(5,911)	(6,208)
Closing balance	260	260
Current	260	260
Non-current	-	-
Total	260	260

11 Liability adequacy test

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

	30-Jun-18 $000	30-Jun-17 $000
Unearned premium liability	260	260
Deferred acquisition costs	(52)	(52)
Net premium unearned liability	208	208
Central estimate of present value of expected future cash flows arising from future claims on contracts issued	57	66
Risk margin 25.3% (30 June 17: 19.4%)	11	9
Present value of expected future cash flows for future claims	68	75
Net surplus	140	133

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

	30-Jun-18 $000	30-Jun-17 $000
The balance comprises temporary differences attributable to:		
Deferred acquisition costs	15	15
Opening balance	15	21
Credited to income tax expense (note 7)	-	(6)
Closing balance at 30 June	15	15

13 Share capital

	30-Jun-18 Shares 000	30-Jun-17 Shares 000	30-Jun-18 $000	30-Jun-17 $000
Ordinary shares fully paid	3,500	3,500	3,500	3,500

At 30 June 2018 the total number of authorised shares was 3.5 million (30 June 2017: 3.5 million) with no par value. All issued shares are fully paid.

Ordinary shares have no par value and 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 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 21 September 2017 a dividend of 14.3 cents per fully paid share amounting to $500,000 was paid.

On 14 March 2018 a dividend of 57.1 cents per fully paid share amounting to $2,000,000 was paid.

On 14 September 2018 a dividend of 14.3 cents per fully paid share amounting to $500,000 was paid.

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 on products purchased through Flexi Cards Limited.

(c) Insurance company rating

Rating	30-Jun-18	30-Jun-17
Insurer financial strength rating	B++(good)	B++(good)
Issuer credit rating	bbb	bbb+
Ratings outlook	stable	stable

On 11 May 2018, AM Best Company Limited reaffirmed the Company's insurer financial strength rating of "B++ (good)" and downgraded the Company's issuer credit rating to "bbb". The downgrade followed a reduction in the Company's solvency capital. The outlook for both ratings is stable at 30 June 2018 (30 June 2017: stable).

(d) Licence

The Company holds a licence from the Reserve Bank of New Zealand to carry on non-life 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-18	30-Jun-17
Average weighted term to settlement from balance date	7.3 mths	7.2 mths
Expense rate	27.3%	29.8%

Process used to determine assumptions

Average weighted term to settlement

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

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16 Insurance - assumptions and methods (continued)

Assumed loss ratios

The assumed loss ratios of 12% (30 June 2017: 12%) 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 class 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 using rates of 1.8% to 2.2% (30 June 2017: 1.8% to 2.4%).

Sensitivity analysis - insurance contracts

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

17 Actuarial information

Craig Lough of Melville Jessup Weaver ("MJW"), a Fellow of the New Zealand Society of Actuaries, 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 2018 was provided by MJW to the Company. Overall, the Actuary confirmed that he is satisfied with the nature, accuracy and sufficiency of the information provided to him.

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 2018 is $28,424,000 (30 June 2017: $20,582,000).

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 a controlled entity of FlexiGroup (New Zealand) Limited, which operates an Asset and Liability Committee ("ALCO") that 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.

19 Financial risk management (continued)

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 2018	Carrying amount $000	Profit after income tax expense $000	Equity $000	Profit after income tax expense $000	Equity $000
Financial assets					
Cash at bank	3,452	(25)	(25)	25	25
Short term deposits	1,000	(7)	(7)	7	7
Related party receivable	405	-	-	-	-
Other financial assets	13	-	-	-	-
Financial liabilities					
Related party payable	-	-	-	-	-
Total (decrease)/increase		(32)	(32)	32	32

		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		(40)	(40)	40	40

No fair value sensitivity analysis has been disclosed due to the impact of reasonably possible changes in interest rates not being material as at 30 June 2018 and 30 June 2017.

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. ALCO 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 2018	$000	$000	$000	$000	$000	$000	$000
Financial assets							
Cash at bank	3,452	-	-	-	-	-	3,452
Short term deposits	-	1,000	-	-	-	-	1,000
Related party receivable	-	405	-	-	-	-	405
Other financial assets	-	13	-	-	-	-	13
	3,452	1,418	-	-	-	-	4,870
Financial liabilities							
Related party payable	-	-	-	-	-	-	-

	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
	1,533	4,437	-	-	-	-	5,970
Financial liabilities							
Related party payable	-	278	-	-	-	-	278

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.

