First American Title Insurance Company of Australia Pty Limited
(New Zealand Branch)

Annual Financial Report

For the year ended 31 December 2019

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Index

Index	Page
Directors' report	2-3
Corporate Governance	4
Statement of Profit or Loss and Other Comprehensive Income	5
Statement of Financial Position	6
Statement of Changes in Equity	7
Statement of Cash Flows	8
Notes to the Financial Statements	9-25
Directors' Declaration	26
Independent Audit Report to the Members	27

First American Title Insurance Company of Australia Pty Limited (New Zealand Branch)

Directors' Report
For the year ended 31 December 2019

Company number	AKOS 1022212
IRD number	76-345-783
Nature of business	Provision of general insurance services
Registered office	First American Title Insurance Company of Australia Pty Limited (New Zealand Branch) Level 1, 110 Mount Eden Road, Mount Eden, Auckland NZ 1024

The directors present their report together with the financial statements of First American Title Insurance Company of Australia Pty Limited (New Zealand Branch) for the financial year ended 31 December 2019 and the auditor's report thereon.

Directors

Mr Eric Richard Dodd

• Appointed as an independent Director on 6 June 2002;
• Eric is the Chairman of the First American Title Insurance Company of Australia Pty Limited Board, and has many years of experience in the financial services industry in Australia at senior management level, including the roles of Managing Director of NRMA Insurance Limited and Chief Executive Officer of NRMA Limited.

Mr Anthony Peter Gill

• Appointed as an independent Director on 11 September 2006;
• Anthony is Chairman of the Board Remuneration Committee, is a member of the Board Audit Committee and Board Risk Committee and has many years of experience in the banking industry in Australia in the areas of treasury, mortgage banking and securitisation. He is past Chairman of the Australian Securitisation Forum and past President of the Mortgage Industry Association of Australia.

Mr David John Ryan

• Appointed as an independent Director on 6 February 2015;
• David is the chairman of both the Board Audit and Board Risk Committees, and is a member of the Board Remuneration Committee. He has extensive experience at executive management level in commercial banking, investment banking and operational business management, together with over 20 years experience as a non-executive director, including chairing a number of Boards and other senior level Committees.

Mrs Patti Hui-Ting Eyers

• Appointed as an executive Director on 31 July 2013;
• Patti is the Chief Executive Officer of the First American Title Insurance Company of Australia Pty Limited, and has many years of experience in senior managerial roles in the financial services industry in both Australia and Europe, including the role of Chief Financial Officer of First Mortgage Services Pty Ltd (Australia and New Zealand) prior to being appointed to this current position.

Mr George Stone Livermore

• Appointed as a non-executive Director on 4 May 2017;
• George is Executive Vice President for First American Financial Corporation, and has more than 25 years experience in the housing finance and property information industry in the United States at senior management level, including the roles of group executive, Data and Analytics Segment at CoreLogic, president of First American Corporation's Property Information and Services Group and president of First American Real Estate Solutions.

First American Title Insurance Company of Australia Pty Limited (New Zealand Branch)

Directors' Report
For the year ended 31 December 2019

The Board of Directors presents its annual report including financial statements of First American Title Insurance Company of Australia Pty Limited (New Zealand Branch) for the year ended 31 December 2019.

As required by section 211 (1) of the Companies Act 1993 we disclose the following information:
• The business of the Company is insurance.
• The nature of the Company's business has not changed during the year under review.
• The business operates as a profit making concern.
• There have been no changes in accounting policies. All policies have been applied on bases consistent with those used in previous years.
• There were no transactions entered into by the Directors during the year that require disclosure.
• The following persons were Directors of the Company during the year and up to date of report:

Mr Eric Richard Dodd
Mr Anthony Peter Gill
Mr David John Ryan
Mrs Patti Hui-Ting Eyers
Mr George Stone Livermore

The Company had an agency agreement with First Mortgages Services Pty Limited and First Title Pacific Limited for the transacting of title insurance in New Zealand. The contract was based on normal commercial terms and conditions.

The Company has the power to amend and reissue the financial report.

For and on behalf of the Board of Directors

Director 19 March 2020
Date

Director 19 March 2020
Date

First American Title Insurance Company of Australia Pty Limited (New Zealand Branch)

Corporate Governance
For the year ended 31 December 2019

First American Title Insurance Company of Australia Pty Limited (New Zealand Branch) ("the Branch") is a branch of an Australian company, First American Title Insurance Company of Australia Pty Limited ("the Company").

The parent entity of the Company is FAF International Holdings GmbH incorporated in Switzerland. The ultimate parent entity is the First American Financial Corporation incorporated in the United States of America.

The registered office of First American Title Insurance Company of Australia Pty Limited (New Zealand Branch) ("the Branch") is located at a Level 1, 110 Mount Eden Road, Mount Eden, Auckland NZ 1024.

The Board operates in accordance with its Board Charter which sets out the key governance principles adopted by the Board.

The Charter describes the Board's responsibilities which include:

- That the Board composition and skill mix is adequate in the context of the range of risks and interests managed;
- An appropriately experienced, skilled and competent Chief Executive Officer is appointed;
- Shareholders' interests are protected;
- Regulatory requirements are met;
- Decisions are ethically and practically based;
- Strategic direction is set and monitored; and
- Systems are in place to monitor performance.

Under the Charter, the Board duties include the following:

- Consider and approve appropriate key Committee charters and First Title policies which underpin its governance responsibilities;

- Determine the terms and conditions of, and targets for, appointment and performance of the Chief Executive Officer;
- Annually review First Title's strategic plan;
- Annually approve the budget;
- Review financial results;
- Identify and manage effectively areas of significant risk; and
- Annually review the performance of the Board Audit, Risk and Remuneration Committees, and review the charters of these Committees every five years.

