Covering you co-operatively

Co-op Insurance NZ

The trading name of Credit Union Insurance Limited

Annual Report

for the year ended

30 JUNE 2017

Co-op Insurance NZ
Annual Report 30 June 2017

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Co-op Insurance NZ

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	C Matthews	Chair (from 11 September 2015 to 26 January 2017 and from 28 April 2017)
	P Taylor	Deputy Chair (from 11 September 2015 to 26 January 2017 and from 28 April 2017)
	S Nichols	Chair (from 26 January 2017 to 28 April 2017. Resigned on 28 April 2017)
	B Bleakley	
	H Lynch	
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 auditor's report

To the shareholder of Credit Union Insurance Limited

The financial statements comprise:

- the statement of financial position as at 30 June 2017;
- the underwriting income statement for the year then ended;
- the underwriting and 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 Credit Union Insurance Limited trading as Co-op Insurance NZ (the "Company"), present fairly, in all material respects, the financial position of the Company as at 30 June 2017, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

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

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

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

Our firm carries out other services for the Company in the areas of tax compliance and assurance on the solvency return. The provision of these other services has not impaired our independence as auditor of the Group.

Information other than the financial statements and auditor's report

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

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

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibility 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 Sam Shuttleworth.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
13 September 2017

Auckland

Co-op Insurance NZ
Financial Statements 30 June 2017

UNDERWRITING INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2017

	Note	2017 $	2016 $
Premium Income			
Gross Written Premium		14,313,068	13,034,955
Unearned Premium Movement		(2,008,675)	(2,418,847)
Gross Earned Premium	6	12,304,393	10,616,108
Premium Funding Income		467,328	366,457
Reinsurance Premium Ceded		(301,053)	(228,218)
Net Earned Premium	3	**12,470,668**	**10,754,347**
Claims Expenses			
Claims		7,630,332	5,900,695
Movement in Outstanding Claims		420,625	517,422
Recoveries Received		(478,806)	(160,565)
Movement in Expected Third Party Recoveries		(65,608)	27,301
Total Claims Expenses	3	**7,506,543**	**6,284,853**
Other Expenses			
Acquisition Costs		2,381,440	1,911,595
Total Other Expenses	3	**2,381,440**	**1,911,595**
Total Expenses		**9,887,983**	**8,196,448**
Net Underwriting Income Profit	3	**2,582,685**	**2,557,899**

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

Co-op Insurance NZ
Financial Statements 30 June 2017

UNDERWRITING AND STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2017

	Note	2017 $	2016 $
Income			
Other Income	8	1,304	512,864
Interest Income	9	148,332	247,032
Total Income		149,636	759,896
Expenses			
Depreciation	19	2,967	3,326
Amortisation	20	144,001	183,217
Employee Costs	10	908,999	477,060
Director Fees & Expenses	11	24,413	11,146
Administration and Operating Costs		1,913,353	2,169,291
Auditor Remuneration	12	66,100	57,150
Legal Fees		11,348	43,227
Gain on disposal of Property Plant and Equipment		-	(6,973)
Total Expenses		3,071,181	2,937,444
Underwriting Income			
Life	3	872,778	522,532
Other Non-life	3	1,532,077	857,948
Motor Vehicle	3	177,830	1,177,419
Total Underwriting Surplus		2,582,685	2,557,899
Net Operating (Loss)/Profit before Taxation		(338,860)	380,351
Income Tax Expense	13	-	-
Total Comprehensive (Expenses)/Income for the Year		(338,860)	380,351

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

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Co-op Insurance NZ
Financial Statements 30 June 2017

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2017

	Share Capital $	Perpetual Preference Shares $	Accumulated Deficit $	Total $
Opening Balance - 1 July 2015	17,250,000	1,250,000	(12,583,020)	5,916,980
Dividends Paid on Perpetual Preference Shares	-	-	(124,998)	(124,998)
Total Comprehensive Income after Tax	-	-	380,351	380,351
Closing Balance - 30 JUNE 2016	**17,250,000**	**1,250,000**	**(12,327,667)**	**6,172,333**
Dividends Paid on Ordinary Shares	-	-	-	-
Dividends Paid on Perpetual Preference Shares	-	-	(125,000)	(125,000)
Total Comprehensive Expense after Tax	-	-	(338,860)	(338,860)
Closing Balance - 30 JUNE 2017	**17,250,000**	**1,250,000**	**(12,791,527)**	**5,708,473**

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

pwc

Co-op Insurance NZ
Financial Statements 30 June 2017

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017

	Note	2017 $	2016 $
Total Equity	14	5,708,473	6,172,333
Assets			
Cash and Cash Equivalents	15	1,975,302	2,125,984
Investments	16	4,120,052	5,572,012
Accounts Receivable	17	856,904	627,349
Expected Recoveries	3, 18	158,011	92,403
Future Funded Premiums	4	8,155,343	5,661 573
Deferred Acquisition Costs	5	1,176,554	958,445
Prepaid Expenses		13,359	10,090
Intangible Assets	20	460,852	410,634
Property, Plant and Equipment	19	9,080	10,298
Total Assets		16,925,457	15,268,788
Liabilities			
GST Payable		29,977	13,188
Tax Payable		1,638	-
Accounts Payable	21	1,140,725	1,492,087
Reinsurance Payable		85,139	60,976
Outstanding Claims Liability	3	3,379,595	2,958,969
Unearned Premium Liability	6	6 579,910	4,571 235
Total Liabilities		11,216,984	9,096,455
Net Assets		5,708,473	6,172,333

