YOUI NZ PTY LTD

Financial Statements
for the year ended 30 June 2017

Youi NZ Pty Ltd
Financial Statements
for the year ended 30 June 2017

Contents

Independent auditor's report

To the shareholder of Youi NZ Pty Ltd

The financial statements comprise:

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

Our opinion

In our opinion, the financial statements of Youi NZ Pty Ltd (the "Company"), present fairly, in all material respects, the financial position of the Company as at 30 June 2017, 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).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

We are independent of the Company in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) 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.

Our firm carries out other services for the Company in the area of tax advice and compliance. The provision of these other service has not impaired our independence.

Information other than the financial statements and auditor's report

The Directors are responsible for the annual report. Our opinion on the financial statements does not cover the other information included in the annual report and we do not express any form of assurance conclusion on the other information. At the time of our audit, the directors have advised that no other information will be included in the annual report.

In connection with our audit of the financial statements, if other information is included in the annual report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of our auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact.

Responsibilities of the Directors for the financial statements

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

In preparing the financial statements, the Directors are responsible 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 and ISAs 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 our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:
https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-6/

This description forms part of our auditor's report.

Who we report to

This report is made solely to the Company's shareholder. 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 the Company and the Company's shareholder, for our audit work, for this report or for the opinions we have formed.

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
24 August 2017

Auckland

Youi NZ Pty Ltd

Statement of comprehensive income
for the year ended 30 June 2017

	Notes	2017 $'000	2016 $'000
Premium revenue	5	**31,145**	26,188
Outward reinsurance expense	5	**(23,529)**	(20,956)
Net premium revenue	5	**7,616**	5,232
Commission income		**10,726**	9,484
Investment income	6	**1,283**	1,681
Other operating income	7	**21,621**	22,087
Net income		**41,246**	38,484
Insurance claims expenses	8	**(20,938)**	(19,402)
Reinsurance and other recoveries	8	**16,996**	15,170
Net insurance claims expenses	8	**(3,942)**	(4,232)
Acquisition costs and other underwriting expenses		**(9,114)**	(12,901)
Administration expenses	11	**(34,664)**	(32,409)
Finance costs	11	**(5)**	-
Expenses		**(43,783)**	(45,310)
Profit/(loss) before income tax		**(6,479)**	(11,058)
Income tax benefit / (expense)	12	**-**	-
Profit/(loss) for the year		**(6,479)**	(11,058)
Other comprehensive income for the year, net of tax		**-**	-
Total comprehensive income / (loss) for the year		**(6,479)**	(11,058)
Total comprehensive income / (loss) for the year is attributable to:			
Owners of Youi NZ Pty Ltd		**(6,479)**	(11,058)
		(6,479)	(11,058)

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

pwc

Youi NZ Pty Ltd
Statement of financial position
as at 30 June 2017

	Notes	2017 $'000	2016 $'000
ASSETS			
Current assets			
Cash and cash equivalents	13	**3,208**	3,593
Financial assets designated at fair value through profit or loss	14	**32,809**	38,126
Trade and other receivables	15	**13,373**	16,101
Deferred reinsurance expense	17	**5,651**	6,973
Reinsurance and other recoveries receivable	16	**2,655**	4,325
Deferred acquisition costs	17	**-**	-
Total current assets		**57,696**	69,118
Non-current assets			
Reinsurance and other recoveries receivable	16	**260**	262
Property, plant and equipment	18	**1,811**	2,908
Intangible assets	19	**44**	51
Deferred tax assets	20	**-**	-
Total non-current assets		**2,115**	3,221
Total assets		**59,811**	72,339
LIABILITIES			
Current liabilities			
Trade and other payables	21	**8,871**	11,937
Provisions	22	**880**	1,252
Unearned premium liabilities	23	**14,773**	17,710
Unexpired risk reserve	23	**311**	1,347
Outstanding claims liabilities	24	**4,062**	4,913
Total current liabilities		**28,897**	37,159
Non-current liabilities			
Provisions	22	**2,458**	297
Total non-current liabilities		**2,458**	297
Total liabilities		**31,355**	37,456
Net assets		**28,456**	34,883
EQUITY			
Contributed equity	25	**63,170**	63,134
Retained profit/(loss)		**(34,714)**	(28,251)
Total equity		**28,456**	34,883

The above statement of financial position should be read in conjunction with the accompanying notes.

The financial statements on pages 4 to 38 were authorised for issue by the Board of directors on 24 August 2017 and were signed on its behalf.

C.E. Corfe

CE Corfe
Chairman

Frank Costigan

FX Costigan
Chief Executive Officer

pwc

Youi NZ Pty Ltd

Statement of changes in equity
for the year ended 30 June 2017

	Notes	Contributed equity $'000	Retained profit / (loss) $'000	Total equity $'000
Balance at 30 June 2015		63,060	(17,193)	45,867
Profit/(loss) for the period		-	(11,058)	(11,058)
Total comprehensive income / (loss) for the period		-	(11,058)	(11,058)
Transactions with owners in their capacity as owners				
Contributions of equity, net of transaction costs	26	74	-	74
		74	-	74
Balance at 30 June 2016		**63,134**	**(28,251)**	**34,883**
Profit/(loss) for the year		-	(6,479)	(6,479)
Total comprehensive income / (loss) for the year		-	(6,479)	(6,479)
Transactions with owners in their capacity as owners				
Contributions of equity, net of transaction costs	26	36	16	52
		36	16	52
Balance at 30 June 2017		**63,170**	**(34,714)**	**28,456**

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Youi NZ Pty Ltd

Statement of cash flows
for the year ended 30 June 2017

	Notes	2017 $'000	2016 $'000
Cash flows from operating activities			
Cash (utilised in) operations	33	**(7,228)**	(8,949)
Interest received		**1,408**	1,657
Net cash (outflow) from operating activities		**(5,820)**	(7,292)
Cash flows from investing activities			
Proceeds on disposal of financial assets		**38,126**	44,492
Purchase of financial assets		**(32,809)**	(38,126)
Payments for property, plant and equipment	18	**(13)**	(67)
Payments for intangible assets	19	**(28)**	-
Proceeds from sale of property, plant and equipment		**159**	43
Net cash inflow from investing activities		**5,435**	6,342
Net (decrease) in cash and cash equivalents		**(385)**	(950)
Cash and cash equivalents at the beginning of the period		**3,593**	4,543
Cash and cash equivalents at the end of the period	13	**3,208**	3,593

The above statement of cash flows should be read in conjunction with the accompanying notes.