There are five directors on the Board of First Title, comprising the following:
- Three independent directors, one of whom is the Chairman;
- One executive director (and Chief Executive Officer); and
- One non-executive Director.

The Board also delegates a number of responsibilities to the Chief Executive Officer.

Brief details of directors' qualifications and experience are set out in the Directors' Report.

First Title has three Board Committees in place to assist with the overall governance of the organisation. These are:
- Board Audit Committee;
- Board Remuneration Committee; and
- Board Risk Committee.

First American Title Insurance Company of Australia Pty Limited (New Zealand Branch)

Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2019

	Note	2019 $	2018 $
Premium revenue		163,360	165,320
Outwards reinsurance premium expense		(7,484)	(7,247)
Net premium revenue		155,876	158,073
Claims released		4,223	5,825
Reinsurance and other recoveries		(3,999)	(16,289)
Net claims incurred		224	(10,464)
Acquisition costs		(32,672)	(33,064)
Underwriting expense		(32,672)	(33,064)
Underwriting result		123,428	114,545
Interest income		46,965	48,320
Accountancy fees		(10,808)	(12,984)
Professional consulting expenses		(1,434)	(1,365)
General expenses		(539)	(1,001)
		34,184	32,970
Profit before tax expense		157,612	147,515
Income tax expense/(benefit)	6	17,763	(18,405)
Profit after income tax expense		175,375	129,110
Other comprehensive income		-	-
Total comprehensive income for the year attributable to owners of the Company:		175,375	129,110

This statement is to be read in conjunction with the Notes to the Financial Statements and Statement of Accounting Policies that form part of the financial statements.

First American Title Insurance Company of Australia Pty Limited (New Zealand Branch)

Statement of Financial Position
As at 31 December 2019

	Notes	2019 $	2018 $
Current assets			
Cash and cash equivalents	5a	1,174,050	1,054,481
Term Deposits	5b	1,351,665	1,311,511
Trade and other receivables	7	10,608	11,580
Amounts due from related entities	10	801,765	806,551
Accrued interest		30,064	29,421
Reinsurance and other recoveries	8	24,961	22,130
Total current assets		3,393,113	3,235,674
Non-current assets			
Investments	7	-	-
Reinsurance and other recoveries	8	65,101	71,862
Total non-current assets		65,101	71,862
Total assets		3,458,214	3,307,536
Current liabilities			
Trade and other payables	17	13,395	11,175
Amounts due to related entities	19	-	-
Outstanding claims	9	37,127	36,585
Amounts due to related entities	10	104,795	124,656
Provision for taxation	6	42,280	45,282
Total current liabilities		197,597	217,698
Non-current liabilities			
Outstanding claims	9	83,820	88,415
Total non-current liabilities		83,820	88,415
Total liabilities		281,417	306,113
Net assets		3,176,797	3,001,423
Represented by:			
Head office account		3,176,797	3,001,422
Total head office account		3,176,797	3,001,422

This statement is to be read in conjunction with the Notes to the Financial Statements and Statement of Accounting Policies that form part of the financial statements.

First American Title Insurance Company of Australia Pty Limited (New Zealand Branch)

Statement of Movement in Head Office Account
For the year ended 31 December 2019

	2019 $	2018 $
Head office account at the beginning of the year	3,001,422	2,872,312
Profit for the year	175,375	129,110
Head office account at the end of the year	3,176,797	3,001,422

This statement is to be read in conjunction with the Notes to the Financial Statements and Statement of Accounting Policies that form part of the financial statements.

First American Title Insurance Company of Australia Pty Limited (New Zealand Branch)

Cash Flow Statement
For the year ended 31 December 2019

	Notes	2019 $	2018 $
Cash flows from operating activities			
Premiums received		164,332	164,401
Outwards reinsurance premium expense		(7,484)	(7,246)
Claims paid		168	(202)
Reinsurance and other recoveries		3,930	17,200
Interest received		46,322	38,708
Other expenses paid		(62,306)	(16,930)
Income taxes paid/(refund)		14,761	(20,019)
Net cash from operating activities	16	159,723	175,912
Cash flows from investing activities			
Net (purchase)/proceeds from investments		(40,154)	(672,764)
Net cash used in investing activities		(40,154)	(672,764)
Net increase/(decrease) in cash and cash equivalents		119,569	(496,852)
Cash and cash equivalents at beginning of year		1,054,481	1,551,333
Cash and cash equivalents at end of year		1,174,050	1,054,481

This statement is to be read in conjunction with the Notes to the Financial Statements and Statement of Accounting Policies that form part of the financial statements.

First American Title Insurance Company of Australia Pty Limited (New Zealand Branch)

Notes to the Financial Statements
For the year ended 31 December 2019

1. STATEMENT OF ACCOUNTING POLICIES

REPORTING ENTITY

First American Title Insurance Company of Australia Pty Limited (New Zealand Branch) ("the Branch) is registered to carry on insurance in New Zealand as a foreign Branch. The principal activity is the underwriting of title insurance risks. The Branch is a for-profit entity.

The financial statements were authorised for issue by the Board of Directors on 17 March 2020.

STATEMENT OF COMPLIANCE

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). They comply with the New Zealand Equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable Financial Reporting Standards as appropriate to profit generating entities. The Branch is a reporting entity in terms of the Financial Markets Conduct Act 2013 and the financial statements have been prepared in accordance with the requirements of that Act and the Financial Reporting Act 2013.

The current IFRS standard for insurance contracts does not include a comprehensive set of recognition and measurement criteria. The IASB has issued a new standard (IFRS 17 Insurance Contracts – adopted as NZ IFRS 17 Insurance Contracts in a New Zealand context) that does include such criteria, the effective date of 1 January 2021 has been deferred to 1 January 2022 subject to being approved by the New Zealand Accounting Standards Board, at which time NZ IFRS 9 Financial Instruments will be implemented as well given the Branch meets the requirements for deferral under the amendment to NZ IFRS 4 Applying NZ IFRS 9 Financial Instruments with NZ IFRS 4 Insurance Contracts. Until this standard takes effect, the financial reports of insurers in different countries that comply with IFRS may not be comparable in terms of the recognition and measurement of insurance contracts.