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

These Financial Statements were authorised for issue by the Board of Directors on 13/9/17 **and were signed for on its behalf.**

Director **Director**

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Co-op Insurance NZ
Financial Statements 30 June 2017

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2017

	Note	2017 $	2016 $
Cash Flows from Operating Activities			
Cash was received from:			
Premiums Received		11,894,364	10,281,647
Premium Funding Income		467,328	366,457
Interest Received		148,332	247,032
Claims Recoveries		478,806	160,565
Other Income		1,304	512,864
		12,990,134	11,568,565
Cash was applied to:			
Claims and Rebates Paid		8,367,073	7,124,390
Reinsurance Paid		276,890	229,908
Employee Costs		823,692	463,547
Directors' Fees & Expenses		24,413	11,146
Acquisition Costs		2,666,731	2,443,024
Administration and Operating Costs		1,913,009	2,160,747
		14,071,808	12,432,752
Net Cash Flow used in Operating Activities	26	**(1,081,674)**	**(864,187)**
Cash Flows from Investing Activities			
Cash was received from:			
Proceeds from Sale of Property, Plant and Equipment		1	6,974
Proceeds from Investments		1,251,960	614,466
		1,251,961	621,440
Cash was applied to:			
Purchase of Intangible Assets and Property, Plant and Equipment		195,969	178,701
Purchase of Investments		-	-
		195,969	178,701
Net Cash Flows from Investing Activities		**1,055,992**	**442,739**
Cash Flows from Financing Activities			
Cash was applied to:			
Dividend on Ordinary Shares		-	-
Dividend on Perpetual Preference Shares		(125,000)	(124,998)
Net Cash Flow used in Financing Activities		**(125,000)**	**(124,998)**
Net Decrease in Cash		**(150,682)**	**(546,446)**
Cash at the beginning of the year		2,125,984	2,672,430
Cash at the end of the year	15	**1,975,302**	**2,125,984**

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

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 the annual report.

Basis of Preparation

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.

Presentation of the statement of financial position

The Company's insurance and related assets are realised and settled over periods of several years, reflecting the long-term nature of the Company's products. Accordingly, the Company presents the assets and liabilities in its statement of financial position in approximate order of liquidity, rather than distinguishing current and non-current assets and liabilities. The Company regards its intangible assets, and plant and equipment as non-current assets as these are held for the longer-term use of the Company.

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 contact 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.

(d) Claims (continued)

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.

(e) Reinsurance and Other Recoveries

When a claim from the insured exceeds the threshold of our reinsurers, a claim is lodged with the reinsurers and the reinsurance is 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 accumulated 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.

Costs associated with maintaining software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use
- management intends to complete the software and use or sell it
- there is an ability to use or sell the software
- it can be demostrated how the software will generate probable future economic benefits
- adequate technical, financial and other resources to complete the development and to use or sell the software are available, and
- the expenditure attributable to the software during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software include employee costs and an appropriate portion of relevant overheads.

Capitalised development costs are recorded as intangible assets and amortised from thepoint at which the asset is ready for use.

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

(1) Financial Assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' 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.

(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.

(2) 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.

(3) 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 (2016: $Nil).

(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) Comparative Financial Statements

All accounting policies have been applied on bases consistent with prior years.

(q) Premium Funding Income

Premiums paid by instalments incur a charge for funding costs and this Premium Funding Income is recognised in the accounts when each instalment is paid.

(r) Future Funded Premiums

Future funded premiums represents unpaid premium instalments at balance date covering the remaining term of the customers insurance contracts. Future funded premiums are recognised initially at fair value and subsequently measured at amortised cost, less any provision for impairment. Collectability of future funded premiums is reviewed on an on-going basis. The impairment assessment in relation to these premiums are determined by reference to current customer circumstances and past experience.

(s) Expected Recoveries

Expected Recoveries, receivable from third parties involved in the accidents and liable for the damage, 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.

(t) Accounting standards adopted during the year

There were no accounting standards adopted during the year.

(u) 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 2017 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 2015. 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. 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 2018)

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 2018 and earlier application is permitted. The company intends to adopt NZ IFRS 15 on its effective date and is currently assessing its full impact.

NZ IFRS 17 'Insurance Contracts' (effective for annual reporting periods beginning on or after 1 January 2021)

NZ IFRS 17, "Insurance Contracts" applies to insurance contracts issued, to all reinsurance contracts, and to investment contracts with discretionary participating features if an entity also issues insurance contracts. For fixed-fee service contracts whose primary purpose is the provision of services, entities have an accounting policy choice to account for them in accordance with either IFRS 17 or IFRS 15. Similar to the position under IFRS 4, financial guarantee contracts are allowed to be within the scope of IFRS 17 if the entity previously asserted explicitly that it regarded them as insurance contracts. Insurance contracts (other than reinsurance) where the entity is a policyholder are not within the scope of IFRS 17. The standard is effective for accounting periods beginning on or after 1 January 2021. The company intends to adopt NZ IFRS 17 on its effective date and has yet to assess its full impact.