1. General information

These financial statements are for Youi NZ Pty Limited ("the Company"). During the year the principal activities of the Company consisted of general insurance business in New Zealand and insurance call centre services.

The Company is a limited liability company incorporated in New Zealand. The address of its registered office is:
660 Great South Road
Ellerslie, Auckland 1051
New Zealand

2. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

These financial statements have been prepared in accordance with Generally Accepted Accounting Practice ("GAAP"). They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable Financial Reporting Standards, as appropriate for profit entities.

(i) Compliance with IFRS

The financial statements also comply with International Financial Reporting Standards ("IFRS") and IFRS Interpretations Committee ("IFRIC") interpretations.

(ii) Statutory base

Youi NZ Pty Ltd is a company registered under the New Zealand Companies Act 1993. The financial statements of the Company have been prepared in accordance with the requirements of the Companies Act 1993 and Part 7 of the Financial Markets Conduct Act 2013.

(iii) New and amended standards adopted by the Company

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2016 affected any of the amounts recognised in the current or any prior period and are not likely to affect future periods.

(iv) Early adoption of standards

The Company has not elected to apply any pronouncements before their operative date in the financial statements period beginning 1 July 2016.

(v) Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets and liabilities (including derivative instruments) at fair value, except for certain financial assets elected to be carried at fair value through profit or loss where the fair value basis of accounting has been adopted.

(vi) Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

2. Summary of significant accounting policies (continued)

(b) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in New Zealand dollars, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the income statement, within finance costs. All other foreign exchange gains and losses are presented in the income statement on a net basis within other income or other expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognised in other comprehensive income.

(c) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed are net of refunds and amounts collected on behalf of third parties.

The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Company's activities as described below.

(i) Premium revenue

Premium revenue comprises amounts charged to policyholders, including applicable levies and charges such as emergency service levies, but excluding taxes and duties collected on behalf of third parties.

Premium revenue is recognised in the income statement when it has been earned, therefore, from the date of attachment of the risk over the period of the insurance policy, which is usually one year. Over the period of the insurance policy, the premium collected is earned in accordance with the pattern of the underlying exposure to risk expected under the insurance contract, which is closely approximated by the daily pro rata method.

Any proportion of premium revenue received and receivable but not earned in the income statement by the reporting date is recognised in the balance sheet as an unearned premium liability. The unearned premium liability represents premium revenue which will be earned in subsequent reporting periods.

(ii) Reinsurance and other recoveries

Reinsurance and other recoveries receivable on claims paid, claims reported but not yet paid, claims incurred but not reported (IBNR) and claims incurred but not enough reported (IBNER) are recognised as revenue.

Recoveries are measured as the present value of the expected future receipts, calculated on the same basis as the provision for outstanding claims.

2. Summary of significant accounting policies (continued)

(c) Revenue recognition (continued)

(iii) Commission income

Reinsurance commission revenue is recognised in the income statement when the amount can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Company and the contractual conditions for the rendering of the service have been met.

(iv) Interest income

Interest income is recognised on a time proportion basis using the effective interest method.

(v) Management fee income

Management fee income is recognised in the income statement when the amount can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Company and the contractual conditions for the rendering of the service have been met.

(d) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions.

Government grants relating to costs are recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

(e) Outward reinsurance expense

Premium ceded to reinsurers is recognised as an expense in the income statement from the attachment date over the period of indemnity of the reinsurance contract in accordance with the expected pattern of the incidence of risk.

Accordingly, a portion of the outward reinsurance premium is treated as a prepayment on the balance sheet during the period of indemnity.

(f) Insurance claims expenses

Insurance claims expenses consist of claims paid together with the movement in outstanding claims liabilities. Claims are recognised in the income statement as the event giving rise to a loss occurs under the terms of the policy.

Outstanding claims liabilities are measured as the central estimate of the present value of expected future payments at the reporting date under general insurance contracts issued. Expected future payments include payments relating to claims reported but not yet paid, claims incurred but not reported (IBNR) and claims incurred but not enough reported (IBNER) together with estimated direct claims handling costs to be incurred in settling such claims.

The expected future payments are discounted to present value using a risk-free rate where appropriate.

A risk margin is applied to the central estimate to reflect the inherent uncertainty in the central estimate.

(g) Acquisition costs

Acquisition costs include advertising and other selling and underwriting costs incurred in generating insurance premium revenue. Direct acquisition costs are deferred to the extent that they relate to unearned premium revenue and represent a future economic benefit to be obtained.

Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the insurance policies to which they relate.

2. Summary of significant accounting policies (continued)

(h) Employee benefits

(i) Short-term obligations

Liabilities for salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave and accumulating sick leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

(ii) Other long-term employee benefit obligations

The liability for annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

The obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

(iii) Retirement benefit obligations

Contributions are made to KiwiSaver in accordance with each employee's choice. Contributions made to these funds are recognised as an expense as they become payable.

The Company does not provide any benefits relating to a defined benefit retirement plan.

(iv) Share-based payments

Share-based compensation benefits are provided to employees via the Youi Holdings Pty Ltd Employee Share Option Plan. Information relating to the plan is set out in note 27.

The fair value of options granted under the Youi Holdings Pty Ltd Employee Share Option plan is recognised as an employee benefit expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted, which includes any market performance conditions but excludes the impact of any service and non-market performance vesting conditions and the impact of any non-vesting conditions.

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

(i) Leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Company as lessee are classified as operating leases (note 9). Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2. Summary of significant accounting policies (continued)

(i) Leases (continued)

Leases of property, plant and equipment where the Company, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

(j) Finance costs

Finance costs are expensed as they are incurred.

(k) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for the jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(l) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

(m) Impairment of assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

2. Summary of significant accounting policies (continued)

(m) Impairment of assets (continued)

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(n) Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of less than three months that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(o) Financial assets at fair value through profit and loss

Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the statement of profit and loss and other comprehensive income. Financial assets designated at fair value through profit or loss comprise term deposits with original maturities of three months or more from the date of acquisition.

(p) Trade receivables

Trade receivables are recognised initially at fair value which is the amount due.

Collectibility of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly.

The amount of the impairment loss is recognised in profit or loss within other expenses. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

(q) Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation on assets is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

- Leasehold improvements	over the period of the lease
- Computer equipment	up to 3 years
- Furniture, fittings and equipment	up to 6 years
- Motor vehicles	up to 6 years

The assets' residual lives and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2(m)).

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in profit or loss.

