Kiwi Insurance Limited

Annual Report and Financial Statements

For the year ended 30 June 2019.

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General matters

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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 9, 20 Customhouse Quay, Wellington 6011, New Zealand.

DIRECTORATE

Independent Directors

Elizabeth Anne Dawson
Chair, independent non-executive director

Melissa Jannet Clark-Reynolds
Independent non-executive director

Glenn Robert Patrick
Independent non-executive director

Mark James Stephen resigned as director on 16 January 2019.

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:

Level 9, 20 Customhouse Quay, Wellington 6011, New Zealand

AUDITORS

The auditor whose report is referred to in this Annual Report is Michele Embling assisted by PricewaterhouseCoopers, acting as agent on behalf of the Office of the Auditor-General. Her address for service is PwC Centre, 10 Waterloo Quay, PO Box 243, Wellington 6140, 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 on 31 May 2019 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)

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 2019.

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 3 to 25 for issue on 16 August 2019.

For and on behalf of the Board

Director

Director

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Financial Statements

Income statement

For the year ended 30 June 2019

Dollars in thousands	Note	Year ended 30 June 2019	Year ended 30 June 2018
Premium revenue from insurance contracts		**17,000**	15,611
Outwards reinsurance expense		**(5,594)**	(5,403)
Net premium income		**11,406**	10,208
Inwards reinsurance income		**306**	352
Investment revenue		**428**	372
Total operating income		**12,140**	10,932
Claims expense		**(6,506)**	(5,617)
Reinsurance recovery		**3,983**	2,697
Net claims expense		**(2,523)**	(2,920)
Other operating expenses	6	**(7,296)**	(6,778)
Changes in policyholder liabilities	10	**1,634**	1,432
Total operating expenditure		**(8,185)**	(8,266)
Profit before taxation		**3,955**	2,666
Taxation expense	9	**(1,112)**	(748)
Profit for the year attributable to shareholder		**2,843**	1,918

Statement of comprehensive income

For the year ended 30 June 2019

Dollars in thousands	Year ended 30 June 2019	Year ended 30 June 2018
Profit for the year attributable to shareholder	**2,843**	1,918
Other comprehensive income that may subsequently be reclassified to profit or loss	**-**	-
Total comprehensive income for the year attributable to shareholder	**2,843**	1,918

The notes to the financial statements form an integral part of, and should be read in conjunction with, these financial statements.

Financial statements

Continued...

Statement of changes in equity

For the year ended 30 June 2019

Dollars in thousands	Share Capital	Accumulated Profit	Total Equity
Balance at 1 July 2017	6,638	10,050	16,688
Year ended 30 June 2018			
Profit for the year	-	1,918	1,918
Other comprehensive income	-	-	-
Total comprehensive income	-	1,918	1,918
Transactions with shareholder			
Dividends paid	-	-	-
Balance at 30 June 2018	6,638	11,968	18,606
Year ended 30 June 2019			
Profit for the year	**-**	**2,843**	**2,843**
Other comprehensive income	**-**	**-**	**-**
Total comprehensive income	**-**	**2,843**	**2,843**
Transactions with shareholder			
Dividends paid	**-**	**-**	**-**
Balance at 30 June 2019	**6,638**	**14,811**	**21,449**

The notes to the financial statements form an integral part of, and should be read in conjunction with, these financial statements.

Financial statements

Continued...

Balance sheet

As at 30 June 2019

Dollars in thousands	Note	As at 30 June 2019	As at 30 June 2018
Assets			
Current assets			
Cash and cash equivalents		**2,061**	1,871
Investments		**14,877**	13,046
Current tax receivable		**-**	45
Trade and other receivables	7	**1,794**	2,271
Total current assets		**18,732**	**17,233**
Non-current assets			
Intangible assets	16	**974**	1,326
Total non-current assets		**974**	1,326
Total assets		**19,706**	18,559
Liabilities			
Current liabilities			
Trade and other payables	8	**3,045**	3,815
Due to related parties	12	**729**	708
Current tax payable		**186**	-
Total current liabilities		**3,960**	4,523
Non-current liabilities			
Policyholder liabilities	10	**(8,153)**	(6,519)
Deferred tax	9	**2,450**	1,949
Total non-current liabilities		**(5,703)**	(4,570)
Total liabilities		**(1,743)**	(47)
Equity			
Share capital	11	**6,638**	6,638
Accumulated profit	11	**14,811**	11,968
Total equity		**21,449**	18,606
Total equity and liabilities		**19,706**	18,559

The notes to the financial statements form an integral part of, and should be read in conjunction with, these financial statements.