3 UNDERWRITING RESULTS

	2017 $	2016 $
Life Insurance		
Gross Earned Premium	2,353,651	2,168,313
Reinsurance Premiums	-	-
Net Earned Premium prior to Rebates	2,353,651	2,168,313
Gross Claims	1,022,383	1,112,949
Reinsurance Received	-	-
Net Claims	1,022,383	1,112,949
Commission	268,323	268,554
Underwriting Result	1,062,945	786,810
Credit Union Rebates	190,167	264,278
	872,778	522,532
Other non-life Insurance		
Gross Earned Premium	4,106,631	4,201,959
Reinsurance Premiums	-	-
Net Earned Premium prior to Rebates	4,106,631	4,201,959
Gross Claims	1,455,660	1,972,678
Reinsurance Received	-	-
Net Claims	1,455,660	1,972,678
Commission	904,675	923,405
Underwriting Result	1,746,296	1,305,876
Credit Union Rebates	214,219	447,928
	1,532,077	857,948
Motor Vehicle Insurance		
Gross Earned Premium	6,227,254	5,096,742
Premium Funding Income	467,328	366,457
Reinsurance Premiums	(350,477)	(271,714)
Net Earned Premium prior to Rebates	6,344,105	5,191,485
Gross Claims	5,028,500	3,199,226
Reinsurance Received	-	-
Net Claims	5,028,500	3,199,226
Commission & Acquisition Costs	1,208,442	719,636
Underwriting Result	107,163	1,272,623
Credit Union Rebates	(70,667)	95,204
	177,830	1,177,419
Total Insurance		
Net Earned Premium prior to Rebates	12,804,387	11,561,757
Net Claims	7,506,543	6,284,853
Commissions	2,381,440	1,911,595
Underwriting Result	2,916,404	3,365,309
Credit Union Rebates	333,719	807,410
Insurance Claims, Commission and Rebates	10,221,702	9,003,858
Total Underwriting Result after Commission and Rebates	2,582,685	2,557,899

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 30 June 2017. The Actuary's valuation was carried out in accordance with Professional Standards no. 20 and 30 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) is 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.

The actuary has recommended a risk margin of nil (2016 : 8.5%) 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 2.07% per annum (2016 : 2.10%).

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

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 10% (2016 : 8.5%), which provides a likelihood of sufficiency of 75% (2016 : 75%) and it has been accepted by the Board.

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 discounted by 20%. Receivables under payment arrangements are discounted by 40%. The discounts are applied based on the past experience of the business.

	2017 $	2016 $
Outstanding Claims Liability		
Life Insurance		
Opening Claims Liability	117,000	117,045
Claims Expense	1,022,383	1,112,949
Claims Paid	(1,074,383)	(1,112,994)
Closing Claims Liability	65,000	117,000
Other Non-life Insurance		
Opening Claims Liability	1,810,265	1,647,794
Claims Expense	1,455,660	1,972,678
Claims Paid	(1,767,022)	(1,810,207)
Closing Claims Liability	1,498,903	1,810,265
Motor Vehicle Insurance		
Opening Claims Liability	1,031,704	676,708
Claims Expense	5,572,914	3,332,490
Claims Paid	(4,788,926)	(2,977,494)
Closing Gross Claims Liability	1,815,692	1,031,704
Total Gross Outstanding Claims Liability	3,379,595	2,958,969
Motor Vehicle Expected Recoveries Receivable		
Opening Expected Recoveries	92,403	119,704
Increase in Expected Recoveries	547,772	135,275
Actual Third Party Recoveries Received	(482,164)	(162,576)
Closing Expected Recoveries	158,011	92,403
Motor Vehicle net Claims Liability	1,657,681	939,301
Total Net Outstanding Claims Liability	3,221,584	2,866,566

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

	2017 $	2016 $
Composition of Outstanding Claims Liability		
Life Insurance		
IBNR	65,000	117,000
Closing Claims Liability	65,000	117,000
Other Non-life Insurance		
Outstanding Claims	1,241,477	1,376,770
Indirect Claims Management Allowance - 8.5% (2016 - 8.5%)	117,426	128,925
Risk Margin - Nil (2016 - 8.5%)	-	164,570
IBNR	140,000	140,000
Closing Claims Liability	1,498,903	1,810,265
Motor Vehicle Insurance		
Outstanding Claims	1,322,113	672,993
Risk Margin - 10% (2016 - 8.5%)	132,211	100,949
Indirect Claims Management Allowance - 12.5% (2016 - 15.0%)	181,791	137,762
IBNR	179,577	120,000
Closing Gross Claims Liability	1,815,692	1,031,704
Closing Expected Recoveries	(158,011)	(92,403)
Closing Claims Liability	1,657,681	939,301
Total Net Outstanding Claims Liability (current)	3,221,584	2,866,566

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 (2016 : minimum Actual Capital of $5,250,000);
- 125% of the Calculated Minimum Solvency Capital which at 30 June 2017 was $4,518,259 (2016 : $2,550,485).

