

QUEST INSURANCE GROUP LIMITED

ANNUAL REPORT

FOR YEAR ENDED 31 MARCH 2018

QUEST INSURANCE GROUP LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED 31 MARCH 2018

INDEX

Page

1	Directors' Annual Report
2 - 3	Audit Report
4	Statement of Financial Performance
4	Statement of Comprehensive Income
5	Statement of Changes in Equity
6	Statement of Financial Position
7	Statement of Cash Flows
8 - 24	Notes to the Financial Statements

QUEST INSURANCE GROUP LIMITED

DIRECTORS' ANNUAL REPORT

FOR THE YEAR ENDED 31 MARCH 2018

In accordance with Section 211(3) of the Companies Act 1993, the shareholder agreed not to make the disclosures set out in Section 211(1) (a) and Section 211 (1) (e) to (j) in the annual report.

The business of the Company is to issue temporary insurance contracts covering death, disablement and redundancy risk and short term motor vehicle insurance contracts covering comprehensive, third party, mechanical breakdown and guaranteed asset protection.

The nature of the Company's business has not changed during the year.

Signed on behalf of the Board on 26 July 2018



Director



Director

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Quest Insurance Group Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Quest Insurance Group Limited ('the Company') on pages 4 to 24, which comprise the statement of financial position as at 31 March 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 March 2018, and its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS').

Our report is made solely to the Shareholders of Quest Insurance Group Limited, in accordance with the Companies Act 1993. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an 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 Quest Insurance Group Limited and the Shareholders of Quest Insurance Group Limited, for our audit work, for our report or for the opinions we have formed.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor and provider of other assurance services, our firm carries out other assignments for Quest Insurance Group Limited in the area of taxation compliance services. The provision of these other services has not impaired our independence.

Responsibilities of the Directors for the Financial Statements

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

In preparing the financial statements, the Directors are responsible on behalf of the Company for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

<https://xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-8/>

The engagement partner on the audit resulting in this independent auditor's report is G K Raniga.



STAPLES RODWAY AUCKLAND

Auckland, New Zealand

26 July 2018

QUEST INSURANCE GROUP LIMITED

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 31 MARCH 2018

	Note	2018 \$'000	2017 \$'000
Revenue			
Premium revenue		8,489	2,989
Other revenue	(6)	608	474
		9,097	3,463
Expenses			
Claims expense	(8)	1,783	737
Commission expense	(9)	2,794	1,231
Reinsurance expense		50	20
Sales and marketing expense	(10)	145	150
Other expenses		530	205
		5,302	2,343
Net profit before movement in policyholder liabilities and taxation		3,795	1,119
Increase in policyholder liabilities	(15)	(2,939)	(182)
Net profit before taxation		855	938
Taxation expense	(7)	-	-
Net profit after taxation		855	938

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2018

		2018 \$'000	2017 \$'000
Net profit after taxation		855	938
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss			
Movement in fair value of available for sale equity securities	(11)	200	159
Other comprehensive income, net of tax		200	159
Total comprehensive income		1,055	1,097

The attached notes form part of and are to be read in conjunction with these financial statements.

QUEST INSURANCE GROUP LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2018

	Share Capital	Retained Earnings	Available for sale equity reserve	Total
	\$'000	\$'000	\$'000	\$'000
Balance at 1 April 2016	2,000	4,819	313	7,132
Profit for the year	-	938	-	938
Other comprehensive income attributable to shareholders	-	-	159	159
Total comprehensive income attributable to shareholders	-	938	159	1,097
Balance at 31 March 2017	2,000	5,757	472	8,229
Profit for the year	-	855	-	855
Other comprehensive income attributable to shareholders	(11)	-	200	200
Total comprehensive income attributable to shareholders	-	855	200	1,055
Balance at 31 March 2018	2,000	6,612	672	9,284

The attached notes form part of and are to be read in conjunction with these financial statements.

QUEST INSURANCE GROUP LIMITED

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2018

	Note	2018 \$'000	2017 \$'000
ASSETS			
Cash and cash equivalents	(18)	3,986	3,184
Receivables		1,994	-
Other assets		309	55
Taxation receivable		2	2
Deferred insurance contract acquisition costs	(15)	2,733	1,400
Related party balances	(10)	4,994	3,559
Available for sale financial assets	(11)	3,390	3,190
Plant and Equipment	(12)	46	29
Intangible assets	(13)	51	-
Total assets		17,505	11,419
LIABILITIES			
Accounts payable and accruals	(19)	566	80
Tax payable		-	-
Outstanding claims liabilities	(14)	570	338
Unearned premium liabilities	(15)	7,085	2,772
Total liabilities		8,221	3,190
SHAREHOLDER'S EQUITY			
Share Capital	(16)	2,000	2,000
Retained earnings		6,612	5,757
Available for sale equity reserve	(16)	672	472
Total shareholder's equity		9,284	8,229
Total shareholders equity and liabilities		17,505	11,419

For and on behalf of the Board of Directors dated 26 July 2018



Director



Director

The attached notes form part of and are to be read in conjunction with these financial statements.

QUEST INSURANCE GROUP LIMITED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2018

	Note	2018 \$'000	2017 \$'000
Cash flows from operating activities			
Cash was provided from:			
Contributions and premiums received		8,489	2,986
Interest received		377	314
Dividends		231	163
Third party recoveries		174	125
		<u>9,271</u>	<u>3,588</u>
Cash was applied to:			
Claims paid		1,573	665
Other expenses		5,345	1,815
		<u>6,918</u>	<u>2,480</u>
Net operating outflow from operating activities	(21)	2,353	1,108
Cash flows from investing activities			
Cash was applied to:			
Purchase of plant and equipment		27	31
Purchase of intangible assets		58	-
		<u>85</u>	<u>31</u>
Net cash inflow / (outflow) from investment activities		(85)	(31)
Cash flows from financing activities			
Cash was provided from:			
Other borrowing advances		(1,466)	83
		<u>(1,466)</u>	<u>83</u>
Cash was applied to:			
Additional investment in Professional Investor Scheme		-	2,056
		<u>-</u>	<u>2,056</u>
Net cash inflow / (outflow) from financing activities		(1,466)	(1,973)
Net movement in cash and cash equivalents		802	(896)
Add opening cash and cash equivalents		3,184	4,080
Closing cash and cash equivalents		<u>3,986</u>	<u>3,184</u>
Represented by:			
Bank balances		3,986	3,184
Closing cash and cash equivalents		<u>3,986</u>	<u>3,184</u>

The attached notes form part of and are to be read in conjunction with these financial statements.

