

Section 78 (IPSA) Appointed Actuary's Report –

Product Care (NZ) Limited

30 June 2017

Andrew Scott, FNZSA FIAA

actuary@connectingthedots.com.au

1. Introduction and Scope

The accompanying valuation report dated 11th August 2017 outlines the basis of the provisions for Product Care (NZ) Limited (“PCL”) at 30 June 2017. PCL has exposures to Harvey Norman extended warranties and other manufacturers’ warranty liabilities in New Zealand, comprising both premium liabilities and outstanding claims. The valuation report was produced for the Directors of PCL and its controlling entity ICF Holdings (NZ) Ltd.

2. Declaration of Interests

I have no interest in either Product care NZ Limited, or its parent companies, 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 financial statements of PCL for the year ended 30 June 2017 for both the purpose of this report and also for the purpose of the Financial Condition Report (‘FCR’) dated 13th October 2017.

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 – 25) 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 30th June 2017, were materially different to the 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 Financial Condition Report of PCL dated 13th October 2017 and can confirm compliance with the Insurance (Prudential Supervision) Act 2010. I can also confirm that PCL has a solvency ratio of 132% which is below the Capital Management Plan targets of 140% to 160% and requires monthly monitoring.

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 (and renewed at 30 June 2015).
- It incorporates all past and current liabilities at 30 June 2017 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 No. 30: Valuation of General Insurance Claims).
- There are no other limitations of which I am aware at the date of signing.



Signed

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Andrew Scott FNZSA FIAA
Consulting Actuary
Connecting Every Dot Pty Ltd

Date

13th October 2017

Product Care (NZ) Limited
Registration Number 3315009

Annual Report for the year ended 30 June 2017

Product Care (NZ) Limited
Annual report
For the year ended 30 June 2017
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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 2017.

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. 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 2017 was \$276,000 (2016: \$624,000).

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 2017 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 1st 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

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, Chairman of Camelot NZ Ltd, Chairman of Suitebox Ltd, Non-executive Director of Home Run Partners Ltd, and is a Chartered Member of 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 in September 2005. 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 was ICF Group CEO for 8 years ending in 2015. He is an Australian resident. He was appointed to the Board of Directors on 1 April 2011. Mr Cook has more than 25 years' experience in the insurance industry having worked for insurance companies, insurance agencies and then the ICF Group from 2004. He is currently employed as General Manager for Yamaha Motor Insurance Australia Pty Ltd.

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

Mr Cook also performs honorary work for a major Australian trade association in the marine environment and represents that organisation to the global equivalent body.

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

The Board of the Company authorised these financial statements for issue on 19 October 2017.

On behalf of the Board



Simon Cook

Director

Date : 19/10/17



David Goodsall

Director

Date : 19/10/17

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 is one executive and three 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 and 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 shareholder 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, solvency 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, Anthony Jones;
- ☐ 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, reviewing the solvency return 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 three non-executive directors, David Goodsall, David Whyte and Simon Cook, the one executive director, Anthony Jones, with full participation from the Company Secretary and 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 2017

In thousands of NZD

	Note	2017	2016
Premium revenue	5	7,800	6,309
Outwards reinsurance premium expense	11	(3,899)	(3,195)
Premium		3,901	3,114
Claims expense	17	(8,073)	(4,936)
Reinsurance and other recoveries	5	4,300	2,620
Net Claims Incurred		(3,773)	(2,316)
Reinsurer profit share income	5	500	-
Unexpired risk reserve movement	19	(417)	-
Underwriting expenses		(291)	(289)
Underwriting result		(80)	509
Operating expenses	6	(99)	(143)
Investment income	7	563	501
Profit before income tax expense		384	867
Income tax expense	8	(108)	(243)
Profit after Income tax expense		276	624
Other comprehensive income		-	-
Total Comprehensive income for the year		276	624
Total Comprehensive Income attributable to:			
Equity holders of the parent		276	624
Total Comprehensive income		276	624

The notes on pages 10 to 32 are an integral part of these financial statements.