The Directors believe that the Fixed Minimum Solvency Capital of $5,000,000 set by RBNZ has been achieved. but the Company's target has been missed by $2,379 (0.05%).

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:

	2017			2016		
	Aggregate ($)	Non-Life ($)	Life ($)	Aggregate ($)	Non-Life ($)	Life ($)
Actual Solvency Capital	5,247,621	4,845,355	402,270	5,761,699	5,034,740	726,963
Minimum Solvency Capital	5,000,000	3,543,016	100,747	5,000,000	2,071,317	145,476
Solvency Margin	247,621	1,302,339	301,523	761,699	2,963,423	581,487
Solvency Ratio	105.0%	136.8%	399.3%	115.2%	243.1%	499.7%

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 entity'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.

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. The Company's reinsurer up until 30 June 2016 was Munich Re which had a financial strength rating of "AA".

With effect from 1 July 2016, the Company's motor vehicle insurance provider has been changed to Swiss Reinsurance Company Limited for a signed line of 75% and to Aspen Insurance UK Limited for a signed line of 25%. Swiss Reinsurance Company Limited and Aspen Insurance UK Limited have financial strength ratings of "AA-" and "A" respectively. The excess of loss cover, under the new treaty arrangements, has been set at $50,000.

Claims Management - claims are handled in-house by the Company's own claims department. Staff are allocated setting 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 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:

	2017		2016	
	$	$	$	$
Sensitivity Calculations	**Balance**	**Sensitivity**	**Balance**	**Sensitivity**
Outstanding Claims	2,995,018		2,581,969	
Reopening allowance 10% higher		3,000		3,000
Reopening allowance 10% lower		(3,000)		(3,000)
Claim estimates 10% higher		300,000		258,000
Claim estimates 10% lower		(300,000)		(258,000)
Administration costs 10% higher		20,000		20,000
Administration costs 10% lower		(20,000)		(20,000)
IBNR	384,577		377,000	
Claim reporting 10% longer		135,000		132,000
Claim reporting 10% quicker		(123,000)		(121,000)
	3,379,595		**2,958,969**	

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4 FUTURE FUNDED PREMIUMS

Future funded premiums includes policies that provide cover for up to 3 years.

	2017	2016
	$	$
To be collected within 12 months	5,227,304	3,787,811
To be collected after 12 months	2,928,039	1,873,762
	8,155,343	5,661,573

5 DEFERRED ACQUISITION COSTS

Reconciliation of Movements for the Financial Year

	2017	2016
	$	$
Opening Deferred Acquisition Costs	958,445	283,762
Acquisition Costs Paid	2,666,731	2,443,024
Acquisition Costs Released	(2,448,622)	(1,768,341)
Closing Deferred Acquisition Costs	1,176,554	958,445
To be expensed within 12 months	705,932	571,081
To be expensed after 12 months	470,622	387,364
	1,176,554	958,445

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.

6 UNEARNED PREMIUM LIABILITY

(a) Reconciliation of Movements for the Financial Year

	2017	2016
	$	$
Opening Unearned Premium Liability	4,571,235	2,152,388
Gross Written Premium for the Period Before Cancellations	17,256,755	14,399,397
Premiums Cancelled During the Year	(2,943,687)	(1,364,442)
Premiums Recognised During the Year	(12,304,393)	(10,616,108)
Closing Unearned Premium Liability	6,579,910	4,571,235
To be earned within 12 months	4,217,504	3,058,333
To be earned after 12 months	2,362,406	1,512,902
	6,579,910	4,571,235

(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 4.0% (2016 : 2.0% lower) higher than the unearned premium provision. The conduct of the liability adequacy test identified a shortfall at the level of 75% likelihood of sufficiency (2016 : surplus at the level of 75%).

7 INSURANCE PROVISIONS

The Company has a Financial Strength rating of 'BBB-' issued by Fitch Ratings on 17 December 2013 and affirmed in February 2017. 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 reinsurers are Swiss Reinsurance Company Ltd and Aspen Insurance UK Ltd which have a credit rating of "AA-" and "A" respectively.

