



Product Care (NZ) Limited

**Section 78 (IPSA) Appointed Actuary's Report –**

**Product Care (NZ) Limited**

**30 June 2015**

**Andrew Scott, FNZSA FIAA**

**Group Actuary**

**Dated: 27<sup>th</sup> October 2015**

**Product Care (NZ) Limited** CN 331 5009  
a subsidiary company of ICF Holdings NZ Limited

[www.icfrith.co.nz](http://www.icfrith.co.nz)

**Auckland**  
1/5278 Rosebank Road, Avondale, Auckland City, New Zealand  
PO Box 8896 Symonds Street Auckland New Zealand  
Tel: 64 9 820 9710 Fax: 64 9 820 9720

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## **1. Introduction and Scope**

The accompanying valuation report dated 12 October 2015 outlines the basis of the provisions for Product Care (NZ) Limited (“PCL”) at 30 June 2015. PCL has exposures to Harvey Norman extended warranties and other manufacturers’ warranty liabilities in New Zealand, referred to as “premium liabilities”. The valuation report was produced for the Directors of PCL and its controlling entity ICF Holdings (NZ) Ltd.

## **2. Declaration of Interests**

I am employed by the parent companies of PCL but otherwise have no financial interests or conflicts of interest to disclose in relation to this report.

## **3. Opinion on Actuarial Information in Financial Statements**

I have reviewed the Actuarial Information included in the 2015 financial statements of PCL both for the purpose of this report and also for the purpose of the Financial Condition Report (‘FCR’) dated 30 September 2015.

I have reviewed entries in:

- the Statement of Financial Position (the balance sheet),
- the Statement of Comprehensive Income (the profit and loss),
- and all commentary in the notes (1 – 22) to the accounts,
- the warranty sales data generated by Harvey Norman and the claim data generated in New Zealand under the administration of ICF NZ, and corresponding invoices.

I could find no instance where the values of key financial quantities in the financial statements for PCL, as at 30 June 2015, were different to recommendations made to PCL in the actuarial reports in my capacity as the Appointed Actuary to PCL (or in data and/or information provided).

I could also find no instance where, in my opinion, the representation of Actuarial Information in the financial statements (including the notes to the accounts) was inappropriate.

## **4. Opinion on Solvency Margin**

I have reviewed the solvency margin as documented in the FCR of PCL dated 30 September 2015 and can confirm compliance with the Insurance (Prudential Supervision) Act 2010. I can also confirm that PCL has achieved a solvency ratio of 139% which is within 1% of the Capital Management Plan target of 140% as updated.

## 5. Statements by Actuary

I, Andrew Scott, hereby declare the following in relation to this report:

- This report is prepared for the Directors of Product Care (NZ) Limited after having received its licence from the RBNZ at 1 June 2013.
- It incorporates all past and current liabilities at 30 June 2015 including those transferred from South Pacific Warranty Services Limited to Product Care (NZ) Limited at 1 June, 2013.
- This report complies with the New Zealand professional standard for the valuation of insurance liabilities (PS 4.1: General Insurance Business).
- There are no other limitations of which I am aware at the date of signing.



Signed

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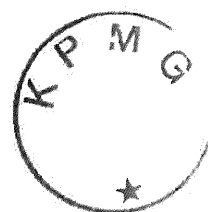
Andrew Scott FNZSA FIAA  
General Manager – Strategic Planning and Group Actuary

Date

27 October 2015

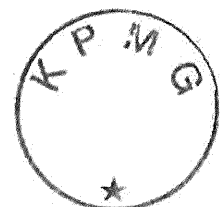
**Product Care (NZ) Limited**  
**Registration Number 3315009**

**Annual Report for the year ended 30 June 2015**



**Product Care (NZ) Limited**  
**Annual report**  
**For the year ended 30 June 2015**  
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# **Product Care (NZ) Limited**

## **Directors' Report**

The Board of Directors present the annual report of Product Care (NZ) Limited (the "Company") incorporating the financial statements and auditor's report for the year ended 30 June 2015.

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

## **Directors**

The following persons were Directors of the Company during the financial year unless otherwise stated:

Simon Cook  
Anthony Jones  
David Goodsall  
David Whyte

## **Registered Office**

Grant Thornton Auckland Limited  
L4, Grant Thornton House  
152 Fanshawe Street  
Auckland

## **Auditors**

KPMG  
18 Viaduct Harbour Ave  
Auckland

## **Company details**

Company incorporation number	3315009
Inland Revenue Department (IRD) number	106 701 792

## **Holding company**

ICF Holdings (NZ) Limited RN 1695428

## **Bankers**

ANZ Banking Group (NZ) Limited  
15 Mercari Way  
Albany, Auckland

## **Solicitors**

Phillips Fox  
205 Queen Street  
Auckland

## **Principal activities**

The Company provided warranty underwriting services during the course of the financial year. These services commenced from 1 June 2013. There has been no significant change in the nature of these activities during the year.

## **Product Care (NZ) Limited**

### **Directors' Report (continued)**

#### **Review of operations**

The net profit after income tax for the year ended 30 June 2015 was \$531,000 (2014: \$550,000).

#### **Matters subsequent to the end of the financial year**

There is, at the date of this Report, no matter or circumstance that has arisen since 30 June 2015 that has significantly affected, or may significantly affect:

- a) the Company's operations in future financial years;
- b) the results of those operations in future financial years; or
- c) the Company's state of affairs in future financial years

#### **Information on Directors in office at the date of this report**

##### **David Goodsall**

David Goodsall is an Australian resident and was appointed to the Board of Directors on 1<sup>st</sup> April 2013. He is the chairman of the Audit Risk and Compliance Committee. Mr Goodsall is an actuary with extensive experience in the financial and risk management aspects of a wide range of Financial Services companies. He led the Actuarial Practice at Ernst & Young in Australia for many years before starting his own firm in 2009. David now advises Boards and management on strategic governance.

##### **David Whyte, M.A (Hons) M.Mgt**

David Whyte is a New Zealand resident and was appointed to the Board of Directors on 1st April 2013. He is the chairman of the Board of Directors. Mr. Whyte was a Non-executive Director of Southern Response Ltd (2012 – 2014); CEO and Executive Director of Ginger Group Financial Services Ltd (2010 – 2012); Non-executive Director of Fidelity Life Assurance Ltd (2009 – 2010); Managing Director of AIG Life Australia (2002 – 2006). Mr. Whyte is a member of the Financial Disputes Resolution Advisory Council and is retained on contract as a Course Facilitator by the NZ Institute of Directors. He has a post-graduate master's degree in Management, and a post-graduate qualification in Corporate Governance & Leadership.

##### **Anthony Jones**

Anthony Jones is the Chairman of the Board of ICF Holdings Pty Ltd and is a New Zealand resident. He was appointed to the Board of Directors on 1 April 2011. ICF Holdings Pty Ltd is the ultimate parent entity of the ICF Group which is head-quartered in Sydney, Australia. The ICF Group has operations throughout Australia, New Zealand, Singapore, Malaysia, Ireland, Slovenia and Croatia and operates in the warranty administration and insurance underwriting business segments. Product Care (NZ) Limited ("PCL") is a 100% owned subsidiary of the ICF Group.