QUEST INSURANCE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

1. Reporting entity

Quest Insurance Group Limited (the 'Company') is a company incorporated and domiciled in New Zealand and registered under the Companies Act 1993.

The Company is a wholly owned subsidiary of Geneva Finance Limited, its parent company.

The financial statements of the Company have been prepared in accordance with the requirements of the Companies Act 1993, the Financial Markets Conduct Act 2013, the Financial Reporting Act 2013 and the Insurance (Prudential Supervision) Act 2010.

The Company is a for profit entity.

The principal activity of the Company is that of an insurer.

The Financial Statements were authorised for issue by the Board of Directors on 26 July 2018.

2. Basis of preparation

2.1 New Zealand Equivalents of International Financial Reporting Standards (NZ IFRS)

The Company is a licensed insurer under the Insurance (Prudential Supervision) Act 2010.

The reporting date is 31 March. These financial statements have been prepared for the year ended 31 March 2018. The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP") and applicable legislation. They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS"), and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The Financial Statements also comply with International Financial Reporting Standards ("IFRS").

2.2 Basis of measurement

The accounting principles for the measurement and reporting of results and financial position on a historical cost basis have been adopted in the preparation of these financial statements except as modified by the revaluation of certain assets and liabilities as identified in specific accounting policies below.

2.3 Functional and Presentation Currency and Rounding

These financial statements are presented in New Zealand Dollars (\$), which is the Company's functional currency. The financial information presented in New Zealand Dollars has been rounded to the nearest thousand, except when otherwise indicated.

2.4 Use of estimates and judgements

The preparation of the financial statements in conformity with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future period affected. Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in note 4.

3. Significant accounting policies

a) New Standards and Interpretations

Adoption of new and amended accounting standards that are mandatory for first time adoption.

The following new standards, amendments and interpretations issued but not yet effective for the Company's accounting periods beginning on or after 1 April 2018 or later periods, but the Company has not early adopted them.

- NZ IFRS 9 Financial Instruments

NZ IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in NZ IAS 39, 'Financial Instruments: Recognition and Measurement', that relates to the classification and measurement of financial instruments. NZ IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income ('OCI') and fair value through profit and loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling.

QUEST INSURANCE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

3. Significant accounting policies (continued)

a) New Standards and Interpretations (continued)

There is now a new expected credit losses model that replaces the incurred loss impairment model used in NZ IAS 39. For financial liabilities, there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss.

NZ IFRS 9 also relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under NZ IAS 39.

The effective date is annual reporting periods beginning on or after 1 January 2018, the 31 March 2019 financial statements. Early adoption is permitted. The Company will adopt NZ IFRS 9 on its effective date and there is a project plan in place to assess the full impact of the standard.

Preliminary assessment indicates that implementation of the standard will impact the Company's financial statements as follows:

• Classification and measurement of financial instruments:

The Company's financial assets and liabilities primarily include only those measured at amortised cost and fair value through profit and loss. The Company anticipates that the classification and measurement of these financial assets and liabilities will be largely unchanged under NZ IFRS 9. The Company's available for sale financial assets will however need to be reclassified as financial assets at fair value through OCI or fair value through profit and loss;

• Impairment model change from incurred losses to expected credit losses:

Company's incurred credit losses from financial assets have historically been insignificant and therefore would not be impacted under NZ IFRS 9.

• Hedge accounting:

The Company does not have any hedging arrangements.

■ **NZ IFRS 15 'Revenue from Contracts with Customers'**

NZ IFRS 15 'Revenue from Contracts with Customers' introduces a five step process for revenue recognition with the core principle being for entities to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the entity expects to be entitled in exchange for those goods or services. The five step approach is as follows:

- Step 1: Identify the contracts with the customer;
- Step 2: Identify the separate performance obligations;
- Step 3: Determine the transaction price;
- Step 4: Allocate the transaction price; and
- Step 5: Recognise revenue when a performance obligation is satisfied.

NZ IFRS 15 will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple element arrangements.

The effective date is annual reporting periods beginning on or after 1 January 2018, the 31 March 2019 financial statements. The Company will adopt NZ IFRS 15 on its effective date and there is a project plan in place to assess the full impact of the standard.

Under NZ IFRS 15 the Company would recognise revenue when (or as) it satisfies a performance obligation by transferring a promised good or service to a customer (which is when the customer obtains control of that good or service). A performance obligation may be satisfied at a point in time (typically for promises to transfer goods to a customer) or over time (typically for promises to transfer services to a customer). For a performance obligation satisfied over time, a company would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied.

QUEST INSURANCE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

3. Significant accounting policies (continued)

a) New Standards and Interpretations (continued)

The Company has undertaken a preliminary assessment on the possible impact NZ IFRS 15 will have on the financial statements. The preliminary analysis indicates that the standard is unlikely to have a material impact as the Company primarily earns its revenue from the issue of insurance contracts which are accounted for in accordance with NZIFRS 4 Insurance Contracts, which are specifically scoped out of NZ IFRS 15. However further analysis is ongoing.

The Company will adopt NZ IFRS 15 for the accounting period beginning on 1 April 2018.

- NZ IFRS 17 'Insurance Contracts'

NZ IFRS 17, 'Insurance Contracts', will replace NZ IFRS 4, 'Insurance Contracts'. Under the NZ IFRS 17, insurance contract liabilities will be calculated at the present value of future insurance cash flows with a provision for risk. The discount rate applied will reflect current interest rates. If the present value of future cash flows would produce a gain at the time an insurance contract is issued, the model would also require a "contractual service margin" to offset the day 1 gain. The contractual service margin would be amortized over the life of the insurance contract. There would also be a new income statement presentation for insurance contracts, including a revised definition of revenue and additional disclosure requirements. NZ IFRS 17 will also have accommodations for certain specific types of insurance contracts. Short-duration insurance contracts will be permitted to use a simplified unearned premium liability model until a claim is incurred. For some contracts, in which the cash flows are linked to underlying items, the liability value will reflect that linkage.

The effective date is annual reporting periods beginning on or after 1 January 2021, the 31 March 2022 financial year.