2. Summary of significant accounting policies (continued)

(r) Intangible assets

Software development costs

Costs incurred in acquiring software and licences that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software. Amortisation is calculated on a straight-line basis over periods of up to 4 years.

The Company generally expenses computer software development costs in the financial period incurred. However, where computer software development costs can be clearly associated with a strategic and unique system which will result in a benefit for the Company exceeding the costs incurred for more than one financial period, the Company capitalises such costs and recognises it as an intangible asset. Such capitalised software is carried at cost less amortisation and any impairment losses. Amortisation is calculated on a straight-line basis at a rate applicable to the expected useful life of the asset, but not exceeding 4 years.

(s) Deferred acquisition costs

Direct acquisition costs are deferred to the extent that they relate to unearned premium revenue and represent a future economic benefit to be obtained.

Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the insurance policies to which they relate.

Deferred acquisition costs are recognised as an asset, limited to the amount by which the related unearned premiums exceed the present value of future expected claims plus settlement and policy maintenance costs relating to the policies in force at the reporting date, plus an appropriate risk margin. Where a shortfall exists, the deferred acquisition cost asset is written down and any remaining excess is recognised as unexpired risk liabilities in the statement of financial position.

(t) Trade and other payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(u) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability.

(v) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2. Summary of significant accounting policies (continued)

(w) Unearned premium liabilities

Any proportion of premium revenue received and receivable but not earned in profit or loss by the end of the reporting period is recognised in the statement of financial position as an unearned premium liability. The unearned premium liability represents premium revenue which will be earned in subsequent reporting periods.

(x) Unexpired risk liabilities

At the end of the reporting period, the adequacy of the unearned premium liabilities, net of reinsurance, is assessed against the present value of the expected future cash flows resulting from potential future claims relating to unexpired periods of insurance contracts in force at the end of the reporting period, plus an additional risk margin to reflect the inherent uncertainty of the central estimate (liability adequacy test). If the unearned premium liabilities, less related intangible assets and deferred acquisition costs, are deficient, then the resulting deficiency is recognised immediately in profit or loss.

The deficiency is recognised first by writing off any related intangible assets and deferred acquisition costs, thereafter any excess is recognised as unexpired risk liabilities in the statement of financial position.

(y) Outstanding claims liabilities

Outstanding claims liabilities are measured as the central estimate of the present value of expected future payments at the end of the financial period under general insurance contracts issued. Expected future payments include payments relating to claims reported but not yet paid, claims incurred but not reported (IBNR) and claims incurred but not enough reported (IBNER) together with estimated claims handling costs to be incurred in settling such claims.

The expected future payments are discounted to present value using a risk-free rate where appropriate.

A risk margin is applied to the central estimate, net of reinsurance and other recoveries, to reflect the inherent uncertainty in the central estimate.

Recoveries from third parties are assessed in a manner similar to the assessment of outstanding claims. Recoveries are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims. Reinsurance and other recoveries receivable are recognised separately as an asset.

(z) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(aa) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

(ab) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2017 reporting period and have not been early adopted by the Company. The Company's assessment of the impact of these new standards and interpretations is set out below.

2. Summary of significant accounting policies (continued)

(ab) New accounting standards and interpretations (continued)

(i) Disclosure initiative (effective 1 January 2017)

In December 2014 the IASB issued amendments to clarify guidance in *IAS 1* on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The amendments form a part of the IASB's Disclosure Initiative, which explores how financial statement disclosures can be improved. The Company does not expect that these changes will have a material impact on its financial statements.

(ii) NZ IFRS 15 Revenue from Contracts with Customers (effective for annual reporting periods beginning on or after 1 July 2018)

NZ IFRS 15 addresses recognition of revenue from contracts with customers. It replaces the current revenue recognition guidance in *NZ IAS 18 Revenue* and *NZ IAS 11 Construction Contracts* and is applicable to all entities with revenue. It sets out a five step model for revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The Company does not expect that these changes will have a material impact on its financial statements.

(iii) NZ IFRS 9 Financial Instruments (effective for annual reporting periods beginning on or after 1 January 2018)

NZ IFRS 9 replaces *NZ IAS 39 Financial Instruments: Recognition and Measurement. NZIFRS 9* simplifies the model for classifying and recognising financial instruments and aligns hedge accounting more closely with common risk management practices. Changes in own credit risk in respect of liabilities designated at fair value through profit or loss can now be presented within OCI; this change can be adopted early without adopting *NZ IFRS 9.*

There will be no impact on the Company's financial assets or liabilities as the Company currently does not have financial assets or liabilities that are impacted by the new requirements.

(iv) NZ IFRS 16 Leases (effective for annual reporting periods commencing on or after 1 January 2019)

NZ IFRS 16 was issued in February 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The standard will affect primarily the Company's operating leases. As at the reporting date, the Company has operating lease commitments of $9,945,000. However, the Company has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Company's profit and classification of cash flows. Some of the Company's lease commitments will be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under NZ IFRS 16.

(v) IFRS 17 Insurance Contracts (effective for annual reporting periods commencing on or after 1 January 2021)

IFRS 17 was issued in May 2017 and will replace *IFRS 4 Insurance Contracts.* It requires a current measurement model, where estimates are remeasured in each reporting period. The measurement is based on a building blocks approach, while an optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts. The standard allows a choice between recognising changes in discount rates either in the income statement or directly in other comprehensive income. The new rules will affect the financial statements and key performance indicatiors of all entities that issue insurance contracts and investment contracts with discretionary participation features. The Company is assessing the effect of adopting IFRS 17 on its financial statements.

3. Risk management

The Company has developed an enterprise-wide risk management framework to provide reasonable assurance that the risks faced by the business are prudently and soundly managed. The risk management framework is documented in a comprehensive Risk Management Strategy (RMS) and a Reinsurance Management Strategy (REMS) which are approved annually by the Board of directors.

Risk and governance oversight is provided by the Company's Board of directors, Board Audit Committee and Board Risk Committee, as well as by the OUTsurance Holdings Ltd Board of directors, the OUTsurance Holdings Ltd Audit, Risk and Compliance Committee and the OUTsurance Holdings Ltd Investment Committee.

3.1. Insurance risk management

The principal activity of the Company comprises the assumption of possible loss arising from risks to which the Company is exposed through the sale of short-term insurance contracts. Insurance risks to which the Company is exposed relate to personal lines motor vehicle, home buildings and contents, watercraft, liability and other defined perils that may result from a contract of insurance.

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of insurance contracts, this risk is random and therefore unpredictable.

