

Kiwi Insurance Limited

Annual Report and Financial Statements

FOR THE YEAR ENDED 30 JUNE 2017

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Kiwi Insurance Limited
Annual Report and Financial Statements
For the year ended 30 June 2017
General Matters

Directory

Details of incorporation

Kiwi Insurance Limited (formerly Kiwi Holdings Limited) was incorporated in New Zealand under the Companies Act 1993 on 31 October 2001.

Registered Office

Kiwi Insurance Limited, Level 8, 7-27 Waterloo Quay, Wellington, New Zealand.

Directorate

Independent Directors

Elizabeth Anne Dawson

Chair, Independent non-executive director

Glenn Robert Patrick*

Independent non-executive director

*Appointed 27 July 2016

Melissa Jannet Clark-Reynolds**

Independent non-executive director

**Appointed 6 March 2017

Non - independent Directors

Mark James Stephen

Company Director

Group Manager, Sales and Service

Kiwibank Limited

Nicholas John Astwick resigned as a non-independent director on 15 February 2017.

Licence

On 10 June 2013 the Reserve Bank of New Zealand (RBNZ) confirmed that Kiwi Insurance Limited has been granted a licence under section 19 of the Insurance (Prudential Supervision) Act 2010 ("IPSA").

Section 82 of IPSA requires that a life insurer must at all times have at least one statutory fund in respect of its life business. Kiwi Insurance Limited (the "Company") established a statutory fund on 1 July 2013. The statutory fund includes the whole Company such that the statutory fund and the Company are one and the same.

Communications with Directors

Communications addressed to the directors may be sent to the Company's address for service:

Ground Floor, NZP House, 7 Waterloo Quay, Wellington 6011.

Auditors

The auditor whose report is referred to in this Annual Report is Chris Barber assisted by PricewaterhouseCoopers, acting as agent on behalf of the Office of the Auditor-General. His address for service is PwC, 113-119 The Terrace, Wellington, New Zealand.

Appointed Actuary

The Appointed Actuary is Anne Lord BEC, FIAA, FNZSA.

Credit rating

On 19 September 2012 Kiwi Insurance Limited was assigned a financial strength rating of A- (Excellent) from A.M. Best Company. This rating was reaffirmed in May 2017 by A.M. Best whose rating scale is as follows:

Secure	Vulnerable
A++, A+ (Superior)	B, B- (Fair)
A, A- (Excellent)	C++, C+ (Marginal)
B++, B+ (Good)	C, C- (Weak)
	D (Poor)
	E (Under Regulatory Supervision)
	F (In Liquidation)
	S (Suspended)

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Directors' Report

The Directors have pleasure in presenting the annual report of Kiwi Insurance Limited, incorporating the financial statements, auditor's report and the Appointed Actuary's Section 78 Report, for the year ended 30 June 2017.

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

The Directors authorised the financial statements presented on pages 5 to 29 for issue on 21 September 2017.

For and on behalf of the Board

Director



Director



Kiwi Insurance Limited
Financial Statements
For the year ended 30 June 2017

Income statement

For the year ended 30 June 2017

Dollars in thousands	Note	Year ended 30 June 2017	Year ended 30 June 2016
Premium revenue from insurance contracts		13,913	12,433
Outwards reinsurance expense		(5,084)	(5,023)
Net premium income		8,829	7,410
Inwards reinsurance income		407	475
Investment revenue		354	390
Total operating income		9,590	8,275
Claims expense		(6,927)	(3,792)
Reinsurance recovery		4,340	2,499
Net claims expense		(2,587)	(1,293)
Other operating expenses	6	(6,041)	(4,933)
Changes in policyholder liabilities	10	1,266	1,408
Total operating expenditure		(7,362)	(4,818)
Profit before taxation		2,228	3,457
Taxation expense	9	(694)	(951)
Profit for the year attributable to shareholders		1,534	2,506

Statement of comprehensive income

For the year ended 30 June 2017

Dollars in thousands	Year ended 30 June 2017	Year ended 30 June 2016
Profit for the year attributable to shareholders	1,534	2,506
Other comprehensive income that may subsequently be reclassified to profit or loss	-	-
Total comprehensive income for the year attributable to shareholders	1,534	2,506

The notes on pages 9 to 29 form part of these financial statements.

Statement of changes in equity

For the year ended 30 June 2017

Dollars in thousands	Share Capital	Accumulated Profit	Total Equity
Balance at 1 July 2015	6,638	7,510	14,148
Year ended 30 June 2016			
Profit for the period	-	2,506	2,506
Other comprehensive income	-	-	-
Total comprehensive income	-	2,506	2,506
Transactions with shareholders			
Dividends paid*	-	-	-
Balance at 30 June 2016	6,638	10,016	16,654
Year ended 30 June 2017			
Profit for the period	-	1,534	1,534
Other comprehensive income	-	-	-
Total comprehensive income	-	1,534	1,534
Transactions with shareholders			
Dividends paid*	-	(1,500)	(1,500)
Balance at 30 June 2017	6,638	10,050	16,688

*Dividends per share equates to 22.60 cents for the year ended 30 June 2017 (\$nil for the year ended 30 June 2016).

Kiwi Insurance Limited
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For the year ended 30 June 2017

Balance sheet

As at 30 June 2017

Dollars in thousands	Note	As at 30 June 2017	As at 30 June 2016
Assets			
Current assets			
Cash and cash equivalents		2,305	2,970
Investments		11,500	12,011
Current tax receivable		27	-
Trade and other receivables	7	1,814	1,688
Total current assets		15,646	16,669
Non-current assets			
Intangible assets	16	1,317	1,387
Total non-current assets		1,317	1,387
Total assets		16,963	18,056
Liabilities			
Current liabilities			
Trade and other payables	8	3,170	3,245
Due to related parties	12	630	594
Current tax payable		-	260
Total current liabilities		3,800	4,099
Non-current liabilities			
Policyholder liabilities	10	(5,087)	(3,821)
Deferred tax	9	1,562	1,124
Total non-current liabilities		(3,525)	(2,697)
Total liabilities		275	1,402
Equity			
Share capital	11	6,638	6,638
Accumulated profit	11	10,050	10,016
Total equity		16,688	16,654
Total equity and liabilities		16,963	18,056

The Directors of Kiwi Insurance Limited authorised these financial statements for issue on 21 September 2017.

Director



Director



The notes on pages 9 to 29 form part of these financial statements.