The Company is yet to assess the impact of NZ IFRS 17. The Company intends to adopt NZ IFRS 17 no later than the financial year beginning 1 April 2021.

b) Foreign Currency Transactions

Foreign currency transactions are translated to New Zealand currency at the exchange rate ruling at the date of the transaction. All foreign currency monetary assets and liabilities are translated at the exchange rates ruling as at balance date.

c) Revenue and expenses recognition

Revenue, which includes interest income and fee income is recognised to the extent that it is probable that economic benefits will flow to the Company and that revenue can be measured reliably. The principal sources of revenue are premium income and investment income.

Earned and unearned premiums

Premiums have been brought to account as income from the date of attachment of risk. Direct premiums comprise amounts charged to the policyholder excluding taxes and duties collected on behalf of third parties. The earned portion of premiums received and receivable is recognised as revenue. Unearned premiums are calculated by apportioning the premium income written in the year over the periods of risk from the date of attachment.

Investment Income

Financial instruments are classified in the manner described in (f). Some are measured by reference to amortised cost, others by reference to fair value.

For financial instruments measured at amortised cost, the effective interest method is used to measure the interest income or expense recognised in profit or loss. For financial instruments measured at fair value, interest income or expense is recognised on an accrual basis.

The effective interest method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or interest expense over the relevant period. The calculation includes all fees paid or received and directly related transaction costs that are an integral part of the effective interest rate. The interest income or expense is allocated over the life of the instrument and is measured for inclusion in profit or loss by applying the effective interest rate to the instruments' amortised cost.

Dividend income is recorded in the profit or loss when the Company's right to receive the dividend is established. Realised and unrealised gains and losses from re-measurement of financial instruments at fair value through profit or loss are included in investment income.

Other revenue

Commission and fee revenue is recognised in profit or loss on the basis of the actual service provided as a proportion of the total services to be provided.

QUEST INSURANCE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

3. Significant accounting policies (continued)

c) Revenue and expenses recognition (continued)

Claims

Claims expense and liability for outstanding claims are recognised in respect of direct business. The liability covers incurred but not yet reported claims ('IBNR'). Claims outstanding are assessed by review of individual claim files and estimated changes in the ultimate cost of settling claims. The policyholder liability is provided for on the basis of the total loss forecasts including a prudential margin. As the Company's insurance business is short-term, the impact of discounting to present value is not considered material, and the liability for claims is measured as the amounts of expected future payments. Claims outstanding have been subjected to an actuarial review which has formed the basis of valuation of the net liability in the Statement of Financial Position.

Other expenses

All other expenses are recognised in profit or loss on an accrual basis.

d) GST

The provision of Life Insurance contracts is an exempt transaction for GST purposes. Consequently not all the premiums earned on insurance contracts that have a life provision in their coverage will attract GST. The Company has utilised the apportionment method in identifying the part of the premium attributable to the life benefit. This has been calculated by applying the life rates as applied on an individual basis against the overall premium component. The GST is then calculated on the non-life portion of the premium.

e) Taxation

Life insurers are subject to a special tax regime. Two tax bases are maintained; the life office base which is subject to tax on investment income less expenses plus underwriting income, and the policyholder base which seeks to tax benefits as they accrue to the policyholders under the policies in the form of claim, surrender and maturity payments and increments in the value of policies. The life insurer pays tax on the higher of the two bases at the company tax rate of 28% (2017: 28%). As the life insurer is taxed as proxy for the policyholder, returns to policy holders are tax exempt.

Transitional provisions are included in the new regime which effectively maintain the historical tax treatment for most policies in force on 30 June 2010 for a period of time (five years in most cases). Under the previous tax regime, the life insurance base was subject to tax on investment income less expenses plus underwriting income, and tax was calculated on the policyholder base as benefits accrued to policyholders under the policies. The life insurer pays tax on the higher of the two bases at the prevailing corporate tax rate of 28%.

The comprehensive basis of tax effect accounting is applied. Future income tax benefits are only recognised when their realisation is virtually certain. Policyholder liabilities include the net present value of the best estimate of tax payable, including tax losses available to carry forward and other timing differences which arise from items brought to account in different periods for income tax and accounting purposes.

The value of current tax payable or current income tax benefit is shown separately on the Statement of Financial Position.

The present value of the future income tax benefit or provision for deferred tax included in policy liabilities is calculated at income tax rates prevailing at balance date.

Life office base tax losses are transferred among group companies through inter-company accounts at the applicable tax rates. Policyholder base tax losses may be utilised only by offsetting against future policyholder base profits.

f) Financial instruments

Basis of recognition and measurement of financial assets and financial liabilities.

The Company classifies financial instruments into one of the following categories at initial recognition: financial assets; financial assets at fair value through profit or loss, available for sale financial assets, loans and receivables and held to maturity financial assets; financial liabilities; financial liabilities at fair value through profit or loss and financial liabilities measured at amortised cost.

Some of these categories require measurement at fair value. Where available, quoted market prices are used as a measure of fair value. Where quoted market prices do not exist, fair values are estimated using present value or other market accepted valuation techniques, using methods and assumptions that are based on market conditions and risks existing as at reporting date.

A financial instrument is recognised if the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Company's contractual rights to the cash flows expire or if the Company transfers them without retaining control or substantially all risks and rewards of the asset. Financial liabilities are derecognised if the company's obligations specified in the contract are extinguished.

3. Significant accounting policies (continued)

f) Financial instruments (continued)

Financial assets

Purchases and sales of financial assets are recognised on trade date - the date on which the Company commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in profit or loss. Investments in equity instruments that do not have a quoted market price in an active market and whose fair values cannot be reliably measured are recognised and subsequently carried at cost.

Available for sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held to maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in profit or loss in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of securities classified as available for sale are recognised in equity through an available for sale reserve, except for foreign exchange movements on monetary assets, which are recognised in profit or loss. When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments are included in profit or loss as gains and losses from investment securities.

The Company assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired.

If any such evidence exists for available for sale financial assets, the cumulative loss - measured as the difference between the financial asset acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss.

(i) Financial assets at fair value through profit or loss

This category has two sub categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the reporting date.

In the current and prior years the Company has not classified any financial assets in this category.

(ii) Available for sale financial assets

Available for sale financial assets are non derivatives, principally equity securities, which are either designated in this category or not classified in any of the other categories. They are included in non current assets unless management intends to dispose of the investment within 12 months of the balance date.