Product Care (NZ) Limited
Statement of financial position
As at 30 June 2017

In thousands of NZD

	Note	2017	2016
Current assets			
Cash and cash equivalents	9	3,119	3,775
Trade and other receivables	10	1,525	1,439
Deferred reinsurance expense	11	4,531	3,623
Reinsurance receivable	13	1,135	697
Investments	14	15,750	11,750
Total current assets		26,060	21,284
Non-current assets			
Deferred reinsurance expense	11	8,437	7,373
Deferred tax asset	12	117	-
Total assets		34,614	28,657
Current liabilities			
Trade and other payables	15	1,524	1,267
Income tax payable	16	338	146
Outstanding claims liability	17	834	538
Unearned premium reserve	18	9,062	7,221
Unexpired risk reserve	19	146	-
Total current liabilities		11,904	9,172
Non-current liabilities			
Unearned premium reserve	18	16,874	14,696
Unexpired risk reserve	19	271	-
Total liabilities		29,049	23,868
Net assets		5,565	4,789
Equity			
Issued capital	20	3,500	3,000
Retained earnings		2,065	1,789
Total equity		5,565	4,789

The notes on pages 10 to 32 are an integral part of these financial statements.

Product Care (NZ) Limited
Statement of changes in equity
For the year ended 30 June 2017

In thousands of NZD

2017

Balance at 1 July 2016

Total comprehensive income for the period

Profit for the year

Total Comprehensive Income

Dividends

Issue of Share Capital

20

Total transactions with owners

recorded directly in equity

Balance at 30 June 2017

Share
capital

Attributable to equity
holders of the Company
Retained
earnings

Total
Equity

3,000 1,789 4,789

- 276 276

-

- - -

500 - 500

- - -

3,500 2,065 5,565

In thousands of NZD

2016

Balance at 1 July 2015

Total comprehensive income for the period

Profit for the year

Total Comprehensive Income

Dividends

Total transactions with owners

recorded directly in equity

Balance at 30 June 2016

Share
capital

Attributable to equity
holders of the Company
Retained
earnings

Total
Equity

3,000 1,165 4,165

- 624 624

- 624 624

- - -

- - -

3,000 1,789 4,789

The notes on pages 10 to 32 are an integral part of these financial statements.

Product Care (NZ) Limited
Statement of cash flows
For the year ended 30 June 2017

In thousands of NZD

	Note	2017	2016
Cash flows from operating activities			
Cash receipts from customers and others		12,233	11,564
Cash paid to policy holders and suppliers		(9,919)	(7,479)
Cash generated from operations		2,314	4,085
Income taxes paid		(33)	(107)
Net cash inflows from operating activities	9	2,281	3,978
Cash flows from investing activities			
Increase in investments		(4,000)	(2,000)
Interest income received		563	501
Net cash outflows from investing activities		(3,437)	(1,499)
Cash flows from financing activities			
Proceeds from issue of capital	20	500	-
Net cash inflows from financing activities		500	-
Net decrease in cash and cash equivalents		(656)	2,479
Cash and cash equivalents at beginning of year		3,775	1,296
Cash and cash equivalents at 30 June	9	3,119	3,775

The notes on pages 10 to 32 are an integral part of these financial statements.

Product Care (NZ) Limited

Notes to the financial statements

For the year ended 30 June 2017

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 2017, and were authorised for issue by the Directors on 19 October 2017.

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) as applicable for Tier 1 for-profit entities, 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.

b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for financial assets and outstanding claims liabilities and reinsurance receivables as detailed 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 2017

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 reserve.

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.

Reinsurance recoveries are presented as part of reinsurance receivable net of any provision for impairment based on objective evidence for individual receivables. Reinsurance and other recoveries receivable on outstanding claims are measured as the present value of the expected future receipts calculated on the same basis as the outstanding claims liability. Reinsurance does not relieve the originating insurer of its liabilities to policyholders and is presented separately on the balance sheet.

iii) Reinsurance profit commission

Profit commission on certain reinsurance arrangements is recognised in the Statement of comprehensive income when it is probable that a commission will be payable by the reinsurers under the relevant reinsurance contract and the amount of that commission can be reliably measured.

iv) Investment income

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

Product Care (NZ) Limited

Notes to the financial statements

For the year ended 30 June 2017

3. Significant accounting policies (continued)

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 reserve, outstanding claims and unexpired risk (if required). (Notes 17 and 18).