The Board of Directors of Kiwi Insurance Limited authorised these financial statements for issue on 16 August 2019.

Director

Director

Financial statements

Continued...

Statement of cash flows

For the year ended 30 June 2019

Dollars in thousands	Year ended 30 June 2019	Year ended 30 June 2018
Cash flows from operating activities		
Premiums received	**17,018**	15,577
Interest received	**412**	306
Reinsurance premium received	**837**	356
Reinsurance recovery received	**4,344**	2,244
Other revenue	**85**	-
Reinsurance expenses paid	**(6,191)**	(5,359)
Claims expenses paid	**(7,196)**	(4,993)
Taxes paid	**(376)**	(378)
Payments to suppliers and employees	**(6,844)**	(6,306)
Net cash flows from operating activities	**2,089**	1,447
Cash flows from investing activities		
(Purchase)/sale of investments	**(1,815)**	(1,450)
Purchase of intangible assets	**(84)**	(431)
Net cash flows from investing activities	**(1,899)**	(1,881)
Cash flows from financing activities		
Dividends paid	**-**	-
Net cash flows from financing activities	**-**	-
Change in cash and cash equivalents	**190**	(434)
Cash and cash equivalents at beginning of the year	**1,871**	2,305
Cash and cash equivalents at end of year	**2,061**	1,871

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

Dollars in thousands	Year ended 30 June 2019	Year ended 30 June 2018
Profit after tax	**2,843**	1,918
Non cash movements and non-operating activities		
Amortisation of intangible assets	**436**	422
Change in policyholder liabilities	**(1,634)**	(1,432)
Change in deferred tax	**501**	387
Net cash flows before movements in working capital	**2,146**	1,295
Movements in operating assets and liabilities		
Change in current taxation	**231**	(18)
Change in interest receivable	**(16)**	(66)
Change in trade and other receivables	**477**	(489)
Change in payables due to related parties	**21**	78
Change in trade and other payables	**(770)**	647
Net cash flows from operating activities	**2,089**	1,447

The notes to the financial statements form an integral part of, and should be read in conjunction with, these financial statements.

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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 2019 and were approved for issue by the Board of Directors on 16 August 2019. The Company is a wholly owned and controlled entity of Kiwi Group Holdings Limited ("**KGH**"). 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, a related party. 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 2018 have been presented. Reclassification of the interest receivable relates to the recategorisation of interest from trade and other receivables to investments in order to align the asset with the nature of the underlying instrument. The related party note has been reclassified to include expense reimbursement to Kiwibank Limited for reinsurance expenses and include additional distribution and outsourcing costs to Kiwibank Limited to better align the disclosures with the current period's presentation.

2.2 Changes in accounting policies

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.

New Accounting Standards and Interpretations

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 adoption of NZ IFRS 9 did not have a material impact on the Company's financial statements.

Notes to the financial statements

Continued...

2. Summary of significant accounting policies continued

2.2 Changes in accounting policies continued

NZ IFRS 15: Revenue from Contracts with Customers

NZ IFRS 15 establishes a new five-step model that applies 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 superseded 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. All of the Company's revenue is outside the scope of NZ IFRS 15 due to the exclusion of contracts covered by other accounting standards including NZ IFRS 9. Therefore, the adoption of NZ IFRS 15 has not had any impact on the Company.