In addition, Mr Jones also holds executive functions as Managing Director of IC Frith (NZ) Ltd and General Manager for PCL and South Pacific Warranty Services Limited ("SPWS"). Mr Jones's experience includes underwriting, risk management and surveying, national account management and broking gained in international companies such as Vero Insurance, FAI Insurance, HIH Insurance and QBE Insurance.

Mr Jones has a Diploma of Financial Insurance from the ANZ Institute of Insurance & Finance.

## Product Care (NZ) Limited

### Directors' Report (continued)

#### Simon Cook

Simon Cook is a director of ICF Holdings Pty Limited and is an Australian resident. He was appointed to the Board of Directors on 1 April 2011. Mr Cook has 24 years' experience in the insurance industry having worked for Allianz and then the ICF Group from 2004.

Mr Cook has a Diploma of Financial Insurance from the ANZ Institute of Insurance & Finance.

This report is made in accordance with a resolution of the Directors.

The Board of the Company authorised these financial statements for issue on 28 October 2015.

On behalf of the Board



Simon Cook

Director

Date : 28/10/15



David Goodsall

Director

Date : 28/10/15



## Product Care (NZ) Limited

### Corporate Governance Statement

Product Care (NZ) Limited ("the Company") is incorporated in New Zealand. The Company is a wholly owned subsidiary of ICF Holdings (NZ) Limited. ICF Holdings (NZ) Limited's ultimate parent is ICF Holdings Pty Ltd, an Australian privately owned company.

There are two executive directors and two non-executive directors who have been appointed to the Board of Directors ("the Board").

The primary role of the Board is to provide effective governance of the Company's affairs to protect the interests of its shareholder, whilst having regard for the interests of all stakeholders including policyholders, suppliers and the wider community.

The Board is accountable to its shareholders for the performance of the Company and has overall responsibility for the Company's operations.

This statement contains an outline of the principles, policies, procedures and practices that the Board and Management have implemented to govern the operations of the Board and the Company.

In establishing this corporate governance framework, the Board has had regard to its responsibilities at law and various governance standards, including the Governance Guidelines for Licensed Insurers issued by the Reserve Bank of New Zealand in June 2011.

The Board has adopted a Board Charter, which sets out the principles for the operation of the Board of Directors and provides a description of the functions and responsibilities of the Board and the functions delegated to management.

The key functions of the Board are summarised below:

- Approve the strategic direction and related objectives of the Company;
- Consider and approve the Company's annual budget including revenue, profit, capital expenditure and cash flows, as proposed by management, ensuring appropriate resources are available to achieve the business objectives;
- Monitor the financial performance in the implementation and achievement of strategic and business objectives;
- Review and approve the Company's capital management policies and plans, having regard for the various liquidity and capital adequacy regulatory requirements applying to the Company;
- Approve and oversee the process developed by management to ensure business risks are identified;
- Approve systems of risk management, risk appetite, regulatory compliance and control and associated Company policies to manage those risks;
- Monitor management's implementation of, and compliance with, these systems and controls;
- Manage and assess the performance of the Chief Executive;
- Assess the performance of the Chief Executive and approve the Chief Executive's assessment of the performance of each Executive; and
- Determine and approve the level of authority to be delegated to the Chief Executive in respect of operating expenditures, capital expenditures, credit facilities, and risk-taking and approve the further delegation of those authorities to management by the Chief Executive.

## **Product Care (NZ) Limited**

### **Corporate Governance Statement (continued)**

The Board may also delegate certain powers, duties and responsibilities to one or more committees of the Board.

The Board is committed to the highest standards of ethical behaviour.

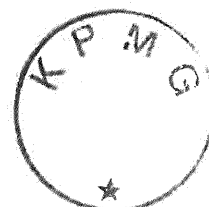
Board members are appointed in accordance with a documented process and all appointments are subject to shareholder approval. There is a formal procedure in place for evaluating the performance of the Board.

The Board has established an Audit Risk and Compliance Committee ("ARCC") to assist and support the Board in the conduct of certain of its duties and responsibilities. The primary role of the ARCC is to assist the Board in verifying and safeguarding the integrity of the Company's financial reporting, and evaluating and improving the effectiveness of the control, risk management and governance processes. The terms of reference of the ARCC are contained in a separate Board-approved charter. The members of the ARCC are the two non-executive directors with full participation from the Company Secretary and the Company Actuary.

Various internal policies which form part of the Company's compliance framework also apply to Directors.

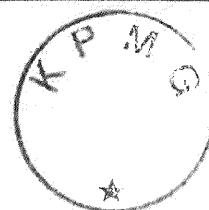
Product Care (NZ) Limited  
Statement of comprehensive income  
For the year ended 30 June 2015

<i>In thousands of NZD</i>	<i>Note</i>	<b>2015</b>	<b>2014</b>
Premium revenue	5	5,362	6,668
Outwards reinsurance premium expense	11	(2,962)	(3,923)
<b>Premium</b>		<b>2,400</b>	<b>2,745</b>
Claims expense	16	(3,871)	(4,636)
Reinsurance recoveries	5	2,119	2,635
<b>Net Claims Incurred</b>		<b>(1,752)</b>	<b>(2,001)</b>
Underwriting expenses		(282)	(286)
<b>Underwriting result</b>		<b>366</b>	<b>458</b>
Operating expenses	6	(99)	(75)
Investment income	7	469	380
<b>Profit before income tax expense</b>		<b>736</b>	<b>763</b>
Income tax expense	8	(205)	(213)
<b>Profit after income tax expense</b>		<b>531</b>	<b>550</b>
Other comprehensive income		-	-
<b>Total Comprehensive income for the year</b>		<b>531</b>	<b>550</b>
<b>Profit attributable to:</b>			
Equity holders of the parent		531	550
<b>Profit for the year</b>		<b>531</b>	<b>550</b>
<b>Total Comprehensive Income attributable to:</b>			
Equity holders of the parent		531	550
<b>Total Comprehensive income</b>		<b>531</b>	<b>550</b>



Product Care (NZ) Limited  
Statement of financial position  
As at 30 June 2015

<i>In thousands of NZD</i>	<i>Note</i>	<b>2015</b>	<b>2014</b>
<b>Current assets</b>			
Cash and cash equivalents	9	1,296	1,527
Trade and other receivables	10	3,016	1,883
Deferred reinsurance expense	11	3,641	2,634
Reinsurance receivable	12	590	628
Investments	13	9,750	7,983
Income tax receivable	15	-	3
<b>Total current assets</b>		<b>18,293</b>	<b>14,658</b>
<b>Non-current assets</b>			
Deferred reinsurance expense	11	5,558	5,039
<b>Total assets</b>		<b>23,851</b>	<b>19,697</b>
<b>Current liabilities</b>			
Trade and other payables	14	1,007	970
Income tax payable	15	10	-
Outstanding claims liability	16	430	469
Unearned premium liability	17	7,237	5,039
<b>Total current liabilities</b>		<b>8,684</b>	<b>6,478</b>
<b>Non-current liabilities</b>			
Unearned premium liability	17	11,002	9,585
<b>Total liabilities</b>		<b>19,686</b>	<b>16,063</b>
<b>Net assets</b>		<b>4,165</b>	<b>3,634</b>
<b>Equity</b>			
Issued capital	18	3,000	3,000
Retained earnings		1,165	634
<b>Total equity</b>		<b>4,165</b>	<b>3,634</b>