8 OTHER INCOME

	2017	2016
	$	$
Litigation settlement	-	500,000
Other Income	1,304	12,864
TOTAL OTHER INCOME	1,304	512,864

9 INTEREST INCOME

	2017	2016
	$	$
Co-op Money NZ Call Account	-	24,814
Interest on Deposits	148,332	222,218
TOTAL INTEREST INCOME	148,332	247,032

10 EMPLOYEE COSTS

	2017 $	2016 $
Salaries	822,793	475,354
Other Staff Costs	86,206	1,706
TOTAL EMPLOYEE COSTS	908,999	477,060

11 DIRECTORS' FEES & EXPENSES

	2017 $	2016 $
Directors' Fees	24,413	9,582
Directors' Expenses	-	1,564
TOTAL DIRECTORS' COSTS	24,413	11,146

12 AUDITOR REMUNERATION

	2017 $	2016 $
Auditor's Remuneration		
- Audit Fees paid to PricewaterhouseCoopers	45,100	43,200
-Taxation Compliance	15,000	8,000
-Other Statutory Returns	6,000	5,950
TOTAL AUDITORS REMUNERATION	66,100	57,150

13 TAXATION

	2017 $	2016 $
Income Tax Recognised in Profit or Loss		
(Loss)/Profit before Taxation	(338,860)	380,351
Income Tax at Current Rate of 28%	(94,881)	106,498
Exempt Income	-	(140,000)
Dividends on Perpetual Preference Shares	(35,000)	(35,000)
Creation of losses/(Utilisation of losses not previously recognised) as deferred tax assets	129,881	68,502
TAXATION EXPENSE	-	-
Current Tax Assets		
Tax Refund Receivable	-	-
	-	-

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 $2,856,154 ($799,723 at the tax rate of 28%) (2016 : $2,637,120 ($738,394 at the tax rate of 28%)).

Deferred tax assets/(liabilities recognised are comprised of:	2017 $	2016 $
Deferred Tax Balance		
Deferred Tax Liabilities:		
Intangibles	(38,862)	(31,035)
Deferred Acquisition Costs	(329,435)	(267,367)
	(368,297)	(298,402)
Deferred Tax Assets:		
Provision for Employee Entitlements	7,958	7,664
Tax Losses Recognised	360,339	290,738
	368,297	298,402

Imputation Credit Account

The balance of the Imputation Credit Account at 30 June 2017 is $Nil (2016 : $Nil).

14 EQUITY

	2017	2016
	$	$
Accumulated Deficit		
Balance at the Beginning of the Year	(12,327,667)	(12,583,020)
Dividends Paid on Perpetual Preference Shares	(125,000)	(124,998)
Dividends Paid on Ordinary' Shares	-	-
Total Comprehensive (Expenses)/Income for the Year	(338,860)	380,351
Balance at the end of the Year	(12,791,527)	(12,327,667)
Capital		
Fully Paid Ordinary Share Capital -17,250,000 shares (2016 : 17,250,000 shares)	17,250,000	17,250,000
Perpetual Preference Shares - 1,250,000 shares (2016 : 1,250,000)	1,250,000	1,250,000
	18,500,000	18,500,000
Total Equity	5,708,473	6,172,333

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	-	-

15 CASH AND CASH EQUIVALENTS

	2017	2016
	$	$
Cash and Bank Balances	1,230,191	203,440
Call Deposits	745,111	1,922,544
Balance at Year End	1,975,302	2,125,984

16 INVESTMENTS

	2017	2016
	$	$
Bank Term Deposits	4,120,052	5,372,012
	4,120,052	5,372,012

17 ACCOUNTS RECEIVABLE

	2017	2016
	$	$
Trade Receivables	856,905	630,913
Provision for Insurance Policy Cancellations	(1)	(3,564)
Balance at Year End	856,904	627,349

18 EXPECTED RECOVERIES

	2017	2016
	$	$
Gross recoveries	221,653	389,296
Provisions for Non Recoveries	(63,642)	(296,893)
Balance at Year End	158,011	92,403

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19 PROPERTY, PLANT AND EQUIPMENT

	2017 $	2016 $
Furniture, Fittings, Office Equipment and Vehicles		
Opening Cost at Beginning of Year	11,116	46,672
Additions	509	-
Disposals	-	(35,556)
Closing Cost at Year End	11,625	11,116
Opening Accumulated Depreciation at Beginning of Year	3,598	37,987
Depreciation Expense	1,172	1,167
Disposals	-	(35,556)
Closing Accumulated Depreciation at Year End	4,770	3,598
Net Book Value at Year End	6,855	7,518
Computer Equipment		
Opening Cost at Beginning of Year	15,262	11,411
Additions	1,240	3,851
Disposals	-	-
Closing Cost at Year End	16,502	15,262
Opening Accumulation Depreciation at Beginning of Year	12,482	10,323
Depreciation Expense	1,795	2,159
Disposals	-	-
Closing Accumulated Depreciation at Year End	14,277	12,482
Net Book Value at Year End	2,225	2,780
Total Carrying Amount at Year End	9,080	10,298
Loss/(Gain) arising on disposal of property, plant and equipment	-	(6,973)

There were no impairment losses in respect of property, plant and equipment.

20 INTANGIBLES

	2017 $	2016 $
Computer Software		
Opening Cost at beginning of Year	1,134,112	959,263
Additions	194,220	174,849
Intangibles Written Off	(74,190)	-
Closing Cost at Year End	1,254,142	1,134,112
Opening Accumulated Amortisation at Beginning of Year	723,478	540,261
Amortisation Expense	144,001	183,217
Intangibles Written Off	(74,190)	-
Closing Accumulated Amortisation at Year End	793,289	723,478
Net Book Value at Year End	460,852	410,634

21 ACCOUNTS PAYABLE

	2017 $	2016 $
Trade Payables	361,624	525,614
Employee Expenses Accrued	112,678	27,371
Premium Rebate Accrual	404,385	807,408
Other Accrued Expenses	262,038	131,694
	1,140,725	1,492,087

22 CONTINGENT LIABILITIES

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

23 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 (See 3(a)).