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:

Standard	*Effective for annual reporting periods beginning on or after:*
NZ IFRS 16 – *Leases*	1 January 2019
NZ IFRS 17 – *Insurance Contracts*	1 January 2021

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

NZ IFRS 16: *Leases*

The final version of NZ IFRS 16 was issued in February 2016 and is not effective until 1 July 2019. NZ IFRS 16 introduces a single, on-balance sheet accounting model for lessees and requires a lessee to recognise its right to use underlying leased assets as a right-of-use asset, and an obligation to make lease payments as a lease liability for all operating leases greater than 12 months duration. The asset and liability will initially be measured at the present value of non-cancellable lease payments and payments to be made in optional periods where it is reasonably certain that the option will be exercised.

As the Company is not currently party to any leases, NZ IFRS 16 is not expected to have a material impact on the Company's financial statements.

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 but has established an implementation project focusing on the recognition, measurement, presentation and disclosure of insurance contracts.

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.

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Notes to the financial statements

Continued...

2. Summary of significant accounting policies continued

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

Financial assets - policy applicable from 1 July 2018

Under NZ IFRS 9, on initial recognition a financial asset may be classified as measured at: amortised cost, fair value through other comprehensive income, or fair value through profit and loss. In addition, on initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets consist of cash and cash equivalents, trade and other receivables and investments which have been classified as measured at amortised cost for the purposes of NZ IFRS 9.

Amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at fair value through profit and loss: (i) the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest.

Financial assets measured at amortised cost are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method. Interest income, expected credit losses and reversals are recognised in the income statement.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

Financial assets - policy applicable before 1 July 2018

The Company classified its financial assets, for the purposes of NZ IAS 39 *Financial Instruments: Recognition and Measurement*, as follows: Cash and cash equivalents, trade and other receivables and investments had been classified as loans and receivables.

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

Management determined the classification of its investments at initial recognition.

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

Financial liabilities

The Company classifies its financial liabilities as measured 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.

Notes to the financial statements

Continued...

2. Summary of significant accounting policies continued

2.7 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.

2.8 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" and NZ IFRS4 Insurance Contracts.

2.9 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 profit margin is determined using a profit carrier, a measurable indicator of either the expected cost of the service provided to the policyholder or the expected income relating to the service. Policyholder 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.

2.10 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.

2.11 Investment income

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

2.12 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.

2.13 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.

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Notes to the financial statements

Continued...

2. Summary of significant accounting policies continued

2.14 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.

2.15 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.

2.16 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.

2.17 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.

2.18 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.

2.19 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 recoverable amount, determined by calculating the present value of estimated future cash flows, discounted at the effective interest rate, is less than the carrying amount of the asset at the reporting date.

2.20 Share capital

Ordinary shares are classified as equity.

2.21 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 future taxable profits will be available against which the temporary differences can be utilised.

2.22 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 Inland Revenue ("**IR**"). 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, IR is included the Balance Sheet.

Notes to the financial statements

Continued...

2. Summary of significant accounting policies continued

2.23 Contingencies

Contingent assets and contingent liabilities are recognised in accordance with NZ IAS 37.

2.24 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.

2.25 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.

2.26 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 judgements and estimates 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 and judgements 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.

(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.

(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.

Notes to the financial statements
Continued...

3. Critical estimates

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.

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 2019.

The actuary who prepared the actuarial report for the Company is Anne Lord.

The value of policyholder liabilities has been determined in accordance with Professional Standard 20 of the New Zealand Society of Actuaries ("**NZSA**"). 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 2019	Year ended 30 June 2018
Discount rate		
Gross	**1.27%**	2.17%
Net of tax	**0.91%**	1.56%
Inflation on maintenance expenses	**1.50%**	1.50%
Maintenance expenses	**$119**	$117
Discontinuance (rate % per annum) *	**13.00%**	13.00%

* Additional discontinuances have been assumed after age 60.

Discount rates

The discount rate used is the 5-year government bond rate.

Notes to the financial statements

Continued...

4. Actuarial policies and methods continued

Profit carriers

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

Investment and maintenance expenses

Investment expenses have been included in the policy maintenance expense above.

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 2019 the mortality assumption is 75% of NZSA table NZ04 for males and females. This is the same as that used for the year ended 30 June 2018. An adjustment was made for smoking status. Selection, i.e. lower mortality in the period following underwriting, is allowed for in the first two years. The assumptions for permanent and temporary disablement were based on the reinsurance rates charged to the Company for these risks by its reinsurers. These are the same assumptions as used last year.