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 and cash equivalents

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.

Product Care (NZ) Limited

Notes to the financial statements

For the year ended 30 June 2017

3. Significant accounting policies (continued)

g) Calculation of recoverable amount (continued)

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.

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 reserve 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 reserve 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 2017

3. Significant accounting policies (continued)

j) Outstanding claims liability

The outstanding claims liability is measured as the central estimate of the present value of expected future payments relating to claims incurred at the reporting date with an additional risk margin to allow for the inherent uncertainty in the central estimate. The expected future payments include those in relation to claims reported but not yet paid or not yet paid in full, claims incurred but not enough reported (IBNER), claims incurred but not reported (IBNR) and the anticipated direct and indirect claims handling costs. The liability is discounted to present value using a risk free rate.

Claims expense represents claim payments adjusted for the movement in the outstanding claims liability.

The estimation of the outstanding claims liability involves a number of key assumptions and is the most critical accounting estimate. All reasonable steps are taken to ensure that the information used regarding claims exposures is appropriate. However, given the uncertainty in establishing the liability, it is likely that the final outcome will be different from the original liability established. Changes in claims estimates are recognised in profit or loss in the reporting year in which the estimates are changed.

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 2017

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 2017 being South Pacific Warranty Services Ltd and Product Care Administrations Services (NZ) Ltd.

r) New standards and interpretations in issue not yet effective

The Company has not adopted a number of new standards, amendments to standards and interpretations that have recently been issued but are not yet mandatory. Those which may be relevant for the Company are set out below.

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. Based on management's initial impact assessment of this standard, this standard is not expected to have material impact on the Company's accounting policies.

NZ IFRS 17 Insurance Contracts was issued on 18 May 2017, with an effective date of 1 January 2021. The standard becomes mandatory for the Company's 30 June 2022 financial statements. The standard will replace the existing NZ IFRS 4 and establishes the principles for recognition, measurement presentation and disclosure of insurance contracts. A detailed impact assessment has not yet been completed.

New standards, amendments to standards and interpretations that become effective in the current financial year were not applicable to the Company and had no impact on the Company's financial statements.

Product Care (NZ) Limited

Notes to the financial statements

For the year ended 30 June 2017

4. Summary of significant actuarial methods and assumptions

The effective date of the actuarial valuation of liabilities is 30 June 2017. The liability valuation is documented in a report prepared by Mr Andrew Scott FIAA, FNZSA, the Appointed Actuary for the Company. Mr Scott 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 2017 have been outlined in Note 17 and Note 18.

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. 30 *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.

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 reserve and unexpired risk reserve

In accordance with the recognition of premium revenue (see accounting policy 3 b(i)) the consequent unearned premium reserve 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 reserve 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.

Analysis of the unearned premium reserve is provided in Note 18 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.

Product Care (NZ) Limited

Notes to the financial statements

For the year ended 30 June 2017

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

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

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 18(i).

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 determined by estimating the ultimate cost of settling a claim, including direct and indirect costs of settling a claim, based on historical patterns of payments applicable at the balance date, as well as past experience and trends on claims size, frequency and other relevant factors. The provision for outstanding claims contains a risk margin to reflect the inherent uncertainty in the central estimate, the central estimate being the expected value of outstanding claims. Reinsurance recoveries are similarly determined using the prevailing rate of recovery.