BASIS OF PREPARATION

The financial statements comply with International Financial Reporting Standards.

First American Title Insurance Company of Australia Pty Limited (New Zealand Branch) ("the Branch) is a branch of First American Title Insurance Company of Australia Pty Limited ("the Company") and is a separate reporting entity in terms of the Financial Markets Conduct Act 2013 and the Financial Reporting Act 2013. The branch and head office are one legal entity and therefore the Branch's financial statements should be read in conjunction with the Company's. The Company has a strong financial position and will provide necessary financial support when it is required to meet any future claims obligations of the Branch and any deficit in the Head Office Account. Based on this the directors are satisfied that the going concern assumption is appropriate.

The statement of financial position has been prepared using the liquidity format of presentation, in which the assets and liabilities are presented broadly in order of liquidity. The assets and liabilities comprise both current amounts (expected to be recovered or settled within 12 months after the reporting date) and non-current amounts (expected to be recovered or settled more than 12 months after the reporting date). For those assets and liabilities that comprise both current and non-current amounts, information regarding the respective current and non-current amounts is disclosed in the relevant note to the financial statements.

Items included in the financial statements are measured using the currency of the primary economic environment in which the Branch operates. The financial statements are presented in New Zealand dollars, which is the Branch's functional and presentation currency.

The Branch has applied the amendment to NZ IFRS 4 Applying NZ IFRS 9 Financial Instruments with NZ IFRS 4 Insurance Contracts from 1 January 2018, and has made the required disclosures in its 2019 financial statements in relation to the deferral of NZ IFRS 9 Financial Instruments.

BASIS OF PREPARATION (continued)

The mandatory application of NZ IFRS 17 Insurance Contracts ("NZ IFRS 17") has been deferred to 1 January 2022 subject to approval of the proposed one-year delay. The Branch continuing to work through the detailed impact assessment of the new standard. NZ IFRS 17 is likely to have significant impact on the Branch's recognition and measurement of insurance contracts and their disclosure in the financial statements.

A number of other new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2020, and have not been applied in preparing these financial statements. An initial assessment of these standards and amendments has taken place and the application of these standards is not expected to have material impact on the Branch's accounting policies.

The financial report is prepared on the historical cost basis except for investments being stated at fair value and outstanding claims and the related reinsurance recoveries on unpaid claims being stated at present value.

1.1 Measurement base

The financial statements are prepared on the historical cost basis except the following assets and liabilities are stated at fair value:

- Cash and cash equivalents;
- Investments;
- Reinsurance and other recoveries; and
- Outstanding claims.

1.2 Significant accounting policies

The following is a summary of the significant accounting policies adopted by the Branch in the preparation of its financial statements.

Premium revenue

Premium revenue comprises amounts charged to the policyholders excluding GST. The Branch underwrites title insurance policies. The insurance risk relates to losses arising from title and associated defects existing at the date the policy was accepted by the Branch and premium revenue is recognised as fully earned at the date of attachment of the policy.

Outwards reinsurance

Premium ceded to reinsurers is recognised as an expense in accordance with the pattern of reinsurance service received. Accordingly, in line with premium revenue, no reinsurance premium has been treated as a prepayment at balance date.

Payables

Trade payables and other short-term monetary liabilities are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Provision for outstanding claims

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

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

1.2 Significant accounting policies (continued)

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

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

Discount rate

The outstanding claims liability is calculated by reference to expected future payments. These payments are discounted to adjust for the time value of money. An increase or decrease in the assumed discount rate will have an opposing impact on claims expense.

Goods and Services Tax

These financial statements have been prepared exclusive of Goods & Services Tax (GST). All items in the statement of financial position are stated net of GST except for accounts receivable and accounts payable which are stated at GST inclusive values.

Reinsurance and Other Recoveries

Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims. Recoveries are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

Cash and cash equivalents

Cash is cash on hand and demand deposits. 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 change in value.

Income taxes

The income tax expense or benefit for the period is the total of the current period's taxable income based on the national income tax rate in New Zealand plus/minus prior years under/over provisions and plus/minus movements in the deferred tax balance except where the movement in deferred tax is attributable to a movement in reserves. Deferred tax is provided in full using the liability method. Movements in deferred tax are attributable to temporary differences between the tax base of assets and liabilities and their carrying amounts in the financial statements and any unused tax losses or credits. Deferred tax assets and liabilities are recognised for temporary differences at the tax rate expected to apply when the assets are recovered or liabilities are settled, based on the national income tax rate in New Zealand. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either the accounting profit or loss or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only to the extent that it is probable that future taxable amounts will be available to utilise those temporary differences and losses. The income tax expense or revenue attributable to amounts recognised directly in equity is also recognised directly in equity. The associated current or deferred tax balances are recognised in these accounts.

1.2 Significant accounting policies (continued)

Financial Instruments

The carrying amount of cash assets and bank overdrafts approximate their fair value. For the purposes of the statement of cash flow, cash includes cash on hand, deposits held at call with banks and investments in money market instruments, net of bank overdrafts. Unlisted fixed interest securities are measured at fair value based on valuations using rates of interest equivalent to the yields obtainable on comparable investments at balance date.

All purchases and sales of financial assets that require delivery of the asset within the time frame established by regulation or market convention ("regular way" transactions) are recognised at trade date, being the date on which the Branch commits to buy or sell the asset. In cases where the period between trade and settlement exceeds this time frame, the transaction is recognised at settlement date. Financial assets are derecognised when the rights to receive future cash flows from the asset have expired, or have been transferred, and the Branch has transferred substantially the risks and rewards of ownership. Amounts due from policyholders and intermediaries are initially recognised at fair value, being the amounts due. They are subsequently measured at fair value which is approximated by taking the initially recognised amount and reducing it for impairment as appropriate.