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

	2017	2016
	$	$
Loans and receivables		
Cash and cash equivalents	1,975,302	2,125,984
Investments	4,120,052	5,372,012
Accounts receivable	856,904	627,349
Expected Recoveries	158,011	92,403
Future Funded Premiums	8,155,343	5,661,573
Total loans and receivables	15,265,612	13,879,321
Total financial assets	15,265,612	13,879,321
Other financial liabilities at amortised cost		
Accounts payable	1,112,305	1,464,716
Reinsurance payable	85,139	1,492,087
Outstanding Claims Liability	3,379,595	1,492,087
Total other financial liabilities at amortised cost	4,577,039	4,448,890
Total financial liabilities	4,577,039	4,448,890

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.

Co-op Insurance NZ
Financial Statements 30 June 2017

As at 30 JUNE 2017	Average Interest Rate	Less than 3 months	3 months to 1 year	1-2 years	2-5 years	5+ years	Non Interest Sensitive	Total
Assets								
Co-op Money NZ Call Account	1.8%	305,000	-	-	-	-	-	305,000
Other Cash Balances	2.8%	1,670,302	-	-	-	-	-	1,670,302
Investments	3.1%	4,120,052	-	-	-	-	-	4,120,052
Accounts Receivable		-	-	-	-	-	856,904	856,904
Expected Recoveries		-	-	-	-	-	158,011	158,011
Future Funded Premiums		-	-	-	-	-	8,155,343	8,155,343
		6,095,354	-	-	-	-	9,170,258	15,265,612
Liabilities								
Accounts Payable		-	-	-	-	-	1,112,305	1,112,305
Reinsurance Payable		-	-	-	-	-	85,139	85,139
Outstanding Claims Liability		-	-	-	-	-	3,379,595	3,379,595
		-	-	-	-	-	4,577,039	4,577,039
On Balance Sheet Interest Sensitivity Gap		6,095,354	-	-	-	-	4,593,219	10,688,573

As at 30 JUNE 2016	Average Interest Rate	Less than 3 months	3 months to 1 year	1-2 years	2-5 years	5+ years	Non Interest Sensitive	Total
Assets								
Co-op Money NZ Call Account	2.3%	100,000	-	-	-	-	-	100,000
Other Cash Balances	2.8%	2,025,984	-	-	-	-	-	2,025,984
Investments	3.0%	5,372,012	-	-	-	-	-	5,372,012
Accounts Receivable		-	-	-	-	-	627,349	627,349
Expected Recoveries		-	-	-	-	-	92,403	92,403
Future Funded Premiums		-	-	-	-	-	5,661,573	5,661,573
		7,497,996	-	-	-	-	6,381,325	13,879,321
Liabilities								
Accounts Payable		-	-	-	-	-	1,492,087	1,492,087
Reinsurance Payable		-	-	-	-	-	60,976	60,976
Outstanding Claims Liability		-	-	-	-	-	2,958,969	2,958,969
		-	-	-	-	-	4,512,032	4,512,032
On Balance Sheet Interest Sensitivity Gap		7,497,996	-	-	-	-	1,869,293	9,367,289

Interest Rate Sensitivity Analysis

The sensitivity analyses have not been calculated as there are no floating rate assets or liabilities at 30 June 2017 (2016: $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.

Investments in Financial Assets are made in accordance with the Liquidity and Market Risk Policy which reads as follows:
Co-op Insurance NZ may invest in the following New Zealand Dollar denominated cash, debt securities and fixed income products:
- Call and Term Deposits with Co-op Money NZ
- Government Guaranteed Securities, Treasury Bills and Bonds
- Local Authority Securities
- Local Government Funding Agency Securities
- Registered Bank Deposits or Certificates of Deposit
- Commercial Paper and Money Market Securities.
- Corporate Bonds
- Bank Bills
- Floating Rate Notes
- Inflation Linked Government Bonds

Other than investments with Co-op Money NZ's Central Bank, all investments must have a minimum credit rating of A2 short term (less than 365 days) and BBB long term from Standard & Poor's, Moody's or Fitch scale equivalent.

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 principal cash flows.

