finity

Actuarial and Insurance Consultants

2 October 2019

Mr Graham Harris
CFO
Brightsideco Insurance Limited
Suite 1, Building B
34-46 Brookhollow Avenue
BAULKHAM HILLS NSW 2153
AUSTRALIA

Dear Graham

Review of Actuarial Information contained in the 2019 Financial Statements

Finity Consulting Pty Limited (Finity) has been asked by Brightsideco Insurance Limited (Brightsideco) to carry out a review of the 30 June 2019 actuarial information contained in the financial statements and to provide an opinion as to its appropriateness. This letter sets out the findings of our review, as required under Section 78 of the Insurance (Prudential Supervision) Act 2010 (the Act).

Andy Cohen is an employee of Finity and is the Appointed Actuary of Brightsideco. Andy Cohen and Finity have no relationship with Brightsideco apart being a provider of actuarial services.

Brightsideco's policy is to seek and adopt the advice of the Appointed Actuary in respect of the actuarial information contained in the financial statements. We confirm that the financial statements as at 30 June 2019 have been prepared in accordance with this policy, and as such satisfy the requirements of the Act.

The actuarial information (and use thereof) that I have reviewed is as follows:

- The gross written premium information I received for liability valuation purposes
- The net premium liability provisions that I have estimated
- The net claims liability provisions that Brightsideco has estimated and which, as part of my actuarial valuation process, I have reviewed for reasonableness.

My review process is as follows:

- I have checked that the gross premium information that I have received for liability valuation purposes reconciles adequately with the information shown in the financial statements.
- I have checked that my estimates of the net premium liabilities and Brightsideco's estimates of the net claim liabilities have been used appropriately in in the financial statements.

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- I have checked that the unearned premium reserve and the unexpired risk reserve that Brightsideco has adopted in the financial statements are consistent with the net premium liability provisions that I have estimated.

Having carried out my review, my opinion from an actuarial perspective is as follows:

- The actuarial information contained in the 2019 financial statements of Brightsideco has been appropriately included in those statements.
- The actuarial information used in the preparation of the 2019 financial statements of Brightsideco has been used appropriately.
- Brightsideco is maintaining the solvency margin that applies under a condition imposed under section 21(2)(b), noting that the required margin is $0.

I am not aware of any limitations placed on me in performing my review, and all data requested was provided. This report is based on the audited accounts of Brightsideco for the year ending June 2019.

This report is being provided for the sole use of Brightsideco for the purpose stated above. It is not intended, nor necessarily suitable, for any other purpose and should only be relied on the purpose for which it is intended.

Yours sincerely

Andrew Cohen
Appointed Actuary
Fellow of the Institute of Actuaries of Australia

Brightsideco Insurance Limited
Registration Number 3315009

Annual Report for the year ended 30 June 2019

Brightsideco Insurance Limited

Annual report

For the year ended 30 June 2019

Contents

Brightsideco Insurance Limited

Directors' Report

The Board of Directors present the annual report of Brightsideco Insurance Limited (the "Company") incorporating the financial statements and auditor's report for the year ended 30 June 2019.

With the agreement of the shareholder, 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

The following persons acted as alternate Directors for Simon Cook and Anthony Jones during the financial year:

Chantelle Lawes
Graham Harris

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

DLA Piper New Zealand
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.

Directors' Report (continued)

Review of operations

The net profit after income tax for the year ended 30 June 2019 was $675,000 (2018: loss ($1,398,000)).

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 2019 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 and is a Member of the Life Code of Conduct Committee in Australia.

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 Lifetime Group 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 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. Brightsideco Insurance Limited ("BIL") is a 100% owned subsidiary of the ICF Group.

In addition, Mr Jones also holds executive functions as General Manager of Operations for Abbott NZ Holdings Limited and Managing Director for Brightsideco Insurance Limited ("BIL") 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.

Brightsideco Insurance 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.

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 10 October 2019.