5. Revenue

<i>In thousands of NZD</i>	2017	2016
Gross written premium	11,819	9,987
Movement in unearned premium	(4,019)	(3,678)
Premium revenue	7,800	6,309
Reinsurance recoveries	3,730	2,498
Other recoveries	570	122
Reinsurer profit share	500	-
Underwriting revenue	12,600	8,929

6. Operating expenses

<i>In thousands of NZD</i>	2017	2016
Operating expenses		
Audit fees	70	68
Credit rating fees	27	57
Accounting and secretarial fees	2	18
	99	143

Product Care (NZ) Limited
Notes to the financial statements
For the year ended 30 June 2017

7. Investment income

<i>In thousands of NZD</i>	2017	2016
Interest income	563	501
	<u>563</u>	<u>501</u>

8. Income tax expense

Recognised in the Statement of comprehensive income

<i>In thousands of NZD</i>	2017	2016
Current tax expense		
Current year	225	243
	<u>225</u>	<u>243</u>
Deferred tax expense		
Origination and reversal of temporary differences	(117)	-
	<u>(117)</u>	<u>-</u>
Total income tax expense in Statement of comprehensive income	<u>108</u>	<u>243</u>

Numerical reconciliation between tax expense and pre-tax net profit

<i>In thousands of NZD</i>	2017	2016
Profit before tax	384	867
Income tax using the domestic corporation tax rate of 28%	108	243

Imputation credit account

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

The imputation balance as 30 June 2017 available to the Group is \$1,033,237 (2016: \$10,254,264).

9. Cash and cash equivalents

<i>In thousands of NZD</i>	2017	2016
Bank balances	3,119	3,775
	<u>3,119</u>	<u>3,775</u>

Product Care (NZ) Limited

Notes to the financial statements

For the year ended 30 June 2017

9. Cash and cash equivalents (continued)

Reconciliation of cash flows from operating activities

<i>In thousands of NZD</i>	<i>Note</i>	2017	2016
Cash flows from operating activities			
Profit before tax for the period		384	867
Adjustments for:			
Investment income	7	(563)	(501)
Operating profit before changes in working capital and provisions		(179)	366
(Increase) in reinsurance receivables	13	(438)	(107)
(Increase)/decrease in trade and other receivables	10	(86)	1,577
(Increase) in deferred reinsurance expenses	11	(1,972)	(1,797)
Increase in trade and other payables	15	257	260
Increase in unexpired risk reserve	19	417	-
Increase in outstanding claims liability	17	296	108
Increase in unearned premium reserve	18	4,019	3,678
Income taxes paid		(33)	(107)
Net cash inflows from operating activities		2,281	3,978

10. Trade and other receivables

<i>In thousands of NZD</i>	2017	2016
Current		
Trade receivables due from related parties	1,256	1,140
Other receivables	269	299
	1,525	1,439

Product Care (NZ) Limited

Notes to the financial statements

For the year ended 30 June 2017

11. Deferred reinsurance expense

<i>In thousands of NZD</i>	2017	2016
Current	4,531	3,623
Non-current	8,437	7,373
	<u>12,968</u>	<u>10,996</u>
Opening balance	10,996	9,199
Reinsurance premiums incurred in the year	5,871	4,992
Reinsurance premiums expensed in the year	(3,899)	(3,195)
Balance as at 30 June	<u>12,968</u>	<u>10,996</u>

12. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

2017

<i>In thousands of NZD</i>	Assets	Liabilities	Net
Unexpired risk reserve	117	-	117
Net tax assets	<u>117</u>	<u>-</u>	<u>117</u>

2016

<i>In thousands of NZD</i>	Assets	Liabilities	Net
Unexpired risk reserve	-	-	-
Net tax assets	<u>-</u>	<u>-</u>	<u>-</u>

Movement in temporary differences during the period

2017

<i>In thousands of NZD</i>	Opening Balance	Recognised In Income	Closing Balance
Unexpired risk reserve	-	117	117
	<u>-</u>	<u>117</u>	<u>117</u>

2016

<i>In thousands of NZD</i>	Opening Balance	Recognised In Income	Closing Balance
Unexpired risk reserve	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>

The directors are of the opinion that it is probable that future taxable profits will be available against which the deferred tax asset can be utilised.