Kiwi Insurance Limited
Financial Statements
For the year ended 30 June 2017

Statement of Cash Flows

For the year ended 30 June 2017

	Year ended 30 June 2017	Year ended 30 June 2016
Dollars in thousands		
Cash flows from operating activities		
Premiums received	13,946	12,409
Interest received	436	323
Reinsurance premium received	413	483
Reinsurance recovery received	4,119	2,317
Other revenue	-	121
Reinsurance expenses paid	(5,061)	(4,988)
Claims expenses paid	(6,836)	(3,445)
Taxes paid	(544)	(275)
Payments to suppliers and employees	(5,846)	(3,954)
Net cash flows from operating activities	627	2,991
Cash flows from investing activities		
Sales/(purchase) of investments	511	(4,011)
Purchase of intangible assets	(303)	(637)
Net cash flows from investing activities	208	(4,648)
Cash flows from financing activities		
Dividends paid	(1,500)	-
Net cash flows from financing activities	(1,500)	-
Decrease in cash and cash equivalents	(665)	(1,657)
Cash and cash equivalents at beginning of the year	2,970	4,627
Cash and cash equivalents at end of year	2,305	2,970

Reconciliation of profit after tax to net cash flows from operating activities

For the year ended 30 June 2017

	Year ended 30 June 2017	Year ended 30 June 2016
Dollars in thousands		
Profit after tax	1,534	2,506
Non cash movements and non-operating activities		
Amortisation of intangible assets	373	569
Change in policyholder liabilities	(1,266)	(1,408)
Change in deferred tax	438	279
Net cash flows before movements in working capital	1,079	1,946
Movements in operating assets and liabilities		
Change in current taxation	(287)	397
Change in interest receivable	82	(68)
Change in trade and other receivables	(208)	(49)
Change in payables due to related parties	36	106
Change in trade and other payables	(75)	659
Net cash flows from operating activities	627	2,991

The notes on pages 9 to 29 form part of these financial statements.

Notes to the financial statements

1. Reporting entity

These financial statements are for Kiwi Insurance Limited (the “**Company**”), as a separate legal entity, for the year ended 30 June 2017 and were approved for issue by the Board of Directors on 21 September 2017. The Company is a wholly owned and controlled entity of Kiwi Group Holdings Limited (“**KGH**”). KGH is owned by New Zealand Post Limited (“**NZP**”) (53%), NZSF Tui Investments Limited (“**NZSF**”) (25%) and Accident Compensation Corporation (“**ACC**”) (22%). The ultimate shareholder of the Company is the New Zealand Crown (the “**Crown**”).

On 10 June 2013 the Reserve Bank of New Zealand (“**RBNZ**”) confirmed that the Company has been granted a licence under section 19 of the Insurance (Prudential Supervision) Act 2010 (“**IPSA**”).

The Company is registered under the Companies Act 1993 and was incorporated in New Zealand on 31 October 2001. Its principal activity is the provision of insurance products and services to retail customers of Kiwibank Limited. The Company also acts as a reinsurer for certain credit card and personal loan insurance contracts. The Company is designated as a for-profit entity for financial reporting purposes.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

2.1 Basis of preparation

The financial statements of the Company have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (“**NZ GAAP**”). They comply with New Zealand equivalents to International Financial Reporting Standards (“**NZ IFRS**”), International Financial Reporting Standards (“**IFRS**”) and other applicable financial reporting standards, as appropriate for for-profit entities.

Statutory base

The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 2013 and the Companies Act 1993. The Company is a reporting entity for the purposes of the Financial Markets Conduct Act 2013.

Historical cost convention

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain assets and liabilities.

Significant accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. While management believe that estimates can be reliably measured, actual amounts may differ from those estimates. It is not anticipated that such differences would be material. Estimates and underlying assumptions are reviewed on an ongoing basis. For further information on critical estimates see note 3.

Comparative balances

Comparative balances from the audited financial statements for the year ended 30 June 2016 have been presented. Certain amounts in the comparative information have been reclassified to ensure consistency with the current year's presentation.

2.2 Changes in accounting policies

No new mandatory standards have been adopted in these financial statements for financial years commencing on or after 1 July 2016.

No new standards, amendments or interpretations to existing standards that are not yet effective, have been early adopted by the Company in these financial statements.

Notes to the financial statements continued

2. Summary of significant accounting policies continued

2.3 New accounting standards and interpretations not yet effective

At the date of authorisation, the following new standards, amendments or interpretations to existing standards were in issue but not yet effective:

<i>Standard</i>	<i>Effective for annual reporting periods beginning on or after:</i>
Amendments to NZ IAS 7 – Statement of Cash Flows	1 January 2017
NZ IFRS 9 – <i>Financial Instruments</i>	1 January 2018
NZ IFRS 15 – <i>Revenue from Contracts with Customers</i>	1 January 2018
NZ IFRS 16 – <i>Leases</i>	1 January 2019
NZ IFRS 17 – <i>Insurance Contracts</i>	1 January 2021

The Directors expect to adopt the above Standards and Interpretations in the period in which they become mandatory.

NZ IAS 7: Statement of Cash Flows amendment

Amendments to NZ IAS 7 Statement of Cash Flows require additional disclosures regarding both cash and non-cash changes in liabilities arising from financing activities. The amendments are not expected to have a material impact on the Company.

NZ IFRS 9: Financial Instruments

NZ IFRS 9, issued in September 2014, replaces existing guidance in NZ IAS 39 *Financial Instruments: Recognition and Measurement*. NZ IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairments on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from NZ IAS 39.

The Company is currently assessing the impact of adopting NZ IFRS 9. As the impact of adoption depends on the financial instruments held by the Company and the credit environment at the date of adoption, it is not practical to quantify the effect.

NZ IFRS 15: Revenue from Contracts with Customers

NZ IFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under NZ IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The principles in NZ IFRS 15 provide a more structured approach to measuring and recognising revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under NZ IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted.

The Company is still assessing the impact of adopting NZ IFRS 15, however initial findings indicate that it is not expected to have a material impact on the Company.

NZ IFRS 16: Leases

NZ IFRS 16 introduces a single, on-balance sheet accounting model for lessees. NZ IFRS 16 is also expected to result in a shift from lease payments being recognised as expenses on a straight-line basis over the lease term to a depreciation expense on the right-of-use asset and interest expense on the outstanding balance of the liability. This will result in changes in certain expense and profit measures however it is not yet practical to quantify the effect as it will depend on the leases that have been entered in to as at the date of adoption.

NZ IFRS 17: Insurance Contracts

NZ IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts. The objective of NZ IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows.

The Company is still assessing the impact of adopting NZ IFRS 17.

Notes to the financial statements continued

2. Summary of significant accounting policies continued

2.4 Principles underlying conduct of insurance business

Insurance contracts involve the acceptance of significant insurance risk. Insurance risk is defined as significant if and only if an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance.

The life insurance operations comprise the selling and administration of contracts which are classified as life insurance contracts under IPSA and NZ IFRS.

Life insurance operations are where the Company issues a policy contract where the insured benefit is not directly linked to the market value of the investments held. These benefits are payable on death, or on the occurrence of an insured event such as injury, illness or disability. The risk of the occurrence of the event, which crystallises the payment of the insured benefit, is borne by the Company.

