



Covering you co-operatively

## **Co-op Insurance NZ**

The trading name of Credit Union Insurance Limited

### **Financial Statements**

for the year ended  
**30 JUNE 2015**

# **Co-op Insurance NZ**

## **Financial Statements 30 June 2015**

### **Table of Contents**

	<b>Page</b>
<b>Directory</b>	3
<b>Independent Auditors' Report</b>	4-5
<b>Financial Statements</b>	
Underwriting Income Statement	6
Underwriting and Statement of Comprehensive Income	7
Statement of Changes in Equity	8
Statement of Financial Position	9
Statement of Cash Flows	10
Notes to the Financial Statements	11-27
<b>Statutory Declaration</b>	28-30

# Co-op Insurance NZ

## Financial Statements 30 June 2015

### Directory

Nature of Business	Insurance Underwriters
Registered Office & Location of Business	Level 3 25 Teed Street Newmarket Auckland 1023
Incorporation Number	1228808
NZ Business Number	9429036392063
IRD Number	85-937-081
Directors	<div>S Scott      Chair</div> <div>C Matthews    Deputy Chair</div> <div>B Bleakley    (appointed 26 September 2014)</div> <div>G Clouston</div> <div>H Lynch</div> <div>R Nicholls    Independent Director</div> <div>P Taylor      (appointed 26 September 2014)</div> <div>M Blair      Deputy Chair (resigned 26 September 2014)</div> <div>C Andersen    (resigned 26 February 2015)</div>
Paid in Capital	17,250,000
Auditor	PricewaterhouseCoopers 188 Quay Street Auckland 1142
Bankers	Co-op Money NZ 25 Teed Street Newmarket Auckland 1023
Solicitors	Bell Gully Vero Building 48 Shortland Street Auckland 1010



## ***Independent Auditors' Report***

to the shareholder of Credit Union Insurance Limited

### ***Report on the Financial Statements***

We have audited the financial statements of Credit Union Insurance Limited ("the Company"), trading as Co-op Insurance NZ, on pages 6 to 27, which comprise the statement of financial position as at 30 June 2015, the underwriting statement and statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information.

### ***Directors' Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

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

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

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

We are independent of the Company. Our firm carries out other services for the Company in the areas of tax compliance and assurance related services. The provision of these other services has not impaired our independence.



## ***Independent Auditors' Report***

Credit Union Insurance Limited

### ***Opinion***

In our opinion, the financial statements on pages 6 to 27 present fairly, in all material respects, the financial position of the Company as at 30 June 2015, and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards.

### ***Restriction on Use of our Report***

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

A handwritten signature in blue ink, appearing to read 'P. Mark L. Cooper', is written over the text of the 'Restriction on Use of our Report' section.

Chartered Accountants  
21 August 2015

Auckland

# Co-op Insurance NZ

## Financial Statements 30 June 2015

### UNDERWRITING INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2015

		2015 \$	2014 \$
<b>Premium Income</b>			
Gross Written Premium		9,531,405	8,881,735
Unearned Premium Movement		(195,578)	(29,068)
Gross Earned Premium	5	9,335,827	8,852,667
Reinsurance Premium Ceded		(198,347)	(203,519)
<b>Net Earned Premium</b>	3	<b>9,137,480</b>	<b>8,649,148</b>
<b>Claims Expenses</b>			
Claims		5,245,890	5,015,144
Movement in Outstanding Claims		273,750	(88,825)
Recoveries Received		(253,765)	(272,427)
Movement in Expected Third Party Recoveries		25,641	88,229
<b>Total Claims Expenses</b>	3	<b>5,291,516</b>	<b>4,742,121</b>
<b>Other Expenses</b>			
Acquisition Costs		1,663,801	1,565,242
<b>Total Other Expenses</b>	3	<b>1,663,801</b>	<b>1,565,242</b>
<b>Total Expenses</b>		<b>6,955,317</b>	<b>6,307,363</b>
<b>Net Underwriting Income Profit</b>	3	<b>2,182,163</b>	<b>2,341,785</b>

This statement should be read in conjunction with the accompanying notes.

**Co-op Insurance NZ**  
**Financial Statements 30 June 2015**

**UNDERWRITING AND STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 30 JUNE 2015**

		2015 \$	2014 \$
<b>Income</b>	Note		
Other Income	7	323,428	360,379
Interest Income	8	338,635	265,192
<b>Total Income</b>		<b>662,063</b>	<b>625,571</b>
<b>Expenses</b>			
Depreciation	17	5,119	9,824
Amortisation	18	132,500	151,383
Employee Costs	9	461,609	476,164
Administration and Operating Costs		1,942,367	1,739,477
Auditor Remuneration	10	53,800	55,830
Legal Fees		55,056	71,520
Loss/(Gain) on Sale of Assets		142	(2,642)
<b>Total Expenses</b>		<b>2,650,593</b>	<b>2,501,556</b>
<b>Underwriting Income</b>			
Life	3	367,669	308,083
Other Non-life	3	645,097	812,145
Motor Vehicle	3	1,169,397	1,221,557
<b>Total Underwriting Surplus</b>		<b>2,182,163</b>	<b>2,341,785</b>
<b>Net Operating Profit before Taxation</b>		<b>193,633</b>	<b>465,800</b>
<b>Income Tax Expense</b>	11	-	-
<b>Total Comprehensive Income for the Year</b>		<b>193,633</b>	<b>465,800</b>

*This statement should be read in conjunction with the accompanying notes.*

# Co-op Insurance NZ

## Financial Statements 30 June 2015

### STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2015

	Share Capital \$	Perpetual Preference Shares \$	Accumulated Deficit \$	Total \$
Opening Balance - 1 July 2013	17,250,000	1,250,000	( 12,767,453)	5,732,547
Dividends Paid on Ordinary Shares	-	-	( 225,000)	( 225,000)
Dividends Paid on Perpetual Preference Shares	-	-	( 125,000)	( 125,000)
Total Comprehensive Income after Tax	-	-	465,800	465,800
<b>Closing Balance - 30 JUNE 2014</b>	<b>17,250,000</b>	<b>1,250,000</b>	<b>( 12,651,653)</b>	<b>5,848,347</b>
Dividends Paid on Ordinary Shares	-	-	-	-
Dividends Paid on Perpetual Preference Shares	-	-	( 125,000)	( 125,000)
Total Comprehensive Income after Tax	-	-	193,633	193,633
<b>Closing Balance - 30 JUNE 2015</b>	<b>17,250,000</b>	<b>1,250,000</b>	<b>( 12,583,020)</b>	<b>5,916,980</b>

*This statement should be read in conjunction with the accompanying notes.*



# Co-op Insurance NZ

## Financial Statements 30 June 2015

### STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2015

	Note	2015 \$	2014 \$
<b>Total Equity</b>	12	<b>5,916,980</b>	<b>5,848,347</b>
<b>Current Assets</b>			
Cash and Cash Equivalents	13	2,672,430	2,447,692
Investments	14	5,986,478	6,356,557
Accounts Receivable	15	559,314	518,826
Expected Recoveries	3, 16	119,704	145,345
Future Funded Premiums		2,092,859	1,699,091
Deferred Acquisition Costs	4	283,762	234,809
Prepaid Expenses		9,690	29,628
Tax Refund Receivable		62	62
		<b>11,724,299</b>	<b>11,432,010</b>
<b>Non-current Assets</b>			
Intangible Assets	18	419,002	184,823
Property, Plant and Equipment	17	9,773	14,470
<b>Total Assets</b>		<b>12,153,074</b>	<b>11,631,303</b>
<b>Current Liabilities</b>			
GST Payable		21,946	27,756
Unearned Premium Liability	5	2,152,388	1,956,810
Outstanding Claims Liability	3	2,441,547	2,167,797
Accounts Payable	19	1,601,043	1,621,275
Reinsurance Payable		19,170	9,318
<b>Total Liabilities</b>		<b>6,236,094</b>	<b>5,782,956</b>
<b>Net Assets</b>		<b>5,916,980</b>	<b>5,848,347</b>

This statement should be read in conjunction with the accompanying notes.

These Financial Statements were authorised for issue by the Board of Directors on 21 August 2015 and were signed for on its behalf.