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for expected credit loss ("ECL").

The Company applies the 'simplified approach' for determining the allowance for ECL, where lifetime ECL are recognised from initial recognition of the receivables. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of the receivable. When determining the allowance for ECL, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both qualitative and quantitative information based on the Company's historical experience and forward looking information as applicable. Loss events include financial difficulty or bankruptcy of the debtor, significant delay in payments and breaches of contracts. The ECL is recognised in income statement.

Presentation Currency

All amounts in the Financial Statements are expressed in New Zealand Dollars ($), which is the Branch's functional and presentation currency, unless otherwise stated and rounding is to the nearest dollar.

Foreign currency

Transactions entered in a currency other than the currency of the primary economic environment in which they operate (their "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the reporting date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in profit or loss, except for foreign currency borrowings qualifying as a hedge of a net investment in a foreign operation, in which case exchange differences are recognised in other comprehensive income and accumulated in the foreign exchange reserve along with the exchange differences arising on the retranslation of the foreign operation.

Exchange gains and losses arising on the retranslation of monetary available-for-sale financial assets are treated as a separate component of the change in fair value and recognised in profit or loss. Exchange gains and losses on non-monetary available-for-sale financial assets form part of the overall gain or loss recognised in respect of that financial instrument.

1.2 Significant accounting policies (continued)
Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the branch will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the consolidated statement of comprehensive income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

From time to time, the Branch elects to renegotiate the terms of trade receivables due from customers with which it has previously had a good trading history. Such renegotiations will lead to changes in the timing of payments rather than changes to the amounts owed and, in consequence, the new expected cash flows are discounted at the original effective interest rate and any resulting difference to the carrying value is recognised in the statement of comprehensive income (operating profit).

The branch's loans and receivables comprise trade and other receivables and cash and cash equivalents in the statement of financial position.

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and – for the purpose of the statement of cash flows - bank overdrafts. Bank overdrafts are shown within loans and borrowings in current liabilities on the consolidated statement of financial position.

1.3 Changes in accounting policies

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2019, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Branch, except for:

- NZ IFRS 17 Insurance Contracts, which becomes mandatory for the Branch's 2021 financial statements will significantly change the principles for the recognition, measurement, presentation and disclosure of insurance contracts from the current accounting standards (NZ IFRS 4 Insurance Contracts). The Branch does not plan to adopt this standard early and the extent of the impact has not been determined.

2. CRITICAL ACCOUNTING JUDGEMENT AND ESTIMATES

The Branch makes estimates and assumptions in respect of certain key assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key areas in which critical estimates and judgements are applied are described below.

2. CRITICAL ACCOUNTING JUDGEMENT AND ESTIMATES (continued)

2.1 The ultimate liability arising from claims made under insurance contracts

The Branch operates in a specialised line of business (title insurance), resulting in a lack of comparable data relating to assumptions. The value of outstanding claims has been adjusted to reflect the uncertainty of current market conditions. Whilst this represents the best estimate of the value at balance date, the current market uncertainty means the ultimate value of outstanding claims may be higher or lower than the value recorded in the financial statements. Provision is made at the year end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported.

The estimated cost of claims includes direct expenses to be incurred in settling claims gross of the expected value of subrogation rights and other recoveries. The Branch takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. The estimation of claims incurred but not reported (IBNR) is subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Branch, where more information about the claim event is available. IBNR claims may often not be apparent to the insured until many years after the events which gives rise to the claim.

In calculating the estimated cost of unpaid claims the Branch uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- (i) changes in Branch processes which might accelerate or slow down the development and/or recording of paid or incurred claims, compared with the statistics from previous periods;
- (ii) changes in the legal environment;
- (iii) the effects of inflation;
- (iv) changes in the mix of business; and
- (v) the impact of large losses.

A component of these estimation techniques is the cost of notified but not paid claims. In estimating the cost of these the Branch has regard to the claims circumstances as reported, any information available from loss adjustors and information on the cost of settling claims with similar characteristics in previous periods. Large claims are generally assessed separately, being measured on a case by case basis or projected separately in order to allow for possible distortion introduced by the development and incidence of these large claims. The Branch adopts multiple methods to estimate the required level of provisions. This assists by giving greater understanding of the trends inherent in the experience being projected. The projections given by the various methodologies also assist in understanding the range of probable outcomes. The most appropriate method is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from the reinsurer based upon the gross provisions.

Details of specific assumptions used in deriving the outstanding claims liability at year end are detailed in note 3.

3. ACTUARIAL ASSUMPTIONS AND METHODS

The Branch writes one class of business only. The cost of claims notified to the Branch at the reporting date is estimated on a case-by-case basis to reflect the individual circumstances of each claim. The ultimate number of claims is projected based on past reporting patterns. Payment experience is analysed based on averages per claim incurred and averages paid per claim finalised. In addition, historic case estimate development is used to develop a model of future liabilities. The resulting average claim sizes from these models are analysed, along with loss ratios and other statistics, in order to determine, using a judgemental overlay, a final estimate of outstanding claims. Claims inflation is incorporated into the resulting projected payments, to allow for general economic inflation detected in the modelling of payments experience.

Projected payments are discounted to allow for the time value of money.

3.1 Actuarial assumptions

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

	2019	2018
Average weighted term to settlement from claim reported date	1.07 years	0.87 years
Claims handling expense rate	7.50%	6.00%
Discount rate	0.9% pa	1.9% pa
Inflation	n/a	n/a
Prudential risk margin	40%	40%

3.2 Process to determine assumptions

A description of the processes used to determine these assumptions is provided below. The overall reserves are valued at a 75% level of confidence.