For the purposes of these financial statements, holders of life insurance contracts are referred to as policyholders.

2.5 Foreign currency translation

Functional and presentation currency

The functional and presentation currency of the Company is New Zealand dollars. All amounts are expressed in thousands of New Zealand dollars, unless otherwise stated.

Transactions and balances

Transactions in foreign currencies are translated into the functional currency at the exchange rate ruling at the date of the transaction. Foreign exchange gains or losses resulting from the settlement of such transactions are recognised in the income statement. At the reporting date, foreign currency denominated monetary assets and liabilities are translated at the closing exchange rate, with gains or losses arising from exchange variations being recognised in the income statement.

2.6 Financial instruments

The designation of financial instruments into categories is determined by the business purpose of the financial instrument, policies and practices for its management, its relationship with other instruments and the reporting costs and benefits associated with each designation.

Financial assets

The Company classifies its financial assets, for the purposes of NZ IAS 39 *Financial Instruments: Recognition and Measurement*, as follows:

- Call balances due from related entities, trade receivables and investments have been classified as loans and receivables.

Loans and receivables are initially recognised at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest method. Allowances for estimated irrecoverable amounts are recognised when there is objective evidence that the asset is impaired.

Management determines the classification of its investments at initial recognition.

Interest, impairment losses and foreign exchange gains and losses are recognised in the income statement.

Financial liabilities

The Company classifies its financial liabilities at amortised cost. Financial liabilities are initially recognised at fair value less transaction costs and are subsequently measured at amortised cost using the effective interest method. Financial liabilities entered into with a duration of less than 12 months are recognised at their notional value. Amortisation and foreign exchange gains and losses, are recognised in the income statement, as is any gain or loss when the liability is derecognised. Financial liabilities include trade and other payables and amounts due to related parties.

Financial assets and financial liabilities are recorded as current assets and current liabilities based on contractual maturities that are expected to be settled within 12 months or liabilities where there is no unconditional right to defer.

Notes to the financial statements continued

2. Summary of significant accounting policies continued

2.7 Impairment of financial assets

At each reporting date an assessment is made as to whether there is objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are recognised if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an impairment allowance account and the amount of the loss is recognised in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

2.8 Intangible assets

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring the assets to use. These costs are amortised on a straight line basis over the estimated useful lives of the licences (being 3 to 5 years). Developed software assets expected to generate net economic benefits beyond 12 months are recognised as intangible assets. The cost of developed software assets includes the cost of all materials used in construction, direct labour on the project, and an appropriate proportion of variable and fixed overheads. Developed software intangible assets are amortised over their estimated useful lives (being 3 to 5 years). Intangible assets not available for use are tested annually for impairment.

2.9 Trade and other receivables

Trade and other receivables are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

2.10 Determination of policy liabilities

Life insurance liabilities (policyholder liabilities) in the balance sheet and the change in policyholder liabilities in the income statement have been calculated using the Margin on Services (MoS) methodology in accordance with New Zealand Society of Actuaries Professional Standard 20, "Determination of Life Insurance Policy Liabilities".

2.11 Overview of MoS methodology

MoS is designed to recognise profits on life insurance policies as services are provided to policyholders and income is received. Profits are deferred and amortised over the life of the policy, whereas losses are recognised immediately. Policy services used to determine profit recognition include the cost of expected claims, maintaining policies, and investment management. The policy service for each of the major product groupings that is used to defer and amortise the profit over the life of the policies are called profit carriers. Policy liabilities are generally determined as the present value of all future expected payments, expenses, taxes and profit margins reduced by the present value of all future expected premiums, except in the case of some investment business and group-rated risk business, where policyholder liabilities are determined as the accumulated benefits to policyholders less any deferred acquisition expenses.

2.12 Premium revenue

Premium revenue is earned on life insurance contracts. Premiums with a regular due date are recognised as revenue on a due basis. Premiums with no due date are recognised as revenue on a cash received basis.

2.13 Investment income

Investment income includes realised and unrealised changes in the fair value of investments and interest income, recognised on a time proportionate basis using the effective interest method.

2.14 Interest income

Interest income is accrued using the effective interest method. The effective interest method discounts estimated future cash receipts through the expected life of a financial asset to that asset's net carrying amount. The method applies this rate to the principal outstanding to determine interest income each period. The application of this method has the effect of recognising income on financial assets evenly in proportion to the amount outstanding over the period to maturity.

Notes to the financial statements continued

2. Summary of significant accounting policies continued

2.15 Claims expenses

Life insurance contracts

All claims are risk related and recognised as expenses in the income statement. Death and all other claims are recognised when the liability to the policyholder under the policy contract has been established. Provision is made for the estimated cost of all claims notified but not settled at the reporting date.

2.16 Basis of expense apportionment

All operating expenses in respect of life insurance contracts have been apportioned between policy acquisition (including commission), one-off and policy maintenance expenses with regard to the objective when incurring the expense and the outcome achieved.

A general indication of the apportionment process follows:

- Expenses that can be directly identifiable and attributable to a particular class of business are not apportioned. Expenses directly attributable to the non-participating classes of business are apportioned based on appropriate cost drivers.
- Other expenses that cannot be allocated to a particular class of business are apportioned to the classes of business based on appropriate cost drivers, including number of new policies issued and related premiums, number of new units in-force, mean balances of assets under management, average number of policies in-force and time and activity based allocations.

2.17 Policy acquisition expenses

Acquisition costs are the fixed and variable costs of acquiring new business including commissions and similar distribution costs, costs of accepting, issuing and initially recording policies. Acquisition costs relate to the costs incurred in acquiring specific life insurance policies during the year. They do not include the general growth and development costs incurred by the Company.

2.18 Policy maintenance expenses

Maintenance costs are the fixed and variable costs of administering policies subsequent to sale and maintaining the Company's operations such that they are sufficient to service in force policies. These include general growth and development costs.

2.19 Other expenses

Other expenses are recognised in the period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

2.20 Reinsurance

Reinsurance premiums and recoveries are recognised separately as revenue and expenses in the Income Statement when they become due and payable in accordance with the reinsurance agreements.

Premiums paid to reinsurers under reinsurance treaties held by the Company are recorded as an outwards reinsurance expense and are recognised in the Income Statement over the period of indemnity of the reinsurance contract.

Amounts received from reinsurers, under reinsurance treaties held by the Company, are treated as reinsurance recoveries in the Income Statement when they become due and payable in accordance with the reinsurance agreements.

2.21 Impairment of non-financial assets

At each reporting date non-financial assets are reviewed for impairment. A provision for impairment is established where there is objective evidence that the present value of estimated future cash flows, discounted at the effective interest rate, is less than the carrying amount.