B. Term life insurance

	Year ended 30 June 2019	Year ended 30 June 2018
Discount rate		
Gross	**1.27%**	2.17%
Net of tax	**0.91%**	1.56%
Inflation on maintenance expenses	**1.50%**	1.50%
Maintenance expenses	**$83**	$82
Discontinuance (rate % per annum) *	**10.00%**	10.00%

* Additional discontinuances have been assumed after age 60.

Discount rates

The discount rate used is the 5-year government bond rate.

Profit carriers

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

Investment and maintenance expenses

Investment expenses have been included in the policy maintenance expense above.

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 2019 the mortality assumption is 110% of NZSA table NZ04 for males and females. This is the same as that used for the year ended 30 June 2018. 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.

Notes to the financial statements

Continued...

4. Actuarial policies and methods continued

C. Life and living insurance

	Year ended 30 June 2019	Year ended 30 June 2018
Discount rate		
Gross	**1.27%**	2.17%
Net of tax	**0.91%**	1.56%
Inflation on maintenance expenses	**1.50%**	1.50%
Maintenance expenses	**$100**	$99
Discontinuance (rate % per annum) *	**11-40%**	11-40%

* Additional discontinuances have been assumed after age 60.

Discount rates

The discount rate used is the 5-year government bond rate.

Profit carriers

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

Investment and maintenance expenses

Investment expenses have been included in the policy maintenance expense above.

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 2019 the mortality assumption is 85% of NZSA table NZ04 for males and females. This is the same as that used for the year ended 30 June 2018. Selection is allowed for in the first two years. An adjustment was made for smoking status. The assumptions for permanent and temporary disablement were based on the reinsurance rates.

D. Credit card insurance

Credit card insurance and personal loan insurance are valued on an accumulation basis.

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 2019 due to the change in assumptions from 2018 to 2019. The change in assumptions has no effect on the policyholder liabilities except for the discount rate assumption change.

	Year ended 30 June 2019		Year ended 30 June 2018	
Dollars in thousands	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	**846**	**472**	289	(143)
Mortality/Morbidity	-	-	-	-
Discontinuances	-	-	(149)	-
Medical loadings	-	-	(28)	-
Expenses	-	-	(4)	-
Premium difference	-	-	(900)	-
Age definition	-	-	98	-
Reinsurance rate change	**999**	-	-	-

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Notes to the financial statements

Continued...

4. Actuarial policies and methods continued

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 assessed on an individual basis to demonstrate the sensitivity of 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.

	Year ended 30 June 2019			Year ended 30 June 2018		
Dollars in thousands	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	(94)	(0.7%)	+ 10 basis points	(34)	(0.8%)
Mortality	+10%	(1,889)	(13.3%)	+10%	(1,543)	(11.1%)
Morbidity/trauma	+10%	(736)	(5.2%)	+10%	(508)	(3.4%)
Discontinuances	+10%	(2,493)	(17.6%)	+10%	(1,823)	(13.3%)
Renewal expenses	+10%	(1,014)	(7.2%)	+10%	(853)	(5.8%)

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 value 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.

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

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

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.

Notes to the financial statements

Continued...

5. Profit after tax

Dollars in thousands	Year ended 30 June 2019	Year ended 30 June 2018
Profit after tax arose from:		
Planned margins of revenues over expenses	**1,151**	1,116
Profit on unprojected products	**1,028**	997
Change in discount rate	**339**	143
Experience profit on projected business	**(58)**	(676)
Investment earnings on assets in excess of policyholder liabilities	**383**	338
Profit after tax per income statement	**2,843**	1,918