Average weighted term to settlement
The estimated average weighted term to settlement is based on historic settlement patterns.

IBNR factors
The adopted factors are based on historical cost development patterns.

Prior expected loss ratios
Adopted ratios are based on historical loss ratios.

Inflation
Implicit allowance for inflation is made by using the Bornhuetter-Ferguson valuation method. Inflation is not expected to have a material impact.

Reinsurance and non-reinsurance recoveries
Estimates of recoveries are based on historical recovery rates.

Claims handling expenses
The allowance for claims handling expenses is based on the historical relationship between the claims handling expenses and gross claim costs.

Discount rate
The adopted discount rate is estimated using the expected claim payment profile government bond yield curve at balance date.

4. INSURANCE CONTRACTS – RISK MANAGEMENT POLICIES AND PROCEDURES

The financial condition and operation of the Branch are affected by a number of key risks including insurance risk, interest rate risk, currency risk, credit risk, market risk, liquidity risk, financial risk, compliance risk, fiscal risk and operational risk. Notes on the Branch's policies and procedures in respect of managing these risks are set out below.

4. INSURANCE CONTRACTS – RISK MANAGEMENT POLICIES AND PROCEDURES (continued)

4.1 Objectives in managing risks arising from insurance contracts and policies for mitigating those risks

The Branch has an objective to control insurance risk thus reducing the volatility of operating profits. In addition to the inherent uncertainty of insurance risk, this can lead to significant variability in the loss experience; profits from insurance business are affected by market factors, particularly competition and movements in asset values. Short-term variability is a feature of insurance business.

The Board and the senior management of First American Title Insurance Company of Australia Pty Limited (The Company) have developed, implemented and maintained a Risk Management Strategy (RMS) and a Reinsurance Management Strategy (ReMS). The RMS and the ReMS identify the Company's policies and procedures, processes and controls that comprise its risk management and control systems. These systems address all material risks, financial and non-financial, likely to be faced by the Company and The New Zealand Branch. Annually, the Board certifies that adequate strategies have been put in place to monitor those risks, that the Company has systems in place to ensure compliance with legislative and prudential requirements and that the Board has satisfied itself as to the compliance with the RMS and ReMS.

The RMS and ReMS have been approved by the Board. Key aspects of the processes established in the RMS to mitigate risks include:

(i) The maintenance and use of management information systems, which provide up-to-date, reliable data on the risks to which the business is exposed at any time.

(ii) Actuarial models, using information from the management information systems, are used to monitor claims patterns. Past experience and statistical methods are used as part of the process.

(iii) Documented procedures are followed for underwriting and accepting insurance risks.

(iv) Reinsurance is used to limit the Company and New Zealand Branch's exposure to large single claims and cap the aggregate exposure of the Company and New Zealand Branch in any one underwriting year.

(v) The assets in which the Company and New Zealand Branch invests are selected to ensure that the Company and New Zealand Branch can meet their claim paying obligations.

4.2 Terms and conditions of insurance business

The terms and conditions attaching to insurance contracts affect the level of insurance risk accepted by the Branch. The majority of insurance contracts written are entered into on a standard basis. There are no special terms and conditions in any non-standard contracts that have a material impact on the financial statements.

4.3 Concentration of insurance risk

The Branch has in place measures to manage its exposure to accumulations of risk. At the outset concentration risk in the New Zealand context is underpinned by a system of land title which is government guaranteed. As a general insurer operating within the real property market in New Zealand, the Board understands the nature of the Branch's business is such that a catastrophic risk and/or risks resulting from placement concentration are highly unlikely.

4.4 Development of claims

There is a possibility that changes may occur in the estimate of the Branch's obligations at the end of a contract period. A gross claim development table is set out in note 10. No net development table has been presented due to the aggregate reinsurance treaty minimising the volatility of the net claims.

4.5 Interest rate risk

With the exception of the discount rate discussed above none of the financial assets or liabilities arising from insurance contracts entered into by the Branch are directly exposed to interest rate risk.

Insurance contracts are entered into once, i.e. are not renewed on a periodic basis. At the time of entering into the contract all terms and conditions are negotiable.

First American Title Insurance Company of Australia Pty Limited (New Zealand Branch)

Notes to the Financial Statements
For the year ended 31 December 2019

	2019 $	2018 $
5a. CASH AND CASH EQUIVALENTS		
Cash at bank	1,174,050	1,054,481
Total cash	1,174,050	1,054,481

				2019 $	2018 $
5b. TERM DEPOSITS					
Term Deposit	**Maturity date**	**Term**	**Interest rate**		
ANZ Bank	28-Apr-20	365 days	3.25%	669,915	649,111
ANZ Bank	06-Mar-20	359 days	3.40%	681,750	662,400
Total term deposits				1,351,665	1,311,511

	2019 $	2018 $
6. TAXATION		
Income Tax		
Profit before tax expense	157,612	147,515
Tax at 28%	44,131	41,304
Income Tax Expense		
Tax expense at domestic tax rate	44,131	41,304
Tax effect of amounts not assessable	(39,557)	(36,675)
Withholding tax paid on non resident insurance	(22,337)	9,460
Prior year under provision	-	4,315
Taxation expense	(17,763)	18,405
Tax Payable		
Tax account opening balance	45,282	46,896
Tax expense at domestic tax rate	44,131	41,304
Non resident insurance withholding tax	(22,337)	9,460
	67,076	97,660
Less:		
Tax effect of amounts not assessable	(44,131)	(36,675)
Tax paid on premium income	(3,002)	(6,243)
Withholding tax paid on non resident insurance	22,337	(9,460)
	(24,796)	(52,378)
Tax payable as per Statement of Financial Position	42,280	45,282

First American Title Insurance Company of Australia Pty Limited (New Zealand Branch)

Notes to the Financial Statements
For the year ended 31 December 2019

	2019 $	2018 $
7. CURRENT ASSETS - TRADE AND OTHER RECEIVABLES		
Trade and other receivables	10,608	11,580
Total current trade and other receivables	10,608	11,580

Trade receivables amounted to $10,608 (2018: $11,580) and are not past due or impaired – refer to note 11. Trade receivables generally have terms of 45 days and are interest free. Trade receivables of a short-term duration are not discounted.