On behalf of the Board

David Whyte	David Goodsall
Director	Director
Date : 10th OCTOBER 2019	Date : 10/10/19.

Brightsideco Insurance Limited

Corporate Governance Statement

Brightsideco Insurance 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 independent directors, David Whyte and David Goodsall, one non-executive director, Simon Cook and one executive director, Anthony Jones 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.

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 two independent directors, David Whyte and David Goodsall, one non-executive director, Simon Cook, and the one executive director, Anthony Jones, with full participation from the Company Secretary, General Manager of NZ and Group Risk Manager.

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

Brightsideco Insurance Limited

Statement of comprehensive income

For the year ended 30 June 2019

In thousands of NZD	***Note***	**2019**	**2018**
Premium revenue	*5*	7,861	8,262
Outwards reinsurance premium expense	*11*	(3,927)	(4,138)
Premium		**3,934**	**4,124**
Claims expense	*18*	(10,720)	(9,275)
Reinsurance and other recoveries	*5*	5,798	5,043
Net Claims incurred		**(4,922)**	**(4,232)**
Unexpired risk reserve movement	*20*	1,572	(2,064)
Underwriting expenses		(318)	(316)
Underwriting result		266	(2,488)
Operating expenses	*6*	(138)	(129)
Other Income		6	-
Investment income	*7*	803	675
Profit/(loss) before income tax expense		**937**	**(1,942)**
Income tax (expense)/benefit	*8*	(262)	544
Profit/(loss) after income tax (expense)/benefit		**675**	**(1,398)**
Other comprehensive income		-	-
Total Comprehensive income/(loss) for the year		**675**	**(1,398)**
Total Comprehensive income/(loss) attributable to:			
Equity holders of the parent		675	(1,398)
Total Comprehensive income/(loss)		**675**	**(1,398)**

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Brightsideco Insurance Limited

Statement of financial position

As at 30 June 2019

In thousands of NZD	*Note*	2019	2018
Current assets			
Cash and cash equivalents	9	1,581	4,124
Trade and other receivables	10	1,293	1,471
Deferred reinsurance expense	11	5,256	4,870
Reinsurance receivable	13	1,309	1,024
Investments	14	9,258	8,000
Income tax receivable	16	178	-
Total current assets		18,875	19,489
Non-current assets			
Deferred reinsurance expense	11	9,251	9,702
Deferred tax asset	12	255	695
Investments	14	12,000	12,250
Total assets		**40,381**	**42,136**
Current liabilities			
Trade and other payables	15	1,282	1,877
Income tax payable	17	-	34
Outstanding claims liability	18	809	909
Unearned premium reserve	19	10,522	9,748
Unexpired risk reserve	20	329	829
Total current liabilities		**12,942**	**13,397**
Non-current liabilities			
Unearned premium reserve	19	18,517	19,420
Unexpired risk reserve	20	580	1,652
Total liabilities		**32,039**	**34,469**
Net assets		**8,342**	**7,667**
Equity			
Issued capital	21	7,000	7,000
Retained earnings		1,342	667
Total equity		**8,342**	**7,667**

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

Brightsideco Insurance Limited

Statement of changes in equity

For the year ended 30 June 2019

In thousands of NZD	Note	Share capital	Attributable to equity holders of the Company Retained earnings	Total Equity
2019				
Balance at 1 July 2018		**7,000**	**667**	**7,667**
Total comprehensive income for the period				
Profit for the year		-	675	675
Total Comprehensive income		**-**	**675**	**675**
Issue of Share Capital	*21*	-	-	-
Total transactions with owners recorded directly in equity		**-**	**-**	**-**
Balance at 30 June 2019		**7,000**	**1,342**	**8,342**

In thousands of NZD	Note	Share capital	Attributable to equity holders of the Company Retained earnings	Total Equity
2018				
Balance at 1 July 2017		3,500	2,065	5,565
Total comprehensive income for the period				
Loss for the year		-	(1,398)	(1,398)
Total Comprehensive income		**-**	**(1,398)**	**(1,398)**
Issue of Share Capital	*21*	3,500	-	3,500
Total transactions with owners recorded directly in equity		**-**	**-**	**-**
Balance at 30 June 2018		**7,000**	**667**	**7,667**