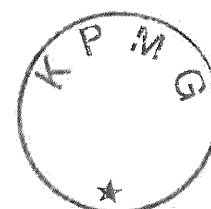
Product Care (NZ) Limited  
Statement of changes in equity  
For the year ended 30 June 2015

	Attributable to equity holders of the Company			
	Note	Share capital	Retained earnings	Total Equity
<i>In thousands of NZD</i>				
<b>2015</b>				
Balance at 1 July 2014	18	3,000	634	3,634
<b>Total comprehensive income for the period</b>				
Profit for the year		-	531	531
<b>Total Comprehensive income</b>		-	531	531
Dividends		-	-	-
<b>Total transactions with owners recorded directly in equity</b>		-	-	-
Balance at 30 June 2015		3,000	1,165	4,165

	Attributable to equity holders of the Company			
	Note	Share capital	Retained earnings	Total Equity
<i>In thousands of NZD</i>				
<b>2014</b>				
Balance at 1 July 2013	18	3,000	84	3,084
<b>Total comprehensive income for the period</b>				
Profit for the year		-	550	550
<b>Total Comprehensive income</b>		-	550	550
Dividends		-	-	-
<b>Total transactions with owners recorded directly in equity</b>		-	-	-
Balance at 30 June 2014		3,000	634	3,634

Product Care (NZ) Limited  
Statement of cash flows  
For the year ended 30 June 2015

<i>In thousands of NZD</i>	<i>Note</i>	<b>2015</b>	<b>2014</b>
<b>Cash flows from operating activities</b>			
Cash receipts from customers		9,191	6,057
Cash paid to suppliers		(7,932)	(5,947)
Cash generated from operations		1,259	110
Income taxes paid		(192)	(197)
<b>Net cash inflows/(outflows) from operating activities</b>	<b>9</b>	<b>1,067</b>	<b>(87)</b>
<b>Cash flows from investing activities</b>			
Increase in investments		(1,767)	(5,400)
Interest income received		469	380
<b>Net cash outflows from investing activities</b>		<b>(1,298)</b>	<b>(5,020)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(231)</b>	<b>(5,107)</b>
Cash and cash equivalents at beginning of year		1,527	6,634
<b>Cash and cash equivalents at 30 June</b>	<b>9</b>	<b>1,296</b>	<b>1,527</b>



# Product Care (NZ) Limited

## Notes to the financial statements

For the year ended 30 June 2015

### 1. Reporting entity

Product Care (NZ) Limited ("the Company") is a company limited by shares, incorporated and domiciled in New Zealand and registered under the Companies Act 1993. With the implementation of the Insurance (Prudential Supervision) Act 2010 all insurance entities undertaking insurance business in New Zealand are required to be licensed by the Reserve Bank of New Zealand (RBNZ). The Company was granted a full license on 1 June 2013. As a result of being a licensed insurer, the Company is deemed to be an FMC reporting entity under the Financial Markets Conduct Act 2013 (FMCA).

The Company was established to provide warranty underwriting services. These services commenced from 1 June 2013.

The financial statements of the Company are for the year ended 30 June 2015, and were authorised for issue by the Directors on 28 October 2015.

### 2. Basis of preparation

#### a) Statement of compliance

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards as appropriate to profit-oriented entities. The Company is a profit-oriented entity. The financial statements also comply with International Financial Reporting Standards (IFRS). The Company is a reporting entity for the purposes of the Financial Reporting Act 2013 and the FMCA and its financial statements comply with these Acts. The financial statements also comply, where relevant, with the Insurance (Prudential Supervision) Act 2010 and associated Regulations.

In addition to the change in legislation, the External Reporting Board of New Zealand ("XRB") has released a new accounting standards framework which establishes the financial standards to be applied to entities with statutory financial reporting obligations. The Company is currently reporting under NZ IFRS. Under the XRB framework the Company has applied NZ IFRS as applicable for Tier 1 for-profit entities.

#### b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for financial assets and outstanding claims liabilities as in Note 3.

#### c) Functional and presentational currency

The financial statements are presented in New Zealand Dollars, which is the Company's functional currency. All financial information presented in New Zealand Dollar have been rounded to the nearest thousand dollars unless otherwise stated.

#### d) Use of estimates and judgements

The preparation of a financial report in conformity with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years. Information about significant assumptions and estimates uncertainty are disclosed in Note 4 - actuarial methods and assumptions.

## Product Care (NZ) Limited

### Notes to the financial statements

For the year ended 30 June 2015

#### 3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

##### a) **Classification of warranty contracts**

Warranty contracts under which the Company accepts risk from another party (the policyholder) by agreeing to indemnify the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder are classified as insurance contracts and are therefore accounted for using insurance accounting principles. Insurance risk is risk other than financial risk.

##### b) **Revenue**

###### i) **Premium revenue**

Premium revenue from warranty underwriting business includes amounts charged to the policyholders, excluding amounts collected on behalf of third parties.

Premium revenue is recognised in the Statement of comprehensive income when it has been earned, that is, from the attachment date over the period of the contract in accordance with the pattern of incidence of risk. The pattern of incidence of risk is based on an estimation process which is regularly reviewed for each group of contracts subject to broadly similar risks and managed together as a single portfolio.

The proportion of premium received or receivable not earned in the Statement of comprehensive income at the reporting date is recognised in the Statement of financial position as an unearned premium liability.

###### ii) **Reinsurance and other recoveries**

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid, claims incurred but not yet reported, risk margins and unexpired risk liabilities are recognised as revenue.

Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims.

###### ii) **Investment income**

Interest income is recognised in the Statement of comprehensive income when it accrues, using the effective interest method.

##### c) **Assets backing underwriting liabilities**

The assets backing warranty underwriting liabilities are those assets that, in the opinion of the directors would be required to cover the warranty underwriting liabilities plus an allowance for uncertainty.

Warranty underwriting liabilities are assessed by the directors utilising actuarial valuations and estimates to include liabilities for unearned premium, outstanding claims and unexpired risk (if required). (Notes 16 and 17).



# Product Care (NZ) Limited

## Notes to the financial statements

For the year ended 30 June 2015

### 3. Significant accounting policies (continued)

#### c) Assets backing underwriting liabilities (continued)

Underwriting assets are detailed in the accounts and include:

- Cash on hand via banks with an AA- credit rating per Standard and Poor's, a credit rating agency
- Term deposits via banks with an AA- credit rating per Standard and Poor's, a credit rating agency
- Reinsurance assets through reinsurers with an AA- credit rating per Standard and Poor's, a credit rating agency

#### d) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost less any impairment losses.

#### e) Cash assets

Cash and cash equivalents comprise cash balances and term deposits where the initial maturity is less than three months. Term deposits with an initial maturity of three months and more are classified as investments.