Director

Director

# Co-op Insurance NZ

## Financial Statements 30 June 2015

### STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2015

		2015	2014
	Note	\$	\$
<b>Cash Flows from Operating Activities</b>			
Cash was received from:			
Premiums Received		10,362,893	9,939,184
Interest Received		338,635	265,192
Claims Recoveries		253,765	272,427
Other Income		323,428	360,379
		11,278,721	10,837,182
Cash was applied to:			
Claims and Rebates Paid		6,492,827	5,179,284
Reinsurance Paid		225,877	263,380
Employee Costs		479,991	454,129
Acquisition Costs		1,691,659	1,582,777
Administration and Operating Costs		2,041,465	1,873,847
		10,931,819	9,353,417
<b>Net Cash Flow from Operating Activities</b>	24	346,902	1,483,765
<b>Cash Flows from Investing Activities</b>			
Cash was received from:			
Proceeds from Sale of Intangible Assets and Property, Plant and Equipment		-	3,563
Proceeds from Investments		370,079	-
		370,079	3,563
Cash was applied to:			
Purchase of Intangible Assets and Property, Plant and Equipment		367,243	99,368
Purchase of Investments		-	1,833,121
		367,243	1,932,489
<b>Net Cash Flows to/(from) Investing Activities</b>		2,836	( 1,928,926)
<b>Cash Flows from Financing Activities</b>			
Cash was applied to:			
Dividend on Ordinary Shares		-	( 225,000)
Dividend on Perpetual Preference Shares		( 125,000)	( 125,000)
<b>Net Cash Flow from Financing Activities</b>		( 125,000)	( 350,000)
<b>Net (Decrease)/Increase in Cash</b>		224,738	( 795,161)
Cash at the beginning of the year		2,447,692	3,242,853
<b>Cash at the end of the year</b>	13	2,672,430	2,447,692

This statement should be read in conjunction with the accompanying notes.

# Co-op Insurance NZ

## Financial Statements 30 June 2015

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

#### 1 GENERAL INFORMATION

Co-op Insurance NZ, the trading name of Credit Union Insurance Limited, (the "Company") provides insurance in New Zealand and is an issuer in terms of the Financial Reporting Act 2013 by the terms of the licence issued on 1 April 2013 by the Reserve Bank of New Zealand under the Insurance (Prudential Supervision) Act 2010. The Company is registered under the Companies Act 1993 and is an FMC reporting entity under Part 7 of the Financial Markets Conduct Act 2013. The financial statements of the Company have been prepared in accordance with the requirements of Part 7 of the Financial Markets Conduct Act 2013. It is a Company incorporated and domiciled in New Zealand. Its registered office is included within the Directory on page 3 of these financial statements.

##### Basis of Preparation

The financial statements of Co-op Insurance NZ have been prepared and are presented in accordance with the Financial Reporting Act 2013. These financial statements have been prepared in accordance with Generally Accepted Accounting Practice (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable Financial Reporting Standards. These financial statements also comply with International Financial Reporting Standards.

#### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### General Accounting Policies

The financial statements are based on the general principles of historical cost accounting. The going concern concept and the accruals basis of accounting have been adopted. The accounting policies have been consistently applied by the Company for all the financial periods presented in these financial statements, except as amended for the changes required due to the adoption of the new and revised accounting standards as explained in Note 2 Accounting standards adopted during the year.

The Company has adopted External Reporting Board Standard A1 Accounting Standards Framework (For-profit Entities Update) (XRB A1). XRB A1 establishes a for-profit tier structure and outlines which suite of accounting standards entities in different tiers must follow. The Company is a Tier 1 entity.

##### Foreign Currency Translation

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The financial statements are presented in New Zealand Dollars, which is the Company's functional and presentation currency. All values have been rounded to the nearest dollar (\$) unless otherwise stated.

Foreign currency monetary assets and liabilities have been translated into the functional currency at the rate of foreign exchange ruling as at balance sheet date. Transactions denominated in a foreign currency are converted to New Zealand dollars at the exchange rates in effect at the date of the transaction. Foreign exchange differences relating to monetary items and gains and losses arising from foreign exchange dealings by the Company are recognised in the Underwriting and Statement of Comprehensive Income.

##### Critical Judgements and Estimates in Applying the Accounting Policies

In the application of NZ IFRS the Directors are required to make judgements, estimates and assumptions about the carrying value of assets and liabilities that are not readily apparent from other sources. These are based on historical experience and other various factors and are reviewed on an ongoing basis.

The Directors believe that, as at the date of these Financial Statements, there are no significant sources of estimation uncertainty that have not been disclosed in these notes. However, the Company does make estimates and assumptions concerning the future. The resulting accounting estimates may not equal the related actual results.

##### Particular Accounting Policies

The following particular accounting policies which materially affect the measurement of profit and financial position have been applied.

##### (a) Significant Accounting Policies Related to Insurance Contracts

The insurance products meet the definition of an insurance contract (a contract under which one party, the insurer, accepts significant risk from another party, the policyholder, by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder) and none of the contracts contain embedded derivatives or are required to be unbundled.

##### (b) Income Attributable to Insurance Business

Premium revenue comprises amounts charged to policyholders and excludes fire service and earthquake levies collected on behalf of statutory bodies. The earned portion of premium received and receivable is recognised as revenue. Premium and commission revenue is recognised as earned from the date of attachment of risk (generally the date a contract is agreed to) over the period of the related insurance contract in accordance with the pattern of the risk expected under the contract. The unearned portion of premium is recognised as an unearned premium liability on the Statement of Financial Position.

##### (c) Reinsurance Expense

Premium ceded to reinsurers is recognised as an expense that is evenly spread from the date of attachment of risk to the end of the period of the reinsurance contract over the period of indemnity of the reinsurance contract.

##### (d) Claims

Claims for Life, Funeral Plan and Non-Life insurances are valued at the insured value.

For Motor Vehicle insurance, the estimation for outstanding claims liability is based on actual advised cost or, where final cost is uncertain, advice from independent professional assessors. These may be supplemented over the life of the claim by revisions, made by experienced claims staff as the claim develops. The estimates are reduced by actual claims payments made. A percentage factor is added to allow for claims that are closed at balance date but will be reopened. This is calculated by analysing past claims to determine the historical incidence of claims being reopened. An overhead and risk margin is added to arrive at the final liability estimate.

Claims expense represents claim payments adjusted for movement in the outstanding claims liability.

The estimation of the outstanding claims liability involves a number of key assumptions and is the most critical accounting estimate. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures and employs external actuarial advice. However, given the uncertainty in establishing the liability, it is likely that the final outcome will be different from the original liability established. Changes in claims estimates impact profit or loss in the year in which the estimates are changed.

# Co-op Insurance NZ

## Financial Statements 30 June 2015

### (e) Reinsurance and Other Recoveries

Reinsurance and other recoveries received or receivable on paid claims and on outstanding claims liabilities (notified and not yet notified) are recognised as income. Reinsurance does not relieve the originating insurer of its liabilities to policyholders.

### (f) Liability Adequacy Test

The liability adequacy test is an assessment of whether the carrying amount of the unearned premium liability is adequate and is conducted at the reporting date. If current estimates of the expected future cash flows relating to future claims arising from the rights and obligations under the current insurance contracts, plus an additional risk margin to reflect the inherent uncertainty in the central estimate, exceed the unearned premium liability then the unearned premium liability is deemed to be deficient. Any deficiency arising from the test is recognised in the Underwriting and Statement of Comprehensive Income, with the corresponding impact on the Statement of Financial Position.

### (g) Assets which back Insurance Liabilities

Ultimately all assets of the Company are available to back insurance liabilities.

### (h) Property, Plant and Equipment

Assets are depreciated on a straight line basis at rates calculated to allocate the asset's cost, in equal instalments over their estimated useful lives which are assessed and regularly reviewed.

Assets are carried at historic cost value less depreciation. The useful lives attributed to various assets are:

- Furniture, Fittings and Office Equipment up to 10 years
- Computer Equipment 3 years
- Motor Vehicles 4 years.

### (i) Intangibles

Intangible assets represent software that is initially measured at cost. Following initial recognition intangible assets are carried at cost less accumulated amortisation and any impairment losses.

Intangibles are amortised over their useful economic life as follows:

- Software up to 5 years

### (j) Impairment of Tangible and Intangible Assets

At each balance sheet date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of the individual asset, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset for which the estimates of future cash flows have not been adjusted.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the Underwriting and Statement of Comprehensive Income.

### (k) Financial Instruments

#### (a) Financial Assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss', 'held-to-maturity' investments, 'available-for-sale' financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. The financial assets held by the Company at year end are classed as loans and receivables and financial assets at fair value through profit or loss (FVTPL).

(i) Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method less any impairment.

(ii) Financial assets at FVTPL are stated at fair value, with any recognised gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

(iii) Financial assets measured at amortised cost are reviewed at each balance date to determine whether there is any objective evidence of impairment. If any such condition exists, the asset's recoverable amount is estimated and provision is made for the difference between the carrying amount and the recoverable amount. As at the date of these Financial Statements, no such evidence of impairment exists.

#### (b) Financial Liabilities

Financial liabilities are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, liabilities are measured at amortised cost. Any discount or premium arising on settlement, including the direct fees incurred on set up, are amortised through the Underwriting and Statement of Comprehensive Income over the life of the contract using the effective interest rate.

#### (c) Offsetting Financial Instruments

A financial asset and a financial liability shall be offset and the net amount reported when, and only when, an entity has a legally enforceable right to set off the amounts; and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

No financial assets and liabilities are offset as there is no legally enforceable right to offset (2014: \$Nil).