In the current and prior years the Company's financial assets at fair value through profit or loss comprise an equity investment in an unlisted medical property investment company.

(iii) Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non current assets. Assets in this category are measured at amortised cost using the effective interest method, less any impairment losses.

The Company's loans and receivables comprise cash and cash equivalents, trade and other receivables and related party receivables.

(iv) Held to maturity investments

Held to maturity investments are non derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. Assets in this category are measured at amortised cost.

The Company has not classified any financial assets in this category.

3. Significant accounting policies (continued)

f) Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each reporting date, or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss through the use of an allowance account. When a financial asset carried at amortised cost is uncollectible, it is written off against the allowance account. A financial asset carried at amortised cost is deemed to be uncollectible upon notification of insolvency of the debtor or upon receipt of similar evidence that the Company will be unable to collect the trade receivable. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed. Subsequent recoveries of financial assets carried at amortised cost previously written off are credited against the allowance account.

In respect of available for sale debt instruments, the loss is reversed through profit or loss. In respect of available for sale equity instruments, impairment losses are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated as a separate component of equity in the available for sale revaluation reserve.

Financial liabilities

(i) Financial liabilities at fair value through profit or loss

This category has two sub categories: financial liabilities held for trading, and those designated at fair value through profit or loss at inception. A financial liability is classified in this category if acquired principally for the purpose of paying in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Liabilities in this category are classified as current liabilities if they are either held for trading or are expected to be realised within 12 months of the reporting date.

The Company has not classified any financial liabilities in this category.

(ii) Other financial liabilities

This category includes all financial liabilities other than those designated as fair value through profit or loss. Liabilities in this category are measured at amortised cost using the effective interest method.

The Company's other financial liabilities comprise trade and other payables.

g) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held on call with banks and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

h) Trade and other receivables

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

Collectability of trade receivables is reviewed on an on-going basis in accordance with the Company's impairment of financial assets accounting policy described above under the financial instruments accounting policy. Individual debts which are known to be uncollectible are written off. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered objective evidence of impairment.

QUEST INSURANCE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

3. Significant accounting policies (continued)

i) Trade and other payables

These amounts represent unsecured liabilities for goods and services provided to the Company prior to the end of the financial year which are unpaid. Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. As trade and other payables are usually paid within 30 days, they are carried at face value.

j) Reinsurance premium expenses

Premiums ceded to reinsurers is recognised as reinsurance premium expense in accordance with the performance of reinsurance services.

k) Insurance Contracts

Insurance contracts are those contracts that transfer significant insurance risk and are accounted for in accordance with the requirements of NZ IFRS 4 Insurance Contracts. The Company issues the following insurance contracts:

- Temporary life insurance contracts covering death, disablement, disability and redundancy risks;
- Short term motor vehicle contracts covering comprehensive, third party and mechanical breakdown risks; and
- Guaranteed asset protection contracts, covering the risk that other insurance policies do not cover the outstanding loan balance.

The liability for insurance contracts has been determined in accordance with Appendix C of NZ IFRS 4 Insurance Contracts and Professional Standard No 3 of the New Zealand Society of Actuaries. In terms of these standards, the liability is determined using the methodology referred to as Margin on Service (MoS). Under MoS the excess premium received over claims and expenses, 'the profit margin', is recognised over the life of the contract in a manner that reflects the pattern of risk accepted from the policyholder, 'the service'.

l) Actuarial policies and methods

An actuarial review of Liability for Outstanding Claims at reporting date was undertaken by the Company's appointed Actuary, Mr Peter Davies B.Bus.Sc., FIA, FNZSA, AIAA, ASA ('the Actuary'). The liability for outstanding claims has been determined in accordance with NZ IFRS 4 Insurance Contracts issued by the New Zealand External Reporting Board, and Professional Standard No. 4.1 of the New Zealand Society of Actuaries (Inc).

Policies have been valued on an accumulation basis, with the policy liability equalling the unearned premium net of acquisition costs, calculated on a straight line basis.

Where the unearned premium net of acquisition costs is less than the best estimate liability of a policy, the policy liability equals the best estimate liability. The best estimate liability in this instance is calculated using best estimate assumptions regarding mortality, disability frequency, disability continuance, redundancy frequency, redundancy continuance and future management expenses.

The provision for notified claims on the balance sheet being \$7,000 more than the actuary's assessment (2017: \$73,000 less), and with the IBNR being comparative (2017: \$105,000 higher), there is a net margin of approximately \$7,000 in the current provisions (2017: \$32,000). As this is a close match, the actuary recommends that the current provisions remain unchanged. This position can be reviewed in September 2018.

m) Changes in accounting policies

There have been no other changes in accounting policies. All accounting policies have been applied on bases consistent with those used in previous years.

4. Significant judgements and estimates

The Company makes estimates and assumptions that affect the amounts reported in the financial statements. Estimates and judgements are continually evaluated, they are based on historic experience and current observable data. The estimates and judgements made by the Company in the process of applying the accounting policies that have the most significant effect relate to the following:

a) Liabilities arising from claims under insurance contracts

Liabilities arising from claims under insurance contracts are estimated based on the terms of the cover provided under the insurance contract.

The estimation of the ultimate liability arising from claims made under insurance contracts is based on a number of actuarial techniques that analyse experience, trends and other relevant factors. The actuarial methodologies used are noted below.

QUEST INSURANCE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

4. Significant judgements and estimates (continued)

a) Liabilities arising from claims under insurance contracts (continued)

The liability for insurance contracts has been determined by the Company's consulting Actuary, Peter Davies, ('the Actuary'), B.Bus.Sc., FIA, a Fellow of the New Zealand Society of Actuaries in accordance with NZ IFRS 4 'Insurance Contracts' issued by the External Reporting Board, and Professional Standard no. 20 of the New Zealand Society of Actuaries – Valuation of Life Insurance Policy Liabilities and no. 30 Valuation of General Insurance Claims. The liability equals the initial single premium, net of acquisition costs, written down on a straight line basis over the life of the policy.

The actuary is satisfied as to the nature and extent of the data used for the valuation.

The life insurance contract liabilities are subject to a loss recognition test, which has been carried out on the following basis:

Mortality:

Population mortality NZ2000 – 2002.		
Deaths:	11% of net unearned premium	
Disability:	11% of net unearned premium	
Redundancy:	11% of net unearned premium	
Expenses:	118% of future claims (31 March 2017: \$50) per policy per year, with no escalation (31 March 2017: 2% p.a.).	
Interest:	A discount rate of 3.50% per annum (31 March 2017: 2.14%).	
Cancellations:	Consumer credit contracts:	Nil. Surrender values are lower than unearned premiums
Surrender value	Rule of 78 less \$35 processing fee	

Claim provisions for notified claims have been determined using case estimates provided by the claims manager.