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

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Brightsideco Insurance Limited

Statement of cash flows

For the year ended 30 June 2019

In thousands of NZD	***Note***	**2019**	**2018**
Cash flows from operating activities			
Cash receipts from customers and others		13,429	11,548
Cash paid to policy holders and suppliers		(15,733)	(9,880)
Cash generated from operations		(2,304)	1,668
Income taxes paid		(34)	(338)
Net cash (outflows)/inflows from operating activities	*9*	(2,338)	1,330
Cash flows from investing activities			
Increase in investments		(1,008)	(4,500)
Interest income received		803	675
Net cash outflows from investing activities		(205)	(3,825)
Cash flows from financing activities			
Proceeds from issue of capital	*21*	-	3,500
Net cash inflows from financing activities		-	3,500
Net (decrease)/increase in cash and cash equivalents		(2,543)	1,005
Cash and cash equivalents at beginning of year		4,124	3,119
Cash and cash equivalents at 30 June	*9*	1,581	4,124

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

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1. Reporting entity

Brightsideco Insurance 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 2019 and were authorised for issue by the Directors on 10 October 2019.

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. Information about significant assumptions and estimates uncertainty are disclosed in Note 4 - actuarial methods and assumptions.

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, on a straight-line basis from the attachment date distributed evenly over the period of the contract.

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.

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 18, 19 and 20).

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 initially measured at the transaction price, unless they contain significant financing components, when they are recognised at fair value, and are subsequently measured at amortised cost. Loss allowances on trade and other receivables are measured at an amount equal to lifetime expected credit 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 Company recognises loss allowances for expected credit losses on financial assets. Loss allowances are measured at an amount equal to lifetime expected credit losses. The Company considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the asset. Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

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3. Significant accounting policies (continued)

g) Calculation of recoverable amount

The recoverable amount of the Company's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate computed at initiation recognition of these financial assets. Receivables with a short duration are not discounted. 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.

The unwinding of the discount from initial recognition of impairment through to recovery of the written down amount is recognised through interest income.

i) Reversals of impairment

An impairment loss for an asset is reversed in following periods if there are indications that the impairment loss previously recognised no longer exists or has decreased. The impairment loss is reversed, in the profit and loss, only to the extent that it increases the asset back to its original carrying amount before any impairment was recorded.

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.

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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 a 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 on a straight-line basis from the attachment date distributed evenly over the period of indemnity of the reinsurance contract, 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.

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3. Significant accounting policies (continued)

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.

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.

The Company is part of a tax consolidated group with members as at 30 June 2019 being ICF Holdings (NZ) Limited, South Pacific Warranty Services Ltd and Product Care Administrations Services (NZ) Ltd.

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) New or amended standards become mandatory and were adopted during the financial year

The following new accounting standards were adopted:

i) NZ IFRS 9 Financial instruments

NZ IFRS 9 Financial Instruments (NZ IFRS 9) replaces NZ IAS 39 Financial Instruments: Recognition and Measurement and sets out new requirements for the impairment of financial assets and classification and measurement of financial assets and financial liabilities.

NZ IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. The classification of financial assets under NZ IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

NZ IFRS 9 largely retains the existing requirements in NZ IAS 39 for the classification and measurement of financial liabilities.

3. Significant accounting policies (continued)

q) New or amended standards become mandatory and were adopted during the financial year (continued)

i) NZ IFRS 9 Financial instruments (continued)

The standard has to be applied retrospectively. The impacts of implementation did not have a material effect on the Company's financial statements.