2.22 Share capital

Ordinary shares are classified as equity.

2.23 Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the normal course of business from suppliers. These obligations are unsecured and are usually settled net, off-setting receivables from the same counterparty. Trade and other payables are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest rate method.

Notes to the financial statements continued

2. Summary of significant accounting policies continued

2.24 Taxation

Income tax expense is the income tax charge incurred on profit or loss and is the aggregate of the movements in deferred tax and the amount of income taxes payable in respect of taxable profit for the reporting period at the applicable tax rate.

Deferred tax is provided in full, using the balance sheet liability method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at reporting date. A deferred taxation benefit is recognised only to the extent that it is probable that a future taxable profit will be available against which the temporary differences can be utilised.

2.25 Goods and services tax

Revenues and expenses are recognised net of the amount of goods and services tax ("GST") except where the amount of GST incurred is not recoverable from the Inland Revenue Department ("IRD"). In these circumstances, the GST is recognised as part of the expense. Trade and other receivables and Trade and other payables are stated inclusive of GST. The net amount of GST recoverable from, or payable to, the IRD is included in the Balance Sheet.

2.26 Contingencies

Contingent assets and contingent liabilities are recognised in accordance with NZ IAS 37. Contingent liabilities are disclosed if they are deemed probable. Contingent assets are disclosed if it is probable that the benefits will be realised.

2.27 Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, cash in transit, bank accounts and deposits with an original maturity of no more than three months.

2.28 Statement of cash flows

The following are the definitions of the terms used in the statement of cash flows:

- Investing activities are those relating to the acquisition, holding and disposal of property, plant and equipment and of investments not falling within the definition of cash.
- Financing activities are those activities which result in changes in the size and composition of the capital structure of the Company. This includes equity, and debt not falling within the definition of cash.
- Operating activities include all transactions and other events that are not investing or financing activities.

2.29 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost.

2.30 Dividend distribution

Dividends distributed in respect of equity instruments are recognised as a liability in the financial statements in the reporting period in which the dividend distribution is approved.

3. Critical estimates

The Company 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 where critical accounting estimates are applied are noted below.

MoS profit

MoS profit comprises the following components:

(i) Planned margins of revenues over expenses

At the time of writing a policy and at each reporting date, best estimate assumptions are used to determine all expected future payments and premiums. Where actual experience replicates best estimate assumptions, the expected profit margin will be released to profit over the life of the policy.

Notes to the financial statements continued

3. Critical estimates continued

(ii) The difference between actual and assumed experience

Experience profits/ (losses) are realised where actual experience differs from best estimate assumptions. Instances giving rise to experience profits/ (losses) include variations in claims, expenses, mortality, discontinuance and investment returns. An experience profit will emerge when the expenses of maintaining all in-force business in a year are lower than the best estimate assumption in respect of those expenses.

The credit card repayment insurance and personal loan insurance are valued using an accumulation technique. All profits therefore related to this business fall into experience profits.

(iii) Changes to underlying assumptions

Assumptions used for measuring policy liabilities are reviewed each year. Where the review leads to a change in assumptions, the change is deemed to have occurred from the end of the year, except for changes in discount rates which are recognised in the year that the rates are changed.

The financial effect of all other changes to the assumptions underlying the measurement of policyholder liabilities made during the reporting period is recognised in the Income Statement over the future reporting periods during which services are provided to policyholders.

(iv) Loss recognition on groups of related products

If based on best estimate assumptions, written business for a group of related products is expected to be unprofitable; the total expected loss for that related product group is recognised in the Income Statement immediately. If loss making business becomes profitable previously recognised losses are reversed.

(v) Investment earnings on assets in excess of policy liabilities

Profits are generated from investment assets which are in excess of those required to meet policyholder liabilities. Investment earnings are directly influenced by market conditions and as such this component of MoS profit will vary from year to year.

Participating policies

There are no participating policies.

Deferred acquisition costs

Acquisition costs represent all costs incurred at the time of writing a life insurance policy. The most significant component of such costs is usually commissions. Under MoS methodology, where product profitability can support the recovery of acquisition costs, these costs are effectively deferred and amortised over the life of the policy.

Policyholder liabilities

Policyholder liabilities for life insurance contracts are computed using statistical or mathematical methods, which are expected to give approximately the same results as if an individual liability was calculated for each contract. The computations are made by a suitably qualified actuary on the basis of recognised actuarial methods, with due regard to relevant actuarial principles. The methodology takes into account the risks and uncertainties of the particular classes of insurance business written.

The key factors that affect the estimation of these liabilities and related assets are:

- the cost of providing benefits and administering these insurance contracts;
- mortality and morbidity experience on life insurance products, including enhancements to policyholder benefits; and
- discontinuance experience, which affects the Company's ability to recover the cost of acquiring new business over the lives of the contracts.

In addition, factors such as regulation, competition, interest rates, taxes, securities market conditions and general economic conditions affect the level of these liabilities. Details of specific actuarial policies and methods are set out in note 4.

Assets arising from reinsurance contracts

Assets arising from reinsurance contracts are also computed using the above methods. In addition, the recoverability of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as counterparty and credit risk. Impairment is recognised where there is objective evidence that the Company may not receive amounts due to it and these amounts can be reliably measured.

Notes to the financial statements continued

4. Actuarial policies and methods

The actuarial report on policyholder liabilities and solvency reserves for the current reporting period was prepared as at 30 June 2017.

The actuary who prepared the report for the Company was Anne Lord.

The value of policyholder liabilities has been determined in accordance with Professional Standard 20 of the New Zealand Society of Actuaries. After making appropriate checks, the actuary was satisfied the data provided was satisfactory for the purposes of her valuation. There were no qualifications issued in the actuarial report.

The key assumptions used in determining policyholder liabilities are as follows:

A: Home loan insurance

	Year ended 30 June 2017	Year ended 30 June 2016
Discount rate		
Gross	2.66%	2.02%
Net	1.92%	1.45%
Inflation on maintenance expenses	1.50%	1.50%
Maintenance expenses	\$112	\$80
Discontinuance (rate % per annum)**	13.00%	13.00%

Discount rates

The discount rate used is the 5 year government stock rate.

Profit carriers

For home loan insurance, the profit carrier is premium income.

Investment and maintenance expenses

An implicit allowance has been made for investment costs in the calculation of the net discount rate.

Taxation

The rate of taxation in effect at the date of the valuation, 28%, is assumed.

Mortality and morbidity

The mortality assumption has been revised to be 75% of the gender specific ultimate tables from the NZSA mortality investigation into insured lives from 2008-2010. Selection is allowed for in the first two years. An adjustment was made for smoking status. The previous mortality assumption was 80% of NZSA table NZ07. Adjusted reinsurance rates were used for permanent and temporary disablement. This is the same assumption as used last year.