The provision for claims incurred but not reported (IBNR) has been determined by applying the chain ladder method to past claim reporting patterns.

Insurance contract liabilities for motor vehicle business have been calculated as the unearned premium net of deferred acquisition costs.

The basis for the loss recognition test in respect of motor insurance business is as follows:

Premium liability before risk margin and expenses:	73% of net unearned premium
Risk margin:	16% of future claims
Expense allowance:	10% of future claims plus expenses
Future Surrenders:	Nil. Surrender values are lower than unearned premiums
Surrender value	Straight line basis

Claim provisions for notified motor claims have been based on case estimates provided by the claim manager.

The provision for IBNR in respect of motor claims has been determined by using the same method as was used for the redundancy and death benefits, namely to review a table of claim reporting patterns, by duration, and apply some judgement to determine a reasonable number of late reported claims.

Under the accumulation method, insurance contract liabilities do not vary with changes in the valuation assumptions, unless a variation in the assumption would lead to the recognition of future losses. The sensitivity of changes in the valuation assumptions on the best estimate liability calculations, carried out as part of the loss recognition tests, is indicated in the following table:

QUEST INSURANCE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

4. Significant judgements and estimates (continued)

a) Liabilities arising from claims under insurance contracts (continued)

Liability adequacy test

Liability adequacy tests are performed to determine whether the unearned premium income liability is sufficient to cover the present value of the expected cash flows arising from rights and obligations under current insurance contracts, plus an additional risk margin to reflect the inherent uncertainty in the central estimate. The future cash flows are future claims, associated claims handling costs and other administration costs relating to the business.

If the unearned premium income liability less related deferred acquisition costs exceeds the present value of the expected future cash flows plus the additional risk margin to reflect the inherent uncertainty in the central estimate then the unearned premium liability is deemed to be sufficient. The risk margins applied to future claims were determined with the objective of achieving at least 75% probability of sufficiency of the unexpired risk liability using the same methodology as described above.

The unearned premium income liability as at reporting date is sufficient (2017: sufficient).

Sensitivity Disclosure

Policy liabilities (unearned premium liability), net of deferred acquisition costs (in dollars):

31 March 2018

Policy liability *	Payment Protection & Lifestyle		Motor		Combined	
	416,209		3,935,976		4,352,185	
	Best estimate	Variation	Best estimate	Variation	Best estimate	Variation
Base assumptions	99,807		3,332,985		3,432,792	
Discount rate +1%	99,807	-	3,332,985	-	3,432,792	-
Discount rate -1%	99,807	-	3,332,985	-	3,432,792	-
Claims frequencies x 1.1	104,385	4,578	3,620,311	287,326	3,724,696	291,905
Claims frequencies x 0.9	95,229	(4,578)	3,045,659	(287,326)	3,140,887	(291,905)
Admin costs x 1.1	105,209	5,402	3,378,957	45,972	3,484,166	51,375
Admin costs x 0.9	94,405	(5,402)	3,287,013	(45,972)	3,381,417	(51,375)
Cancellation rate x 1.1	99,807	-	3,332,985	-	3,432,792	-
Cancellation rate x 0.9	99,807	-	3,332,985	-	3,432,792	-

* Net of deferred acquisition costs

31 March 2017

Policy liability *	Payment Protection & Lifestyle		Motor		Combined	
	328,996		1,043,093		1,372,090	
	Best estimate	Variation	Best estimate	Variation	Best estimate	Variation
Base assumptions	131,041		783,445		914,486	
Discount rate +1%	130,100	(942)	783,445	-	913,545	(942)
Discount rate -1%	132,003	962	783,445	-	915,448	962
Claims frequencies x 1.1	135,886	4,844	861,790	78,345	997,675	83,189
Claims frequencies x 0.9	126,197	(4,844)	705,101	(78,345)	831,298	(83,189)
Admin costs x 1.1	134,136	3,094	839,405	55,960	973,541	59,055
Admin costs x 0.9	127,947	(3,094)	734,480	(48,965)	862,427	(52,060)
Cancellation rate x 1.1	133,270	2,228	783,445	-	916,715	2,228
Cancellation rate x 0.9	128,787	(2,254)	783,445	-	912,233	(2,254)

* Net of deferred acquisition costs

The best estimate is calculated on the basis of the "best estimate" of the net future cash-flows under insurance policies and exclude future profit. These profits are released to the income statement over the life of the policies and are included in the carrying amount of liabilities disclosed on the statement of financial position. The "best estimate" assumptions have been calculated using the assumptions set out above.

QUEST INSURANCE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

5. Solvency

The Solvency position of the Company as at 31 March 2018 has been calculated by the Company's actuary, under the Reserve Bank of New Zealand solvency standard (Section 55 of the Insurance (Prudential Supervision) Act 2010). The actual solvency capital of the Company under this standard as at 31 March 2018, net of related party investments and unrecoverable deferred acquisition costs amounted to \$7.08m (2017: \$7.54m). Quest Insurance Group Limited is required to hold minimum solvency capital of \$5.0 million and have a solvency margin of at least \$1.

2018	Non Life \$'000	Life \$'000	Total \$'000
Actual Solvency Capital	6,050	1,031	7,081
Minimum solvency requirement	4,844	24	5,000
Solvency Margin	1,206	1,007	2,081
Solvency Cover Ratio	125%	n/a	142%

2017	Non Life \$'000	Life \$'000	Total \$'000
Actual Solvency Capital	6,600	935	7,535
Minimum solvency requirement	3,768	-	5,000
Solvency Margin	2,832	935	2,535
Solvency Cover Ratio	175%	n/a	151%

The liabilities recorded on the Statement of Financial Position are \$8.2m (2017: \$3.2m) and total assets equal \$17.5m (2017: \$11.4m).