# Co-op Insurance NZ

## Financial Statements 30 June 2015

### (l) Taxation

#### Current Tax

The income tax expense charged against the profit for the year is the estimated liability in respect of that profit. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by the reporting date. Current tax for the current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable). Tax assets are offset only when there is a legally enforceable right to set off the recognised amounts, and an intention to settle on a net basis.

#### Deferred Tax

The liability method of accounting for deferred taxation is applied on a comprehensive balance sheet basis in respect of temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base of those items. Deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the Underwriting and Statement of Comprehensive Income.

### (m) Goods and Services Tax (GST)

Revenue, expenses and assets are recognised net of the amount of GST except when the GST incurred on a purchase of goods and services is not recoverable from Inland Revenue in which case the GST is recognised as part of the cost of the acquisition of the assets or as part of the expense item as applicable.

Receivables and payables, are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the Inland Revenue is included as part of receivables or payables in the Statement of Financial Position.

### (n) Statement of Cash Flows

The Statement of Cash Flows is prepared exclusive of GST, which is consistent with the method used in the Underwriting and Statement of Comprehensive Income. The GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the Inland Revenue is classified as operating cash flow. The following are definitions of the terms used in the Statement of Cash Flows:

- Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of Cash and which are subject to insignificant risk of changes in value.
- Cash flows are inflows and outflows of cash and cash equivalents.
- Operating activities are the principal revenue producing activities of the entity and other activities that are not investing or financing activities.
- Investing activities are the acquisition and disposal of long-term assets.
- Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings.

### (o) Employee Benefits

Provision is made for benefits accruing to employees in respect of salaries, annual leave and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

### (p) Basis of Measuring Income and Expenses

Income and expenses are accounted for on an accrual basis.

### (q) Comparative Financial Statements

All accounting policies, except for those affected by the adoption of new standards, have been applied on bases consistent with prior years.

### (r) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease rentals/expenses are recognised as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are derived.

Assets held under finance leases are initially recognised as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the Statement of Financial Position as a finance lease obligation.

Lease payments are apportioned between finance charges and the reduction of the lease obligation so as to achieve a constant rate of interest on the remaining liability. Finance charges are charged directly against income. Finance lease assets are amortised on a straight line basis over the estimated useful life of the asset or the lease term whichever is shorter.

Present obligations arising under onerous leases are recognised and measured as provisions. An onerous lease is considered to exist where the Company has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

# Co-op Insurance NZ

## Financial Statements 30 June 2015

### (s) Accounting standards adopted during the year

**Amendment to NZ IAS 32, 'Financial Instruments: Presentation'** on offsetting financial assets and financial liabilities. This amendment clarifies that the right to offset must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have any effect on the financial statements of the Company.

### (t) New accounting standards and interpretations issued not yet effective and have not been early adopted by the Company

The following standards and amendments to existing standards have been published and are mandatory for Company's accounting periods beginning on or after 1 July 2015 or later periods, but the Company has not early adopted them.

#### **NZ IFRS 9 (Financial Instruments)** (effective for annual reporting periods beginning on or after 1 January 2018)

NZ IFRS 9, 'Financial Instruments' addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of NZ IFRS 9 was issued in September 2014. It replaces the guidance of NZ IAS 39 that relates to the classification and measurement of financial instruments. NZ IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through comprehensive income and fair value through profit and loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in NZ IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income for liabilities designated at fair value through profit or loss. NZ IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under NZ IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The company intends to adopt NZ IFRS 9 on its effective date and has yet to assess its full impact.

#### **NZ IFRS 15 'Revenue from contracts with Customers'** (Effective for annual periods beginning on or after 1 January 2017)

NZ IFRS 15, "Revenue from contracts with customers" deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces NZ IAS 18 'Revenue' and NZ IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted. The company intends to adopt NZ IFRS 15 on its effective date and is currently assessing its full impact.

### (u) Comparatives

The comparatives have been amended from the prior year in order to improve disclosure. On the Statement of Financial Position, investments, being term deposits, have been separated from Cash and Cash Equivalents (previously reported as \$8,804,249) in the amount of \$ 6,356,557.

# Co-op Insurance NZ

## Financial Statements 30 June 2015

### 3 UNDERWRITING RESULTS

	2015 \$	2014 \$
<b>Life Insurance</b>		
Gross Earned Premium	2,044,022	1,830,001
Reinsurance Premiums	-	-
<b>Net Earned Premium prior to Rebates</b>	<b>2,044,022</b>	<b>1,830,001</b>
Gross Claims	865,405	813,671
Reinsurance Received	-	-
<b>Net Claims</b>	<b>865,405</b>	<b>813,671</b>
Commission	252,904	223,644
<b>Underwriting Result</b>	<b>925,713</b>	<b>792,686</b>
Credit Union Rebates	558,044	484,603
	<b>367,669</b>	<b>308,083</b>
<b>Other non-life Insurance</b>		
Gross Earned Premium	4,269,923	4,200,339
Reinsurance Premiums	-	-
<b>Net Earned Premium prior to Rebates</b>	<b>4,269,923</b>	<b>4,200,339</b>
Gross Claims	1,941,196	1,734,650
Reinsurance Received	-	-
<b>Net Claims</b>	<b>1,941,196</b>	<b>1,734,650</b>
Commission	931,813	891,209
<b>Underwriting Result</b>	<b>1,396,914</b>	<b>1,574,480</b>
Credit Union Rebates	751,817	762,335
	<b>645,097</b>	<b>812,145</b>
<b>Motor Vehicle Insurance</b>		
Gross Earned Premium	4,282,950	4,104,145
Reinsurance Premiums	(235,729)	(238,399)
<b>Net Earned Premium prior to Rebates</b>	<b>4,047,221</b>	<b>3,865,746</b>
Gross Claims	2,484,915	2,193,800
Reinsurance Received	-	-
<b>Net Claims</b>	<b>2,484,915</b>	<b>2,193,800</b>
Commission	479,084	450,389
<b>Underwriting Result</b>	<b>1,083,222</b>	<b>1,221,557</b>
Credit Union Rebates	(86,175)	-
	<b>1,169,397</b>	<b>1,221,557</b>
<b>Total Insurance</b>		
<b>Net Earned Premium prior to Rebates</b>	<b>10,361,166</b>	<b>9,896,086</b>
Net Claims	5,291,516	4,742,121
Commissions	1,663,801	1,565,242
<b>Underwriting Result</b>	<b>3,405,849</b>	<b>3,588,723</b>
Credit Union Rebates	1,223,686	1,246,938
	<b>8,179,003</b>	<b>7,554,301</b>
<b>Insurance Claims, Commission and Rebates</b>	<b>8,179,003</b>	<b>7,554,301</b>
<b>Total Underwriting Result after Commission and Rebates</b>	<b>2,182,163</b>	<b>2,341,785</b>

#### Claims Estimates and Risk Margin

The policy liabilities have been determined by the Appointed Actuary, Peter Davies B.Bus Sc., FIA, FNZSA.

The actuary is satisfied as to the accuracy of the data from which the policy liabilities have been determined. The actuary's report is based on data as at 31 May 2015. The Actuary's valuation was carried out in accordance with Professional Standards no. 3 and 4 of the New Zealand Society of Actuaries report and had no qualifications.

#### Life and Other Non-life

The Life and Other insurance contracts consist of group schemes providing death, disability, redundancy, trauma and bankruptcy benefits on a unit rated basis, and a group scheme providing funeral benefits on the basis of individually rated premiums.

All covers are written on a basis of monthly premiums received at the end of the month. The policy liabilities comprise the following:

- A provision for claims incurred but not reported (IBNR), calculated separately for Life insurance and Other Non-life insurance (disability, redundancy, trauma and bankruptcy cover products) respectively.
- A provision for the remaining payments expected to be made on disability, redundancy, and bankruptcy claims that have been notified and remain open.

An additional risk margin is maintained in the claim provisions to ensure a greater than 50% likelihood of the sufficiency of the provisions. The actuary has recommended a risk margin of 10% (2014 : 10%), which provides a likelihood of sufficiency of 75% (2014 : 75%) with respect to the Other Non-Life Insurance Outstanding Claims Liability.

The IBNR provisions for death, disability, redundancy, trauma and bankruptcy claims respectively have been calculated using a chain ladder method applied to past claim reporting patterns, and the average size of claims incurred in the past.

The provision for open disability claims has been based on past claim termination patterns, applied to the insured benefit of notified claims. Claims provisions have been discounted using an interest rate of 3.04% per annum (2014 : 3.56%).

All pending trauma and redundancy claims have been provided for at their face value.

# Co-op Insurance NZ

## Financial Statements 30 June 2015

### Motor Vehicle Insurance

The claims estimation process commences with the projection of the future payments relating to claims incurred at the reporting date. The expected future payments include those in relation to claims reported but not yet paid in full, claims incurred but not yet reported (IBNR) and claims closed that may be reopened.

The estimation of the outstanding claims liability is based on advice from independent professional assessors. These may be supplemented over the life of the claim by revisions, made by experienced claims staff as the claim develops. The estimates are reduced by actual claims payments made. A percentage factor is added to allow for claims that are closed at balance date but will be reopened. This is calculated by analysing past claims to determine the historical incidence of claims being reopened. An overhead and risk margin is added to arrive at the final liability estimate.