	2019 $	2018 $
8. REINSURANCE AND OTHER RECOVERIES		
Undiscounted expected future recoveries	92,744	99,259
Discount to present value	(2,682)	(5,267)
Reinsurance and other recoveries	90,062	93,992
Reinsurance and other recoveries - current	24,961	22,130
Reinsurance and other recoveries - non-current	65,101	71,862
Reinsurance and other recoveries	90,062	93,992

	2019 $	2018 $
9. OUTSTANDING CLAIMS		
Undiscounted expected future claim payments		
Central estimate	109,955	117,963
Risk margin	5,971	6,232
Handling costs	8,022	6,723
	123,948	130,918
Discount to present value	(3,001)	(5,918)
Outstanding claims	120,947	125,000
Outstanding claims - current	37,127	36,585
Outstanding claims - non-current	83,820	88,415
Outstanding claims	120,947	125,000

First American Title Insurance Company of Australia Pty Limited (New Zealand Branch)

Notes to the Financial Statements
For the year ended 31 December 2019

9. OUTSTANDING CLAIMS (continued)

Claims development table

Policy Year	Prior years	2015	2016	2017	2018	2019	Total
	$	$	$	$	$	$	$
Estimate of ultimate claims cost							
At end of policy year		37,563	28,338	16,729	21,230	21,138	
One year later		29,141	21,146	12,964	16,451		
Two years later		22,642	17,461	10,704			
Three years later		18,125	13,978				
Four years later		13,027					
Current estimate of cumulative claim costs	959,453	13,027	13,978	10,704	16,451	21,138	1,034,752
Cumulative payments	924,797	-	-	-	-	-	924,797
Outstanding claims - undiscounted	34,656	13,027	13,978	10,704	16,451	21,138	109,955
Discount	(576)	(295)	(359)	(318)	(569)	(884)	(3,001)
Outstanding claims - discounted	34,080	12,732	13,619	10,386	15,883	20,254	106,954
Claims handling expense - discounted	2,556	955	1,021	779	1,191	1,519	8,022
Risk margin (discounted)							5,971
Total gross outstanding claims							120,947

10. AMOUNTS CHARGED TO AND RECEIVED FROM ENTITIES WITHIN THE GROUP

During the year, the Branch entered into following transactions with related parties:

	2019	2018
	$	$
Amounts due from related entities	801,765	806,550
Amounts due to related entities	(104,795)	(124,656)
Total amounts due from related entities	696,970	681,894

11. FINANCIAL INSTRUMENTS

11.1

Interest rate risk

The Branch's main interest rate risk arises from cash and short term deposits. There are no interest rates derivatives open at reporting date. At 31 December 2019, if interest rates had changed by -1%/+1% from the year end rates with all other variables held constant, equity and post-tax profit for the year would have been $11,741 (2018: $10,545) lower/ higher mainly as a result of investing.

Summarised Sensitivity Analysis

The effect on profit and equity due to a reasonably possible change in risk variable is outlined in the information below, for interest rate risk and foreign exchange risk. A reasonably possible change in risk variable has been determined after taking into account past performance, future expectations, economic forecasts and management's knowledge and experience of the financial markets. The sensitivity analysis is based on risk exposures in existence at the balance sheet date. The analysis is performed on the same basis for 2018. The analysis assumes that all other variables remain constant.

The following table summarises the sensitivity of the Branch's financial assets and financial liabilities to interest rate risk.

2019	Carrying Amount	Interest rate risk			
		-1%		+1%	
	$	Profit $	Equity $	Profit $	Equity $
Financial assets					
Cash and cash equivalents	1,174,050	(11,741)	(11,741)	11,741	11,741
Total increase/(decrease)		(11,741)	(11,741)	11,741	11,741

2018	Carrying Amount	Interest rate risk			
		-1%		+1%	
	$	Profit $	Equity $	Profit $	Equity $
Financial assets					
Cash and cash equivalents	1,054,481	(10,545)	(10,545)	10,545	10,545
Total increase/(decrease)		(10,545)	(10,545)	10,545	10,545

First American Title Insurance Company of Australia Pty Limited (New Zealand Branch)

Notes to the Financial Statements
For the year ended 31 December 2019

11. FINANCIAL INSTRUMENTS (continued)
11.2 Credit risk

Credit risk arises when there is the possibility of the Branch's debtors defaulting on their contractual obligations, resulting in a financial loss to the Branch. Credit risk arises from the financial assets of the Branch including cash, receivables and investments. The carrying amount of financial assets in the Branch's balance sheet represents the Branch's maximum exposure to risk. No collateral is held by the Branch. The Branch has not granted any financial guarantees.

The credit risk on financial assets which have been recognised on the balance sheet is generally the carrying amount, net of any provisions for doubtful debts.