6. Disclosure items

	2018 \$'000	2017 \$'000
<i>Expenses</i>		
Auditor's remuneration		
- Audit of the financial statements	18	18
- Other assurance services - Audit of the Company's Solvency Return	2	2
Amortisation of expenses	-	-
Foreign exchange profit/(loss)	-	-
Loss on fair value of New Zealand Government bond	-	-
<i>Other Revenue</i>		
Interest received		
- New Zealand Government bond	-	-
- Bank	78	51
- Related party (see Note 10)	299	263
Commissions	-	(3)
Dividends	231	163

7. Tax reconciliation

	2018 \$'000	2017 \$'000
Net profit before taxation	855	938
Prima facie taxation @ 28%	240	263
Non-deductible expenses	-	-
Tax offsetted against group tax losses	(240)	(263)
	-	-

8. Net claims incurred

2018	Current Year \$'000	Prior Years \$'000	Total \$'000
Gross claims incurred and related expenses	2,362	(413)	1,949
Reinsurance and other recoveries	(201)	35	(166)
	2,161	(378)	1,783

QUEST INSURANCE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

8. Net claims incurred (continued)

	Current Year \$'000	Prior Years \$'000	Total \$'000
2017			
Gross claims incurred and related expenses	1,005	(143)	862
Reinsurance and other recoveries	(146)	21	(125)
	<u>859</u>	<u>(122)</u>	<u>737</u>

9. Commission expense

	2018 \$'000	2017 \$'000
Commission expense	2,829	1,266
Less: commission on rebates	(35)	(35)
	<u>2,794</u>	<u>1,231</u>

10. Transactions with related parties

The following related party transactions are with Geneva Finance Limited (formerly GFNZ Group Limited) which is Quest Insurance Group Limited's Parent company and Prime Asset Trust Limited which is a fellow subsidiary company of Geneva Finance Limited.

<u>Revenue</u>	2018 \$'000	2017 \$'000
<u>Interest</u>		
Geneva Finance Limited	29	29
Prime Asset Trust Limited	270	234
	<u>299</u>	<u>263</u>

<u>Expenses</u>	2018 \$'000	2017 \$'000
<u>Commission, marketing subsidy and management fee</u>		
Geneva Finance Limited	285	311
Less: Commission on rebates	(37)	(35)
Geneva Finance Limited	<u>249</u>	<u>276</u>

<u>Assets</u>		
<u>Subordinated debt</u>		
Geneva Finance Limited (9.5%, secured debenture stock, on call)	500	500
Geneva Finance Limited (interest free, unsecured , on call)	-	-

<u>Secured Investment</u>		
Prime Asset Trust Limited	3,000	3,000

<u>Current account</u>		
Geneva Finance Limited (non interest bearing current account)	135	155

<u>Liabilities</u>		
Geneva Finance Limited (interest free, unsecured , on call)	(1,359)	96

11. Investments

	2018 \$'000	2017 \$'000
Available for sale financial assets		
Unlisted medical property investment company	<u>3,390</u>	<u>3,190</u>

During the 2014 year the Company sold its 11% stake in this company to Pacific Rise Limited, (a group subsidiary company) and repurchased it in the year ending 31 March 2017.

The 10.47% stake in this company is held by Quest Insurance Group Limited. The investment in the unlisted medical property company is an available for sale financial asset and is measured at fair value. This investment is denominated in NZ dollars. The Directors have disclosed their intention to sell this investment. This equity security is not quoted in an active market. The fair value of this equity security is based on the Group's share of the entity's net assets at reporting date as reported in the entity's financial statements (valuation technique). The entity is a property investment company that is solely in the business of holding and leasing investment property under operating leases and is involved in the development of investment property.

QUEST INSURANCE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

11. Investments (continued)

The majority of the entity's assets and liabilities are reported in their financial statements at either their fair value or their carrying value which approximates their fair value (the significant unobservable inputs). The inter-relationship between key unobservable inputs and fair value measurement is that an increase / (decrease) in the net assets would decrease / (increase) the fair value of the investment.

12. Fixed Assets

	2018 \$'000	2017 \$'000
Computer equipment		
At cost	3	1
Accumulated depreciation	-	-
	<u>3</u>	<u>1</u>
Motor vehicles		
At cost	55	30
Accumulated depreciation	(12)	(2)
	<u>43</u>	<u>28</u>
Total fixed assets	<u>46</u>	<u>29</u>

13. Intangible Assets

	2018 \$'000	2017 \$'000
Computer software		
At cost	42	-
Accumulated amortisation	(8)	-
	<u>34</u>	<u>-</u>
Work in Progress		
At cost	17	-
Accumulated amortisation	-	-
	<u>17</u>	<u>-</u>
Total intangible assets	<u>51</u>	<u>-</u>

14. Outstanding claims liabilities

	2018 \$'000	2017 \$'000
Gross claims undiscounted	484	200
Third party recoverables	(57)	(36)
IBNR provision	143	174
Closing balance	<u>570</u>	<u>338</u>
<i>Reconciliation of movement in outstanding claims liability</i>		
Gross claims undiscounted		
Opening balance	200	126
Movement in ultimate incurred costs	(1,115)	(466)
Payments	1,399	540
Closing balance	<u>484</u>	<u>200</u>
Third party recoverables		
Opening balance	(36)	(12)
Movement	(21)	(24)
Closing balance	<u>(57)</u>	<u>(36)</u>
IBNR provision		
Opening balance	174	138
Movement	(31)	36
Closing balance	<u>143</u>	<u>174</u>

As noted in the Statement of accounting policies, no discounting to net present value has been applied to the expected future payments for outstanding claims. The average weighted expected term of settlement is 0.26 years (2017: 0.40 years).

QUEST INSURANCE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

15. Policyholder liabilities

	2018	2017
	\$'000	\$'000
Outstanding Policyholder Liabilities	7,085	2,772
Less: Outstanding Policy Holder Assets	(2,733)	(1,400)
Closing balance	<u>4,352</u>	<u>1,372</u>

Unearned insurance contract premium liabilities

	2018	2017
	\$'000	\$'000
Opening balance	2,772	2,272
Deferral of premium on contracts written during the year	6,116	2,047
Earnings of premiums deferred in prior year	(1,803)	(1,547)
Closing balance	<u>7,085</u>	<u>2,772</u>

Deferred insurance contract acquisition costs

	2018	2017
	\$'000	\$'000
Opening balance	1,400	1,082
Deferral of insurance contract acquisition costs incurred during the year	2,149	983
Expense of insurance contract acquisition costs incurred during prior years	(816)	(665)
Closing balance	<u>2,733</u>	<u>1,400</u>

16. Share Capital and Reserves

	2018	2017
	000	000
Number of ordinary shares		
Opening Balance	2,000	2,000
Shares issued during the year	-	-
Total authorised and issued share capital	<u>2,000</u>	<u>2,000</u>

Dollar value of ordinary shares

	2018	2017
	\$'000	\$'000
Number of ordinary shares		
Opening Balance	2,000	2,000
Shares issued during the year	-	-
Total authorised and issued share capital	<u>2,000</u>	<u>2,000</u>

All issued shares are authorised and fully paid. The holders of ordinary shares rank equally amongst themselves, are entitled to receive dividends from time to time and are entitled to one vote per share and rank equally with regard to the Company's residual assets.