The IBNR provision is based on a conventional chain ladder method applied to the cost of claims reported to date in respect of each month of loss.

An additional risk margin is maintained in the claim provisions to ensure a greater than 50% likelihood of the sufficiency of the provisions. The actuary has recommended a risk margin of 15% (2014 : 15%), which provides a likelihood of sufficiency of 75% (2014 : 75%). The Board has elected to use a risk margin of 15% (2014 : 15%) which gives a 75% (2014 : 75%) likelihood of sufficiency.

Insurance costs are subject to inflationary pressure over time. However the period between the valuation date and the settlement of most claims is relatively short so any increase in costs as a result of inflation is limited. Also, due to the short settlement periods the effect of discounting expected future payments is also limited and with these two elements being small and acting in opposite directions, both have been ignored.

Expected Recoveries Receivable is calculated by discounting the Recoveries ledger by a range of factors and then adding on an allowance to recognise that a portion of the Outstanding Claims Liability will also be recovered. The allowance is based on historical monies recovered against claims paid.

The Recoveries ledger is divided into three categories; debts where liability is acknowledged and covered by other insurance companies, debts where the debtor has acknowledged liability and entered into a payment arrangement, and remaining debts where the liability is either disputed or no payment arrangement is yet entered into. Recoveries Receivable from other insurers are not discounted. Receivables under payment arrangements are discounted by 20% and the balance of receivables are discounted by 50% to 100% depending on age.

	2015 \$	2014 \$
<b>Outstanding Claims Liability</b>		
<b>Life Insurance</b>		
Opening Claims Liability	99,045	85,506
Claims Expense	865,405	813,671
Claims Paid	( 847,405)	( 800,132)
<b>Closing Claims Liability</b>	<u>117,045</u>	<u>99,045</u>
<b>Other Non-life Insurance</b>		
Opening Claims Liability	1,597,846	1,666,437
Claims Expense	1,941,196	1,734,650
Claims Paid	( 1,891,248)	( 1,803,241)
<b>Closing Claims Liability</b>	<u>1,647,794</u>	<u>1,597,846</u>
<b>Motor Vehicle Insurance</b>		
Opening Claims Liability	470,906	504,679
Claims Expense	2,713,039	2,377,998
Claims Paid	( 2,507,237)	( 2,411,771)
<b>Closing Gross Claims Liability</b>	<u>676,708</u>	<u>470,906</u>
<b>Total Gross Outstanding Claims Liability</b>	<u>2,441,547</u>	<u>2,167,797</u>
<b>Motor Vehicle Expected Recoveries Receivable</b>		
Opening Expected Recoveries	145,345	233,574
Increase In Expected Recoveries	228,124	184,198
Actual Third Party Recoveries Received	( 253,765)	( 272,427)
<b>Closing Expected Recoveries</b>	<u>119,704</u>	<u>145,345</u>
<b>Motor Vehicle net Claims Liability</b>	<u>557,004</u>	<u>325,561</u>
<b>Total Net Outstanding Claims Liability</b>	<u>2,321,843</u>	<u>2,022,452</u>

Outstanding claims are reported in the Statement of Financial Position as Outstanding Claims Liability and Expected Recoveries



# Co-op Insurance NZ

## Financial Statements 30 June 2015

	2015 \$	2014 \$
<b>Composition of Outstanding Claims Liability</b>		
<b>Life Insurance</b>		
Outstanding Claims	-	1,045
IBNR	117,045	98,000
<b>Closing Claims Liability</b>	<b>117,045</b>	<b>99,045</b>
<b>Other Non-life Insurance</b>		
Outstanding Claims	1,240,641	1,198,790
Indirect Claims Management Allowance - 8.5% (2014 - 8.5%)	117,354	113,797
Risk Margin - 10% (2014 - 10%)	149,799	145,259
IBNR	140,000	140,000
<b>Closing Claims Liability</b>	<b>1,647,794</b>	<b>1,597,846</b>
<b>Motor Vehicle Insurance</b>		
Outstanding Claims	436,782	299,628
Risk Margin - 15% (2014 - 15%)	65,517	44,944
Indirect Claims Management Allowance - 17.8% (2014 - 17.8%)	89,409	61,334
IBNR	85,000	65,000
Closing Gross Claims Liability	676,708	470,906
Closing Expected Recoveries	( 119,704)	( 145,345)
<b>Closing Claims Liability</b>	<b>557,004</b>	<b>325,561</b>
<b>Total Net Outstanding Claims Liability</b>	<b>2,321,843</b>	<b>2,022,452</b>

### Insurance Contract Risk Management

A key risk from operating in the insurance industry is exposure to insurance risk arising from underwriting insurance contracts. The insurance contracts transfer risk to the insurer by indemnifying the policyholders against adverse effects arising from the occurrence of specified uncertain future events. The risk is that the actual claims to be paid in relation to contracts will be different to that estimated at the time a product was designed and priced. The Company is exposed to this risk because the price for a contract must be set before the losses relating to the product are known. Hence the insurance business involves inherent uncertainty. This risk is mitigated in the Other Non-life insurance products as all policies are monthly renewable and there is no effective contractual price risk.

A fundamental part of the overall risk management strategy is the effective governance and management of the risks that impact the amount, timing and uncertainty of cash flows arising from insurance contracts.

### Solvency Requirements

#### (a) Capital Management Policies and Objectives

From the issuance of the Insurance Licence by the Reserve Bank of New Zealand ("RBNZ") on 1 April 2013, the Company is required to maintain a Fixed Minimum Solvency Capital of \$5,000,000 as determined under the Solvency Standards for Life and Non-Life Insurance Business (the solvency standard) issued by the RBNZ. RBNZ defines Actual Solvency Capital as: Co-op Insurance NZ's Capital less Intangible Assets less dividends payable on Ordinary and Perpetual Preference Shares in the period leading up to the filing of the RBNZ Solvency Return.

The Company has defined in its Capital Risk Management Policy that it will maintain a Target Minimum Solvency Capital at the higher of:

- 105% of the Fixed Minimum Solvency Capital set by the RBNZ which is \$5,250,000 (2014 : minimum Actual Capital of \$5,250,000);
- 125% of the Calculated Minimum Solvency Capital which at 30 June 2015 was \$3,152,720 (2014 : \$4,858,114).

The Directors believe that this standard has been achieved.

The Company has embedded in its capital management framework the necessary tests to ensure continuous and full compliance with the solvency standard.

#### (b) Capital Composition

The Company manages its capital by considering both regulatory and economic capital. The primary source of capital used by the Company is total equity attributable to the owner. Total equity attributable to the owner equates to "capital" as defined in the solvency standard.

The Solvency Margin is calculated as actual solvency capital less minimum solvency capital and is as follows:

	2015 \$	2014 \$
<b>Combined</b>		
Actual Solvency Capital	5,497,978	5,663,524
Minimum Solvency Capital	5,000,000	5,000,000
<b>Solvency Margin</b>	<b>497,978</b>	<b>663,524</b>

### Risk Management Objectives and Policies for Mitigating Insurance Risk

Risk management activities can be broadly separated into underwriting, claims management, reserving and investment management.

The objective of these risk management functions is to enhance the longer term financial performance of the overall insurance operations.

The key policies in place to mitigate risks arising from underwriting insurance contracts include the following:

**Acceptance of Risk** - the Company restricts its lines of business primarily to Company unit rated consumer credit insurance (Life and Other Non-Life), funeral plan and motor vehicle insurance. The consumer credit business is sold exclusively to the ultimate holding company's Member credit unions. Records of results and trends achieved for each seller of insurance for all lines of business are analysed carefully and sellers whose portfolios are returning unacceptable levels of risk either have their price adjusted accordingly or lose their right to sell policies for the Company.

# Co-op Insurance NZ

## Financial Statements 30 June 2015

**Pricing** - the primary lines of business are backed by historical underwriting results. This enables the Company's underwriters to calculate acceptable pricing and terms of cover.

**Reinsurance** - the Company does not maintain reinsurance cover on its Life and Other Non-life risks as its historical underwriting surpluses are such that in the Directors view there are sufficient underwriting surpluses being generated to be able to meet the obligations that would otherwise have been met by a catastrophe reinsurer. The Company has a reinsurance programme on the Motor Vehicle risks structured to adequately protect the Company's solvency and capital position. It covers third party property damage and own damage catastrophe single event protection. Through reinsurance the Company has been able to cap its maximum liability in the event of an accident to \$100,000. This amount is well within the Company's reserves. The Company's reinsurer is Munich Re which has a credit rating of "AA-".

**Claims Management** - claims are handled in-house by the Company's own claims department. Staff are allocated settling limits and authorities commensurate with their levels of experience. These authority limits are reviewed regularly. Overall authority and claims management by experienced managers. Claims files are regularly audited on a random basis by independent staff.