The adoption of an expected credit loss (ECL) model for impairment has had an immaterial impact on the provision for irrecoverable receivables. There are no changes to the measurement of financial instruments. The following table explains the original classification under NZ IAS 39 and the new classification under NZ IFRS 9 for the Company's financial instruments at 1 July 2018:

Financial Instruments	Original classification under NZ IAS 39	New classification under NZ IFRS 9
Cash and cash equivalents	Loans and receivables	Amortised cost
Trade and other receivables, Reinsurance receivable	Loans and receivables	Amortised cost
Trade and other payables	Other financial liabilities	Other financial liabilities

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.

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. However, in June 2019 the International Accounting standards Board (IASB) released an exposure draft, Amendments to IFRS 17, proposing various amendments to IFRS 17 which includes deferring the effective date by one year to 1 January 2022. The IASB aims to finalise these amendments in mid-2020, which the expectation that the External Reporting Board will also adopt this one year deferral for NZ IFRS 17. 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.

4. Summary of significant actuarial methods and assumptions

The effective date of the actuarial valuation of liabilities is 30 June 2019. The liability valuation is documented in a report prepared by Mr Andrew Cohen of Finity Consulting Pty Ltd, the Appointed Actuary for the Company. Mr Cohen has no financial interest or dealings with the Company other than fees paid in respect of the actuarial valuation. 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 2019 have been outlined in Note 18 and Note 19.

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"*.

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

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 straight-line earning of revenue plus the addition of premiums written during the year.

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 19 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 19 C (i).

b) Deferred reinsurance expense

Deferred reinsurance expense is also determined using the above methods, with the consequent deferred reinsurance expense at the end of the year being based upon the straight-line expensing of reinsurance plus the addition of outwards reinsurance premium expense ceded during the year.

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.

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5. Revenue

In thousands of NZD	2019	2018
Gross written premium	7,732	11,494
Movement in unearned premium	129	(3,232)
Premium revenue	7,861	8,262
Reinsurance recoveries	4,925	4,253
Other recoveries	873	790
Reinsurance and other recoveries revenue	5,798	5,043
Underwriting revenue	13,659	13,305

6. Operating expenses

In thousands of NZD		2019	2018
Operating expenses			
Audit fees	*24*	72	71
Credit rating fees		60	55
Accounting and secretarial fees		6	3
		138	129

7. Investment income

In thousands of NZD	2019	2018
Interest income	803	675
	803	675

8. Income tax expense

Recognised in the Statement of comprehensive income

In thousands of NZD	2019	2018
Current tax expense		
Current year	(178)	34
	(178)	34
Deferred tax expense		
Origination and reversal of temporary differences	440	(578)
Total income tax expense/(benefit) in Statement of comprehensive income	262	(544)

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8. Income tax expense (continued)

Numerical reconciliation between tax expense and pre-tax net profit

In thousands of NZD	2019	2018
Profit/(loss) before tax	937	(1,942)
Income tax using the domestic corporation tax rate of 28%	262	(544)

Imputation credit account

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

The imputation balance as 30 June 2019 available to the Group is $513,659 (2018: $655,199).

9. Cash and cash equivalents

In thousands of NZD	2019	2018
Bank balances	1,581	4,124
	1,581	4,124

Reconciliation of cash flows from operating activities

In thousands of NZD	*Note*	2019	2018
Profit/(loss) before income tax		937	(1,942)
Adjustments for:			
Investment income	*7*	(803)	(675)
Operating profit/(loss) before changes in working capital and provisions		134	(2,617)
(Increase)/decrease in reinsurance receivables	*13*	(285)	111
Decrease in trade and other receivables	*10*	178	54
Decrease/(increase) in deferred reinsurance expenses	*11*	65	(1,604)
(Decrease)/increase in trade and other payables	*15*	(595)	353
(Decrease)/increase in unexpired risk reserve	*20*	(1,572)	2,064
(Decrease)/increase in outstanding claims liability	*18*	(100)	75
(Decrease)/increase in unearned premium reserve	*19*	(129)	3,232
Income taxes paid		(34)	(338)
Net cash (outflows)/inflows from operating activities		(2,338)	1,330

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10. Trade and other receivables