There were no dividends declared and paid in 2018 (2017: Nil). No dividend has been declared subsequent to 31 March 2018.

Available for sale equity reserve

The available for sale reserve relates to revaluation of the equity investment per Note 11. The equity investment was reacquired from Pacific Rise Limited during the year ending 31 March 2017 for a cost of \$2.7m. The available for sale reserve represents the difference between the cost acquired from Pacific Rise Limited and the fair value at reporting date of \$3.39m.

17. Capital Management

The Company's capital includes share capital and retained earnings. The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of the capital on shareholders return is also recognised and the Company recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The allocation of capital between its specific business operations and activities is, to a large extent, driven by optimisation of the return on the capital allocated. The process of allocating capital to specific operations and activities is undertaken independently of those responsibilities for the operation. The Company's policies in respect of capital in respect of capital management and allocation are reviewed regularly by the Board of Directors.

It is the policy of the shareholders to ensure that equity retained provides an adequate level of solvency when measured against retained premium.

QUEST INSURANCE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

18. Cash and cash equivalents

	2018	2017
	\$'000	\$'000
Bank	3,986	3,184

19. Payables

	2018	2017
	\$'000	\$'000
Other payable and accruals	566	80

20. Financial Instruments

a) Credit Risk

Credit risk is defined as the risk that a loss will be incurred if a counter party to a transaction does not fulfil its financial obligations.

Credit risk is the potential loss arising from the non-performance of a counterparty to whom funds have been advanced, including Group companies. Financial instruments, which potentially subject the Company to credit risk principally, consist of bank balances and accounts receivable.

The board, audit and risk committees have the responsibility to oversee all aspects of credit risk assessment and management, and delegates authority to perform advances within approved policies and guidelines.

To control the level of credit risk taken each party credit risk is individually evaluated on a case by case basis.

The Company's credit risk to cash and cash equivalents represents the potential cost to the Company if counterparties fail to fulfil their obligation. To control the level of credit risk taken, the Company only banks with registered banks.

b) Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty to raise funds on short notice to meet obligations from its financial liabilities.

The Company maintains sufficient funds to meet its commitments based on historical and forecasted cash flow requirements. Management actively manages the claim exposure to ensure the net exposure to liquidity risk is minimised. The exposure is reviewed on an ongoing basis from daily procedures to monthly reporting as part of the Company's liquidity management process. The management process includes:

- day to day funding, managed by monitoring future cash flows to ensure that requirements can be met

Monitoring and reporting the form of cash flow measurement and projections, these include:

- day to day funding requirements
- on a weekly basis, projecting the requirements for each of the next four weeks
- on a monthly basis, projecting the requirements for each of the next 12 months

The monthly projections are reported to the board.

The below table analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

2018

\$'000

Financial liabilities

	0-6	7-12	13-24	25-60	Over 60	Total
	months	months	months	months		
Other payables	566	-	-	-	-	566
	566	-	-	-	-	566

QUEST INSURANCE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

20. Financial Instruments (continued)

b) Liquidity Risk (continued)

2017

\$'000

Financial liabilities

Other payables

0-6 months	7-12 months	13-24 months	25-60 months	Over 60	Total
80	-	-	-	-	80
80	-	-	-	-	80

c) Market Risk

Market risk is the risk of an event in the financial markets that results in a fluctuation in earnings or a fluctuation in value. Market risk arises from the mismatch between assets and liabilities. The company is exposed to diverse financial instruments including interest rates and equity.

Interest rate sensitivity analysis

The following tables summarise the sensitivity of the Company's financial assets to interest rate risk. The analysis shows the annualised impact on the profit before tax and equity of a reasonably possible movement of +/- 1% movement in interest rates.

31 March 2018

Financial assets

Cash and cash equivalents

	Interest rate risk			
Carrying Amount \$'000	-0.5% Profit \$'000	-0.5% Equity \$'000	+0.5% Profit \$'000	+0.5% Equity \$'000
3,986	(20)	(20)	20	20

31 March 2017

Financial assets

Cash and cash equivalents

	Interest rate risk			
Carrying Amount \$'000	-0.5% Profit \$'000	-0.5% Equity \$'000	+0.5% Profit \$'000	+0.5% Equity \$'000
3,184	(16)	(16)	16	16

d) Fair value financial assets and liabilities

i) Fair values

The carrying value of all financial assets and liabilities not measured at fair value approximates their fair values as they are either short term in nature, rate insensitive and subject to impairment.

ii) Fair value hierarchy

NZ IFRS 13 specifies a hierarchy of valuation measurements based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Company's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, New Zealand Stock Exchange) and exchanges traded derivatives like futures (for example, Nasdaq, S&P 500).
- Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of over the counter derivative contracts, traded loans and issued structured debt. The sources of input parameters for yield curves or counterparty credit risk are Bloomberg or Reuters.
- Level 3 - Inputs for assets and liabilities that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Company considers relevant and observable market prices in its valuations where possible.

31 March 2018

	Note	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Equity securities available for sale	11	-	-	3,390	3,390
Total Assets		-	-	3,390	3,390

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

20. Financial Instruments (continued)

d) Fair value financial assets and liabilities (continued)

31 March 2017

	Note	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Equity securities available for sale	11	-	-	3,190	3,190
Total Assets		-	-	3,190	3,190

Refer to Note 11 for further information regarding the fair value measurement of the equity securities available for sale.

e) Insurance Risk

Insurance risk is the risk of fluctuations in the timing, frequency and severity of insured events and claims settlements, relative to the expectations at the time of underwriting. The risks inherent in any single insurance contract are the possibility of the insured event occurring and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, these risks are random and unpredictable. In relation to the pricing of individual insurance contracts and the determination of the level of outstanding claims provision in relation to a portfolio of insurance contracts, the principal risk is that the ultimate claims payment will exceed the carrying amount of the provision established.