#### f) Impairment

The carrying amounts of the Company's assets are reviewed at each reporting date to determine whether there is any indication of impairment.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the Statement of comprehensive income, unless an asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through profit or loss.

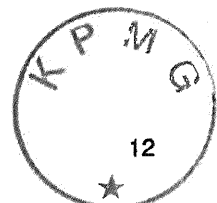
Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

#### g) Calculation of recoverable amount

The recoverable amount of the Company's receivables is calculated as at the present value of the future cash flows. Receivables with a short duration are not discounted.

Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Significant receivables are individually assessed for impairment.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.



Product Care (NZ) Limited

Notes to the financial statements

For the year ended 30 June 2015

**3. Significant accounting policies (continued)**

**g) Calculation of recoverable amount (continued)**

**i) Reversals of impairment**

Impairment losses, other than in respect of goodwill, are reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimate used to determine the recoverable amount.

An impairment loss in respect of goodwill is not reversed.

An impairment loss in respect of a held-to-maturity security or receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**ii) Derecognition of financial assets and liabilities**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the contractual rights to the cash flows from the assets expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the Statement of comprehensive income.

**h) Share capital**

Ordinary shares are classified as equity. Any dividends are recognised as a liability in the financial period in which they are declared.

**i) Liability adequacy test**

The liability adequacy test is an assessment of the carrying amount of the unearned premium liability and is conducted at each reporting date.

Provision is made for unexpired risks arising from warranty underwriting business where the expected present value of claims and expenses attributed to the unexpired periods of policies in force together with a risk margin ("premium liabilities") exceeds the unearned premium liability in relation to such policies after the deduction of any deferred acquisition costs. The premium liabilities are calculated separately for each group of contracts subject to broadly similar risks and managed together as a single portfolio to achieve a probability of adequacy of 75%. Any deficiency arising from the test is recognised immediately in the Statement of comprehensive income firstly through the write down of deferred acquisition costs, with any remaining balance being recognised on the Statement of financial position as an unexpired risk reserve.

# Product Care (NZ) Limited

## Notes to the financial statements

For the year ended 30 June 2015

### 3. Significant accounting policies (continued)

#### j) Outstanding claims liability

The outstanding claims liability is the value of expected future payments relating to the claims incurred at reporting date but not yet paid and claims incurred but not reported ("IBNR") at reporting date. In 2014-15, the Company changed its approach to the disclosure of the provision for outstanding claims liability. The outstanding claims liability has previously been provided for in the unearned premium liability. In the current year, the outstanding claims liability has been separated from the unearned premium liability and disclosed as a separate reserve. As a result of this change, certain comparative balances have been updated to conform to current year presentation.

The gross claims expense in the Statement of comprehensive income comprises the claims paid and the change in the liability for outstanding claims.

#### k) Reinsurance and other recoveries

Reinsurance and other recoveries received or receivable on paid claims are recognised as income. Recoveries receivable on paid claims are presented net of any provision for impairment based on objective evidence for individual receivables. All recoveries receivable on paid claims are measured as the present value of the expected future receipts.

Reinsurance does not relieve the Company of its liabilities to policy holders.

#### l) Provisions

A provision is recognised in the Statement of financial position when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

#### m) Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost.

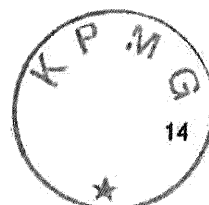
#### n) Outwards reinsurance premium expense

Premium ceded to reinsurers is recognised as an expense from the attachment date over the period of indemnity of the reinsurance contract in accordance with the pattern of incidence of risk ceded on basis consistent with the treatment of premium revenue. Accordingly a proportion of outwards reinsurance premium is treated as prepaid and disclosed as deferred reinsurance expense in the Statement of financial position.

#### o) Income tax

Income tax on the profit or loss for the financial period comprises current and deferred tax. Income tax is recognised in the Statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the financial period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous financial periods.



## Product Care (NZ) Limited

### Notes to the financial statements

For the year ended 30 June 2015

#### 3. Significant accounting policies (continued)

##### o) Income tax (continued)

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. 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 the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

##### p) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the Inland Revenue Department is included as a current asset or liability in the Statement of financial position.

##### q) Subvention Payments

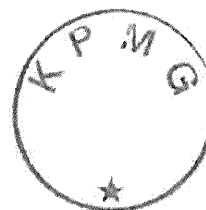
The Company is part of a tax consolidated group with members as at 30 June 2015 being South Pacific Warranty Services Ltd and Product Care Administrations Services (NZ) Ltd.

##### r) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2014, which have been deemed to not be material and have not been applied in preparing these financial statements. Those which may be relevant for the Company are set out below. The Company does not plan to adopt these standards early.

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

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.



## Product Care (NZ) Limited

### Notes to the financial statements

For the year ended 30 June 2015

#### 4. Summary of significant actuarial methods and assumptions

The effective date of the actuarial valuation of liabilities is 30 June 2015. The liability valuation is documented in a report prepared by Mr Andrew Scott FIAA, FNZSA, the Appointed Actuary for the Company. Mr Scott is a full time employee of the ICF Group and has no other financial interest or dealings with the Company. The Appointed Actuary is satisfied as to the nature, sufficiency and accuracy of the data used to determine the premium liabilities and outstanding claims liability. The key assumptions used in the compilation of the reserves as at 30 June 2015 have been outlined in Note 16 and Note 17.

The outstanding claims liability disclosed for the Company have been calculated in accordance with the requirements of NZ IFRS 4 *Insurance Contracts* and consistent with the New Zealand Society of Actuaries Professional Standard No.4.1 "Valuation of General Insurance Claims".

Section 77(1) of the Insurance (Prudential Supervision) Act 2010 requires the Appointed Actuary to review the actuarial information contained in, or used in the preparation of, the financial statements. The Appointed Actuary is satisfied that he has obtained all of the information and explanations required. He is satisfied that the actuarial information has been used appropriately in the preparation of the financial statements and included appropriately in the financial statements.

In addition, the Company's board and the ARCC receives a Financial Condition Report ("FCR") annually from the Appointed Actuary in accordance with the Insurance (Prudential Supervision) Act 2010. The purpose of the FCR is to provide the Appointed Actuary's objective assessment of the Company's overall financial condition. It considers, among other things, the material risks facing the Company that, in the Appointed Actuary's opinion, pose a threat to its ability to remain financially solvent now and in the future.

The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below.

##### a) Unearned premium liability and unexpired risk reserve

In accordance with the recognition of premium revenue (see accounting policy 3 b(i)) the consequent unearned premium liability at the end of the year is based upon the expected future pattern of incidence of risk in relation to warranty contracts. This pattern is based on an estimation process which is regularly reviewed for each group of contracts subject to broadly similar risks and managed together as a single portfolio.