Product Care (NZ) Limited

Notes to the financial statements

For the year ended 30 June 2017

13. Reinsurance receivables

<i>In thousands of NZD</i>	2017	2016
Current		
Recoveries on claims paid	741	417
Recoveries on outstanding claims liability	394	280
	<u>1,135</u>	<u>697</u>

14. Investments

<i>In thousands of NZD</i>	2017	2016
Term deposits	<u>15,750</u>	<u>11,750</u>

15. Trade and other payables

<i>In thousands of NZD</i>	2017	2016
Payables due to related parties	-	31
Other trade payables including reinsurance premiums payable	1,311	1,236
Claims payable	213	-
	<u>1,524</u>	<u>1,267</u>

16. Income tax payable

<i>In thousands of NZD</i>	2017	2016
Income tax payable	<u>338</u>	<u>146</u>
	<u>338</u>	<u>146</u>

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 2017

17. Outstanding claims reserve

<i>In thousands of NZD</i>	2017	2016
Central estimate	791	470
Risk margin	43	68
Gross outstanding claims – current	834	538
Reconciliation of movement in claims liability:		
Balance at the beginning of the year	538	430
Claims incurred in the current year	8,073	4,936
Claims costs paid	(7,777)	(4,828)
Balance at end of year	834	538
 Reinsurance and other recoveries receivable	 (394)	 (280)
 Net outstanding claims liability at the end of the year	 440	 258

The outstanding claims liability is determined by estimating the ultimate cost of settling a claim, including direct and indirect costs of settling a claim, based on historical patterns of payments applicable at the balance date, as well as past experience and trends on claims size, frequency and other relevant factors.

The risk margin is an additional allowance for uncertainty in the cost of claims over and above the central estimate, determined on the bases set out in Note 4. Factors considered in setting the risk margin include variability of claims experience, quality of historical data, uncertainty to future economic conditions and future legislative changes.

A risk margin for outstanding claims of 11.0% (2016: 14.4%) of net central estimate has been assumed and is intended to achieve a 75% probability of sufficiency (2016: 75%).

Product Care (NZ) Limited

Notes to the financial statements

For the year ended 30 June 2017

17. Outstanding claims reserve (continued)

Sensitivity Analysis

The valuation of outstanding claims is based on historical patterns of payments applicable at the balance date, as well as past experience and trends on claims size, frequency and other relevant factors. The impact on the profit and loss before income tax to changes in key actuarial assumptions is set out below.

<i>In thousands of NZD</i>	Change in Variable 2017	Impact on OCL 2017
Claim Frequency	+0.5%	30
	-0.5%	(30)
Claim Severity	+NZD\$20	20
	-NZD\$20	(20)
Inflation Rate	+1.0%	7
	-1.0%	(7)
Discount Rate	+1.0%	(7)
	-1.0%	7
Indirect Expense Ratio	+1.0%	4
	-1.0%	(4)
Risk Margin	+1.0%	4
	-1.0%	(4)

18. Unearned premium reserve

A. Reconciliation of movements

<i>In thousands of NZD</i>	2017	2016
Current	9,062	7,221
Non-current	16,874	14,696
	25,936	21,917
Reconciliation of movement in unearned premium liability		
Opening balance	21,917	18,239
Written premium in the period	11,819	9,987
Premium earned during the year	(7,800)	(6,309)
	25,936	21,917

B. Liability Adequacy Test

The liability adequacy test identified a deficit of \$417,000 as at 30 June 2017 (2016: surplus). For the purposes of the test, the present value of expected future cash flows for future claims, net of reinsurance recoveries, including the risk margin for the Company is \$13,372,000 (2016: \$10,462,000), comprising the central estimate of \$12,060,000 (2016: \$ 9,146,000) and a risk margin of \$1,312,000 (2016: \$1,316,000). This is intended to achieve a probability of adequacy of 75% (2016: 75%). The Risk Margin was determined from a statistical analysis of the historic loss experience as undertaken by the Appointed Actuary.

Product Care (NZ) Limited

Notes to the financial statements

For the year ended 30 June 2017

18. Unearned premium reserve (continued)

C. Composition unearned premium reserve

The adequacy of the Unearned Premium Reserve (UPR) 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.

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.