In thousands of NZD		2019	2018
Current			
Trade receivables due from related parties	23	850	1,055
Other receivables		443	416
		1,293	1,471

11. Deferred reinsurance expense

In thousands of NZD	2019	2018
Current	5,256	4,870
Non-current	9,251	9,702
	14,507	14,572
Opening balance	14,572	12,968
Reinsurance premiums incurred in the year	3,862	5,742
Reinsurance premiums expensed in the year	(3,927)	(4,138)
Balance as at 30 June	14,507	14,572

12. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

2019

In thousands of NZD	Assets	Liabilities	Net
Unexpired risk reserve	255	-	255
Net tax assets	255	-	255

2018

In thousands of NZD	Assets	Liabilities	Net
Unexpired risk reserve	695	-	695
Net tax assets	695	-	695

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12. Deferred tax assets and liabilities (continued)

Movement in temporary differences during the period

2019

In thousands of NZD	Opening Balance	Recognised In Income	Closing Balance
Unexpired risk reserve	695	(440)	255
	695	(440)	255

2018

In thousands of NZD	Opening Balance	Recognised In Income	Closing Balance
Unexpired risk reserve	117	578	695
	117	578	695

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.

13. Reinsurance receivable

In thousands of NZD	2019	2018
Current		
Recoveries on claims paid	931	595
Recoveries on outstanding claims liability	378	429
	1,309	1,024

14. Investments

In thousands of NZD	2019	2018
Current	9,258	8,000
Non-current	12,000	12,250
	21,258	20,250

15. Trade and other payables

In thousands of NZD		2019	2018
Payables due to related parties	*23*	175	516
Other trade payables including reinsurance premiums payable		1,107	1,361
		1,282	1,877

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16. Income tax receivable

In thousands of NZD	**2019**	**2018**
Income tax receivable	178	-
	178	-

17. Income tax payable

In thousands of NZD	**2019**	**2018**
Income tax payable	-	34
	-	34

The current tax receivable for the Company represents the payment of tax above the amounts due to the Inland Revenue Department.

18. Outstanding claims reserve

In thousands of NZD	**2019**	**2018**
Central estimate	766	861
Risk margin	43	48
Gross outstanding claims – current	809	909
Reconciliation of movement in claims liability:		
Balance at the beginning of the year	909	834
Claims incurred in the current year	10,720	9,275
Claims costs paid	(10,820)	(9,200)
Balance at end of year	809	909
Reinsurance and other recoveries receivable	(378)	(429)
Net outstanding claims liability at the end of the year	431	480

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% (2018: 11.0%) of net central estimate has been assumed and is intended to achieve a 75% probability of sufficiency (2018: 75%).

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18. 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 and other relevant factors. The impact on the profit and loss before income tax to changes in key actuarial assumptions is set out below.

In thousands of NZD	Change in Variable 2019	Impact on OCL 2019
Discount Rate	+1.0%	(1)
	-1.0%	1
Expenses	+1.0%	4
	-1.0%	(4)
Risk Margin	+1.0%	4
	-1.0%	(4)

19. Unearned premium reserve

A. Reconciliation of movements

In thousands of NZD	2019	2018
Current	10,522	9,748
Non-current	18,517	19,420
	29,039	29,168
Reconciliation of movement in unearned premium liability		
Opening balance	29,168	25,936
Written premium in the period	7,732	11,494
Premium earned during the year	(7,861)	(8,262)
	29,039	29,168

B. Liability Adequacy Test

The liability adequacy test identified a deficit of $909,000 as at 30 June 2019 (2018: deficit of $2,481,000). 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 $15,441,000 (2018: $17,077,000), comprising the central estimate of $13,911,000 (2018: $15,385,000) and a risk margin of $1,530,000 (2018: $1,692,000). The risk margin is intended to achieve a probability of sufficiency of 75% (2018: 75%). The risk margin was determined by the actuary appointed by the Company, using the framework proposed by the Actuaries Institutes' Risk Margin Task Force.