As at 30 JUNE 2017	Less than 3 months	3 months to 1 year	1-2 years	2-5 years	5+ years	Total
Assets						
Cash and Cash Equivalents	1,975,302	-	-	-	-	1,975,302
Investments	4,120,052	-	-	-	-	4,120,052
Accounts Receivable	856,904	-	-	-	-	856,904
Future Funded Premiums	1,821,722	3,405,583	2,060,155	867,884	-	8,155,343
Total Financial Assets	**8,773,980**	**3,405,583**	**2,060,155**	**867,884**	**-**	**15,107,601**
Liabilities						
Accounts Payable	1,112,305	-	-	-	-	1,112,305
Reinsurance Payable	85,139	-	-	-	-	85,139
Unearned Premium Liability	1,469,805	2,747,699	1,662,178	700,228	-	6,579,910
Outstanding Claims Liability	3,379,595	-	-	-	-	3,379,595
Total Financial Liabilities	**6,046,844**	**2,747,699**	**1,662,178**	**700,228**	**-**	**11,156,949**
Net Liquidity Gap	**2,727,136**	**657,884**	**397,977**	**167,656**	**-**	**3,950,652**

As at 30 JUNE 2016	Less than 3 months	3 months to 1 year	1-2 years	2-5 years	5+ years	Total
Assets						
Cash and Cash Equivalents	2,125,984	-	-	-	-	2,125,984
Investments	5,372,012	-	-	-	-	5,372,012
Accounts Receivable	627,349	-	-	-	-	627,349
Future Funded Premiums	1,442,853	2,344,958	1,233,411	640,350	-	5,661,573
Total Financial Assets	**9,568,198**	**2,344,958**	**1,233,411**	**640,350**	**-**	**13,786,918**
Liabilities						
Accounts Payable	1,492,087	-	-	-	-	1,492,087
Reinsurance Payable	60,976	-	-	-	-	60,976
Unearned Premium Liability	1,164,980	1,893,353	995,874	517,028	-	4,571,235
Outstanding Claims Liability	2,958,969	-	-	-	-	2,958,969
Total Financial Liabilities	**5,677,012**	**1,893,353**	**995,874**	**517,028**	**-**	**9,083,267**
Net Liquidity Gap	**3,891,186**	**451,605**	**237,537**	**123,322**	**-**	**4,703,651**

24 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.

Investments in short-term deposits have been classified as Level 1.

25 RELATED PARTY DISCLOSURES

Parent Company

The Parent Company is CU Securities Limited.

Ultimate Controlling Party

The ultimate controlling party is Co-op Money NZ.

Transactions with Parent and Ultimate Controlling Entity	2017 $	2016 $
Information technology services charged by Co-op Money NZ	425,349	628,593
Management services charged by Co-op Money NZ	850,105	1,378,957
Rent charged by Co-op Money NZ	101,122	70,528
Portfolio Management Fees by Co-op Money NZ	5,697	7,044
Dividend paid on Perpetual Preference Shares	125,000	124,998
Interest income from / (expense to) Co-op Money NZ	(8,902)	24,814
Insurance services were provided to Co-op Money NZ	3,626	4,776

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	2017 $	2016 $
Co-op Money NZ provides banking facilities to the Company. The amount held in current accounts and on short term deposit was	1,535,191	303,440
Included in Accounts Payable, due to Co-op Money NZ	114,123	196,924
Included in Accounts Receivable, due from Co-op Money NZ	480	-

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

Key Management Personnel Compensation

Compensation of $24,413 was paid by the Company to the independent external director until 28th April 2017. No compensation was paid to any other Director or executive, being the key management personnel of the entity.
Directors and staff may insure with the Company.

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26 RECONCILIATION OF (LOSS)/PROFIT AFTER TAX TO NET OPERATING CASH FLOWS

	2017	2016
	$	$
(LOSS)/PROFIT AFTER TAXATION	(338,860)	380,351
Adjustment for Non Cash Items:		
Depreciation	2,967	3,326
Amortisation	144,001	183,217
Loss/(Gain) on Sale of Assets	-	(6,973)
	146,968	179,570
Movements in Working Capital		
(Increase) in Accounts Receivable	(229,555)	(68,035)
Decrease in Expected Recoveries	(65,608)	27,301
(Increase) in Future Funded Premium	(2,493,770)	(3,568,714)
(Increase) in Deferred Acquisition Costs	(218,109)	(674,683)
(Increase)/Decrease in Prepaid Expenses	(3,269)	(400)
Increase in Tax Payable	1,638	62
Increase/(Decrease) in GST Payable	16,789	(8,758)
Increase/(Decrease) in Unearned Premium Liability	2,008,675	2,418,847
Increase/(Decrease) in Outstanding Claims Liability	420,626	517,422
Increase/(Decrease) in Accounts Payable	(351,362)	(108,956)
Increase/(Decrease) in Reinsurance Payable	24,163	41,806
	(889,782)	(1,424,108)
NET CASH FLOW FROM OPERATING ACTIVITIES	(1,081,674)	(864,187)

27 COMMITMENTS

The Company has committed to projects for the development of software amounting to Nil (2016: $113,442) for completion in the next financial period.

28 SUBSEQUENT EVENTS

On 31 August 2017, the Co-op Insurance NZ Board accepted an offer for the sale of the Co-op Insurance NZ insurance business to Provident Insurance Corporation Limited. The offer is structured as a portfolio deal under which Provident will assume policy liabilities from the completion date targeted to be 1 November 2017. The offer is conditional on a number of standard conditions including Reserve Bank of New Zealand approval.