**Investment Management** - all premium income is held in bank accounts and short term deposits with the registered banks or Co-op Money NZ.

**Geographical Spread** - the Company regularly analyses and reviews its geographical spread of risk to ensure its insurance operations are not overexposed in any one region.

**Terms and Conditions of Insurance Contracts** - The insurance contracts written are entered into on a standard form and on an instalment or annual payment basis. There are no special terms and conditions in any non standard contracts that would have a material impact on the financial report.

**Credit Risk** - Financial assets or liabilities arising from insurance contracts are presented on the Statement of Financial Position. These amounts best represent the maximum credit risk exposure at reporting date. The credit risk exposure on Life and Other insurance contracts relates exclusively to the Co-op Money NZ's Member credit unions. The credit risk relating to the Company's motor vehicle insurance contracts relates primarily to premium receivable which is due from intermediaries.

**Interest Rate Risk** - The underwriting of the disability component of the Other Non-life product creates an exposure to interest rate risk because the termination dates of the outstanding claims liability vary according to the term of the underlying loan or savings account. However this exposure has historically been low as approximately 90% of claims terminate within 12 months. The underwriting of life and motor vehicle insurance contracts creates no exposure to the risk that interest rate movements may impact the value of the outstanding claims liability. The outstanding claims liability is not discounted due to the very short term nature of the claims.

**Operational Risk** - Operational risk is the risk of financial loss (including lost opportunities) resulting from external events and/or inadequate or failed internal processes, people and systems. Operational risk is identified and assessed on an ongoing basis and the capital management strategy includes consideration of operational risk. Management and staff are responsible for identifying, assessing and managing operational risks in accordance with their roles and responsibilities.

### Sensitivity Analysis

Sensitivity of risks relates primarily to the risk margin assessments which are set out above. These are reviewed annually and change in accordance with current best estimates using advice of the Appointed Actuary. The financial impact of these sensitivity changes are:

	2015		2014	
	\$ Balance	\$ Sensitivity	\$ Balance	\$ Sensitivity
<b>Sensitivity Calculations</b>				
<b>Outstanding Claims</b>	2,099,502		1,864,797	
Reopening allowance 10% higher		3,000		3,000
Reopening allowance 10% lower		( 3,000)		( 3,000)
Claim estimates 10% higher		210,000		186,000
Claim estimates 10% lower		( 210,000)		( 186,000)
Administration costs 10% higher		20,000		20,000
Administration costs 10% lower		( 20,000)		( 20,000)
<b>IBNR</b>	342,045		303,000	
Claim reporting 10% longer		120,000		106,000
Claim reporting 10% quicker		( 109,000)		( 97,000)
	<b>2,441,547</b>		<b>2,167,797</b>	

# Co-op Insurance NZ

## Financial Statements 30 June 2015

### 4 DEFERRED ACQUISITION COSTS

#### Reconciliation of Movements for the Financial Year

	2015	2014
	\$	\$
Opening Deferred Acquisition Costs	234,809	227,408
Acquisition Costs Paid	1,691,659	1,582,777
Acquisition Costs Released	(1,642,706)	(1,575,376)
Closing Deferred Acquisition Costs	283,762	234,809

Acquisition costs are commission costs and represent seller and agency commissions paid to third parties to acquire insurance policies. Commissions are paid up front upon receipt of premium and expensed over the life of the policy.

### 5 UNEARNED PREMIUM LIABILITY

#### (a) Reconciliation of Movements for the Financial Year

	2015	2014
	\$	\$
Opening Unearned Premium Liability	1,956,810	1,927,742
Gross Written Premium for the Period Before Cancellations	10,195,682	9,570,641
Premiums Cancelled During the Year	(664,277)	(688,906)
Premiums Recognised During the Year	(9,335,827)	(8,852,667)
Closing Unearned Premium Liability	2,152,388	1,956,810

#### (b) Liability Adequacy Test

The Appointed Actuary has assessed the unexpired risk reserve in respect of in-force policies, comprising the expected claim cost for the period up to the next renewal date, and the cost of managing those claims and providing other administration services required to manage the policies over that time. The actuary's view is that the unexpired risk reserve in respect of in-force policies is approximately 7.0% (2014 : 8.0%) lower than the unearned premium provision. The conduct of the liability adequacy test identified a surplus at the level of 75% likelihood of sufficiency (2014 : 75%). Accordingly there is no need to recognise any deficiency in the unearned premium provision.

### 6 INSURANCE PROVISIONS

The Company has a Financial Strength rating of 'BBB-' issued by Fitch Ratings on 31 July 2015 ('BBB+' issued on 17 December 2013, and affirmed on 18 February 2015). The Company's reinsurance programme is structured to adequately protect the Company's solvency and capital position. It covers per risk and event losses in New Zealand on the Company's motor vehicle Insurance book. The Counterparty reinsurer is Munich Re which has a credit rating of "AA-" in the reinsurance catastrophe programme.

### 7 OTHER INCOME

	2015	2014
	\$	\$
Insurance Management Fee	960	4,220
Monthly Funding Income	312,394	356,159
Other Income	10,074	-
TOTAL OTHER INCOME	323,428	360,379

### 8 INTEREST INCOME

	2015	2014
	\$	\$
Co-op Money NZ Call Account	59,178	71,541
Interest on Deposits	279,457	193,651
TOTAL INTEREST INCOME	338,635	265,192

# Co-op Insurance NZ

## Financial Statements 30 June 2015

### 9 EMPLOYEE COSTS

Salaries  
Other Staff Costs  
TOTAL EMPLOYEE COSTS

2015	2014
\$	\$
455,216	469,101
6,393	7,063
<u>461,609</u>	<u>476,164</u>

### 10 AUDITOR REMUNERATION

Auditor's Remuneration  
- Audit Fees paid to PricewaterhouseCoopers  
- Other Fees paid to PricewaterhouseCoopers  
Taxation  
Other Statutory Returns  
TOTAL AUDITORS REMUNERATION

2015	2014
\$	\$
40,450	40,080
7,500	10,000
5,850	5,750
<u>53,800</u>	<u>55,830</u>

### 11 TAXATION

#### Income Tax Recognised in Profit or Loss

Profit before Taxation  
Income Tax at Current Rate of 28%  
Dividends on Perpetual Preference Shares  
Utilisation of losses not previously recognised as deferred tax assets  
TAXATION EXPENSE

2015	2014
\$	\$
193,633	465,800
54,217	130,424
( 35,000)	( 35,000)
( 19,217)	( 95,424)
<u>-</u>	<u>-</u>

#### Current Tax Assets

Tax Refund Receivable

2015	2014
\$	\$
62	62
<u>62</u>	<u>62</u>

Taxation losses have been recognised to the extent of the deferred tax liability on temporary differences. The additional tax losses have not been recognised because there is not sufficient probability of taxable profits in future years to offset such losses. Tax losses are subject to Inland Revenue assessment in the next tax return and shareholder continuity requirements. Tax losses not recognised are \$2,365,715 (\$662,400 at the tax rate of 28%) (2014 : \$2,303,200 (\$644,900 at the tax rate of 28%)).

Deferred tax assets/(liabilities) recognised are comprised of:

#### Deferred Tax Balance

##### Deferred Tax Liabilities:

Property, Plant and Equipment  
Intangibles  
Deferred Acquisition Costs

2015	2014
\$	\$
1,362	-
( 64,255)	( 155)
( 79,453)	( 65,747)
<u>( 142,346)</u>	<u>( 65,902)</u>

##### Deferred Tax Assets:

Provision for Employee Entitlements  
Other  
Tax Losses Recognised

2015	2014
\$	\$
20,540	9,027
314	2,064
121,492	54,811
<u>142,346</u>	<u>65,902</u>

#### Imputation Credit Account

The balance of the Imputation Credit Account at 30 June 2015 is \$Nil (2014 : \$Nil).

# Co-op Insurance NZ

## Financial Statements 30 June 2015

### 12 EQUITY

#### Accumulated Deficit

	2015 \$	2014 \$
Balance at the Beginning of the Year	( 12,651,653)	( 12,767,453)
Dividends Paid on Perpetual Preference Shares	( 125,000)	( 125,000)
Dividends Paid on Ordinary Shares	-	( 225,000)
Total Comprehensive Income for the Year	193,633	465,800
Balance at the end of the Year	<u>( 12,583,020)</u>	<u>( 12,651,653)</u>

#### Capital

Fully Paid Ordinary Share Capital - 17,250,000 shares (2014 : 17,250,000 shares)	17,250,000	17,250,000
Perpetual Preference Shares - 1,250,000 shares (2014 : 1,250,000)	1,250,000	1,250,000
	<u>18,500,000</u>	<u>18,500,000</u>
Total Equity	<u>5,916,980</u>	<u>5,848,347</u>

The shares are fully paid up ordinary shares that do not have a par value.