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19. Unearned premium reserve (continued)

C. Composition of 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.

The valuation assumptions were derived using data to 31 March 2019. Updated exposure data (i.e. the number of contracts sold in the three months to 30 June 2019) was incorporated and the projected cash flows were discounted using the yield curve at 30 June 2019.

The central estimate was modelled using the Payments per Claim Finalised (PPCF) method, where the number of claims and the average claim size are modelled separately. Separate PPCF models were developed for the key warranty categories (i.e. Brown Goods: Vacuums & Coffee Machines, Brown Goods: Other, Computers, White Goods: Laundry, White Goods: Other, and Miscellaneous).

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

(i) Assumptions

	30 June 2019	30 June 2018
Undiscounted mean term (years)	1.72	2.22
Discounted mean term (years)	1.70	2.18
Indirect expense ratio	1.00%	1.00%
Risk margin	11.00%	11.00%
Claims inflation	2.00%	2.00%
Discount rate	1.21%	1.97%

19. Unearned premium reserve (continued)

C. Composition of unearned premium reserve (continued)

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 increase/(decrease) $000's (Note A) 2019	2018
Net premium liabilities		15,441	17,077
Average Claim Size	+10.0%	1,544	1,708
	-10.0%	(1,544)	(1,708)
Claim Frequency	+10.0%	1,536	1,673
	-10.0%	(1,536)	(1,673)
Cancellation Rate	+10.0%	(189)	(185)
	-10.0%	189	185
Inflation Rate	+1.0%	299	373
	-1.0%	(294)	(365)
Discount Rate	+1.0%	(256)	(321)
	-1.0%	265	334
Expenses	+1.0%	151	169
	-1.0%	(151)	(169)
Risk Margin	+1.0%	139	154
	-1.0%	(139)	(154)

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 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.

20. Unexpired risk reserve

A. Reconciliation of movements

In thousands of NZD	2019	2018
Current	329	829
Non-current	580	1,652
	909	2,481
Reconciliation of movement in unexpired risk reserve		
Opening balance	2,481	417
Total recognised (income)/expense	(1,572)	2,064
	909	2,481

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21. Equity

Share capital

In thousands

	2019	2018
On issue at 1 July	7,000	3,500
Issued for cash (number of shares)	-	3,500
On issue at 30 June	7,000	7,000

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.

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 $7,000,000 (2018: $7,000,000).

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 compliance with the Solvency Standard for Non-Life Insurance Business issued December 2014 by the RBNZ and updated November 2018.

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.

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21. Equity (continued)

Capital Management (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

	2019	2018
Balance Sheet capital	8,342	7,667
Deductions	(255)	(695)
Actual solvency Capital	8,087	6,972
Risk Based Charges		
Insurance Risk	2,518	2,785
Catastrophe Risk	853	738
Reinsurance Recoveries Risk	317	313
Asset Risk	597	562
Interest Rate Risk	324	85
Minimum Solvency Capital	4,609	4,483
Solvency Margin	3,478	2,489
Solvency Ratio	1.75	1.56

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22. 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 $851,000 (2018: $1,055,000). 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

In thousands of NZD	**0 to 30 Days**	**31-60 Days**	**61-90 Days**	**91+ Days**	**Total**
2019					
Trade receivables	851	-	-	-	851
Other receivables	30	6	6	400	442
Reinsurance recoveries	453	856	-	-	1,309
Total Trade Receivables	1,334	862	6	400	2,602
2018					
Trade receivables	1,055	-	-	-	1,055
Other receivables	32	-	-	384	416
Reinsurance recoveries	209	815	-	-	1,024
Total Trade Receivables	1,296	815	-	384	2,495

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

22. 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 2019 the Company did not hold any rated financial assets with a Standard and Poor's credit rating below AA-.