Notes to the financial statements continued

4. Actuarial policies and methods continued

B. Term life insurance

	Year ended 30 June 2017	Year ended 30 June 2016
Discount rate		
Gross	2.66%	2.02%
Net	1.92%	1.45%
Inflation on maintenance expenses	1.50%	1.50%
Maintenance expenses	\$82	\$65
Discontinuance (rate % per annum)**	13.5% years 1-3 11.5% year 4 10.5% year 5 10% thereafter	13.5% years 1-3 11.5% year 4 10.5% year 5 10% thereafter

Discount rates

The discount rate used is the 5 year government stock rate.

Profit carriers

For term life insurance, the profit carrier is premium income.

Investment and maintenance expenses

An implicit allowance has been made for investment costs in the calculation of the net discount rate.

Taxation

The rate of taxation in effect at the date of the valuation, 28%, is assumed.

Mortality and morbidity

For the year ended 30 June 2017 the mortality assumption is 110% of NZSA table NZ04 for males and females. This is an increase on that used for the year ended 30 June 2016. An adjustment was made for smoking by using smoker to non-smoker ratio that starts at 150% at age 20 and increases to 250% at age 55.

C. Life and living insurance

	Year ended 30 June 2017	Year ended 30 June 2016
Discount rate		
Gross	2.66%	2.02%
Net	1.92%	1.45%
Inflation on maintenance expenses	1.50%	1.50%
Maintenance expenses	\$99	\$90
Discontinuance (rate % per annum)**	30.6% months 1-6, 16.6% months 7-18, 11.4% months 19+	30.6% months 1-6, 16.6% months 7-18, 11.4% months 19+

Discount rates

The discount rate used is the 5 year government stock rate.

Profit carriers

For Life and Living insurance, the profit carrier is premium income.

Investment and maintenance expenses

An implicit allowance has been made for investment costs in the calculation of the net discount rate.

Taxation

The rate of taxation in effect at the date of the valuation, 28%, is assumed.

Notes to the financial statements continued

4. Actuarial policies and methods continued

C. Life and living insurance continued

Mortality and morbidity

The mortality assumption has been revised to be 85% of the gender specific ultimate tables from the NZSA mortality investigation into insured lives from 2008-2010. Selection is allowed for in the first two years. An adjustment was made for smoking status. The previous mortality assumption was 80% of NZSA table NZ07. Adjusted reinsurance rates were used for permanent and temporary disablement. This is the same assumption as used last year.

D. Credit card and personal loan insurance

	Year ended 30 June 2017	Year ended 30 June 2016
Discount rate		
Gross	2.66%	2.02%
Net	1.92%	1.45%
Maintenance expenses	Expressed as a percentage of premium	Expressed as a percentage of premium
Discontinuance (rate % per annum) - Cigna portfolio**	15.00%	15.00%
Discontinuance (rate % per annum) - Kiwi Insurance portfolio**	18.50%	18.50%

Discount rates

The discount rate used is the 5 year government stock rate.

Profit carriers

Credit card insurance is valued using an accumulation method. The carrier for recoverable unrecovered acquisitions costs is premium income.

Investment and maintenance expenses

An implicit allowance has been made for investment costs in the calculation of the net discount rate.

Taxation

The rate of taxation in effect at the date of the valuation is 28%.

Mortality and morbidity

Based on actual experience and expressed as a percentage of premium.

Notes to the financial statements continued

4. Actuarial policies and methods continued

E: Effect of changes in actuarial assumptions for the reporting period

The table below quantifies the changes in present value of future profit margins at 30 June 2017 due to the change in assumptions from 2016 to 2017. The change in assumptions has no effect on the policy liabilities except for the discount rate assumption change.

Dollars in thousands	Year ended 30 June 2017		Year ended 30 June 2016	
	Change in Future Profit Margins	Change in Current Period Policy Liability	Change in Future Profit Margins	Change in Current Period Policy Liability
Assumption Change				
Discount rate	(259)	288	383	(165)
Mortality/Morbidity	(626)	-	(787)	-
Discontinuances**	(2,709)	-	645	-
Expenses	(716)	-	358	-
CPI increases ***	1,820	-	-	-
Rate changes	384	-	-	-
Other*	-	-	(21)	-

*Related to the treatment of data

** From 30 June 2017 additional discontinuances have been assumed after age 60.

*** Not explicitly modelled in 2016

F: Sensitivity analysis

The Company conducts sensitivity analysis to quantify the impacts of changes in the key variables driving profits. The valuation included in the reported results is the Company's best estimates of these variables. The analysis below is performed to gauge the impact on both profit and equity of reasonably possible movements in these best estimate assumptions for those variables. Some of the assumptions are correlated but for this analysis the assumptions were changed on an individual basis to demonstrate the sensitivity to each variable. Note the response to changes in assumptions is not linear. None of the Company's related product groups is in "loss recognition" or would move into "loss recognition" upon the changes set out in the table.

Dollars in thousands	Year ended 30 June 2017			Year ended 30 June 2016		
	Change to assumption	Change in Future Profit Margins	Change in Future Profit Margins (%)	Change to assumption	Change in Future Profit Margins	Change in Future Profit Margins (%)
Assumption						
Discount rate	+ 10 basis points	(57)	(0.6%)	+ 10 basis points	(79)	(0.9%)
Mortality	+10%	(1,462)	(15.5%)	+10%	(1,375)	(16.0%)
Morbidity/trauma	+10%	(471)	(5.0%)	+10%	(307)	(3.6%)
Discontinuances	+10%	(1,483)	(15.7%)	+10%	(1,249)	(14.5%)
Renewal expenses	+10%	(872)	(9.2%)	+10%	(713)	(8.3%)

Notes to the financial statements continued

4. Actuarial policies and methods continued

G: Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, the risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio. The Company has developed its insurance strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

(a) Methods to limit or transfer risk exposures

Reinsurance

The Company's reinsurance activities and needs are monitored. Reinsurance programmes are put in place to assess the impact on the Company's exposure to risk and to ensure the achievement of the optimal choice of type of reinsurance and retention levels.

Underwriting procedures

Strategic underwriting decisions are put into effect using the underwriting procedures detailed in the Company's underwriting manual. Such procedures include limits to delegated authorities and signing powers. The underwriting process is monitored to ensure adequate controls are in place over the underwriting process and that the controls are effective.

Claims management

Strict claims management procedures ensure the timely and correct payment of claims in accordance with policy conditions.

(b) Concentration of insurance risk

Insurance risks associated with human life events

The Company aims to maintain a stable age profile and gender mix within its portfolio of policyholders. This policy maintains a balance between the current and future profitability of the life business, a stable base of assets under management and exposure to the significant external events such as those described above.

The age profile and gender mix within the population of policyholders is sufficiently spread so that the Company risk concentration in relation to any particular age group is minimal.