#### Dividends per Share in cents per share

Perpetual Preference Shares	10.00	10.00
Ordinary Shares	-	1.30

### 13 CASH AND CASH EQUIVALENTS

	2015 \$	2014 \$
Cash and Bank Balances	317,996	277,692
Bank Call Deposits	2,354,434	2,170,000
Balance at the end of the Year	<u>2,672,430</u>	<u>2,447,692</u>

### 14 INVESTMENTS

	2015 \$	2014 \$
Bank Term Deposits	5,986,478	6,356,557
	<u>5,986,478</u>	<u>6,356,557</u>

### 15 ACCOUNTS RECEIVABLE

	2015 \$	2014 \$
Trade Receivables	560,435	519,865
Provision for Insurance Policy Cancellations	( 1,121)	( 1,039)
Balance at Year End	<u>559,314</u>	<u>518,826</u>

### 16 EXPECTED RECOVERIES

	2015 \$	2014 \$
Gross recoveries	465,622	456,797
Provisions for Non Recoveries	( 345,918)	( 311,452)
Balance at Year End	<u>119,704</u>	<u>145,345</u>

# Co-op Insurance NZ

## Financial Statements 30 June 2015

### 17 PROPERTY, PLANT AND EQUIPMENT

	2015 \$	2014 \$
<b>Furniture, Fittings, Office Equipment and Vehicles</b>		
Opening Cost at Beginning of Year	46,672	46,672
Additions	-	-
Disposals	-	-
Closing Cost at Year End	<u>46,672</u>	<u>46,672</u>
Opening Accumulated Depreciation at Beginning of Year	36,820	35,653
Depreciation Expense	1,167	1,167
Disposals	-	-
Closing Accumulated Depreciation at Year End	<u>37,987</u>	<u>36,820</u>
Net Book Value at Year End	<u>8,685</u>	<u>9,852</u>
<b>Computer Equipment</b>		
Opening Cost at Beginning of Year	39,657	38,873
Additions	565	1,846
Disposals	( 28,811)	( 1,062)
Closing Cost at Year End	<u>11,411</u>	<u>39,657</u>
Opening Accumulation Depreciation at Beginning of Year	35,039	26,523
Depreciation Expense	3,952	8,657
Disposals	( 28,668)	( 141)
Closing Accumulated Depreciation at Year End	<u>10,323</u>	<u>35,039</u>
Net Book Value at Year End	<u>1,088</u>	<u>4,618</u>
Total Carrying Amount at Year End	<u>9,773</u>	<u>14,470</u>
Loss/(Gain) arising on disposal of Computer Equipment	142	( 2,642)
There were no impairment losses in respect of property, plant and equipment.		

### 18 INTANGIBLES

	2015 \$	2014 \$
<b>Computer Software</b>		
Opening Cost at beginning of Year	830,498	732,976
Additions	366,679	97,522
Intangibles Written Off	( 237,914)	-
Closing Cost at Year End	<u>959,263</u>	<u>830,498</u>
Opening Accumulated Amortisation at Beginning of Year	645,675	494,292
Amortisation Expense	132,500	151,383
Intangibles Written Off	( 237,914)	-
Closing Accumulated Amortisation at Year End	<u>540,261</u>	<u>645,675</u>
Net Book Value at Year End	<u>419,002</u>	<u>184,823</u>

### 19 ACCOUNTS PAYABLE

	2015 \$	2014 \$
Trade Payables	266,983	219,122
Employee Expenses Accrued	13,856	32,238
Premium Rebate Accrual	1,223,685	1,246,937
Other Accrued Expenses	96,519	122,978
	<u>1,601,043</u>	<u>1,621,275</u>

# Co-op Insurance NZ

## Financial Statements 30 June 2015

### 20 CONTINGENT LIABILITIES

There were no material contingent liabilities outstanding at 30 June 2015 (2014: \$Nil).

### 21 FINANCIAL INSTRUMENTS

#### Financial Risk Management Objectives

Co-op Money NZ provides services to the Company, including co-ordinating access to funding, a treasury function, providing banking facilities, and managing external banking relationships. The Company does not enter into or trade financial instruments for speculative purposes.

#### Capital Risk Management

The Company manages its capital resources to ensure that it will be able to withstand the assessed business and financial risks arising from operations. The level of capital investment is determined by reference to market norms and the requirements of external agencies such as rating agencies or regulators.

The Board of Directors and management of the Company regularly review the capital adequacy of the Company using the Reserve Bank of New Zealand's solvency standards to determine the Company's needs.

#### Financial Assets and Liabilities

The carrying amount of all financial assets and liabilities are considered to be equivalent to their fair value.

#### Financial Instruments by category

	2015	2014
	\$	\$
<i>Loans and receivables</i>		
Cash and cash equivalents	2,672,430	2,447,692
Investments	5,986,478	6,356,557
Accounts receivable	559,314	518,826
Total loans and receivables	<u>9,218,222</u>	<u>9,323,075</u>
<b>Total financial assets</b>	<u>9,218,222</u>	<u>9,323,075</u>
<i>Other financial liabilities at amortised cost</i>		
Accounts payable	1,587,187	1,589,037
Reinsurance payable	19,170	9,318
Total other financial liabilities at amortised cost	<u>1,606,357</u>	<u>1,598,355</u>
<b>Total financial liabilities</b>	<u>1,606,357</u>	<u>1,598,355</u>

# Co-op Insurance NZ

## Financial Statements 30 June 2015

### Interest Rate Risk Management

Interest rate risk is the risk of loss to the Company arising from adverse changes in interest rates. This exposure in respect of Statement of Financial Position Assets and Liabilities depends on the degree of mismatch between the value of Interest sensitive assets and liabilities. The risk is managed by investing on a short term basis as far as possible. The tables that follow show the relationship between interest sensitive financial assets and liabilities.

As at 30 JUNE 2015	Average Interest Rate	Less than 3 months	3 months to 1 year	1-2 years	2-5 years	5+ years	Non Interest Sensitive	Total
<b>Assets</b>								
Co-op Money NZ Call Account	3.5%	830,000	-	-	-	-	-	830,000
Other Cash Balances	4.2%	1,842,430	-	-	-	-	-	1,842,430
Investments	4.2%	5,986,478	-	-	-	-	-	5,986,478
Accounts Receivable		-	-	-	-	-	559,314	559,314
		<b>8,658,908</b>	-	-	-	-	<b>559,314</b>	<b>9,218,222</b>
<b>Liabilities</b>								
Bank Overdraft	8.8%	-	-	-	-	-	-	-
Accounts Payable		-	-	-	-	-	1,587,187	1,587,187
Reinsurance Payable		-	-	-	-	-	19,170	19,170
		-	-	-	-	-	<b>1,606,357</b>	<b>1,606,357</b>
<b>On Balance Sheet Interest Sensitivity Gap</b>		<b>8,658,908</b>	-	-	-	-	<b>( 1,047,043)</b>	<b>7,611,865</b>

As at 30 JUNE 2014	Average Interest Rate	Less than 3 months	3 months to 1 year	1-2 years	2-5 years	5+ years	Non Interest Sensitive	Total
<b>Assets</b>								
Co-op Money NZ Call Account	3.3%	2,170,000	-	-	-	-	-	2,170,000
Other Cash Balances	4.3%	277,692	-	-	-	-	-	277,692
Investments	4.3%	6,356,557	-	-	-	-	-	6,356,557
Accounts Receivable		-	-	-	-	-	518,826	518,826
		<b>8,804,249</b>	-	-	-	-	<b>518,826</b>	<b>9,323,075</b>
<b>Liabilities</b>								
Bank Overdraft	8.8%	-	-	-	-	-	-	-
Accounts Payable		-	-	-	-	-	1,589,037	1,589,037
Reinsurance Payable		-	-	-	-	-	9,318	9,318
		-	-	-	-	-	<b>1,598,355</b>	<b>1,598,355</b>
<b>On Balance Sheet Interest Sensitivity Gap</b>		<b>8,804,249</b>	-	-	-	-	<b>( 1,079,529)</b>	<b>7,724,720</b>

### Interest Rate Sensitivity Analysis

The sensitivity analyses have not been calculated as there are no floating rate assets or liabilities at 30 June 2015 (2014: \$Nil).

### Credit Risk Management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company.

Risk is minimised by investing with Registered Banks or Co-op Money NZ who maintain a well diversified investment portfolio with controls over maturity, counterparty and concentration of investments. Accounts receivable are spread widely amongst resellers who are actively managed for debt collection.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Company's maximum exposure to credit risk.



# Co-op Insurance NZ

## Financial Statements 30 June 2015

### Liquidity Risk Management

Liquidity risk is the risk that the Company will have difficulty in meeting commitments associated with its financial liabilities and future commitments. The Company manages its exposure to liquidity risk by maintaining sufficient liquid funds to meet its commitments based on historical and forecast cash flow needs.

The tables that follow detail the Company's remaining contractual maturity for its financial assets and liabilities. The tables have been drawn up based on the undiscounted cash flows of financial assets and liabilities based on the earliest date on which the Company can be required to pay. The table includes both interest and principle cash flows.