2019 *In thousands of NZD*	**AA- rated**	**Not rated**	**Total**
Financial Assets			
Cash and cash equivalents	1,581	-	1,581
Investments	21,258	-	21,258
Deferred reinsurance	14,507	-	14,507
Reinsurance receivable	1,309	-	1,309
Trade and other receivables	408	885	1,293
	39,063	885	39,948

2018 In thousands of NZD	**AA- rated**	**Not rated**	**Total**
Financial Assets			
Cash and cash equivalents	4,124	-	4,124
Investments	20,250	-	20,250
Deferred reinsurance	14,572	-	14,572
Reinsurance receivable	1,024	-	1,024
Trade and other receivables	384	1,087	1,471
	40,354	1,087	41,441

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22. 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.

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				
In thousands of NZD	**1**	**2**	**3**	**4-10**	**Total**
2019					
Financial Liabilities					
Trade and other payables	(1,282)	-	-	-	(1,282)
Unearned premium liability	(10,522)	(9,213)	(5,899)	(3,405)	(29,039)
Outstanding claims liability	(809)	-	-	-	(809)
Unexpired Risk Reserve	(329)	(289)	(185)	(106)	(909)
	(12,942)	(9,502)	(6,084)	(3,511)	(32,039)

	Maturity Periods In Years				
In thousands of NZD	**1**	**2**	**3**	**4-10**	**Total**
2018					
Financial Liabilities					
Trade and other payables	(1,877)	-	-	-	(1,877)
Unearned premium liability	(9,748	(9,268)	(6,476)	(3,676)	(29,168)
Outstanding claims liability	(909)	-	-	-	(909)
Unexpired Risk Reserve	(829)	(788)	(551)	(313)	(2,481)
	(13,363)	(10,056)	(7,027)	(3,989)	(34,435)

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.

22. 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	
In thousands of NZD		**Minus 1.0%**	**Plus 1.0%**
Pre-tax impact on profit	2019	484	(493)
Pre-tax impact on profit	2018	565	(578)

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 19 (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.

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23. Related parties

For the year ended 30 June 2019 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 2019, PCASNZ, a related entity, received written premiums of $7,731,842 excluding GST (2018: $11,494,300) on behalf of the Company and subsequently transferred these monies on receipt from the insured party to the Company. At the statement of financial position date, the Company was owed $850,277 including GST (2018: $1,054,690) by PCASNZ.

At the statement of financial position date, the Company owed $11,075 (2018: $12,736) to PCASNZ.

For the year ended 30 June 2019 warranty claims settled gross of reinsurance on behalf of the Company by PCASNZ totalled $9,448,995 (2018: $8,485,107).

The Company paid a related entity, SPWS for managerial services during the year ended 30 June 2019 the amount of $24,000 (2018: $24,000) and for finance and actuarial services the amount of $185,004 (2018: $184,800). As at 30 June 2019, $Nil (2018: $Nil) remained payable from the Company to SPWS.

At the statement of financial position date, the Company owed its parent entity, ICF Holdings (NZ) Limited $163,963 (2018: $502,760) in relation to tax obligations payable by the parent as the head of the tax-consolidated group.

24. Auditor's remuneration

In thousands of NZD	**2019**	**2018**
Audit services		
Statutory financial statements audit	64	63
	64	63
Other services		
Other assurance service	8	8

Other assurance services relate to the audit of the Company's 30 June 2019 Insurer Solvency Return.

25. Commitments

There were no commitments as at 30 June 2019 (2018: nil).

26. Subsequent events

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

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Independent Auditor's Report

To the shareholder of Brightsideco Insurance Limited

Report on the financial statements

Opinion

In our opinion, the accompanying financial statements of Brightsideco Insurance Limited (the "Company") on pages 6 to 32:

i. present fairly in all material respects the Company's financial position as at 30 June 2019 and its financial performance and cash flows for the year ended on that date; and

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

We have audited the accompanying financial statements which comprise:

— the statement of financial position as at 30 June 2019;

— 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 professional services to the Company being a reasonable assurance engagement in respect of the Company's 30 June 2019 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.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the shareholder as a body may better understand the process by which we arrived at our audit opinion.

Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the financial statements as a whole and we do not express discrete opinions on separate elements of the financial statements.

The key audit matter	How the matter was addressed in our audit
Valuation of Insurance Contract Liabilities	
The valuation of insurance contract liabilities comprises: — Unearned premium reserve (UPR): $29,039k; — Unexpired risk reserve (URR): $909k; and — Outstanding claims liability (OCL): $809k. The valuation of insurance contract liabilities represents a significant estimate requiring the following judgements: — Claims assumptions. These included, claims frequency, cancellation rates, repair ratio, average repair sizes and average replacement sizes; — Economic assumptions. These, included, inflation rate, discount rate and indirect expense ratio; and — Risk margin assumptions. The robustness and accuracy of the valuation is dependent on the above assumptions as disclosed in Notes 18 to 20 of the financial statements. Given the long-tail nature of the business, premium revenue is recognised over multiple periods and so there remains judgement in determining the premium earnings and in calculating UPR. The Company's insurance contract liabilities are calculated by the Company's Appointed Actuary.	We involved our actuarial specialists and performed audit procedures, which included the following: — We obtained and reviewed the Insurance Liabilities Valuation Report ("ILVR") as at 30 June 2019 prepared by the AA; — We reconciled premiums and claims data used in the ILVR back to the Company's underlying accounting records, with material differences investigated; — With the assistance of our Actuarial Team, we assessed the reasonableness of the valuation methodologies and underlying key assumptions, including any changes thereto, used to calculate UPR, URR and outstanding claims liabilities; — We obtained the data underlying management's UPR calculation for the Product Care Replacement ("PCR") product, and re-performed the calculation, investigating any material differences. For the Extended Warranty ("EW") product, which is in run-off, we calculated the expected UPR balance as at 30 June 2019 using the prior period earnings model, investigating any material differences; — We obtained and audited the 30 June 2019 Liability Adequacy Test ("LAT") calculation and agreed key inputs to underlying accounting records and ILVR. With the assistance of our Actuarial Team, we assessed management's methodology and assumptions underlying the URR valuation; and — We obtained a breakdown of the outstanding claims liability as at 30 June 2019, and through review of bordereaux statements and claims payments made post Balance Sheet date assessed the reasonableness of the year end liability.

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The key audit matter	How the matter was addressed in our audit
Valuation of reinsurance recoveries - $1.3m	
Refer to Note 13 of the financial statements. The Company has reinsurance cover in the form of a Quota Share agreement. Reinsurance recoveries represents the Company's estimate of the reinsurers' share of the costs to settle all claims that have occurred up to and including 30 June 2019. These claims may either be known to the Company (reported), or unknown (not yet reported). Reinsurance and other recoveries on outstanding claims is a function of outstanding claims liabilities and is therefore subject to the same valuation uncertainties as outstanding claims liabilities. Valuation of reinsurance and other recoveries on outstanding claims is significant to our audit due to its size and the uncertainties discussed above.	We involved our actuarial specialists and performed audit procedures, which included the following: — We formed our own expectation of reinsurance recoveries on outstanding claims based on our understanding of the key terms of the Quota Share reinsurance agreements and compared our expectations to the Company's estimate, investigating any material differences; — We assessed the recoverability of balances owed by reinsurers by considering their credit worthiness and capital strength based on external sources of information such as Standard and Poor's credit ratings and payment history; and — We reconciled the actuarial financial statement disclosures back to the ILVR prepared by the Appointed Actuary.

Use of this independent auditor's report

This independent auditor's 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 independent auditor's report, or any of the opinions we have formed.

Responsibilities of the Directors for the financial statements

The Directors, on behalf of the 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.

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Auditor's responsibilities for the audit of the financial statements

Our objective is:

— to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and

— to issue an independent auditor's report that includes our opinion.

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

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

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

http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/

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

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

For and on behalf of KPMG

KPMG

KPMG
Auckland

16 October 2019