In calculating the estimated pattern of incidence of risk the Company uses a variety of estimation techniques, generally based upon statistical analysis of the Company and industry experience that assumes that the development pattern of current claims will be consistent with past experience as appropriate.

In undertaking the liability adequacy test to assess the carrying amount of the unearned premium liability allowance is made through the application of a risk margin for changes or uncertainties that may create distortions in the underlying statistics or which might cause the cost of future claims to increase or reduce when compared with the cost of previously settled claims.

## Product Care (NZ) Limited

### Notes to the financial statements

For the year ended 30 June 2015

#### 4. Summary of significant actuarial methods and assumptions (continued)

##### a) Unearned premium liability and unexpired risk reserve (continued)

Analysis of the unearned premium liability is provided in Note 17 together with the application of the Liability Adequacy Test including the assessment of the need for an unexpired risk reserve. The estimation of premium liability includes a number of key assumptions. The Company takes all reasonable steps to ensure it has appropriate information on which to base this estimate. However, given the uncertainty involved it is likely that the final outcome will differ from the original claims liability established.

The level of uncertainty around the eventual cost of claims relating to the unexpired portion of policies is significant given both the extended time period over which the claims may be reported (up to 7 years from the date of purchase of the underlying service plan/extended warranty arrangement) and the potential change in the underlying assumptions as set out in Note 17.

##### b) Deferred reinsurance expense

Deferred reinsurance expense is also determined 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.

##### c) Outstanding claims liability

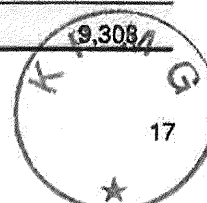
The outstanding claims liability is the value of expected future payments relating to the claims incurred at reporting date but not yet paid and claims incurred but not reported ("IBNR") at reporting date. In 2014-15, the Company changed its approach to the disclosure of the provision for outstanding claims liability. The outstanding claims liability had previously been provided for in the unearned premium liability. In the current year, the outstanding claims liability has been separated from the unearned premium liability and disclosed as a separate reserve. As a result of this change, certain comparative balances have been updated to conform to current year presentation.

The gross claims expense in the statement of comprehensive income comprises the claims paid and the change in the liability for outstanding claims.

The outstanding claims liability is determined by reference to the historical average number of days between reporting and settlement as the expected delay applicable at the balance date. This is used pro-rata to estimate the current outstanding claims based on the annual gross payments and there being 365 days per annum. Reinsurance recoveries are similarly determined using the prevailing rate of recoveries in the preceding month.

#### 5. Revenue

<i>In thousands of NZD</i>	2015	2014
Gross written premium	8,977	6,082
Movement in unearned premium	(3,615)	586
Premium revenue	5,362	6,668
Reinsurance recoveries income	2,119	2,635
Underwriting revenue	7,481	9,303



Product Care (NZ) Limited  
Notes to the financial statements  
For the year ended 30 June 2015

**6. Operating expenses**

*In thousands of NZD*

**Operating expenses**

		2015	2014
Audit fees	21	46	45
Other professional and consulting fees		53	30
		<u>99</u>	<u>75</u>

**7. Interest income**

*In thousands of NZD*

	2015	2014
Interest income	469	380
	<u>469</u>	<u>380</u>

**8. Income tax expense**

**Recognised in the Statement of comprehensive income**

*In thousands of NZD*

**Current tax expense**

	2015	2014
Current year	205	213
Total income tax expense in Statement of comprehensive income	<u>205</u>	<u>213</u>

**Numerical reconciliation between tax expense and pre-tax net profit**

*In thousands of NZD*

	2015	2014
Profit before tax	736	763
Income tax using the domestic corporation tax rate of 28%	205	213

**Imputation credit account**

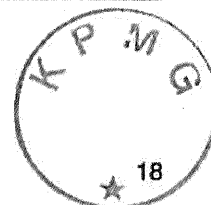
The Company is a member of a New Zealand tax consolidated Group.

The imputation balance as 30 June 2015 available to the Group is \$9,537,547 (2014: \$5,971,596).

**9. Cash and cash equivalents**

*In thousands of NZD*

	2015	2014
Bank balances	1,296	1,527
	<u>1,296</u>	<u>1,527</u>



Product Care (NZ) Limited

Notes to the financial statements

For the year ended 30 June 2015

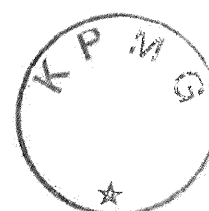
9. Cash and cash equivalents (continued)

Reconciliation of cash flows from operating activities

<i>In thousands of NZD</i>	<i>Note</i>	<b>2015</b>	<b>2014</b>
Cash flows from operating activities			
Profit for the period		531	550
Adjustments for:			
Investment income	7	(469)	(380)
Income tax expense	8	205	213
<b>Operating profit before changes in working capital and provisions</b>		<b>267</b>	<b>383</b>
Decrease/(increase) in reinsurance recoveries	12	38	(468)
Increase in trade and other receivables	10	(1,133)	(1,167)
(Increase)/decrease in deferred reinsurance expenses	11	(1,526)	882
Increase in trade and other payables	14	37	597
Increase/(decrease) in underwriting liabilities	17	3,576	(117)
		<b>1,259</b>	<b>110</b>
Income taxes paid		(192)	(197)
<b>Net cash inflows/(outflows) from operating activities</b>		<b>1,067</b>	<b>(87)</b>

10. Trade and other receivables

<i>In thousands of NZD</i>	<b>2015</b>	<b>2014</b>
<b>Current</b>		
Trade receivables due from related parties	1,704	769
Other trade receivables	1,312	1,114
	<b>3,016</b>	<b>1,883</b>





Product Care (NZ) Limited  
Notes to the financial statements  
For the year ended 30 June 2015

**11. Deferred reinsurance expense**

<i>In thousands of NZD</i>	<b>2015</b>	<b>2014</b>
Current	3,641	2,634
Non-current	5,558	5,039
	<hr/>	<hr/>
	9,199	7,673
Opening balance	7,673	8,555
Reinsurance premiums incurred in the year	4,488	3,041
Reinsurance premiums expensed in the year	(2,962)	(3,923)
	<hr/>	<hr/>
Balance as at 30 June 2015	9,199	7,673

**12. Reinsurance receivables**

<i>In thousands of NZD</i>	<b>2015</b>	<b>2014</b>
Current		
Recoveries on claims paid	357	366
Recoveries on outstanding claims liability	233	262
	<hr/>	<hr/>
	590	628

**13. Investments**

<i>In thousands of NZD</i>	<b>2015</b>	<b>2014</b>
Term deposits	9,750	7,983

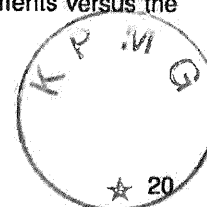
**14. Trade and other payables**

<i>In thousands of NZD</i>	<b>2015</b>	<b>2014</b>
Payables due to related parties	-	61
Other trade payables including reinsurance premiums payable	1,007	909
	<hr/>	<hr/>
	1,007	970

**15. Income tax (payable)/receivable**

<i>In thousands of NZD</i>	<b>2015</b>	<b>2014</b>
Income tax (payable)/receivable	(10)	3
	<hr/>	<hr/>
	(10)	3

The current tax payable for the Company represents the difference of tax payments versus the estimated balance payable to the Inland Revenue Department.