As at 30 JUNE 2015	Less than 3 months	3 months to 1 year	1-2 years	2-5 years	5+ years	Total
<b>Assets</b>						
Cash and Cash Equivalents	2,672,430	-	-	-	-	2,672,430
Investments	5,986,478	-	-	-	-	5,986,478
Accounts Receivable	559,314	-	-	-	-	559,314
<b>Total Financial Assets</b>	<b>9,218,222</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,218,222</b>
<b>Liabilities</b>						
Accounts Payable	1,587,187	-	-	-	-	1,587,187
Reinsurance Payable	19,170	-	-	-	-	19,170
Unearned Premium Liability	587,015	1,565,373	-	-	-	2,152,388
Outstanding Claims Liability	2,441,547	-	-	-	-	2,441,547
<b>Total Financial Liabilities</b>	<b>4,634,919</b>	<b>1,565,373</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,200,292</b>
<b>Net Liquidity Gap</b>	<b>4,583,303</b>	<b>( 1,565,373)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,017,930</b>
<b>As at 30 JUNE 2014</b>	<b>Less than 3 months</b>	<b>3 months to 1 year</b>	<b>1-2 years</b>	<b>2-5 years</b>	<b>5+ years</b>	<b>Total</b>
<b>Assets</b>						
Cash and Cash Equivalents	2,447,692	-	-	-	-	2,447,692
Investments	6,356,557	-	-	-	-	6,356,557
Accounts Receivable	518,826	-	-	-	-	518,826
<b>Total Financial Assets</b>	<b>9,323,075</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,323,075</b>
<b>Liabilities</b>						
Accounts Payable	1,589,037	-	-	-	-	1,589,037
Reinsurance Payable	9,318	-	-	-	-	9,318
Unearned Premium Liability	533,675	1,423,135	-	-	-	1,956,810
Outstanding Claims Liability	2,167,797	-	-	-	-	2,167,797
<b>Total Financial Liabilities</b>	<b>4,299,827</b>	<b>1,423,135</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,722,962</b>
<b>Net Liquidity Gap</b>	<b>5,023,248</b>	<b>( 1,423,135)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,600,113</b>

# Co-op Insurance NZ

## Financial Statements 30 June 2015

### 22 FAIR VALUE MEASUREMENTS

#### Fair Value of Financial Instruments

Fair value measurements are recognised through the Underwriting and Statement of Comprehensive Income. Financial instruments are categorised into 3 levels:

**Level 1** fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

**Level 2** fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

**Level 3** fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Directors consider that the carrying amount of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values. Cash and Cash Equivalents and Investments are balances held with financial institutions at current interest rates on overnight or short term investments and approximate fair value as the rates approximate current rates and there is low risk of default by the banks.

### 23 RELATED PARTY DISCLOSURES

#### Parent Company

The Parent Company is CU Securities Limited.

#### Ultimate Controlling Party

The ultimate controlling party is the Co-op Money NZ.

#### Transactions with Parent and Ultimate Controlling Entity

	2015	2014
	\$	\$
Co-op Money NZ provides banking facilities to the Company. The amount held in current accounts and on short term deposit was	1,146,305	2,447,692
Consulting services charged by Co-op Money NZ	312,371	225,836
Management services charged by Co-op Money NZ	1,199,847	1,138,980
Rent charged by Co-op Money NZ	62,220	65,460
Portfolio Management Fees	4,890	-
Dividends on Ordinary Shares	-	225,000
Dividend on Perpetual Preference Shares	125,000	125,000
Interest received from Co-op Money NZ	59,178	71,541
Insurance services were provided to Co-op Money NZ	4,848	3,535

None of the terms or conditions of these services has changed since the Company joined the Co-op Money NZ Group.

Related party transactions were made on terms equivalent to those that prevail in commercial transactions.

#### Due (to) / from Related Parties

	2015	2014
	\$	\$
Included in Accounts Payable, due to Co-op Money NZ	168,756	146,326
Included in Accounts Receivable, due from Co-op Money NZ	3,752	72

These amounts do not bear interest and are payable on normal trading terms.

#### Key Management Personnel Compensation

No compensation is paid to the Directors and executives, being the key management personnel of the entity.

Directors and staff may insure with the Company.

# Co-op Insurance NZ

## Financial Statements 30 June 2015

### 24 RECONCILIATION OF PROFIT AFTER TAX TO NET OPERATING CASH FLOWS

	2015	2014
	\$	\$
<b>PROFIT AFTER TAXATION</b>	<b>193,633</b>	<b>465,800</b>
Adjustment for Non Cash Items:		
Depreciation	5,119	9,824
Amortisation	132,500	151,383
Loss/(Gain) on Sale of Assets	142	( 2,642)
	<b>137,761</b>	<b>158,565</b>
 Movements in Working Capital		
(Increase) in Accounts Receivable	( 40,488)	( 40,933)
Decrease In Expected Recoveries	25,641	88,229
(Increase) in Future Funded Premium	( 393,768)	( 148,555)
(Increase) in Deferred Acquisition Costs	( 48,953)	( 7,401)
(Increase)/Decrease in Prepaid Expenses	19,938	( 5,123)
 Increase/(Decrease) in GST Payable	( 5,810)	4,121
Increase/(Decrease) in Unearned Premium Liability	195,578	29,068
Increase/(Decrease) in Outstanding Claims Liability	273,750	( 88,825)
Increase/(Decrease) in Accounts Payable	( 20,232)	1,088,094
Increase/(Decrease) in Reinsurance Payable	9,852	( 59,275)
	<b>15,508</b>	<b>859,400</b>
 <b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>346,902</b>	<b>1,483,765</b>

### 25 COMMITMENTS

The Company has committed to projects for the development of software amounting to \$282,378 (2014: \$114,787) for completion in the next financial period.

### 26 SUBSEQUENT EVENTS

There were no events subsequent to balance date that would require disclosure in the Financial Statements.

# Co-op Insurance NZ

## Financial Statements 30 June 2015

### STATUTORY DECLARATION

	2015	2014
	\$	\$
The net surplus of the Company for the period under review after tax was:	193,633	465,800

#### Reserves

Accumulated Losses		
Opening Balance	( 12,651,653)	( 12,767,453)
Dividend Declared	-	-
Interest on Capital Convertible Note	-	( 225,000)
Dividends Paid on Perpetual Preference Shares	( 125,000)	( 125,000)
Net Surplus for the Year	193,633	465,800
Balance at End of Year	<u>( 12,583,020)</u>	<u>( 12,651,653)</u>

#### General

As required by section 211 of the Companies Act 1993 we disclose the following information:

On 1 April 2013, the Reserve Bank of New Zealand issued a licence to the Company under the Insurance (Prudential Supervision) Act 2010 and, on that date, approved the transfer of all insurance previously undertaken by Co-op Money NZ to the Company. From 1 April 2013, the Company has issued life and non-life policies.

The Directors believe the state of the Company's affairs to be satisfactory.

Directors' interest in contracts:

During the period, the Board received notice that all the directors are officers of, or board members of credit unions or Co-op Money NZ.

Use of Company information:

The Board received no notice during the period from the directors requesting to use, disclose or act on company information.

Remuneration and other benefits:

No remuneration was paid to directors during the year (2014 : Nil).

Employees of the Company receiving remuneration in excess of \$100,000 per annum:

	2015	2014
Remuneration		
\$120,000 - \$130,000	1	1

Insurance and indemnity:

During the period, no material insurance or indemnity was effected for the benefit of any director or employee.

Donations:

No donations were made to any charities during the year.

### Board & Governance

Co-op Insurance NZ has adopted the Corporate Governance in New Zealand – Principles and Guidelines publication endorsed by the Financial Markets Authority to review and report on its governance practices. Details of the directors are set out on page 3 of this report.

The directors of Co-op Insurance NZ are appointed by the Board of its parent Co-op Money NZ together with the Chief Executive Officer of Co-op Money NZ.

Co-op Insurance NZ has procedures designed to:

- Enable the Board to provide strategic guidance and effective oversight of management
- Clarify the respective roles and responsibilities of Board members and senior executives in order to facilitate Board and management accountability to the Company.
- Ensure the balance of authority so that no single individual has unfettered powers.

The Board has an obligation to protect and enhance the value of Co-op Insurance NZ's assets and act in its interests. It exercises this obligation through the approval of appropriate organisational strategy and processes.

Co-op Insurance NZ achieves Board and management accountability through written terms of reference (policies), and a formal delegation of authority to the Chief Executive. The Chief Executive is charged with the day-to-day leadership and management of Co-op Insurance NZ.

### 2. Structuring the Board to add value

Directors believe that for the Board to be effective it needs to facilitate the efficient discharge of the duties imposed by law and to add value to Co-op Insurance NZ. To achieve this, the Board is organised in such a way that it:

- Obtains a proper understanding of, and competence to deal with, the current and emerging issues of the business.
- Can effectively review and challenge the performance of management and exercise independent judgment.