6. Other operating expenses

Dollars in thousands	Year ended 30 June 2019	Year ended 30 June 2018
Auditor's remuneration		
Audit of financial statements	**77**	61
Other assurance services - solvency return	**8**	8
Distribution and outsourcing - Kiwibank Limited	**2,843**	2,638
Personnel	**2,579**	2,581
Medical expenses	**254**	351
Professional and consultancy fees	**283**	21
Computer and office expenses	**816**	696
Amortisation	**436**	422
Total operating expenses	**7,296**	6,778
Actuarial classification		
Distribution and outsourcing - Kiwibank Limited	**2,843**	2,638
Policy acquisition expenses	**1,325**	1,595
Policy maintenance expenses	**3,128**	2,545
Total operating expenses	**7,296**	6,778

7. Trade and other receivables

Dollars in thousands	As at 30 June 2019	As at 30 June 2018
Prepayments	**24**	52
Profit share receivable from Munich Re	**-**	84
Reinsurance premiums receivable	**46**	31
Reinsurance recoveries	**1,686**	2,048
Premiums receivable	**38**	56
Total trade and other receivables	**1,794**	2,271

Notes to the financial statements

Continued...

8. Trade and other payables

Dollars in thousands	As at 30 June 2019	As at 30 June 2018
Reinsurance payable	**432**	484
Claims accruals	**2,355**	3,045
Sundry creditors	**258**	286
Total trade and other payables	**3,045**	3,815

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 2019	Year ended 30 June 2018
Tax expense		
Profit before tax	**3,955**	2,666
Prima facie income tax at 28%	**(1,107)**	(746)
Tax effect of:		
Other permanent differences	**(5)**	(2)
Tax expense per income statement	**(1,112)**	(748)
Comprising:		
Current year income tax expense	**(611)**	(361)
Deferred income tax	**(501)**	(387)
Tax expense per income statement	**(1,112)**	(748)

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 2017	(137)	**(1,425)**	(1,562)
Year ended 30 June 2018			
Charged to the income statement	14	**(401)**	(387)
Balance at 30 June 2018	(123)	**(1,826)**	(1,949)
Year ended 30 June 2019			
Charged to the income statement	**(44)**	**(457)**	**(501)**
Balance at 30 June 2019	**(167)**	**(2,283)**	**(2,450)**

Imputation credit account

The Company maintains an imputation credit account. The balance on the account was $1,223k at 30 June 2019 (30 June 2018: $617k).

Notes to the financial statements

Continued...

10. Policyholder liabilities

Dollars in thousands	Year ended 30 June 2019	Year ended 30 June 2018
Opening policyholder liabilities	**(6,519)**	(5,087)
Change in policyholder liabilities recognised in income statement	**(1,634)**	(1,432)
Total gross policyholder liabilities	**(8,153)**	(6,519)
Policyholder liabilities contains the following components:		
Future policy benefits	**37,937**	33,157
Balance of future expenses	**43,117**	37,189
Planned margins of revenues over expenses	**14,170**	11,304
Future charges for acquisition costs	**(372)**	(406)
Balance of future revenues	**(100,722)**	(85,937)
Closing policyholder liabilities	**(5,870)**	(4,693)
Total net policyholder liabilities	**(5,870)**	(4,693)
Add back deferred taxation	**(2,283)**	(1,826)
Total gross policyholder liabilities	**(8,153)**	(6,519)

11. Equity

Dollars in thousands	As at 30 June 2019	As at 30 June 2018
Issued and paid up capital		
Share capital	**6,638**	6,638
Retained earnings	**14,811**	11,968
Total equity	**21,449**	18,606
Retained earnings		
Balance at beginning of year	**11,968**	10,050
Profit for the year	**2,843**	1,918
Balance at end of year	**14,811**	11,968

As at reporting date there were 6,637,500 authorised ordinary shares issued and fully paid (30 June 2018: 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 to provide returns for the shareholder and benefits for other stakeholders, to maintain capital above the minimum level of solvency and to maintain an optimal capital structure to reduce the cost of capital.

To maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to the shareholder, return capital to the shareholder or issue new shares.

Equity required for solvency purposes

Based on actuarial advice, the Directors have determined that $9,261k (30 June 2018: $7,871k) 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 $20,475k (30 June 2018: $17,280k). Therefore, the Solvency Margin is $11,214k (30 June 2018: $9,409k).

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

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Notes to the financial statements

Continued...