Credit Quality Table	2019 rating	2018 rating	2019 $	2018 $
Cash and cash equivalents	AA-	AA-	1,174,050	1,054,481
Trade and other receivables	Not rated	Not rated	10,608	11,580
Reinsurance recoveries	A-	A-	90,062	93,992
Accrued interest	AA-	AA-	30,064	29,421

Aging Table	Not past due	Past due but not impaired	Impaired	2019 $
Trade and other receivables	10,608	-	-	10,608
Reinsurance recoveries	90,062	-	-	90,062
Accrued interest	30,064	-	-	30,064

Aging Table	Not past due	Past due but not impaired	Impaired	2018 $
Trade and other receivables	11,580	-	-	11,580
Reinsurance recoveries	93,992	-	-	93,992
Accrued interest	29,421	-	-	29,421

First American Title Insurance Company of Australia Pty Limited (New Zealand Branch)

Notes to the Financial Statements
For the year ended 31 December 2019

11. FINANCIAL INSTRUMENTS (continued)

11.3 Liquidity risk

Liquidity risk is the risk that the Branch will be unable to meet its obligations when they fall due. The Branch continuously manages risk through rolling forecasts of the Branch's liquidity reserve on the basis of expected cash flow.

No assets have been pledged as collateral. The Branch's exposure to liquidity risk is deemed insignificant based on prior periods' data and current assessment of risk.

The only financial liabilities that exist are trade and sundry payables to various entities, outstanding claims and taxes. These liabilities have the following maturity pattern:

Maturity Profile Table	1 year or less	1 to 3 years	2019 $
Payables	9,766	-	9,766
Outstanding claims	37,127	83,820	120,947
GST payable	3,629	-	3,629
Provision for tax	42,280	-	42,280

Maturity Profile Table	1 year or less	1 to 3 years	2018 $
Payables	6,545	-	6,545
Outstanding claims	36,585	88,415	125,000
GST payable	4,630	-	4,630
Provision for tax	45,282	-	45,282

11.4 Financial instruments by category of financial instruments

2019	Receivables at Amortised Cost $	FVTPL $	FVOCI $	Liabilities at Amortised Cost $	Total $
Term deposits	-	1,351,665	-	-	1,351,665
Trade and other receivables	10,608	-	-	-	10,608
Cash and cash equivalents	1,174,050	-	-	-	1,174,050
Trade and other payables	-	-	-	(13,395)	(13,395)
Total	1,184,658	1,351,665	-	(13,395)	2,522,928

2018	Receivables at Amortised Cost $	FVTPL $	FVOCI $	Liabilities at Amortised Cost $	Total $
Term deposits	-	1,311,511	-	-	1,311,511
Trade and other receivables	11,580	-	-	-	11,580
Cash and cash equivalents	1,054,481	-	-	-	1,054,481
Trade and other payables	-	-	-	(11,175)	(11,175)
Total	1,066,061	1,311,511	-	(11,175)	2,366,397

First American Title Insurance Company of Australia Pty Limited (New Zealand Branch)

Notes to the Financial Statements
For the year ended 31 December 2019

11. FINANCIAL INSTRUMENTS (continued)

11.5 Fair value of financial assets and liabilities

The fair value of financial assets and financial liabilities approximates their carrying amounts. As noted in accounting policy 1.2, investments are measured at fair value at balance date.

		Fixed interest maturing in:				
2019		1 year or less	1 to 5 years	Variable rate	Non interest bearing	Total
	Note	$	$	$	$	$
Financial assets						
Cash	5/11	-	-	1,174,050	-	1,174,050
Receivables	7/11	-	-	-	812,373	812,373
Term deposits	5/11	1,351,665	-	-	-	1,351,665
Total		1,351,665	-	1,174,050	812,373	3,338,088
Weighted average interest rate		3.33%	n/a	Variable		
Financial Liabilities						
Accounts payable	11/17	-	-	-	9,766	9,766
Total		-	-	-	9,766	9,766
Weighted average interest rate		n/a	n/a	n/a		
Net Financial Assets		1,351,665	-	1,174,050	802,607	3,328,322
Non-Financial Assets						120,126
Non-Financial Liabilities						166,856
Net Assets						3,281,592

2018		1 year or less	1 to 5 years	Variable rate	Non interest bearing	Total
	Note	$	$	$	$	$
Financial assets						
Cash	5/11	-	-	1,054,481	-	1,054,481
Receivables	7/11	-	-	-	693,474	693,474
Term deposits	5/11	1,311,511	-	-	-	1,311,511
Total		1,311,511	-	1,054,481	693,474	3,059,466
Weighted average interest rate		3.40%	n/a	Variable		
Financial Liabilities						
Accounts payable	11/17	-	-	-	6,545	6,545
Total		-	-	-	6,545	6,545
Weighted average interest rate		n/a	n/a	n/a		
Net Financial Assets		1,311,511	-	1,054,481	686,929	3,052,921
Non-Financial Assets						123,413
Non-Financial Liabilities						174,912
Net Assets						3,001,422

First American Title Insurance Company of Australia Pty Limited (New Zealand Branch)

Notes to the Financial Statements
For the year ended 31 December 2019

11. FINANCIAL INSTRUMENTS (continued)

11.6 Fair value of financial instruments

The following tables detail the company's fair values of financial instruments categorised by the following levels:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Inputs other than quoted process included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

2019	Level 1 $	Level 2 $	Level 3 $	Total $
Assets				
Cash and cash equivalents	1,174,050	-	-	1,174,050
Term Deposits	-	1,351,665	-	1,351,665
Trade and other receivables	-	10,608	-	10,608
Amounts due from related enti	-	801,765	-	801,765
Accrued interest	-	30,064	-	30,064
Reinsurance and other recove	-	24,961	-	24,961
Total assets	1,174,050	1,351,665	-	2,525,715

2018	Level 1 $	Level 2 $	Level 3 $	Total $
Assets				
Cash and cash equivalents	1,054,481	-	-	1,054,481
Term Deposits	-	1,311,511	-	1,311,511
Trade and other receivables	-	11,580	-	11,580
Amounts due from related enti	-	681,894	-	681,894
Accrued interest	-	29,421	-	29,421
Reinsurance and other recove	-	22,130	-	22,130
Total assets	1,054,481	1,311,511	-	2,365,992

There were no transfers between levels during the financial year.