5. Profit after tax

Dollars in thousands	Year ended 30 June 2017	Year ended 30 June 2016
Profit after tax arose from:		
Planned margins of revenues over expenses	1,067	727
Profit on unprojected products****	846	-
Change in discount rate	(288)	165
Experience profit on projected business	(391)	-
Difference between actual and assumed experience	-	1,224
Investment earnings on assets in excess of policyholder liabilities	300	390
Profit after tax per income statement	1,534	2,506

**** Modelled as experience profit in prior year

Notes to the financial statements continued

6. Other operating expenses

Dollars in thousands	Year ended 30 June 2017	Year ended 30 June 2016
Auditor's remuneration		
Audit of financial statements	58	57
Other assurance services - solvency return	4	4
Commissions paid	2,014	2,124
Fixed retail cost	371	-
Personnel	1,992	1,406
Transaction costs	235	229
Computer and office expenses	994	544
Amortisation	373	569
Total operating expenses	6,041	4,933
Actuarial classification		
Commissions	2,014	2,124
Policy acquisition expenses	1,189	930
Policy maintenance expenses *	2,838	1,879
Total operating expenses	6,041	4,933

* Policy maintenance expenses include transaction costs.

7. Trade and other receivables

Dollars in thousands	As at 30 June 2017	As at 30 June 2016
Prepayments	48	21
Reinsurance premiums receivable	35	41
Reinsurance recoveries	1,679	1,459
Interest receivable	30	112
Premiums receivable	22	55
Total trade and other receivables	1,814	1,688

8. Trade and other payables

Dollars in thousands	As at 30 June 2017	As at 30 June 2016
Reinsurance payable	440	415
Claims accruals	2,421	2,330
Sundry creditors	309	500
Total trade and other payables	3,170	3,245

Notes to the financial statements continued

9. Taxation

Reconciliation of income tax expense shown in the income statement with prima facie tax payable on the accounting profit.

Dollars in thousands	Year ended 30 June 2017	Year ended 30 June 2016
Tax expense		
Profit before tax	2,228	3,457
Prima facie income tax at 28%	(624)	(968)
Tax effect of:		
Other permanent differences	(70)	17
Tax expense per income statement	(694)	(951)
Comprising:		
Current year income tax expense	(256)	(644)
Deferred income tax	(438)	(279)
Prior year adjustment	-	(28)
Tax expense per income statement	(694)	(951)

Deferred taxation

The movement in deferred income tax liabilities during the year is as follows:

Dollars in thousands	Accelerated tax depreciation	Policyholder liabilities	Total
Balance at 1 July 2015	(193)	(652)	(845)
Year ended 30 June 2016			
Charged to the income statement	69	(348)	(279)
Balance at 30 June 2016	(124)	(1,000)	(1,124)
Year ended 30 June 2017			
Charged to the income statement	(13)	(425)	(438)
Balance at 30 June 2017	(137)	(1,425)	(1,562)

Dollars in thousands	As at 30 June 2017	As at 30 June 2016
Represented by:		
Deferred tax liabilities to be used within 12 months	(27)	(25)
Deferred tax liabilities to be used after 12 months	(1,535)	(1,099)
Total deferred tax	(1,562)	(1,124)

Imputation credit account

The Company maintains an imputation credit account. The balance on the account was \$257k at 30 June 2017 (30 June 2016: \$266k).

Notes to the financial statements continued

10. Policyholder liabilities

Dollars in thousands	Year ended 30 June 2017	Year ended 30 June 2016
Opening policyholder liabilities	(3,821)	(2,413)
Change in policyholder liabilities recognised in income statement	(1,266)	(1,408)
Total gross policyholder liabilities	(5,087)	(3,821)
<i>Policyholder liabilities contains the following components:</i>		
Future policy benefits	27,945	23,132
Balance of future expenses	30,498	24,110
Planned margins of revenues over expenses	9,535	8,584
Future charges for acquisition costs	(420)	(339)
Balance of future revenues	(71,220)	(58,308)
Closing policyholder liabilities	(3,662)	(2,821)
Total net policyholder liabilities	(3,662)	(2,821)
Add back deferred taxation	(1,425)	(1,000)
Total gross policyholder liabilities	(5,087)	(3,821)

11. Equity

Dollars in thousands	As at 30 June 2017	As at 30 June 2016
Issued and paid up capital		
Share capital	6,638	6,638
Retained earnings	10,050	10,016
Total equity	16,688	16,654
Retained earnings		
Balance at beginning of year	10,016	7,510
Profit for the year	1,534	2,506
Dividends paid	(1,500)	-
Balance at end of year	10,050	10,016

At 30 June 2017 there were 6,637,500 authorised ordinary shares issued and fully paid (30 June 2016: 6,637,500). Ordinary shares do not have a par value. All shares have equal voting rights and share equally in dividends and surplus on winding up.

Capital management

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

Equity required for solvency purposes

Based on actuarial advice, the Directors have determined that \$6,707k (30 June 2016: \$6,531k) is the required Minimum Solvency Capital determined in accordance with the "Solvency Standard for Life Insurance Business", issued by the Reserve Bank of New Zealand under the Insurance (Prudential Supervision) Act 2010. For the purposes of this calculation the Company is treated as having and being one statutory fund.

The Actual Solvency Capital determined under that standard is \$15,371k (30 June 2016: \$13,767k). Therefore the Solvency Margin is \$8,664k (30 June 2016: \$7,236k).

Any dividend paid should not reduce Actual Solvency Capital to less than the Minimum Solvency Capital.

Notes to the financial statements continued

11. Equity continued

Solvency requirement

	As at	As at
Dollars in thousands	30 June 2017	30 June 2016
Minimum Solvency Capital (B)	6,707	6,531
Actual Solvency Capital (A)	15,371	13,767
Solvency margin	8,664	7,236
Solvency ratio (A/B)	229%	211%

12. Related party transactions

Kiwibank Limited (a commonly controlled entity) pays for certain of the Company's expenses on its behalf. The Company subsequently reimburses Kiwibank Limited for this expenditure.

Certain shared service activities have been provided to the Company in common with other NZP group companies. The remuneration for these services has been agreed and is consistent with amounts charged to other group companies. Amounts owed to and by related parties are disclosed in the table below.

Included in the Company's income statement are commission payments made to both Kiwibank Limited and NZP, in consideration for the origination of new insurance business. In addition, a fixed cost is paid to NZP in consideration for use of the store network.

These amounts are disclosed in the table below.

No related party balances are past due or impaired and there are no provisions raised against these. No related party balances have been written off in the current year.

Other related party balances

Key management personnel are defined as being Directors and management of the Company. No compensation was paid by the Company to key management personnel during the year ended 30 June 2017 (30 June 2016: \$nil). The key management personnel of the Company are employed and compensated by Kiwibank Limited.