30 June 2018	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 costs	52	-	-	-	-	52
Insurance liabilities						
Outstanding claims liability	258	47	33	28	1	367
Unearned premium liability	260	-	-	-	-	260
	518	47	33	28	1	627

30 June 2017	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 costs	52	-	-	-	-	52
Insurance liabilities						
Outstanding claims liability	267	48	33	28	1	377
Unearned premium liability	260	-	-	-	-	260
	527	48	33	28	1	637

(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 a controlled entity of FlexiGroup (New Zealand) Limited, which has a Credit Committee which oversees all aspects of credit risk assessment and management across the group. 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-18 $000	30-Jun-17 $000
Cash at bank	**3,452**	1,533
Short term deposits	**1,000**	4,000
Related party receivable	**405**	399
Other assets	**16**	38
	4,873	5,970

The above table shows the maximum credit risk exposure at 30 June 2018 and 30 June 2017. No collateral is held by the Company for the assets listed in the table above. Deposits are held with two financial institutions (30 June 2017: 2). At balance date the two financial institutions have a long term credit rating of "AA-" from Standard & Poor's (30 June 2017: "AA-").

19 Financial risk management (continued)

(d) Fair value estimation

The carrying value of all financial assets and financial liabilities approximates their fair value, due to the short term nature of the receivables and obligations. In particular, the carrying values of cash at bank, related party receivable, sundry debtors, and payables approximate their fair values.

(e) Foreign exchange risk

As at 30 June 2018 the Company had no foreign currency exposure (30 June 2017: $Nil).

(f) Other activities

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

(g) Financial instruments by category

	Designated at fair value $000	At amortised cost $000	Total $000
At 30 June 2018			
Cash at bank	-	3,452	3,452
Short term deposits	1,000	-	1,000
Related party receivable	-	405	405
Other assets	-	16	16
	1,000	3,873	4,873
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
	4,000	1,970	5,970

	At amortised cost $000	Total $000
At 30 June 2018		
Related party payable	-	-
At 30 June 2017		
Related party payable	278	278

20 Contingencies

There were no material contingent assets or liabilities at 30 June 2018 (30 June 2017: $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.

21 Related parties (continued)

(b) Directors

The names of persons who were directors of the Company at any time during the year ended 30 June 2018 were as follows: C M da Silva; S G Brewis-Weston; M E van Gaalen (ceased 30 June 2018); P ter Brake and H B Rennie, QC (ceased 1 August 2017).

Effective 3 September 2018, S G Brewis-Weston ceased as a director of the company.

Effective 3 September 2018, R D Aucutt was appointed 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 2018 of $134,350 (year ended 30 June 2017: $137,000) was paid by FCL and reimbursed by the Company.

(d) Transactions with related parties

The related party balances are settled on a monthly basis, with no interest charged. FCL's recharges were allocated based on services provided.

(i) Related party receivables comprise of:

	30-Jun-18 $000	30-Jun-17 $000
Receivable from		
- Other entities controlled by ultimate parent	**316**	399
- FCL	**89**	-
	405	399

(ii) Related party payable comprise of:

	30-Jun-18 $000	30-Jun-17 $000
Payable to FCL	-	(278)

(iii) Other transactions

Other transactions with related parties are shown below:

	30-Jun-18 $000	30-Jun-17 $000
Amounts paid to auditor by FCL on behalf of Company		
- Audit of financial statements	**25**	25
- Other assurance related services (solvency return)	**4**	4
Dividends paid to FCL (note 14)	**2,500**	1,600
Insurance premiums collected by entities controlled by the ultimate parent company	**5,911**	6,128
Insurance commissions paid to entities controlled by the ultimate parent company	**1,183**	1,216
Overheads recharged by FCL	**2,349**	2,613

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.

The tables below show the calculation of the solvency capital.

(a) Actual solvency capital

	30-Jun-18 $000	30-Jun-17 $000
Share capital	**3,500**	3,500
Retained earnings	**601**	1,738
Dividend declared post balance date	**(500)**	(500)
Total tier one capital	**3,601**	4,738

(b) Mimimum solvency capital

	30-Jun-18 $000	30-Jun-17 $000
Capital charges		
Insurance risk	**51**	53
Catastrophe risk	**40**	40
Asset risk	**437**	521
Interest rate risk	**3**	28
Total capital charges	**531**	642
Mimimum solvency capital required *	**3,000**	3,000
Solvency margin	**601**	1,738
Solvency ratio	**120%**	158%

* 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

Effective 3 September 2018, S G Brewis-Weston ceased as a director of the company.

Effective 3 Septemebr 2018, R D Aucutt was appointed as a director of the company.

On 14 September 2018, the Company paid a dividend of $500,000 to FCL.

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

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 2018;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include 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 2018, 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 other information included with the financial statements. Our opinion on the financial statements does not cover the other information included with the financial statements 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
30 October 2018

Auckland

30 October 2018

Ms S Nakanishi
Head of Financial Control
FlexiGroup (New Zealand) Limited
NEWMARKET 1023

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 2018.

I note that I produced the Insurance Liability Valuation Report (ILVR) for Consumer Insurance Services Ltd ("CISL") as at 30 June 2018 (dated 1 August 2018) and the Financial Condition Report as at 30 June 2018 (dated 30 October 2018).

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 2018.

In my opinion, all actuarial information has been materially included and used appropriately in the financial statements of CISL as at 30 June 2018.

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 110%. The total dividends that were paid relating to the period ending 30 June 2018 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 11 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.