12. AUDITOR'S REMUNERATION

Audit fees were paid by a related entity.

13. COMMITMENTS

There were no capital or any other commitments as at 31 December 2019 (2018: $Nil).

14. CONTINGENT LIABILITIES

There were no contingent liabilities as at 31 December 2019 (2018: $Nil).

15. SUBSEQUENT EVENTS

There were no events subsequent to reporting date that would affect the financial statements.

First American Title Insurance Company of Australia Pty Limited (New Zealand Branch)

Notes to the Financial Statements
For the year ended 31 December 2019

16. RECONCILIATION OF PROFIT FROM ORDINARY ACTIVIVITIES TO NET CASH FLOW FROM OPERATING ACTIVITIES

	2019 $	2018 $
Profit after income tax expense for the year	175,375	129,110
Changes in operating assets and liabilities:		
Decrease/(increase) in assets		
Trade and other receivables	(14,105)	37,272
Other assets	3,287	7,589
Increase/(decrease) in liabilities		
Tax payable	(3,002)	(1,614)
Trade and other payables	2,221	9,583
Provisions	(4,053)	(6,028)
Net cash inflow from operating activities	159,723	175,912

17. TRADE PAYABLES AND ACCRUALS

Sundry creditors and accruals	9,766	6,545
GST payable	3,629	4,630
Total trade payables and accruals	13,395	11,175

18. CAPITAL ADEQUACY

First American Title Insurance Company of Australia Pty Limited capital adequacy position.

	2019 $	2018 $
Tier 1 capital		
Contributed equity	15,573,346	15,573,346
Foreign exchange translation reserve	536,450	473,573
Accumulated profit at the beginning of the year	4,626,174	1,194,603
Gain for the year	2,805,890	3,431,571
Less intangibles	(1,271,744)	(1,244,930)
Actual solvency capital	22,270,116	19,428,162
Minimum solvency capital	5,000,000	5,000,000
Solvency margin multiple	4.45	3.89
Solvency margin ($)	17,270,116	14,428,162
Solvency ratio (%)	445	389

First American Title Insurance Company of Australia Pty Limited (New Zealand Branch)

Directors' Declarations
31 December 2019

In the opinion of the directors of First American Title Insurance Company of Australia Pty Limited (New Zealand Branch), the financial statements and notes of the New Zealand Branch (the branch), on pages 4 to 25;

(a) comply with New Zealand Generally Accepted Accounting Practice and give a true and fair view of the financial position of the Branch as at 31 December 2019 and the result of operations for the year ended on [illegible]

(b) have been prepared using the appropriate accounting policies, which have been consistently applied and supported by reasonable judgements and estimates.

The directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Branch and facilitate compliance of the financial statements with the Financial Reporting Act 1993.

The directors consider that they have been taken adequate steps to safeguard of the assets of the Branch, and to prevent and detect fraud and other irregularities. Internal control procedures are also considered to be sufficient to provide reasonable assurance as to the integrity and reliability of the financial statements. There are reasonable grounds to believe that, as at the time this statement is made, the Branch will be able to pay all debts and claims as and when they are due.

Signed in Sydney on 17 March 2020 in accordance with a resolution of the directors.

For and on behalf of the Board of Directors

Director	19 March 2020 Date
Director	19 March 2020 Date

Independent Auditor's Report

To the Members of First American Title Insurance Company of Australia Pty Limited - New Zealand Branch

Report on the financial statements

Opinion

In our opinion, the accompanying financial statements of First American Title Insurance Company of Australia Pty Limited- New Zealand Branch ("the Branch") on pages 5 to 25:

i. present fairly in all material respects the Branch's financial position as at 31 December 2019 and its financial performance and cash flows for the year ended on that date; and

ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying financial statements which comprise:

— the statement of financial position as at 31 December 2019, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended; and

— notes, including a summary of significant accounting policies and other explanatory information

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). 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 Branch in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners 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 and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements in the current period. Except for the matter described in the material uncertainty related to going concern, we summarise below those matters and our key audit procedures to address those matters in order that the Branch as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the financial statements as a whole and we do not express discrete opinions on separate elements of the financial statements

The key audit matter	How the matter was addressed in our audit
Premium income and trade receivables	
Refer to Note 7 to the Financial Report. Premium revenue and trade receivables are a significant focus for our audit owing to the significance of the balance and the judgement involved in estimation of provisions for uncollected trade receivables. Due to the above matters, we considered premium revenue and trade receivables to be a key audit matter.	Our audit procedures included, among others: • evaluating and testing of key controls over the processes designed to record and monitor premium revenue and trade receivables; • testing a sample of premium revenue through comparing the amount to appropriate supporting documentation such as policy documents and bank statements; • assessing post year end credit notes and checking if reversals to the premium revenue as at 31 December 2019 were appropriate; • assessing premium revenue collected before and after year end and checking if it was recorded in the appropriate financial period; • inspecting for recovery of trade receivables as at 31 December 2019; and • testing the allowance for impairment of receivables for compliance with the Branch's accounting policies and the requirements of the accounting standards. We also re-performed the collective provision calculations.

Other information

The Directors, on behalf of the Branch, are responsible for the other information included in the entity's Annual Financial Report. Other information includes the Directors' Report and Corporate Governance. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

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 materially misstated. If, based on the work we have performed, 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.

Use of this independent auditor's report

This independent auditor's report is made solely to the Branch as a body. Our audit work has been undertaken so that we might state to the Branch those matters we are required to state to them in the independent 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 Branch as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.

Responsibilities of the Directors for the financial statements

The Directors, on behalf of the Branch, are responsible for:

- the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objective is:

- 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 independent 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 will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They 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 these financial statements is located at the External Reporting Board (XRB) website at:

http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/

This description forms part of our independent auditor's report.

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

For and on behalf of

KPMG

KPMG

Sydney
19 March 2020