11. Equity continued

Solvency requirement

Dollars in thousands	As at 30 June 2019	As at 30 June 2018
Minimum Solvency Capital (B)	**9,261**	7,871
Actual Solvency Capital (A)	**20,475**	17,280
Solvency margin	**11,214**	9,409
Solvency ratio (A/B)	**221%**	220%

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. 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 payments made to Kiwibank Limited as consideration for the distribution services and the outsourcing of ancillary services to support the insurance business. In addition, a fixed cost is paid to Kiwibank as consideration for use of the store network.

From 16 November 2018 the Company has engaged the services of Kiwi Wealth Investments Limited Partnership ("KWILP") as investment manager. KWILP is a commonly controlled entity.

Investment revenue includes interest income on the Company's bank accounts held with Kiwibank plus interest receivable on investments made with KWILP.

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 2019 (30 June 2018: $nil). The key management personnel of the Company are employed and compensated by Kiwibank Limited and reimbursed by the Company.

Directors' fees of $112k were paid by the Company during the year ended 30 June 2019 (30 June 2018: $96k).

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

Dollars in thousands	Year ended 30 June 2019	Year ended 30 June 2018
Revenue		
Investment revenue - Kiwibank Limited	**49**	42
Total revenue	**49**	42
Expenses		
Expense reimbursement - Kiwibank Limited*	**2,976**	2,539
Payroll costs reimbursed – Kiwibank Limited	**2,310**	2,316
Distribution and outsourcing - Kiwibank Limited*	**2,514**	2,309
Retail cost - Kiwibank Limited	**329**	329
Management fee - KWILP	**6**	-
Total expenses	**8,135**	7,493

*The comparative prior period amounts have been reclassified to align with the current period's presentation.

Notes to the financial statements

Continued...

12. Related party transactions continued

Dollars in thousands	As at **30 June 2019**	As at 30 June 2018
Related party balances		
Receivable		
Cash and cash equivalents - Kiwibank Limited	**1,492**	1,232
Investments - Kiwibank Limited	**-**	2,250
Trade and other receivables - Kiwibank Limited	**-**	26
Total amount receivable	**1,492**	3,508
Payable		
Due to related parties - Kiwibank Limited	**729**	707
Due to related parties - New Zealand Post Limited	**-**	1
Total amount payable	**729**	708

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

Credit risk is the risk of loss that arises from a counterparty failing to meet their contractual commitment in full or on time or from losses arising from the change in value of a financial instrument as a result of changes in the credit risk of that instrument.

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 2018: Nil). There are no impaired assets at reporting date (30 June 2018: Nil). Cash and cash equivalents are held with Kiwibank which has a Standard and Poor's credit rating of A (Outlook positive) (2018; A (Outlook stable)) or BNZ which has a Standard and Poor's credit rating of AA- (2018: AA-).

Investments held with banks, that are managed by an investment manager, have a minimum Standard and Poor's credit rating of A- in accordance with the requirements of the Company's Statement of Investment Policy and Objectives ("**SIPO**"). In 2018 investments were held with ASB, ANZ and Westpac New Zealand which each had Standard and Poor's credit ratings of AA-, as well as with Kiwibank.

Notes to the financial statements

Continued...

13. Risk management policies continued

Currency risk

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

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 to meet future obligations.
- Monitoring balance sheet liquidity ratios.

Cash flows

The tables below summarise 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.

	30 June 2019						
Dollars in thousands	On demand	Up to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total	Carrying value
Financial assets							
Cash and cash equivalents	**2,061**	**-**	**-**	**-**	**-**	**2,061**	**2,061**
Investments	**-**	**1,133**	**14,175**	**-**	**-**	**15,308**	**14,877**
Other financial assets	**-**	**1,770**	**-**	**-**	**-**	**1,770**	**1,770**
Total financial assets	**2,061**	**2,903**	**14,175**	**-**	**-**	**19,139**	**18,708**
Financial liabilities						**-**	**-**
Due to related parties	**-**	**729**	**-**	**-**	**-**	**729**	**729**
Trade and other payables	**-**	**3,045**	**-**	**-**	**-**	**3,045**	**3,045**
Total financial liabilities	**-**	**3,774**	**-**	**-**	**-**	**3,774**	**3,774**