The theory of probability forms the core basis of the insurance risk management model. Through the continuous sale of insurance products and subsequent growth in the pool of insured risks, the Company can diversify its portfolio of risks and therefore minimise the impact of variability of insurance losses affecting that portfolio. Insurance perils are unpredictable in nature, timing and extent, which expose the Company to the risk that the effect of future insured losses could exceed the expected value of such losses.

The Company manages its insurance risk through its reinsurance program, which is structured to protect the Company against significant losses on either a single insured risk or a group of insured risks, in the case of a catastrophe where there would be a concentration of insured risks.

The underwriting strategy and the reinsurance strategy, whereby excessive insurance risk is passed on to reinsurers, are both described below.

(a) Underwriting strategy

The Company aims to diversify the pool of insured perils through writing a balanced portfolio of insurance risks across a large geographical area. Insurance products are priced using statistical regression techniques which identify risk factors through correlations identified in past loss experiences. Risk factors would typically include factors such as the age of the insured person, past loss experiences, past insurance history, the type and value of the asset covered, security measures taken to protect the asset, major use of the covered asset, etc. Risks are priced and accepted on an individual basis and as such there is a minimal cross subsidy between risks. Insurance premiums charged for a certain pool of risks are adjusted frequently according to the normalised loss ratios experienced on that pool of risks.

Insurance risk is monitored within the Company on a daily basis to ensure that risks accepted by the Company for its own account are within the limits set by the Board. Exception reporting is used to identify areas of concentration risk to enable management to consider the levels adopted in the reinsurance program covering that pool of risk.

Risks are rated individually by the computer system based on data captured onto the system for each risk by the policyholder online or by the Company's staff. Conditions and exclusions are automatically set at an individual risk level. Individual risks are automatically accepted up to predetermined thresholds, which vary by risk type. Risks with larger exposure than the thresholds are automatically referred and underwritten individually by the actuarial department. These limits are set at a substantially lower level than the reinsurance retention limits. No risks which exceed the upper limits of the reinsurance program can be accepted without the necessary facultative cover being arranged.

Multi-claimants are monitored and managed by increasing the conditions of cover or ultimately cancelling cover.

3. Risk management (continued)

(b) Reinsurance strategy

The Company reinsures a portion of the risk it assumes through its reinsurance program in order to control the exposure of the Company to losses arising from insurance contracts and in order to protect the profitability and the capital of the Company. A suite of treaties is purchased in order to limit losses suffered from individual and collective insurance risks. Facultative reinsurance is purchased for certain individual risks that have been identified as being outside the limits set for these risks. The retention limits are modelled to optimise the balance between acceptable volatility and reinsurance cost. Acceptable volatility is defined by the limits set by the Board of directors.

The Company only enters into reinsurance agreements with reinsurers which have credit ratings from Standard & Poor or AM Best of at least A-.

(c) Concentration risk

Risk concentrations are monitored by means of exception reporting. When large risks are underwritten individually, the impact which they could have on risk concentrations is considered before they are accepted. Marketing efforts are also coordinated to attract business from a wide geographical spread. Risks which could lead to an accumulation of claims as a result of a single event are declined. Focus is placed on attracting large numbers of relatively small independent risks which would lead to a stable and predictable claims experience.

The Company is not currently exposed to a significant concentration of insurance risk. The Company has also entered into a catastrophe excess of loss reinsurance treaty that would limit the loss of the Company to pre-determined levels following the occurrence of a localised catastrophe in any one area.

(d) Exposure to catastrophes

Catastrophe modelling is performed to determine the impact of different types of catastrophe events (including natural disasters) in different geographical areas, at different levels of severity and at different times of the day. Catastrophe limits are set so as to render satisfactory results to these simulations. The catastrophe cover is also placed with reinsurers with a credit rating from Standard & Poor's or AM Best of at least A-. These reinsurance models are run at least twice annually to take account of changes in the portfolio and to take the latest potential loss information into account.

(e) Claims management risk

Claims management risks comprise the Company's exposure to additional or increased losses as a result of weaknesses in controls and systems surrounding the claims management process, as well as inadequate provisioning for outstanding claims liabilities.

The Company manages the risks arising from its claims management function by providing clearly defined delegations of authority and claims settlement procedures, including criteria for accepting or rejecting claims. Rejected claims are referred to the Claims Committee and any disputes are referred to the Internal Dispute Resolution Committee.

The Company's approach to determining outstanding claims liabilities and managing the uncertainties relating to this estimate is set out in note 4.

3. Risk management (continued)

3.2. Operational risk management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The Company relies on an effective control environment to manage the significant risks to its operations, comprising the following components: oversight by the Executive Committee, the Internal Risk Committee, the Board Risk Committee, the Board Audit Committee and the Board of directors; clearly defined management responsibilities and organisational structures; formally delegated limits of authority and mandates; clear policies and procedures; proper segregation of duties; strong management reporting systems; appropriate personnel requirements for key positions; physical and logical security over company assets; appropriate levels of insurance to transfer risks where appropriate; and independent review of the control environment by the Internal Audit function.

3.3. Financial risk management

The Company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Company.

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency.

The Company transacts with its parent entity and fellow subsidiary offshore and is exposed to foreign currency exchange risk arising from its intergroup currency exposures, primarily with respect to the Australian Dollar (AUD) and South African Rand (ZAR).

The exposures are not significant and are therefore not actively managed.

The Company's exposure to foreign currency risk expressed in NZD at the reporting date was as follows:

	30 June 2017		30 June 2016	
	AUD	**ZAR**	AUD	ZAR
	$'000	**$'000**	$'000	$'000
Trade and other receivables	114	8	-	-
Trade and other payables	-	37	155	52

The carrying amounts of all other financial assets and liabilities of the Company are denominated in New Zealand dollars.

The foreign exchange risk is immaterial in terms of the possible impact on profit or loss or total equity and therefore a sensitivity analysis has not been provided.

(ii) Price risk

The Company is not exposed to any significant price risk, due to the conservative investment management policy.

3. Risk management (continued)

3.3. Financial risk management (continued)

(a) Market risk (continued)

(iii) Cash flow and fair value interest rate risk

The Company's main interest rate risk arises from its investments of excess liquidity.

The Board of directors provides written guidelines for the management of the Company's investments through its Investment Management Policy and specific investment mandates. The Board is assisted in this process by the Investment Committee.

Conservative investment mandates are in place and investments have short-term maturities of up to 12 months. Hedging is not considered appropriate for such short term exposures.