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

(i) Assumptions

	30 June 2017	30 June 2016
Weighted average term to recognition (years)	1.83	1.72
Discounted mean term (years)	1.76	1.66
Indirect expense ratio	1.0%	1.0%
Risk margin	11.0%	14.4%
Claims inflation	4.5%-5.0%	4.0%-5.0%
Discount rate	1.9%	2.1%

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

In thousands of NZD	Movement in variable	Net premium liabilities (central estimate) increase/(decrease) \$000's (Note A)	
		2017	2016
Net premium liabilities		13,372	10,462
Claim Severity	+NZD\$20	615	494
	-NZD\$20	(615)	(494)
Inflation rate	+1%	205	164
	-1%	(202)	(162)
Discount rate	+1%	(209)	(168)
	-1%	216	173
Indirect expense ratio	+1%	134	107
	-1%	(134)	(107)
Risk margin	+1%	134	107
	-1%	(134)	(107)
Discounted mean term	+ 6 months	124	100
	- 6 months	(124)	(100)

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

Product Care (NZ) Limited

Notes to the financial statements

For the year ended 30 June 2017

18. Unearned premium reserve (continued)

D. Concentration of insurance risk

The Company 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.

19. Unexpired risk reserve

A. Reconciliation of movements

In thousands of NZD

	2017	2016
Current	146	-
Non-current	271	-
	<u>417</u>	<u>-</u>
Reconciliation of movement in unexpired risk reserve		
Opening balance	-	-
Total recognised (income)/expense	<u>417</u>	<u>-</u>
	<u>417</u>	<u>-</u>

Product Care (NZ) Limited

Notes to the financial statements

For the year ended 30 June 2017

20. Equity

Share capital

In thousands

	2017	2016
On issue at 1 July	3,000	3,000
Issued for cash (number of shares)	500	-
On issue at 30 June	3,500	3,000

Issued at NZ\$1.00 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 meets all capital adequacy requirements specified by the Reserve Bank of New Zealand.

Issue of ordinary shares

On 30 June 2017, the directors of the Company resolved to issue 500,000 shares at a price of NZ\$1.00 per share to its sole shareholder ICF Holdings (NZ) Ltd.

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 \$3,500,000 (2016: \$3,000,000).

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 its investment strategy and its reinsurance quota share.

The Company manages its capital by considering regulatory requirements. 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 2017

20. 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

	2017	2016
Balance Sheet capital	5,565	4,789
Deductions	(117)	-
Actual solvency Capital	5,448	4,789
Risk Based Charges		
Insurance Risk	2,189	1,702
Catastrophe Risk	1,094	729
Reinsurance Recoveries Risk	323	268
Asset Risk	392	308
Interest Rate Risk	128	185
Minimum Solvency Capital	4,126	3,192
Solvency Margin	1,322	1,597
Solvency Ratio	1.32	1.50

As at 30 June 2017, the minimum solvency capital is \$4.126 million (2016: \$3.192 million).

Product Care (NZ) Limited

Notes to the financial statements

For the year ended 30 June 2017

21. 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, the balance due from Product Care Administration Services (NZ) Ltd (PCASNZ) is \$1,256,000 (2016: \$1,140,000). This balance is expected to be settled within 30 days of the balance date.

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 term deposits and only with counterparties that have a credit rating of at least AA- from Standard & Poor's or Moody's equivalent. The counterparty banks with which these term deposits are held are rated AA-.

Trade and other receivable ageing

<i>In thousands of NZD</i>	0 to 30 Days	31-60 Days	61-90 Days	91+ Days	Total
2017					
Trade receivables	1,242	2	2	10	1,256
Other receivables	30	-	-	239	269
Reinsurance recoveries	483	652	-	-	1,135
Total Trade Receivables	1,105	654	2	899	2,660
2016					
Trade receivables	1,140	-	-	-	1,140
Other receivables	299	-	-	-	299
Reinsurance recoveries	-	697	-	-	697
Total Trade Receivables	1,439	697	-	-	2,136

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 2017

21. 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 2017 the Company did not hold any rated financial assets with a Standard and Poor's credit rating below AA-.