	30 June 2018						
Dollars in thousands	On demand	Up to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total	Carrying value
Financial assets							
Cash and cash equivalents	1,871	-	-	-	-	1,871	1,871
Investments	-	2,381	10,922	-	-	13,303	13,046
Other financial assets	-	2,219	-	-	-	2,219	2,219
Total financial assets	**1,871**	**4,600**	**10,922**	**-**	**-**	**17,393**	**17,136**
Financial liabilities							
Due to related parties	-	708	-	-	-	708	708
Trade and other payables	-	3,815	-	-	-	3,815	3,815
Total financial liabilities	**-**	**4,523**	**-**	**-**	**-**	**4,523**	**4,523**

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Notes to the financial statements

Continued...

13. Risk management policies continued

Cash flows continued

Sensitivity analysis

The table below summarises the pre-tax sensitivity of financial assets and liabilities to changes in the interest rate risk variable. The market value of the assets and liabilities was 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 2019			30 June 2018		
Dollars in thousands	Carrying amounts	-1% Net profit & equity	+1% Net profit & equity	Carrying amounts	-1% Net profit & equity	+1% Net profit & equity
Financial assets						
Cash and cash equivalents	**2,061**	**(17)**	**17**	1,871	(16)	16
Investments	**14,877**	**(148)**	**148**	13,046	(130)	130
Other financial assets	**1,770**	**-**	**-**	2,219	-	-
Total financial assets	**18,708**	**(165)**	**165**	17,136	(146)	146
Financial liabilities						
Due to related parties	**729**	**-**	**-**	708	-	-
Trade and other payables	**3,045**	**-**	**-**	3,815	-	-
Total financial liabilities	**3,774**	**-**	**-**	4,523	-	-

14. Financial instruments

Financial instruments are valued in accordance with the accounting policies disclosed in relation to each type of financial asset and financial 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 2018: nil). Investments comprise cash held on term deposit.

Financial instruments by category

	30 June 2019	30 June 2018	
Dollars in thousands	Amortised cost	Loans and receivables	Other financial liabilities at amortised cost
Financial assets			
Cash and cash equivalents	**2,061**	1,871	
Investments	**14,877**	13,046	
Trade and other receivables	**1,770**	2,219	
Total financial assets	**18,708**	17,136	
Financial liabilities			
Due to related parties	**729**		708
Trade and other payables	**3,045**		3,815
Total financial liabilities	**3,774**		4,523

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 where quoted market prices are not available, for example where the instrument is traded in a market that is not considered to be active or valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

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 (2018: 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

Dollars in thousands	**As at 30 June 2019**	As at 30 June 2018
Computer software	**967**	998
Computer software work in progress	**7**	328
Total intangible assets	**974**	1,326

Dollars in thousands	**As at 30 June 2019**	As at 30 June 2018
Computer software		
Cost brought forward	**3,894**	3,699
Accumulated amortisation brought forward	**(2,896)**	(2,474)
Opening net book value	**998**	1,225
Transfer from work in progress	**405**	195
Amortisation	**(436)**	(422)
Closing net book value	**967**	998
Cost carried forward	**4,299**	3,894
Accumulated amortisation carried forward	**(3,332)**	(2,896)
Closing net book value	**967**	998

Dollars in thousands	**As at 30 June 2019**	As at 30 June 2018
Computer software work in progress		
Balance at beginning of year	**328**	92
Additions	**84**	431
Transfer to computer software	**(405)**	(195)
Balance at end of year	**7**	328

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 2018: 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 2019.

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

We have audited the financial statements which comprise:

- the balance sheet as at 30 June 2019;
- the income statement for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, Kiwi Insurance Limited's financial statements present fairly, in all material respects, the financial position of the Company as at 30 June 2019, its financial performance and its cash flows for year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

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

Our audit approach

Overview

An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Overall materiality: $146,900, which represents approximately 5% of average profit before taxation for the past three years.