At the end of the reporting period, the Company had the following investments at short-term rates:

	30 June 2017		30 June 2016	
	Weighted average interest rate %	**Balance $'000**	Weighted average interest rate %	Balance $'000
Money at call at variable interest rates	**1.31%**	**3,208**	1.42%	3,593
Term deposits at fixed interest rates	**3.70%**	**32,809**	3.57%	38,126

Company sensitivity

At 30 June 2017, if interest rates had changed by +/- 100 basis points from the year-end rates with all other variables held constant, profit after tax for the period and equity at the end of the period would have been $279,852 (2016: $326,715) higher/lower mainly as a result of higher/lower interest income from cash and cash equivalents and term deposits.

(b) Credit risk

Credit risk arises from
- cash and cash equivalents (deposits with banks and financial institutions),
- exposures to customers, including outstanding receivables and committed transactions, and
- amounts due by reinsurers relating to their share of insurance liabilities.

Risk limits on investments are set by the Board and Investment Committee. For banks and financial institutions, only independently rated parties with a minimum rating of AA (short-term rating A-1+) are accepted.

There are no significant concentrations of credit risk, whether through exposure to individual counterparties, specific industry sectors and/or regions.

Reinsurance credit exposure

Under the terms of reinsurance agreements, reinsurers agree to reimburse the ceded amount in the event that the gross claim is paid. However, the Company remains liable to its policyholders regardless of whether the reinsurer meets the obligations it has assumed. Consequently, the Company is exposed to credit risk. The Company reviews its reinsurance agreements on an annual basis and ensures the appropriate credit quality of any reinsurer prior to renewing or entering an agreement. Participants on the program are required to hold a minimum rating of A- from Standard & Poor's or AM Best. In the event of a program participant's rating falling below the minimum standard, the reinsurance committee is advised with a recommended course of action which may involve replacing the reinsurer at the earliest possible date.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets disclosed on the balance sheet on page 5. Due to the low risk nature of these exposures, no collateral is held as security.

3. Risk management (continued)

3.3. Financial risk management (continued)

Reinsurance credit exposure (continued)

The credit quality of financial assets that are neither past due nor impaired is assessed below:

	2017 $'000	2016 $'000
Cash and cash equivalents		
Counterparties with external credit rating (Standard & Poor's)		
Short-term rating A-1+	3,208	3,593
Total cash and cash equivalents	3,208	3,593
Financial assets designated at fair value through profit or loss		
Counterparties with external credit rating (Standard & Poor's)		
Short-term rating A-1+	32,809	38,126
Total cash and cash equivalents	32,809	38,126
Trade and other receivables - current		
Counterparties with external credit rating (Standard & Poor's)		
Short-term rating A-1+	447	572
Counterparties without external credit rating		
All amounts	12,926	15,529
Total trade and other receivables	13,373	16,101
Reinsurance and other recoveries		
Counterparties with external credit rating (AM Best)		
Rating A++	2,915	4,587
Counterparties without external credit rating		
All amounts	-	-
Total reinsurance and other recoveries	2,915	4,587

There are no financial assets that are past due or impaired either individually or on an aggregate basis.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Company manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Surplus funds are generally only invested in highly liquid instruments with short-term maturities.

Maturities of financial liabilities

The table below analyses the Company's financial liabilities into relevant maturity groupings based on undiscounted contractual cashflows for the remaining period at the end of the reporting period to the contractual maturity date.

Contractual maturities of financial liabilities	**Less than 1 year**	**Between 2 and 5 years**	**Total contractual cash flows**	**Carrying amount**
At 30 June 2017	**$'000**	**$'000**	**$'000**	**$'000**
Trade and other payables	8,871	-	8,871	**8,871**
Provisions	880	2,458	3,338	**3,338**
Outstanding claims liabilities	3,700	362	4,062	**4,062**
Total financial liabilities	13,451	2,820	16,271	**16,271**
At 30 June 2016				
Trade and other payables	11,937	-	11,937	**11,937**
Provisions	1,252	297	1,549	**1,549**
Outstanding claims liabilities	4,541	372	4,913	**4,913**
Total financial liabilities	17,730	669	18,399	**18,399**

3. Risk management (continued)

3.3. Financial risk management (continued)

(d) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement and for disclosure purposes. Except where disclosed otherwise, the fair value of financial assets and liabilities approximate their carrying value.

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for such financial assets held by the Company is the current bid price. These instruments are included in valuation method level 1.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques, such as discounted cash flows. If all significant inputs required to determine the fair value of an instrument are market observable, other than quoted prices included in level 1, the instrument is included in level 2.

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature.

The table below analyses financial instruments carried at fair value, by valuation method. The fair value of term deposits are determined based on observable market inputs. There were no transfers between levels during the year.

	30 June 2017				30 June 2016			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
Financial assets	**$'000**	**$'000**	**$'000**	**$'000**	$'000	$'000	$'000	$'000
Term deposits	**-**	**32,809**	**-**	**32,809**	-	38,126	-	38,126
Total financial assets	**-**	**32,809**	**-**	**32,809**	-	38,126	-	38,126

3.4. Capital management

The Company's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Reserve Bank of New Zealand (RBNZ) imposes solvency standards on the Company, as a licensed general insurer. The Company complied with these requirements during the financial period. The Company's strategy is to maintain a solvency coverage of at least 150%. For further detail regarding the Company's regulatory capital position, refer to note 26(c).

4. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Company and that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

4. Critical accounting estimates and judgements (continued)

(a) Critical accounting estimates and assumptions (continued)

(i) The ultimate liability arising from claims made under insurance contracts

Outstanding claims liabilities are measured as the central estimate of the present value of expected future payments at the reporting date under general insurance contracts issued. Expected future payments include payments relating to claims reported but not yet paid, claims incurred but not reported (IBNR) and claims incurred but not enough reported (IBNER) together with estimated direct claims handling costs to be incurred in settling such claims.

The expected future payments are discounted to present value using a risk-free rate where appropriate.

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims. The estimation of the IBNR portion is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about the claims is generally available.

Claims reported to the Company by the reporting date are estimated with regard to the particular circumstances of the claim. Estimates are updated regularly as new information arises.

Estimates of the IBNR and the IBNER portions are calculated with reference to statistical analyses of historical claims experience that assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made for changes or uncertainties inherent in the underlying statistics which may cause the cost of unsettled claims to differ from the cost of comparable previous claims.

A risk margin is applied to the central estimate of outstanding claims liabilities, IBNR and IBNER, net of reinsurance and other recoveries, to reflect the inherent uncertainty in the central estimate.