### Board composition

Co-op Insurance NZ's Board is currently composed five directors elected to its parent entity Board Co-op Money NZ, an external director and the Chief Executive Officer. The Co-op Money NZ elected directors are all elected to the Co-op Money NZ Board by the Member credit unions forming the membership of Co-op Money NZ. The Members elect directors to the Co-op Money NZ Board on a one member one vote basis. All directors excluding the CEO are considered to be independent directors.

# Co-op Insurance NZ

## Financial Statements 30 June 2015

### Board process

Although the directors are each bring special expertise or perspectives to Board deliberations, decisions of the Board are made as a whole after taking each perspective into account and in the best interests of Co-op Insurance NZ.

The Directors receive comprehensive information on Co-op Insurance NZ's operations before each meeting and have unrestricted access to any other information or records. Senior management is available and attend relevant sections of Board meetings to address queries and to assist in developing the Board's understanding of the issues facing Co-op Insurance NZ and the performance of the business.

Director participation remains very high with all Directors being present at the majority of meetings. In addition to regular Board meetings an annual strategic planning process occurs.

The Strategic Plan for 2015 to 2016 has been approved by the parent and its Member credit unions and Management report regularly on progress toward achievement of the KPIs embedded in the plan.

### 3. Promoting ethical and responsible decision making

Co-op Insurance NZ has written procedures to clarify the standards of ethical behaviour required of directors and management and ensure observance through a Code of Ethics and a policy on dealing appropriately with conflicts and/or interests. Co-op Insurance NZ has an employee handbook which embodies its values and supplements the code of conduct practices that are incorporated into all employees' terms of employment. An Ethics Committee can be formed when requested by the Board, for the purposes of reviewing any complaint received in accordance with the Code of Ethics.

### 4. Safeguarding the integrity of financial reporting

While the ultimate responsibility to ensure the integrity of Co-op Insurance NZ's financial reporting rests with the Board, Co-op Insurance NZ has in place a structure of review and authorisation designed to ensure truthful and factual presentation of its financial position. This includes:

- An appropriately resourced Audit & Risk Committee operating under a written charter
- Review and consideration by the Audit & Risk Committee of the accounts and appropriate policies
- A process to oversee and ensure the independence and competence of Co-op Insurance NZ's external auditors
- Responsibility for appointment of the external auditors resides with the Audit & Risk Committee subject to approval by the Board
- Establishment of an independent external party who conducts the internal audit function with reporting responsibility to the Audit & Risk Committee
- The Audit & Risk Committee meet on a regular basis throughout the year and report directly to the Board.

### 5. Making timely and balanced disclosure

Accountability for compliance with disclosure obligations is with Co-op Insurance NZ Chief Executive Officer. Significant announcements including the interim half year and final full year results and dividend, the financial statements for those periods, and any advice on a change of earnings forecast requires the Chief Executive Officer and Chief Financial Officer to seek prior approval from the Audit & Risk Committee and the Board.

### 6. Respecting the right of insured parties

Co-op Insurance NZ seeks to ensure that its Insured parties understand its activities by:

- Communicating regularly and effectively with them.
- Giving ready access to balanced and clear information about Co-op Insurance NZ.

To assist with this, a Co-op Insurance NZ website is maintained with relevant information including copies of presentations, reports and media releases. The annual report is available in electronic format from Co-op Insurance NZ.

### 7. Recognising and managing risk

Co-op Insurance NZ has a formalised system for identifying, overseeing, managing and controlling risk. The Board is ultimately responsible for the oversight of risk management and setting Co-op Insurance NZ's risk appetite and tolerances. The Audit & Risk Committee assists the Board in discharging its responsibilities with regards the oversight of risk management. The processes involved require the maintenance of a governance level Risk Management Framework and a Risk Register that identifies key operational risks facing the business and the status of various initiatives employed to reduce them. A Risk Appetite Dashboard is maintained which shows performance against Board approved risk tolerances and highlights any deviation from compliance with the risk tolerance.

The Audit & Risk Committee is responsible for designing an internal audit programme addressing the adequacy of internal controls related to Co-op Insurance NZ's liquidity, market, operational and insurance risks. The committee is also responsible for overseeing the audit programme designed to test the adequacy of internal controls related to the Information Services operated by Co-op Insurance NZ.

### 8. Encouraging enhanced performance

Directors and senior executives need to be equipped with the appropriate knowledge and information to discharge their responsibilities effectively and be assured that individual and collective performance is regularly and fairly reviewed.

Board policy provides financial resource for directors' ongoing training and education with a formal appraisal process that includes the chairman. On appointment directors receive an education and development allowance for their two year term. This is specifically for professional development, education and training that will be of direct benefit to their role as an Co-op Insurance NZ director. As part of the annual review of its governance processes, the Board evaluates annually the performance of the Chief Executive.

The evaluation is based on criteria that include the performance of the business and the accomplishment of key strategic objectives and other non-quantitative objectives established at the beginning of each year.

In addition to these annual performance reviews, the significant policy issues, annual budget and capital expenditure decisions of management are put through a formal Board review process.

# Co-op Insurance NZ

## Financial Statements 30 June 2015

### 9. Remunerating fairly and responsibly

#### Remuneration philosophy

Co-op Insurance NZ's remuneration strategy aims to attract, retain and motivate high calibre employees at all levels of the organisation, and so drive performance and sustained growth of value for the parent and its Member credit unions.

Underpinning this strategy is a philosophy that all employees should be appropriately and competitively rewarded. Total remuneration for senior executives comprises a base salary including the value of any benefits and may include a short term variable incentive in the form of an annual performance related payment that requires achievement of a mix of financial and business targets.

#### Non-executive directors' remuneration

All the directors are non-executive directors and are compensated by Co-op Money NZ.

#### Directors' development allowance

Directors are allocated a \$6,000 development allowance per three year term by Co-op Money NZ to be used with Board approval to gain personal development relevant to the Director's identified needs to enhance their performance as a Co-op Money NZ /Co-op Insurance NZ Director.

#### Directors' Insurance protection

Co-op Insurance NZ maintains appropriate Personal Accident cover as well as Directors' Liability Insurance for its directors. The Personal Accident cover for directors provides for full proceeds being paid to the insured director or their estate, in the event of a claim being made. The Directors' Liability Insurance ensures that the directors will suffer no financial loss as a result of actions taken by them as directors, provided that they operate with due diligence and within the law.

#### Chief Executive Officer's remuneration

The Chief Executive Officer is paid by Co-op Money NZ.

### 10. Recognising the legitimate interest of stakeholders

Co-op Insurance NZ recognises that it has a number of legal and other obligations to stakeholders such as employees, regulatory authorities, suppliers and the community as a whole. Its commitment to these obligations is captured in our Code of Ethics and various policies and procedures for ethical conduct, the responsibility to employees and relationships with suppliers and customers. These are incorporated into the employment terms of all employees.

#### Holding securities

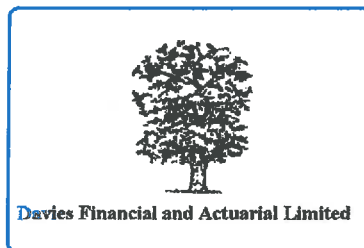
No director or executive of Co-op Insurance NZ holds any personal beneficial interest in Co-op Insurance NZ.

#### Other interests

Directors and staff may insure with Co-op Insurance NZ under the standard terms and conditions offered to the general public.

#### Compliance with corporate governance best practice

Co-op Insurance NZ seeks to meet the principles of best practice for New Zealand directors as promulgated by the Four Pillars of Effective Board Governance as published by the Institute of Directors in New Zealand.



28<sup>th</sup> August 2015

To:           The Directors  
              Credit Union Insurance Limited

From:       Peter Davies  
              Appointed Actuary

**Re:           Credit Union Insurance Limited (“CUIL”): Report as at  
              30<sup>th</sup> June 2015 under Sections 77 and 78 of the Insurance  
              (Prudential Supervision) Act 2010**

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

1.     I have reviewed the actuarial information included in the audited accounts for CUIL as at 30<sup>th</sup> June 2015. “Actuarial information” includes the following:
  - claim provisions and unexpired risk / unearned premium provisions;
  - solvency calculations in terms of the RBNZ Solvency Standard;
  - balance sheet and other information allowed for in the calculation of the company’s solvency position; and
  - disclosures regarding the methodology and assumptions used for calculating claim provisions, unexpired risk provisions, and other disclosures.
2.     No limitations have been placed on my work.

3. I am independent with respect to CUIL as defined under professional standard ISA (NZ) 620 of the External Reporting Board.
4. I have been provided with all information that I have requested in order to carry out this review.
5. In my view the actuarial information contained in the financial statements has been appropriately included, and the actuarial information used in the preparation of the financial statements has been appropriately used.
6. CUIL exceeded the minimum capital requirement as prescribed under the RBNZ solvency standards for Life and Non-life Insurance respectively as at 30<sup>th</sup> June 2015. The company transacts both classes of business.

The Company is expected to exceed the minimum solvency requirement at all times over the next four years.

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

Yours sincerely



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