2017	AA- rated	Not rated	Total
<i>In thousands of NZD</i>			
Financial Assets			
Cash and cash equivalents	3,119	-	3,119
Investments	15,750	-	15,750
Deferred reinsurance	12,968	-	12,968
Reinsurance recoveries	1,135	-	1,135
Trade and other receivables	269	1,256	1,525
	33,241	1,256	34,497
2016	AA- rated	Not rated	Total
<i>In thousands of NZD</i>			
Financial Assets			
Cash and cash equivalents	3,775	-	3,775
Investments	11,750	-	11,750
Deferred reinsurance	10,996	-	10,996
Reinsurance recoveries	697	-	697
Trade and other receivables	299	1,140	1,439
	27,517	1,140	28,657

Product Care (NZ) Limited

Notes to the financial statements

For the year ended 30 June 2017

21. 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
2017					
Financial Liabilities					
Trade and other payables	(1,524)	-	-	-	(1,545)
Unearned premium liability	(9,062)	(13,230)	(3,379)	(265)	(25,936)
Outstanding claims liability	(834)	-	-	-	(834)
Unexpired Risk Reserve	(146)	(213)	(54)	(4)	(417)
	(11,566)	(13,443)	(3,433)	(269)	(28,732)

	Maturity Periods In Years				
<i>In thousands of NZD</i>	1	2-3	4-5	6-10	Total
2016					
Financial Liabilities					
Trade and other payables	(1,267)	-	-	-	(1,267)
Unearned premium liability	(7,221)	(11,912)	(2,643)	(141)	(21,917)
Outstanding claims liability	(538)	-	-	-	(538)
	(9,026)	(11,912)	(2,643)	(141)	(23,722)

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 2017

21. 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:

In thousands of NZD		Movement in market interest rates	
		Minus 1.0%	Plus 1.0%
Pre-tax impact on profit	2017	(189)	189
Pre-tax impact on profit	2016	(155)	155

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 2017

22. Related parties

For the year ended 30 June 2017 the Company had an agreement with a related party, Product Care Administration Services (NZ) Limited (PCASNZ) to administer premium revenue collection and settle warranty claims on behalf of the Company, as part of its warranty services business. These balances are non-interest bearing and will be settled in cash.

For the year ended 30 June 2017, PCASNZ, a related entity, received written premiums of \$13,576,884 including GST (2016: \$13,261,588) on behalf of the Company and subsequently transferred these monies to the Company on 30 day payment terms. At the statement of financial position date, the Company was owed \$1,256,000 (2016: \$1,140,770) by PCASNZ.

For the year ended 30 June 2017 warranty claims settled gross of reinsurance on behalf of the Company by PCASNZ totalled \$7,502,976 (2016: \$4,814,343).

The Company paid a related entity, SPWS for managerial services during the year ended 30 June 2017 the amount of \$24,000 (2016: \$24,000) and for finance and actuarial services the amount of \$184,800 (2016: \$184,800). As at 30 June 2017, \$Nil (2016: \$30,800) remained payable from the Company to SPWS.

23. Auditor's remuneration

<i>In thousands of NZD</i>	2017	2016
Audit services		
Statutory financial statements audit	62	60
	<u>62</u>	<u>60</u>
Other services		
Other assurance service	8	8

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

24. Commitments

There were no commitments as at 30 June 2017 (2016: nil).

25. 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

Opinion

In our opinion, the accompanying financial statements of Product Care (NZ) Limited (the 'Company') on pages 6 to 32:

- i. present fairly in all material respects the Company's financial position as at 30 June 2017 and its financial performance and cash flows for the year ended on that date; and
- ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying financial statements which comprise:

- the statement of financial position as at 30 June 2017;
- the statements of comprehensive income, changes in equity and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.



Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

Our firm has also provided other services to the Company in relation to regulatory assurance services. 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.



Other information

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

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



Use of this independent auditor's report

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



Responsibilities of the Directors for the financial statements

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

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



Auditor's responsibilities for the audit of the financial statements

Our objective is:

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of these financial statements is located at the External Reporting Board (XRB) website at:

https://www.xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page6.aspx

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

KPMG

Kay Baldock

For and on behalf of

KPMG

Auckland

25 October 2017