(ii) Assets arising from reinsurance contracts and other recoveries

Estimates of reinsurance and other recoveries are also calculated using the methods described above. In addition, the recoverability of these assets is assessed on a periodic basis to ensure the balance reflects the amounts that are expected to be ultimately received, taking into account such factors as counterparty credit risk.

(iii) Deferred acquisition costs

Deferred acquisition costs are recognised as an asset, limited to the amount by which the related unearned premiums exceed the present value of future expected claims plus settlement and policy maintenance costs relating to the policies in force at the reporting date, plus an appropriate risk margin. Where a shortfall exists, the deferred acquisition cost asset is written down and any remaining excess is recognised as unexpired risk liabilities in the statement of financial position.

Therefore, the recoverability of deferred acquisition costs is dependent on the estimates regarding the present value of future expected claims and settlement costs as described above.

(iv) Actuarial assumptions and methods

Valuations of the outstanding claims liabilities and related reinsurance and other recoveries receivable are performed by the Company's Appointed Actuary. These valuations are underpinned by a number of assumptions, which are described below.

The Company's business consists mostly of personal lines insurance, covering motor vehicle, home buildings and contents, watercraft, liability and other defined perils. For the risks covered, there is not a significant time delay between the occurrence of the event giving rise to a claim and the claim being settled by the Company, therefore, projected payments are not discounted as claims are expected to be settled within twelve months after the end of the reporting period.

The cost of claims reported to the Company at the end of the reporting period is estimated with regard to the particular circumstances of the claim.

4. Critical accounting estimates and judgements (continued)

(a) Critical accounting estimates and assumptions (continued)

(iv) Actuarial assumptions and methods (continued)

Estimates of the IBNR and the IBNER portions are calculated with reference to statistical analyses of historical claims experience that assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made for changes or uncertainties inherent in the underlying statistics which may cause the cost of unsettled claims to differ from the cost of comparable previous claims.

The following assumptions have been made in determining the outstanding claims liabilities:

	2017	2016
Gross loss ratio for the year	**55%**	62%
Non-reinsurance recoveries ratio - vehicle	**n/a**	n/a
Claims handling expense ratio - vehicle	**6%**	7%
Claims handling expense ratio - home	**2%**	6%
Risk margin - vehicle	**10%**	25%
Risk margin - home	**15%**	20%

A description of the processes used to determine these assumptions is provided below:

Gross loss ratio

The gross loss ratio is calculated with reference to past experience while adjusting for any expected changes in the future loss experience.

Non-reinsurance recoveries

The non-reinsurance recoveries assumption is calculated with reference to past experience.

Claims handling expense ratio

The future claims handling expense ratios are calculated with reference to past experience of claims handling costs as a percentage of claims payments.

Risk margin

The risk margin is determined allowing for the relative uncertainty of the outstanding claims estimate for each class of business. Uncertainty is analysed for each class taking into account potential uncertainties relating to the actuarial models and assumptions, the quality of the underlying data, the general insurance environment and the impact of legislative changes.

Company sensitivity

The table below summarises the sensitivity of the net outstanding claims liabilities to changes in key variables.

	Change in variable	**Profit after tax $'000**	**Equity $'000**
30 June 2017			
Gross outstanding payments	+/- 10%	-/+ 62	-/+ 62
Non-reinsurance recoveries ratio - vehicle	+/- 15%	+/- 0	+/- 0
Claims handling expense ratio	+/- 20%	-/+ 23	-/+ 23
Risk margin	+/- 20%	-/+ 18	-/+ 18
30 June 2016			
Gross outstanding payments	+/- 10%	-/+ 67	-/+ 67
Non-reinsurance recoveries ratio - vehicle	+/- 15%	+/- 0	+/- 0
Claims handling expense ratio	+/- 20%	-/+ 35	-/+ 35
Risk margin	+/- 20%	-/+ 40	-/+ 40

Appointed Actuary

Charles Pollack is the Appointed Actuary for the Company. He is a Fellow of the Institute of Actuaries of Australia. The Appointed Actuary has no relationships (other than that of actuary) and interests in the Company (or any of the related bodies corporate).

pwc

4. Critical accounting estimates and judgements (continued)

(a) Critical accounting estimates and assumptions (continued)

(v) Income taxes

The Company is subject to income taxes in New Zealand. Significant judgement is required in determining the provision for income taxes. There are certain transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company estimates its tax liabilities based on its understanding of the tax law. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

In particular, the Company has not recognised a deferred tax asset relating to carried forward tax losses on the basis that it is too early to determine with certainty the probability that future taxable amounts will be available to utilise those losses. Once the Company is satisfied that it is probable that future taxable amounts will be available to utilise the losses, a deferred tax asset will be recognised and the income tax expense reduced accordingly.

If the carried forward losses could be utilised against future taxable amounts, the Company would make the following adjustments relating to the current period's results:

- decrease the income tax expense and increase the deferred tax asset by approximately $8,575,000 (2016: $7,049,000).

(b) Critical judgements in applying the entity's accounting policies

(i) Going concern

The financial statements have been prepared on the going concern basis. While the Company has recognised losses for the year, this business is in start-up phase and there is no reason to believe that the business will not be able to recover these losses from its future operations.

5. Net premium revenue

	Notes	2017 $'000	2016 $'000
Gross written premium revenue		**27,172**	31,670
Movement in gross unearned premium liabilities	23	**2,937**	(5,116)
Movement in unexpired risk reserve	23	**1,036**	(366)
Gross earned premium revenue		**31,145**	26,188
Outward reinsurance expense		**(23,529)**	(20,956)
Net premium revenue		**7,616**	5,232

6. Investment income

	2017 $'000	2016 $'000
Interest income on cash and cash equivalents and investments	**1,283**	1,681
	1,283	1,681

7. Other operating income

	2017 $'000	2016 $'000
Policy cancellation fees	**171**	161
Management fee received from Group companies	**21,497**	21,876
Foreign currency exchange profit/(loss)	**(39)**	(9)
Net gain/(loss) on disposal of property, plant and equipment	**(46)**	20
Other	**38**	39
	21,621	22,087

8. Net insurance claims expenses

	Notes	2017 Current year $'000	2017 Prior years $'000	2017 Total $'000	2016 Current year $'000	2016 Prior years $'000	2016 Total $'000
Gross claims paid		**17,641**	**4,148**	**21,789**	14,731	1,493	16,224
Movement in outstanding claims liabilities	24	**3,855**	**(4,706)**	**(851)**	4,864	(1,686)	3,178
Gross claims incurred	24	**21,496**	**(558)**	**20,938**	19,595	(193)	19,402
Reinsurance and other recoveries	24	**(16,954)**	**(42)**	**(16,996)**	(15,114)	(56)	(15,170)
Net insurance claims expenses		**4,542**	**(600)**	**3,942**	4,481	(249)	4,232

Current year claims relate to risks borne in the current financial year. Prior year claims relate to a reassessment of the risks borne in all previous financial periods.