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Co-op Insurance NZ

STATUTORY DECLARATION

	2017	2016
	$	$
The net (loss)/surplus of the Company for the period under review after tax was:	(338,860)	380,351
Reserves		
Accumulated Losses		
Opening Balance	(12,327,667)	(12,583,020)
Dividend Declared	-	-
Interest on Capital Convertible Note	-	-
Dividends Paid on Perpetual Preference Shares	(125,000)	(124,998)
Net (Loss)/Surplus for the Year	(338,860)	380,351
Balance at End of Year	(12,791,527)	(12,327,667)

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, apart from the independent director, 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:

Remuneration of $24,413 was paid to directors during the year (2016 : $9,582).

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

	2017	2016
Remuneration		
$110,000 - $120,000	1	1
$120,000 - $130,000	-	-

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.

1. Ensuring solid foundations for management and oversight

Co-op Insurance NZ has procedures designed to:

- Enable the Board to provide strategic guidance and effective oversight of management
- Clarify the 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.

Co-op Insurance NZ

Board composition
Co-op Insurance NZ's Board is currently composed five directors, three elected by its parent entity Board Co-op Money NZ, an independent 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.

Board process
Although the directors 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 2017 to 2019 has been approved by the parent and Management reports 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.

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. 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

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
The Company remunerated the non-executive external director in the amount of $24,413 during the year. All other non-executive directors 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. **He is** not remunerated for his role as an Executive Director of the company.

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.

Davies Financial and Actuarial Limited

20th October 2017

To: The Directors
Credit Union Insurance Limited (Trading as Co-op Insurance NZ)

From: Peter Davies
Appointed Actuary

Re: Credit Union Insurance Limited (trading as Co-op Insurance NZ): Report as at 30th June 2017 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 Co-op Insurance NZ as at 30th June 2017. "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.

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3. I am independent with respect to Co-op Insurance NZ 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. Co-op Insurance NZ exceeded the minimum capital requirement as prescribed under the RBNZ solvency standards for Life and Non-life Insurance Business 2014 respectively as at 30th June 2017. The company transacts both classes of business.

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

Yours sincerely

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

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Davies Financial and Actuarial Limited

20th October 2017

To: The Directors
Credit Union Insurance Limited (trading as Co-op Insurance NZ)

From: Peter Davies
Consulting Actuary

Re: Credit Union Insurance Limited (trading as Co-op Insurance NZ): – Solvency Return as at 30th June 2017

I would like to confirm the following:

1. I have calculated Co-op Insurance NZ's solvency position under the Solvency Standards for Non-Life and Life Insurance Business 2014 respectively, issued by the Reserve Bank in terms of the Insurance (Prudential Supervision) Act 2010.

2. The results of this assessment as at 30th June 2017 can be summarised as follows:

	Combined	Shareholder / non-life	Life
Total solvency requirement:	5,000,000	3,543,016	100,747
Total equity:	5,708,477	5,163,143	545,333
Less computer software, excess DAC	460,852	317,789	143,064
Less post-balance date dividends / capital repayments:	0	0	
Actual solvency capital	5,247,625	4,845,355	402,270
Solvency margin:	247,625	1,302,339	301,523
Solvency coverage:	105.0%	136.8%	399.3%
Target capital	5,250,000		

The position at previous six-monthly assessments was as follows:

December 2016

	Combined	Shareholder / non-life	Life
Total solvency requirement:	5,000,000	2,589,386	97,967
Actual solvency capital	5,550,463	4,806,496	743,968
Solvency margin:	550,463	2,217,110	646,001
Solvency coverage:	111.0%	185.6%	759.4%

June 2016

	Combined	Shareholder / non-life	Life
Total solvency requirement:	5,000,000	1,938,706	97,186
Actual solvency capital	5,761,699	5,034,906	726,793
Solvency margin:	761,699	3,096,199	629,607
Solvency coverage:	115.2%	259.7%	747.8%

December 2015

	Combined	Shareholder / non-life	Life
Total solvency requirement:	5,000,000	2,931,264	86,593
Actual solvency capital	5,406,706	4,950,337	456,368
Solvency margin:	406,706	2,019,074	369,776
Solvency coverage:	108.1%	168.9%	527.0%

June 2015

	Combined	Shareholder / non-life	Life
Total solvency requirement:	5,000,000	2,428,240	96,276
Actual solvency capital	5,497,978	5,022,978	475,000
Solvency margin:	497,978	2,594,738	378,724
Solvency coverage:	110.0%	206.9%	493.4%

3. I have also prepared a four year forecast which indicates that the Company is expected to remain solvent at all times over the next four years. My Financial Condition Report for the year to June 2017 discusses the issues to monitor and address over this time, in order to achieve these outcomes, notwithstanding the flexibility that the Company has via the discretionary profit rebates to member Credit Unions in respect of the profitable LoanMinder book.

My Financial Condition Report also notes that these "business as usual" projections are likely to be superseded by the conditional agreement to sell the Company's insurance book to Provident Insurance, but also notes that in the interim, the Company has to be managed as if this sale does not proceed.

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

Kind regards

Yours sincerely

Peter

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

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