Directors' fees of \$83k were paid by the Company during the year ended 30 June 2017 (30 June 2016: \$61k).

The following table shows the transactions and balances with related parties for the relevant financial year.

	Year ended	Year ended
Dollars in thousands	30 June 2017	30 June 2016
Revenue		
Investment revenue - Kiwibank Limited	314	372
Total revenue	314	372
Expenses		
Expense reimbursement - Kiwibank Limited	3,615	2,553
Commission payment - Kiwibank Limited	1,814	1,622
Fixed retail cost - New Zealand Post Limited	371	-
Commission payment - New Zealand Post Limited	78	292
Total expenses	5,878	4,467

Notes to the financial statements continued

12. Related party transactions continued

	As at	As at
Dollars in thousands	30 June 2017	30 June 2016
Related party balances		
Receivable		
Cash and cash equivalents - Kiwibank Limited	1,397	1,739
Investments	1,000	12,011
Trade and other receivables - Kiwibank Limited	2	112
Total amount receivable	2,399	13,862
Payable		
Due to related parties - Kiwibank Limited	628	579
Due to related parties - New Zealand Post	2	15
Total amount payable	630	594

13. Risk management policies

Risk management framework

The Company's financial condition and operating activities are affected by a number of key financial risks (insurance risk, credit risk, currency risk and liquidity risk) as well as non-financial risks (compliance risk and operational risk).

The Board determines the Company's overall risk appetite and approves the management strategies, policies and practices to ensure that risks, including compliance risks, are identified and managed within the context of this appetite.

Inherent in the investment process are the requirements to:

- protect the capital base;
- ensure decision making is based on sound analysis; and
- create value via ensuring risks are more than compensated for by expected returns.

Executive management is responsible for implementing and assessing the effectiveness of risk management strategies and internal controls of the Company in accordance with risk management policies and procedures covering risk identification, rating, assessment, treatment and ongoing management (including reporting).

The life insurance activities of the Company are concerned with the pricing, acceptance and management of the mortality and morbidity risks of lives insured. The risks underwritten by the Company are actively managed to ensure they do not adversely affect the Company's ability to pay benefits and claims when due. Compliance and operational risks are controlled and monitored to maintain the efficiency of the Company as well as to manage the risk of non-compliance.

Credit risk

Cash and liquid assets, accounts receivable and investments are subject to credit risk in the event of non-performance by the counter-parties. The maximum exposure is equivalent to their carrying amount. No collateral exists for any of the investments held by the Company. There are no financial assets past due but not impaired at reporting date (30 June 2016: Nil). There are no impaired assets at reporting date (30 June 2016: Nil). Cash and cash equivalents are held with Kiwibank which has a Standard and Poor's credit rating of A (Outlook stable) (2016: A+ (CreditWatch negative)) or BNZ which has a Standard and Poor's credit rating of AA- (2016: AA-). Investments are held with Kiwibank which has a Standard and Poor's credit rating of A (Outlook stable) (2016: A+ (CreditWatch negative)), ASB, ANZ and Westpac New Zealand which each have Standard and Poor's credit ratings of AA- (2016: AA-).

Currency risk

The Company is not exposed to currency risk as all transactions are denominated in New Zealand dollars.

Notes to the financial statements continued

13. Risk management policies continued

Fair values

The carrying value of financial assets and financial liabilities is considered to approximate to their fair value as reflected in the balance sheet.

Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its payments obligations associated with its financial liabilities when they fall due. The consequence may be the failure to meet obligations to reinsure insurance contracts or the failure to settle claims as they fall due.

Liquidity risk management process

The liquidity management process as carried out within the Company includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This involves the maintenance of a sufficiently large stock of cash and Government securities ("prime liquidity") to meet future obligations.
- Monitoring balance sheet liquidity ratios.

Cash flows

The tables below summarises the cash flows payable by the Company for financial liabilities by remaining contractual maturities as at reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Dollars in thousands	30 June 2017						Carrying value
	On demand	Up to 3 months	3 to 12 months	1 & 5 years	More than 5 years	Total	
Financial assets							
Cash and cash equivalents	2,305	-	-	-	-	2,305	2,305
Investments	-	1,006	10,780	-	-	11,786	11,500
Other financial assets	-	1,766	-	-	-	1,766	1,766
Total financial assets	2,305	2,772	10,780	-	-	15,857	15,571
Financial liabilities							
Due to related parties	-	630	-	-	-	630	630
Trade and other payables	-	3,170	-	-	-	3,170	3,170
Total financial liabilities	-	3,800	-	-	-	3,800	3,800

Dollars in thousands	30 June 2016						Carrying value
	On demand	Up to 3 months	3 to 12 months	1 & 5 years	More than 5 years	Total	
Financial assets							
Cash and cash equivalents	2,970	-	-	-	-	2,970	2,970
Investments	-	1,521	10,847	-	-	12,368	12,011
Other financial assets	-	1,667	-	-	-	1,667	1,667
Total financial assets	2,970	3,188	10,847	-	-	17,005	16,648
Financial liabilities							
Due to related parties	-	594	-	-	-	594	594
Trade and other payables	-	3,245	-	-	-	3,245	3,245
Total financial liabilities	-	3,839	-	-	-	3,839	3,839

Notes to the financial statements continued

13. Risk management policies continued Sensitivity analysis

The table below summarises the earnings sensitivity of financial assets and liabilities to changes in the interest rate risk variable. The market value of the assets and liabilities were used as the basis for the analysis and financial modelling was used to determine the impact on those values in earnings risk. The sensitivity to interest rate movements models the impact of a 1% parallel movement both up and down in the yield curve on earnings.

Earnings sensitivity calculates the impact on net profit for the previous year of a 1% movement in interest rate based upon financial assets and liabilities that have re-priced over the previous year that were held at the reporting date.

	30 June 2017			30 June 2016		
	Carrying amounts	-1% Net profit & equity	+1% Net profit & equity	Carrying amounts	-1% Net profit & equity	+1% Net profit & equity
Dollars in thousands						
Financial assets						
Cash and cash equivalents	2,305	(13)	13	2,970	(23)	23
Investments	11,500	-	-	12,011	-	-
Other financial assets	1,766	-	-	1,667	-	-
Total financial assets	15,571	(13)	13	16,648	(23)	23
Financial liabilities						
Trade and other payables	3,170	-	-	3,245	-	-
Due to related parties	630	-	-	594	-	-
Total financial liabilities	3,800	-	-	3,839	-	-

14. Financial instruments

Financial instruments are valued in accordance with the accounting policies disclosed in relation to each type of asset and liability. No off balance sheet assets or liabilities exist. As at balance date, the Company has not derecognised or transferred any financial assets where they have a continuing involvement (30 June 2016: nil). Investments comprise cash held on term deposit.