9. Operating expenses

	2017 $'000	2016 $'000
Profit before income tax includes the following specific expenses:		
Depreciation		
Leasehold improvements	**389**	231
Computer equipment	**357**	553
Furniture, fittings and equipment	**159**	173
	905	957
Amortisation		
Software	**35**	29
	35	29
Rental expenses relating to operating leases		
Office rental	**2,034**	2,031
	2,034	2,031
Employee benefits		
Short-term employee benefits	**22,152**	23,781
KiwiSaver expense	**478**	513
Share based payments expense	**52**	74
	22,682	24,368

10. Remuneration of auditors

During the period the following fees were paid or payable for services provided by the auditor of the Company, its related practices and non-related audit firms:

	2017 $	2016 $
Audit services	**107,980**	98,819
Non-audit services	**11,215**	14,571
	119,195	113,390

It is the Company's policy to employ the auditor or its related practices on assignments additional to their statutory audit duties where their expertise and experience with the Company are important. These assignments relate principally to tax advice.

Youi NZ Pty Ltd

Notes to the financial statements
for the year ended 30 June 2017
(continued)

11. Profit / (loss) before income tax

		2017 $'000	2016 $'000
Gross written premium revenue	5	**27,172**	31,670
Movement in gross unearned premium liabilities and unexpired risk liabilities	5	**3,973**	(5,482)
Gross earned premium revenue	5	**31,145**	26,188
Outward reinsurance expense	5	**(23,529)**	(20,956)
Net premium revenue	5	**7,616**	5,232
Insurance claims expenses	8	**(20,938)**	(19,402)
Reinsurance and other recoveries	8	**16,996**	15,170
Net insurance claims expense	8	**(3,942)**	(4,232)
Acquisition costs		**(9,114)**	(12,901)
Administration expenses		**(34,664)**	(32,409)
Finance costs		**(5)**	-
Underwriting result		**(40,109)**	(44,310)
Commission income		**10,726**	9,484
Investment income	6	**1,283**	1,681
Other operating income	7	**21,621**	22,087
Profit / (loss) before income tax		**(6,479)**	(11,058)

12. Income tax (benefit) / expense

	2017 $'000	2016 $'000
(a) Income tax (revenue) / expense		
Current tax	**-**	-
Deferred tax	**-**	-
Income tax (revenue) / expense	**-**	-
Deferred income tax (revenue) / expense included in income tax expense comprises:		
(Increase) / decrease in deferred tax assets (note 20)	**-**	-
Increase / (decrease) in deferred tax liabilities (note 25)	**-**	-
	-	-
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit/(loss) before income tax	**(6,479)**	(11,058)
Tax at the New Zealand tax rate of 28%	**(1,814)**	(3,096)
Adjustment to prior period	**2**	-
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Entertainment	**16**	17
Share based payments expense	**14**	21
Non asessable receipts	**(98)**	-
Other	**1**	98
Unrecognised deferred tax on timing differences	**352**	127
Unrecognised tax losses	**1,527**	2,833
Income tax (revenue) / expense	**-**	-

13. Cash and cash equivalents

	2017 $'000	2016 $'000
Cash at bank and in hand	**3,208**	3,593
	3,208	3,593

(a) Reconciliation to cash at the end of the year

The above figures are reconciled to cash at the end of the financial period as shown in the statement of cash flows as follows:

	2017 $'000	2016 $'000
Balance as above	**3,208**	3,593
Balance per statement of cash flows	**3,208**	3,593

(b) Interest rate risk and credit risk exposure

The Company's exposure to interest rate risk and credit risk in relation to cash and cash equivalents is discussed in note 3.3.

14. Financial Assets

	2017 $'000	2016 $'000
Fair value designated through profit and loss		
Term deposits	**32,809**	38,126
Total financial assets	**32,809**	38,126

(a) Interest rate risk and credit risk exposure

The Company's exposure to interest rate risk and credit risk in relation to term deposits is discussed in note 3.3.

(b) Classification of financial assets

Term deposits are presented as financials assets at fair value through profit or loss if they have a maturity of three months or more from the date of acquisition. Term deposits with a maturity of less than three months from the date of acquisition are presented as cash equivalents.

Term deposits of $917,000 (2016: $917,000) are pledged to the Company's bank as security against bank guarantees provided as security against the Company's lease liabilities in respect of its leased premises.

15. Trade and other receivables

	2017 $'000	2016 $'000
Premiums receivable	**12,482**	15,334
Interest receivable	**447**	572
Refundable deposits	**13**	1
Amounts due from Group companies	**122**	-
Other	**309**	194
	13,373	16,101

(a) Interest rate risk and credit risk exposure

The maximum exposures to credit risk at the end of the reporting period is the carrying amount of each class of receivables mentioned above. More information regarding the risk management policy of the Company and the interest rate and credit risk exposure in relation to trade and other receivables is provided in note 3.3.

(b) Fair value

Due to the short-term nature of the receivables, their carrying amount is assumed to approximate their fair value.

16. Reinsurance and other recoveries receivable

	2017 $'000	2016 $'000
Expected future reinsurance and other recoveries		
- on claims paid	-	1,127
- on outstanding claims	2,915	3,460
Reinsurance and other recoveries receivable	2,915	4,587
Reinsurance and other recoveries receivable - current	2,655	4,325
Reinsurance and other recoveries receivable - non-current	260	262
	2,915	4,587

17. Deferred insurance assets

	2017 $'000	2016 $'000
Deferred reinsurance expense		
Deferred reinsurance at the beginning of the year	6,973	4,983
Reinsurance premiums paid during the year	22,207	22,946
Reinsurance premiums charged to the income statement	(23,529)	(20,956)
Deferred reinsurance at the end of the year	5,651	6,973
Deferred acquisition costs		
Deferred acquisition costs at the beginning of the year	-	-
Acquisition costs deferred during the year	9,012	12,901
Amortisation charged to the income statement	(5,111)	(7,607)
Write-down of deferred acquisition costs under the liability adequacy test	(3,901)	(5,294)
Deferred acquisition costs at the end of the year	-	-