# Product Care (NZ) Limited

## Notes to the financial statements

For the year ended 30 June 2015

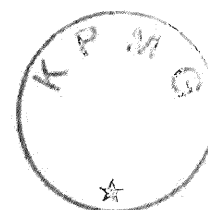
### 16. Outstanding claims liability

The outstanding claims liability has previously been provided for in the unearned premium liability. This approach was taken as there was insufficient historical data available to determine the outstanding claims liability as a separate reserve. As the Company is now in its third year of underwriting, there is now sufficient historical data available to allow for the determination of the outstanding claims liability. As such, in the current year, the outstanding claims liability has been separated from the unearned premium liability and disclosed as a separate reserve. As a result of this change, certain comparative balances have been updated to align with current year presentation.

*In thousands of NZD*

	2015	2014
<b>Current</b>	430	469
<b>Reconciliation of movement in claims liability:</b>		
Balance at the beginning of the year	469	-
Claims incurred in the current year	3,871	4,636
Reinsurance and other recoveries in the current year	(2,119)	(2,635)
Claims costs paid (net of reinsurance)	(1,791)	(1,532)
Balance at end of year	430	469
Reinsurance and other recoveries receivable	(233)	(262)
Net outstanding claims liability at the end of the year	197	207

The outstanding claims liability is determined by reference to the historical average number of days between reporting and settlement as the expected delay applicable at the balance date. This is used pro-rata to estimate the current outstanding claims based on the annual gross payments and there being 365 days per annum. Reinsurance recoveries are similarly determined using the prevailing rate of recoveries in the preceding month.



Product Care (NZ) Limited  
Notes to the financial statements  
For the year ended 30 June 2015

**17. Unearned premium liability**

**A. Reconciliation of movements**

The unearned premium liability previously included the provision for outstanding claims liabilities, as per Note 16. There is now sufficient historical data available to allow for the accurate determination of the outstanding claims liability and as such, in the current year, the outstanding claims liability has been separated from the unearned premium liability and disclosed as a separate reserve. As a result of this change, certain comparative balances have been updated to align with current year presentation.

<i>In thousands of NZD</i>	<b>2015</b>	<b>2014</b>
Current	7,237	5,039
Non-current	11,002	9,585
	<b>18,239</b>	<b>14,624</b>
<b>Reconciliation of movement in unearned premium liability</b>		
Opening balance	14,624	15,210
Written premium in the period	8,977	6,082
Premium earned during the year	(5,362)	(6,668)
	<b>18,239</b>	<b>14,624</b>

**B. Liability Adequacy Test**

The liability adequacy test identified a surplus as at 30 June 2015. This is intended to achieve a probability of adequacy of 75% (2014: 75%). The Risk Margin was determined from a statistical analysis of the historic loss experience as undertaken by the Appointed Actuary.

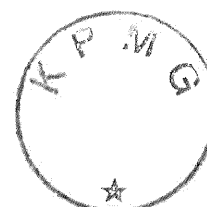
**C. Composition unearned premium liability**

The adequacy of the Unearned Premium Liability (UPL) is assessed by determining the central estimate of expected future cash flows in respect of claims associated with unexpired risks together with a risk margin to reflect the inherent uncertainty in the estimate and then comparing this amount to the unearned premium liability.

The assumptions used within these accounts were derived as at 31 March 2015. These assumptions were reviewed again at 30 June 2015 and it was resolved that no adjustment was required.

A number of actuarial methods have been applied to project future claim payments in order to establish the central estimates and risk margin. These methods assist in providing a greater understanding of the trends inherent in past data. The most appropriate method or a blend of methods is selected, taking into account the characteristics of the warranty category and the availability of historic loss development data.

The principal method adopted uses a combination of claim severity (average claims size) and claim frequency (the expected number of claims per underlying risk exposure) to determine the expected future costs.



# Product Care (NZ) Limited

## Notes to the financial statements

For the year ended 30 June 2015

### 17. Unearned premium liability (continued)

The following assumptions have been made in assessing adequacy of the unearned premium liability:

#### (I) Assumptions

	30 June 2015	30 June 2014
Weighted average term to recognition (years)	1.54	1.68
Discounted mean term (years)	1.46	1.56
Indirect expense ratio	1.0%	1.0%
Risk margin	13.1%	15.9%
Claims inflation	4.0%	4.0%
Discount rate	3.04%	3.96%

The table below summarises the sensitivity of the premium liabilities calculation for the purpose of the Liability Adequacy Test.

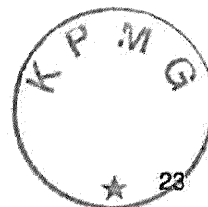
		Net premium liabilities (central estimate) increase/(decrease) \$000's (Note A)	
	Movement in variable	2015	2014
<i>In thousands of NZD</i>			
Unearned premium liabilities (net of deferred reinsurance expense)		9,040	6,951
Claim Severity - EW	+NZD\$20	208	379
	-NZD\$20	(208)	(379)
Claim Severity - PCR	+NZD\$20	200	-
	-NZD\$20	(200)	-
Inflation rate	+1%	183	133
	-1%	(180)	(131)
Discount rate	+1%	(114)	(106)
	-1%	117	110
Indirect expense ratio	+1%	89	59
	-1%	(89)	(59)
Risk margin	+1%	89	59
	-1%	(89)	(59)
Discounted mean term	+ 6 months	42	59
	- 6 months	(42)	(59)

Note A: This change would have an equivalent effect on net profit/loss before tax and shareholder's equity (net of tax effect).

#### D. Concentration of Insurance risk

The underwriting business writes warranty contracts predominantly covering retail electrical products. The portfolio is spread across a diversified range of manufacturers.

Regular reviews are undertaken to monitor the accumulation exposure to any particular product and/or manufacturer. Quota share reinsurance has been purchased to share the accumulated exposure in accordance with commercially available terms.



## Product Care (NZ) Limited

### Notes to the financial statements

For the year ended 30 June 2015

#### 18. Equity

##### Share capital

*In thousands*

	2015	2014
Issued for cash (number of shares)	3,000	3,000
On issue at 30 June 2015	3,000	3,000

Issued at NZ\$1 per share.

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

The Company, in relation to its capital adequacy, meets all requirements as specified by the Reserve Bank of New Zealand.

##### Capital Management

The capital management strategy of the Company is to optimise shareholder value by managing the level, mix and use of capital resources. The main objectives are to ensure sufficient capital resources to maintain the business and operational requirements, retain sufficient capital to exceed externally imposed capital requirements, and ensure the entity's ability to continue as a going concern. The Company's capital policy is to hold all surplus capital in bank deposits with bank credit ratings of a minimum of AA-.

The Company's capital includes contributed equity on the statement of financial position of \$3,000,000 (2014: \$3,000,000).