We chose three-year average profit before taxation as our benchmark for materiality because the Company's financial performance fluctuates based on claims experience. In our view, averaging for this factor over three years provides a more representative basis for materiality. The 5% is based on our professional judgement, noting that it is also within the range of commonly accepted profit before tax related thresholds.

We have determined that there is one key audit matter:

- Valuation of policyholder liabilities

Materiality

The scope of our audit was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out above. We also assess qualitative materiality, which includes other matters that, in our judgement, and in the context of our audit, might influence the economic decisions of the readers of the financial statements. Quantitative materiality and qualitative considerations helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Audit scope

We designed our audit by assessing the risks of material misstatement in the financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the accounting processes and controls and the industry in which the Company operates.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Valuation of policyholder liabilities	
As at 30 June 2019 the Company has negative policyholder liabilities (i.e. an asset) of $8.2 million (30 June 2018: $6.5 million) We considered this a key audit matter because the Directors' valuation of the balance involves complex and subjective judgements about future events, both internal and external to the business, for which small changes in assumptions can result in a material impact to the measurement of these balances. The Company's insurance policyholder liabilities relate to the life insurance business. In determining the valuation of the policyholder liabilities, the key actuarial assumptions applied by in-house actuarial expert represent best estimate assumptions at reporting date and include: • Expected amount, timing and duration of all expected future payments and premiums, likely rates of discontinuance, mortality and morbidity rates, investment and maintenance expenses; and • Long term economic assumptions including discount rates and inflation rate. Life insurance policy data are used as key inputs to the actuarial estimates. **Relevant references in the financial statements:** Refer to note 2 for summary for significant accounting policies, note 3 for critical estimates, note 4 and note 10 for further information.	To assess the assumptions used to determine the value of policyholder liabilities, we along with our independent actuarial experts performed the following audit procedures, amongst others: • Obtained an understanding and compared the methodology and the model used by the Company to those commonly applied in the industry and recognised by regulatory standards; • Developed an understanding of the controls the Directors have in place over key processes relating to the valuation. This included the Company's use of the model, the quality of oversight and controls over key assumptions within the model and the Company's preparation of the manually calculated components of the liability; • Compared key inputs (for example discount rates) used by the Company in the calculation to relevant supporting evidence, such as external market data; • Challenged the key actuarial assumptions used against past experience, market observable data (as applicable) and our experience of market practice; and • Considered the impact of key changes in the actuarial assumptions and the methodology over the year and compared these to industry practices. To assess the adequacy of the policy data used to calculate actuarial estimates, we tested the completeness and accuracy of policy data between source and actuarial model. We have no material matters to report from the procedures performed.

Information other than the financial statements and auditor's report

The Directors are responsible on behalf of the Company for the other information. The other information comprises the information included on pages 1-2 and 31, 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.

Responsibilities of the Directors for the financial statements

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

In preparing the financial statements, the Directors are responsible 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.

Auditor independence

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.

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. Other than the audit and this engagement, we have no relationship with or interests in the Company.

Michele Embling
On behalf of the Auditor-General
Wellington, New Zealand

PricewaterhouseCoopers

20 August 2019

Kiwi Insure.

Level 9, 20 Customhouse Quay,
Wellington 6011
Private Bag 39888,
Wellington 5045

Section 78 report in respect of Kiwi Insurance Limited for 30 June 2019

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 2019.
   - 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 2019.
   - The solvency position has been determined in accordance with the Solvency Standard for Life Insurance Business 2014, issued by the Reserve Bank of New Zealand under the Insurance (Prudential Supervision) Act 2010 in December 2014 incorporating amendments to November 2018 (referred to as the "Solvency Standard").

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. 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 2019 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 2019.

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 imposed under section 21(2)(b) of the Insurance (Prudential Supervision) Act 2010 as at 30 June 2019. This is reported on in Note 12 to the Financial Statements.

h) For the purposes of this solvency calculation, Kiwi Insurance Limited 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.

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 shareholders.

Anne Lord.

Anne E Lord BEc, FIAA, FNZSA

16 August 2019

pwc