The Company is exposed to this risk because the price for a contract must be set before the losses relating to the product are known. Hence the insurance business involves inherent uncertainty. The risk attachment periods under these products are short to mid term and usually between 12 and 36 months.

A central part of the Company's overall risk management strategy is the effective management of the risks that affect the amount, timing and certainty of cash flows arising from insurance contracts.

The risk exposure is mitigated by diversification across a large portfolio of insurance contracts, industry sectors and geographical areas. The variability of risks is also improved by strong underwriting discipline and the implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

The Company also uses the services of the appointed Actuary and insurance advisers and brokers to provide advice and assistance on managing insurance risk. In addition, the Company maintains a detailed analysis of historical claims and a detailed knowledge of the current developments in the specific market that the Company operates in.

Initial claims determination is managed by the Company's claims department with the assistance of the Company's loss adjuster and claims manager. It is the Company's policy to respond to and settle all genuine claims in a timely manner and to pay claims fairly, based on policyholders' full entitlements. Claims provisions are established using valuation models and include a risk margin for uncertainty, refer to note 4.

To further reduce the risk exposure of the Company there are strict claim review policies in place to assess all new and ongoing claims and processes to review claims handling procedures regularly. Inflation risk is mitigated by taking expected inflation into account when estimating insurance contract liabilities.

The Company assumes insurance risk through its general insurance activities. The risk is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. The risk is random and unpredictable. The key risk arises in respect of claim costs varying from what was assumed in the setting of premium rates.

The primary objective in managing insurance risk is to enhance the financial performance of the Company, to reduce the magnitude and volatility of claims and to ensure funds are available to pay claims and maintain the solvency of the business if there is a negative deviation from historical performance.

Policies, processes and methods for managing insurance risk are as follows:

- Quest assesses the necessity of reinsurance based on the recommendations of an Independent Actuary;
- pricing of policy premiums to ensure alignment with the underlying risk; and
- regular monitoring of the financial results to ensure the adequacy of policies.

The financial results of the Company are primarily affected by the level of claims incurred relative to that implicit in the premiums. The assumptions used in the valuation of the outstanding claims liability and the liability adequacy test directly affect the level of estimated claims incurred.

The scope of insurance risk is managed by the terms and conditions of the policies. The level of benefits specified is the key determinant of the amount of future claims although the exact level of claims is uncertain.

QUEST INSURANCE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

21. Reconciliation of net surplus after taxation to cash flows from operating activities

	2018	2017
	\$'000	\$'000
Net profit after taxation	855	938
Add / (Less) movements in working capital		
Deferred insurance contract acquisition costs	(1,333)	(318)
Increase unearned premium liability	4,313	500
Increase outstanding claims liability	232	86
Decrease accounts payable	515	(74)
Increase prepayments and sundry debtors	(2,229)	(24)
Net cash inflow from operating activities	2,353	1,108

22. Reinsurance program

Reinsurance is purchased to make the Company's results less volatile by reducing the effect of large individual claims. The Company's reinsurance was renewed for the period 1 October 2017 to 30 September 2018.

23. Disaggregated information

There is no investment-linked business.

24. Segmental information

The Company operates in the insurance industry offering temporary insurance contracts covering death, disablement and redundancy risk and short term motor vehicle insurance contracts covering comprehensive, third party and mechanical breakdown, predominantly within New Zealand.

25. Commitments and Contingent liabilities

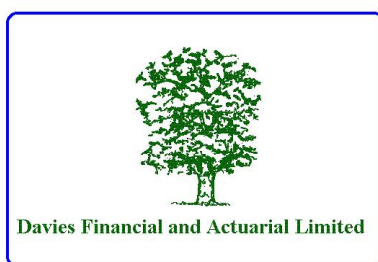
There are no material commitments and contingent liabilities at balance date (2017: Nil).

26. Financial Strength Rating

Credit rating agency AM Best confirmed Quest Insurance Group Limited's credit rating on 16 March 2018 (2017: 11 January 2017) with a Financial Strength rating of B (2017: B) and an Issuer Credit rating of bb+ (2017: bb). Both ratings came with a stable outlook.

27. Subsequent Events

No significant events subsequent to reporting date.



30th July 2018

To: The Directors
Quest Insurance Group Limited

From: Peter Davies
Appointed Actuary

Re: Quest Insurance Group Limited (“Quest”): Report as at 31st March 2018 under Sections 77 and 78 of the Insurance (Prudential Supervision) Act 2010

You have asked me to prepare this report in terms of the above sections of the Act, and I would like to comment further as follows:

1. I have reviewed the actuarial information included in the audited accounts for Quest as at 31st March 2018. “Actuarial information” includes the following:
 - claim provisions and unexpired risk / unearned premium provisions;
 - solvency calculations in terms of the RBNZ Solvency Standard;
 - balance sheet and other information allowed for in the calculation of the company’s solvency position; and
 - disclosures regarding the methodology and assumptions used for calculating claim provisions, unexpired risk provisions, and other disclosures.
2. No limitations have been placed on my work.
3. I am independent with respect to Quest as defined under professional standard ISA (NZ) 620 of the External Reporting Board.
4. I have been provided with all information that I have requested in order to carry out this review.

5. In my view the actuarial information contained in the financial statements has been appropriately included, and the actuarial information used in the preparation of the financial statements has been appropriately used.
6. As at 31st March 2018, Quest's solvency position under the RBNZ Solvency Standards for Life and Non-Life Insurance Business (2014) respectively was as follows:

	31st March 2018			31st March 2017		
	Life	Non-life	Total	Life	Non-life	Total
Actual solvency capital	1,031,371	6,050,113	7,081,484	934,579	6,600,200	7,534,779
Minimum solvency requirement (maximum of zero)	24,382	4,843,953	5,000,000	0	3,768,366	5,000,000
Solvency margin	1,006,989	1,206,160	2,081,484	934,579	2,831,834	2,534,779
Solvency coverage ratio:	4230%	125%	142%	n/a	175%	151%

Assuming that the Company's business plans are realised and claims occur as projected, the Company is projected to exceed the minimum RBNZ requirement at all times over the next four years.

I would be very happy to answer any queries concerning this report.

Yours sincerely



Peter Davies B.Bus.Sc., FIA, FNZSA
Appointed Actuary