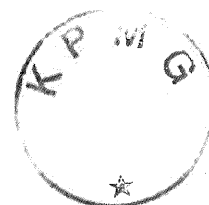
The Company is required to hold a minimum of \$3,000,000 in capital and to comply fully with the Reserve Bank of New Zealand ("RBNZ") regulatory compliance for an insurer covering New Zealand domiciled risks. This capital requirement has been complied with and as at 30 June 2015 the solvency margin was \$1,164,583 (2014: \$633,788).

There were no changes in the Company's approach to capital management during the year.

The Company has embedded in its capital management framework the necessary tests to ensure continuous and full compliance with the Solvency Standard for Non-Life Insurance Business issued December 2014 by the RBNZ.

The Company's Audit and Risk Committee oversees the computations and capital solvency is carefully monitored against the Company's capital management plan. In addition, the Company manages the required level of capital through maintaining a minimal risk investment strategy and maintaining a strong reinsurance quota share.

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



## Product Care (NZ) Limited

### Notes to the financial statements

For the year ended 30 June 2015

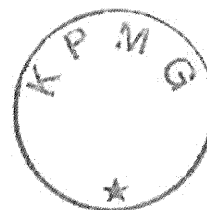
#### 18. Equity (continued)

Regulatory capital is made up of two components, actual solvency capital and minimum solvency capital, with the difference representing the solvency margin. The calculation of the solvency margin for the Company is detailed below

##### Summary of Solvency position

*In thousands of NZD*

	2015	2014
Balance Sheet capital	4,165	3,634
Deductions	-	-
Actual solvency Capital	4,165	3,634
Risk Based Charges		
Insurance Risk	1,408	1,105
Catastrophe Risk	522	304
Reinsurance Recoveries Risk	221	166
Asset Risk	277	232
Interest Rate Risk	100	67
Calculated Solvency Capital	2,528	1,874
Minimum Capital Requirement	3,000	3,000
Solvency Margin	1,165	634
Solvency Ratio	1.39	1.21



## Product Care (NZ) Limited

### Notes to the financial statements

For the year ended 30 June 2015

#### 19. Financial instruments & risk management

##### A. Financial Risk Management

The activities of the Company expose it to the following financial risks:

- Credit risk
- Liquidity risk
- Operational risk
- Market risk (include currency risk, cash flow and fair value interest rate risk)

The Company has developed, implemented and maintains Investment and Capital Management Strategies to minimise potential adverse impacts upon the financial performance of the Company arising from financial market volatility.

The key objective of the Company's asset and liability management strategy is to ensure sufficient liquidity is maintained at all times to meet the Company's obligations, including its settlement of insurance liabilities.

##### Credit Risk

Credit risk relates to the possibility of default by transactional counterparties as well as the loss of value of assets due to the deterioration in credit quality. The Company's credit risk arises predominantly from investments, policyholder premium debtors and reinsurance recoveries.

##### Trade and other receivables

The credit risk exposure of the Company is non-repayment of the carrying amounts of the financial assets. For underwriting and warranty services there are two large debtors of \$941,000 (2014: \$900,000) due from an external party and \$1,704,000 (2014: \$769,000) due from a related party. Payment terms are set at 20 days and the insurance component would not become payable if external party failed to pay. Accordingly, there is a low credit risk on these debtors.

##### Reinsurance Recoveries

The credit risk exposure on reinsurance recoveries is reduced by only dealing with AA- rated reinsurers as rated by Standard & Poor's or Moody's.

##### Investments and cash

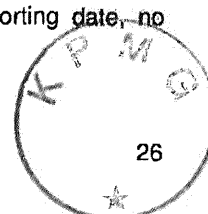
The Company limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have a credit rating of at least AA- from Standard & Poor's or Moody's equivalent. The majority of the investments are rated AA-.

##### Trade and other receivable ageing

<i>In thousands of NZD</i>	<b>0 to 30 Days</b>	<b>31-60 Days</b>	<b>61-90 Days</b>	<b>91+ Days</b>	<b>Total</b>
<b>2015</b>					
Trade receivables	1,312	836	868	-	3,016
Reinsurance recoveries	-	590	-	-	590
<b>Total Trade Receivables</b>	<b>1,312</b>	<b>1,426</b>	<b>868</b>	<b>-</b>	<b>3,606</b>
<b>2014</b>					
Trade receivables	1,114	769	-	-	1,883
Reinsurance recoveries	-	628	-	-	628
<b>Total Trade Receivables</b>	<b>1,114</b>	<b>1,528</b>	<b>-</b>	<b>-</b>	<b>2,511</b>

The \$868,000 that was aged over 60 days at 30 June 2015 was received in full on 30 July 2015.

Based on the aging shown above and allowing for cash received after reporting date, no impairment was required against trade and other receivable balances.



Product Care (NZ) Limited

Notes to the financial statements

For the year ended 30 June 2015

19. Financial instruments & risk management (continued)

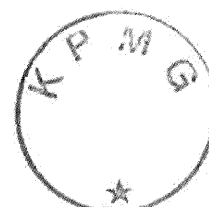
A. Financial Risk Management (continued)

Credit Exposures

The table below provides information regarding the credit risk exposure of the Company by classifying investments according to Standard and Poor's credit ratings of the counterparties. Trade and other receivables are not rated because of their short term nature and the lack of any singularly material debtors. AAA is the highest possible rating. As at 30 June 2015 the Company did not hold any rated financial assets with a Standard and Poor's credit rating below AA-.

2015	AA- rated	Not rated	Total
<i>In thousands of NZD</i>			
Financial Assets			
Cash and cash equivalents	1,296	-	1,296
Investments	9,750	-	9,750
Deferred reinsurance	9,199	-	9,199
Reinsurance recoveries	590	-	590
Trade and other receivables	371	2,645	3,016
	21,206	2,645	23,851

2014	AA- rated	Not rated	Total
<i>In thousands of NZD</i>			
Financial Assets			
Cash and cash equivalents	1,527	-	1,527
Investments	7,983	-	7,983
Deferred reinsurance	7,673	-	7,673
Reinsurance recoveries	628	-	628
Trade and other receivables	214	1,669	1,883
	18,025	1,669	19,694





# Product Care (NZ) Limited

## Notes to the financial statements

For the year ended 30 June 2015

### 19. Financial instruments and risk management (continued)

#### A. Financial Risk Management (continued)

##### Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Management of liquidity risk includes asset and liability management strategies. The assets held to back insurance liabilities consist predominantly of cash deposits. The assets are managed so as to principally match the maturity profile of the assets with the expected pattern of claims payments or liability settlements. The cash deposits are restricted to banking institutions with a credit rating of at least AA-.

##### Maturity Profiles

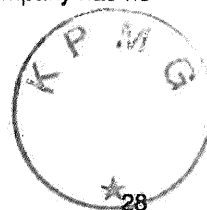
The table in below summarises the maturity profile of the financial liabilities of the Company based on remaining undiscounted contractual obligations, except for insurance contracts, when maturity profiles are determined on the discounted estimated timing of net cash outflows. Repayments which are subject to notice are treated as if notice were to be given immediately.