Financial instruments by category

	30 June 2017			30 June 2016		
	Loans and receivables	Designated at fair value through profit or loss	Total	Loans and receivables	Designated at fair value through profit or loss	Total
Dollars in thousands						
Financial assets						
Cash and cash equivalents	2,305	-	2,305	2,970	-	2,970
Investments	11,500	-	11,500	12,011	-	12,011
Trade and other receivables	1,766	-	1,766	1,667	-	1,667
Total financial assets	15,571	-	15,571	16,648	-	16,648

	30 June 2017		30 June 2016	
	Other financial liabilities at amortised cost	Total	Other financial liabilities at amortised cost	Total
Dollars in thousands				
Financial liabilities				
Due to related parties	630	630	594	594
Trade and other payables	3,170	3,170	3,245	3,245
Total financial liabilities	3,800	3,800	3,839	3,839

Notes to the financial statements continued

14. Financial instruments continued

Fair value hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

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

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: Techniques using inputs which have a significant effect on the recorded fair value and which are not based on observable market data.

The Company has no assets or liabilities held at fair value (2016: the same).

15. Disaggregated information

All of the Company's business relates to the issue of life insurance policies, which are risk related and non-investment linked.

16. Intangibles

	As at 30 June 2017	As at 30 June 2016
Dollars in thousands		
Computer software	1,225	743
Computer software work in progress	92	644
Total intangible assets	1,317	1,387

	As at 30 June 2017	As at 30 June 2016
Dollars in thousands		
Computer software		
Cost brought forward	2,844	2,592
Accumulated amortisation brought forward	(2,101)	(1,532)
Opening net book value	743	1,060
Transfer from work in progress	855	252
Amortisation	(373)	(569)
Closing net book value	1,225	743

Cost carried forward	3,699	2,844
Accumulated amortisation carried forward	(2,474)	(2,101)
Closing net book value	1,225	743

	As at 30 June 2017	As at 30 June 2016
Dollars in thousands		
Computer software work in progress		
Balance at beginning of year	644	259
Additions	303	637
Transfer to computer software	(855)	(252)
Balance at end of year	92	644

Notes to the financial statements continued

17. Capital commitments and contingencies

There are no capital commitments or contingent assets or liabilities at reporting date (30 June 2016: nil).

18. Events subsequent to the reporting date

No material events have occurred subsequent to the reporting date that requires recognition in these financial statements.



Independent auditor's report

To the readers of Kiwi Insurance Limited's financial statements for the year ended 30 June 2017

The Auditor-General is the auditor of Kiwi Insurance Limited (the "Company"). The Auditor-General has appointed me, Chris Barber, using the staff and resources of PricewaterhouseCoopers, to carry out the audit of the financial statements of the Company on his behalf.

Opinion

We have audited the financial statements of the Company on pages 5 to 29, that comprise the balance sheet as at 30 June 2017, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

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

Basis for opinion

We conducted our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. 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 are independent of the Company in accordance with the Auditor-General's Auditing Standards, which incorporate Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

In addition to the audit we have carried out an assurance engagement over the annual solvency return of the Company, which is compatible with those independence requirements. In addition, certain partners and employees of our firm may deal with the Company on normal terms within the ordinary course of trading activities of the Company. Other than the audit, this engagement and any dealings within the ordinary course of trading activities, we have no relationship with or interests in the Company.

Other information

The directors are responsible on behalf of the Company for the other information. The other information comprises the information included on pages 3 to 4 and 33 to 34, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of audit opinion or 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 to be 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.

Directors' responsibilities 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 New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards, 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 on behalf of the Company 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.

The directors' responsibilities arise from the Financial Markets Conduct Act 2013.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Auditor-General's Auditing Standards 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 readers taken on the basis of these financial statements.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting by the directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention



in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Our responsibilities arise from the Public Audit Act 2001.

A handwritten signature in blue ink that reads 'Chris Barber'.

Chris Barber
On behalf of the Auditor-General
Wellington, New Zealand

The PricewaterhouseCoopers logo, written in a stylized, cursive blue font.

PricewaterhouseCoopers

21 September 2017



Kiwi Insurance Limited
Level 1, 7-27 Waterloo Quay,
Private Bag 39888,
Wellington 5045

Section 78 report in respect of Kiwi Insurance Limited for 30 June 2017

- a) The Appointed Actuary is Anne Lord, a Fellow of the New Zealand Society of Actuaries.
- b) The Appointed Actuary has:
 - i. Determined the Policy Liabilities as at 30 June 2017.
 - The policy liabilities have been determined in accordance with the NZ Society of Actuaries Professional Standard for the determination of Life Insurance Policy Liabilities (PS20).
 - ii. Determined the Solvency Position as at 30 June 2017.
 - The solvency position has been determined in accordance with the "Solvency Standard for Life Insurance Business 2014", dated December 2014, issued by the Reserve Bank of New Zealand under the Insurance (Prudential Supervision) Act 2010.
- c) The scope of the work was to provide a report in accordance with the NZ Society of Actuaries Professional Standard for the determination of Life Insurance Policy Liabilities and a solvency calculation determined in accordance with the "Solvency Standard for Life Insurance Business 2014", dated December 2014, issued by the Reserve Bank of New Zealand. There were no limitations placed on the work.
- d) The Appointed Actuary is an employee of Kiwibank and participates in the company staff bonus plan, which reflects the company financial performance. The Appointed Actuary has no other financial interest in the insurer.
- e) The Appointed Actuary has obtained all information and explanations required by her.
- f) In the Appointed Actuary's opinion and from an actuarial perspective:
 - i. The actuarial information contained in the financial statements for the year end 30 June 2017 has been appropriately included in those statements;
 - ii. The actuarial information used in the preparation of the financial statements has been used appropriately in those financial statements for the year end 30 June 2017.
- g) In the Appointed Actuary's opinion and from an actuarial perspective, Kiwi Insurance Limited is maintaining the required solvency margin that applies under the "Solvency Standard for Life Insurance Business 2014" imposed under section 21(2)(b) of the Insurance (Prudential Supervision) Act 2010 as at 30 June 2017. This is reported on in Note 12 to the Financial Statements.
- h) For the purposes of this solvency calculation the company is treated as having and being one statutory fund.
- i) It is Kiwi Insurance's policy to seek the advice of the Appointed Actuary in respect of actuarial information and to adopt that advice in Kiwi Insurance's financial statements.



Kiwi Insurance Limited
Level 1, 7-27 Waterloo Quay,
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This report is provided solely in my capacity as Kiwi Insurance's Appointed Actuary. To the fullest extent permitted by law, I do not accept responsibility to anyone for the contents of this report other than the Reserve Bank of New Zealand, Kiwi Insurance Limited, its Directors and shareholder.

Anne Lord.

Anne E Lord BEc, FIAA, FNZSA 21 September 2017