	Maturity Periods In Years				
<i>In thousands of NZD</i>	1	2-3	4-5	6-10	Total
<b>2015</b>					
<b>Financial Liabilities</b>					
Trade and other payables	(1,007)	-	-	-	(1,007)
Unearned premium liability	(7,237)	(5,922)	(3,271)	(1,809)	(18,239)
Outstanding claims liability	(430)	-	-	-	(430)
	(8,674)	(5,922)	(3,271)	(1,809)	(19,676)

	Maturity Periods In Years				
<i>In thousands of NZD</i>	1	2-3	4-5	6-10	Total
<b>2014</b>					
<b>Financial Liabilities</b>					
Trade and other payables	(970)	-	-	-	(970)
Unearned premium liability	(5,039)	(7,589)	(1,842)	(154)	(14,624)
Outstanding claims liability	(469)	-	-	-	(469)
	(6,478)	(7,589)	(1,842)	(154)	(16,063)

##### Market Risk

Market risk is the risk that changes in security market prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters. The Company has no material exposure to market revaluation of financial instruments.



# Product Care (NZ) Limited

## Notes to the financial statements

For the year ended 30 June 2015

### 19. Financial instruments and risk management (continued)

#### A. Financial Risk Management (continued)

##### Cash flow sensitivity analysis for interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The impact of a 1% uplift or reduction in market interest rates would impact pre-tax profit as follows:

		Movement in market Interest rates	
		Minus 1.0%	Plus 1.0%
In thousands of NZD			
Pre-tax impact on profit	2015	(110)	110
Pre-tax impact on profit	2014	(95)	92

#### B. Risk management objectives and policies for mitigating insurance risks

##### (i) Objectives

The Company's objectives and policies in respect of managing insurance risks are:

- Understanding insurance risk so as to ensure that pricing and claims management reduce any risk of loss.
- Measuring the frequency and severity of possible insurance risk loss events.
- Treating insurance risk with controls designed to assure that any changes in trends or loss patterns are identified at the earliest time via rigorous analysis of detailed monthly claim and loss ratio data.
- Protecting the Company by holding at least 50% reinsurance with AA- rated reinsurers.

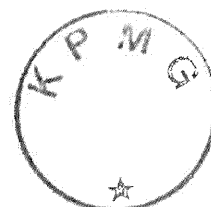
##### (ii) Concentrations of Insurance risk

Please refer to Note 17 (d).

##### (iii) Exposure to risk

The Company manages claims in order to mitigate insurance risk primarily through:

- Detailed monthly management reporting on claims costs which may identify a need for changes to pricing or claim management processes
- Detailed analysis of claims cost by manufacturer, model and fault type to identify at the earliest time any recurrent problem that may be recoupable from manufacturers or require discontinuation of future warranty sales for that particular product
- Monthly actuarial reporting of all loss ratios including analysis of frequency and severity which may identify a need for changes to pricing or claim management processes.



## Product Care (NZ) Limited

### Notes to the financial statements

For the year ended 30 June 2015

#### 20. Related parties

For the year ended 30 June 2015 the Company had an agreement with a related party, IC Frith (NZ) Limited (ICFNZ) for the 8 months ended 28 February 2015 and Product Care Administration Services (NZ) Limited (PCASNZ) for the 4 months ended 30 June 2015 to administer premium revenue collection and settle warranty claims on behalf of the Company, as part of its warranty services business.

For the period 1 July 2014 to 28 February 2015 ICFNZ, a related entity, received written premiums of \$6,007,818 (2014: \$6,082,926) on behalf of the Company and subsequently transferred these monies to the Company on 60 day payment terms. At the statement of financial position date, all payments owing to the Company by ICFNZ had been settled. (2014: \$768,855).

For the period 1 March 2015 to 30 June 2015, PCASNZ, a related entity, received written premiums of \$2,968,774 (2014: Nil) on behalf of the Company and subsequently transferred these monies to the Company on 60 day payment terms. At the statement of financial position date, the Company was owed \$1,703,516 (2014: Nil) by PCASNZ (Note 10).

For the year ended 30 June 2015 warranty claims settled gross of reinsurance on behalf of the Company by ICFNZ totalled \$2,532,000 (2014: \$4,636,000) and by PCASNZ totalled \$1,339,000 (2014: nil).

The Company paid a related entity, SPWS for managerial services during the year ended 30 June 2015 the amount of \$24,000 (2014: \$24,000) and for finance and actuarial services the amount of \$184,800 (2014: \$184,800).

The shareholders of ICF Holdings Pty Ltd, the ultimate parent entity, held a 93% interest in Motherboard Solutions Limited which in turn holds a 70% interest in Maxtech Services Limited. Maxtech Services Limited provided repair and salvage services that are incorporated into the claims cost for the Company. Payments made by the Company to Maxtech Services Limited during the year ended 30 June 2015 totalled \$820,230 (2014: \$813,680), which represented 21% of the total claims costs of the Company. Pricing from Maxtech Services Limited has been determined via tender to ensure competitiveness against alternative suppliers.

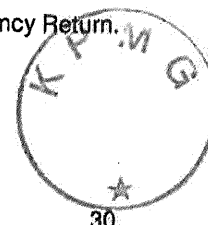
#### 21. Auditor's remuneration

<i>In NZD</i>	2015	2014
<b>Audit services</b>		
Auditors of the Company: KPMG		
Statutory financial statements audit	41,500	40,799
	<u>41,500</u>	<u>40,799</u>
<b>Other services</b>		
Auditors of the Company: KPMG		
Other assurance service	4,500	4,500
	<u>4,500</u>	<u>4,500</u>

Other assurance services relate to the review of the Company's annual Insurer Solvency Return.

#### 22. Subsequent events

No significant events have occurred subsequent to the balance sheet date.





## **Independent auditor's report**

### **To the Shareholder of Product Care (NZ) Limited**

#### **Report on the financial statements**

We have audited the accompanying financial statements of Product Care (NZ) Limited ("the Company") on pages 6 to 30. The financial statements comprise the statement of financial position as at 30 June 2015, the statement of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the Shareholder as a body. Our audit work has been undertaken so that we might state to the Company's Shareholder those matters we are required to state to them in the auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company's Shareholder as a body, for our audit work, this report or any of the opinions we have formed.

#### ***Directors' responsibility 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 generally accepted accounting practice in New Zealand (being 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.

#### ***Auditor's responsibility***

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

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

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

Our firm has also provided other services to the Company in relation to other assurance services in respect of the Annual Insurer Solvency Return. Subject to certain restrictions, partners and employees of our firm may also deal with the Company on normal terms within the ordinary course of trading activities of the business of the Company. These matters have not impaired our independence as auditor of the Company. The firm has no other relationship with, or interest in, the Company.



***Opinion***

In our opinion, the financial statements on pages 6 to 30 comply with generally accepted accounting practice in New Zealand and present fairly, in all material respects, the financial position of Product Care (NZ) Limited as at 30 June 2015 and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

KPMG

29 October, 2015

Auckland