18. Property, plant and equipment

	Notes	Leasehold improvements $'000	Computer equipment $'000	Furniture, fittings and equipment $'000	Total $'000
Year ended 30 June 2016					
Opening net book amount		2,011	1,021	789	3,821
Reclassifications		-	(20)	20	-
Additions		23	27	17	67
Disposals		(22)	(1)	-	(23)
Depreciation charge	9	(231)	(553)	(173)	(957)
Closing net book amount		1,781	474	653	2,908
At 30 June 2016					
Cost or fair value		2,111	1,704	1,008	4,823
Accumulated depreciation		(330)	(1,230)	(355)	(1,915)
Net book amount		1,781	474	653	2,908
Year ended 30 June 2017					
Opening net book amount		1,781	474	653	2,908
Additions		-	11	2	13
Disposals		(58)	(45)	(102)	(205)
Depreciation charge	9	(389)	(357)	(159)	(905)
Closing net book amount		1,334	83	394	1,811
At 30 June 2017					
Cost or fair value		2,031	1,494	791	4,316
Accumulated depreciation		(697)	(1,411)	(397)	(2,505)
Net book amount		1,334	83	394	1,811

19. Intangible assets

	Notes	Software $'000	Total $'000
Year ended 30 June 2016			
Opening net book amount		80	**80**
Additions		-	**-**
Amortisation charge	9	(29)	**(29)**
Closing net book amount		51	**51**
At 30 June 2016			
Cost or fair value		114	**114**
Accumulated amortisation and impairment		(63)	**(63)**
Net book amount		51	**51**
Year ended 30 June 2017			
Opening net book amount		51	**51**
Additions		28	**28**
Amortisation charge	9	(35)	**(35)**
Closing net book amount		44	**44**
At 30 June 2017			
Cost or fair value		142	**142**
Accumulated amortisation and impairment		(98)	**(98)**
Net book amount		44	**44**

20. Deferred tax assets

	2017 $'000	2016 $'000
The balance comprises temporary differences attributable to:		
Tax losses	**8,575**	7,049
Provisions for liabilities not yet due and payable	**980**	707
Difference between accounting and tax values of assets	**155**	81
Total deferred tax assets	**9,710**	7,837
Set-off of deferred tax liabilities pursuant to set-off provisions (note 25)	**(98)**	(105)
Net deferred tax assets	**9,612**	7,732
Deferred tax asset not recognised	**(9,612)**	(7,732)
Recognised deferred tax assets	**-**	-

21. Trade and other payables

	Notes	2017 $'000	2016 $'000
Reinsurance payable		**5,521**	7,986
Indirect taxes, duties and levies payable		**1,859**	2,338
Accrued expenses		**928**	842
Other trade payables		**526**	564
Amounts due to Group companies	29	**37**	207
		8,871	11,937

22. Provisions

	2017			2016		
	Current	**Non-current**	**Total**	Current	Non-current	Total
	$'000	**$'000**	**$'000**	$'000	$'000	$'000
Employee benefits	**880**	**-**	**880**	902	-	902
Penalty	**-**	**-**	**-**	350	-	350
Lease make good	**-**	**297**	**297**	-	297	297
Provision for onerous lease contract	**-**	**2,161**	**2,161**	-	-	-
	880	**2,458**	**3,338**	1,252	297	1,549

(a) Employee benefits
The current provision for employee benefits includes accrued annual leave. The entire amount of the provision is presented as current, since the Company does not have an unconditional right to defer settlement for any of these obligations.

(b) Penalty
The NZ Commerce Commission filed charges against the Company under the Fair Trading Act. Provision had been made in the prior year for the penalty that was paid in the current financial year as a result of these charges.

(c) Lease make good
The Company is required to restore the leased premises of its head office to their original condition at the end of the respective lease terms. A provision has been recognised for the present value of the estimated expenditure required to remove any leasehold improvements. These costs have been capitalised as part of the cost of leasehold improvements and are amortised over the shorter of the term of the lease or the useful life of the assets.

(d) Provision for onerous lease contract
The Company recognised a provision for an onerous contract relating to a lease agreement for office space which is in excess of the Company's requirements.

(e) Movements in provisions
Movements in each class of provision during the financial year, other than employee benefits, are set out below:

	Employee benefits	**Onerous lease contract $'000**	**Penalty $'000**	**Lease make good $'000**	**Total $'000**
Carrying amount at the beginning of the year	902	-	350	297	**647**
Amounts charged to the income statement					**-**
- additional provisions recognised	880	2,161	-	-	**2,161**
Amounts used during the period	(902)	-	(350)	-	**(350)**
Carrying amount at the end of the year	880	2,161	-	297	**2,458**

23. Premium liabilities
(a) Unearned premium liabilities

	2017	2016
	$'000	$'000
Unearned premium liabilities at the beginning of the year	**17,710**	12,594
Premiums written during the year	**27,172**	31,670
Premiums earned during the year	**(30,109)**	(26,554)
Unearned premium liabilities at the end of the year	**14,773**	17,710

(b) Liability adequacy test
The application of the liability adequacy test in respect of the net premium liabilities identified a shortfall at 30 June 2017. The deficiency was recognised as unexpired risk liabilities in the balance sheet.

23. Premium liabilities (continued)

(c) Calculation of the deficiency

		2017 $'000	2016 $'000
Unearned premium liabilities		**14,773**	17,710
Deferred reinsurance expense		**(5,651)**	(6,973)
Net unearned premium liabilities		**9,122**	10,737
Deferred acquisition costs	17	**(3,901)**	(5,294)
Net unearned premium liabilities less related deferred acquisition costs		**5,221**	5,443
Present value of expected future cashflows arising from future claims on general insurance contracts issued		**9,413**	12,336
Present value of expected future cashflows arising from reinsurance recoveries on future claims on general insurance contracts issued		**(410)**	(998)
Central estimate of expected future cashflows arising from future claims on general insurance contracts issued		**9,003**	11,338
Risk margin of 4.8% (2016: 6.5%) of net claims cost		**430**	746
Total calculated liability		**9,433**	12,084
Gross deficiency		**4,212**	6,641
Write-down of deferred acquisition costs under the liability adequacy test	17	**(3,901)**	(5,294)
Deficiency recognised as unexpired risk liabilities		**311**	1,347

(d) Unexpired risk liabilities

	2017 $'000	2016 $'000
Unexpired risk liabilities at the beginning of the year	**1,347**	981
Recognition of additional/(write back of excess) unexpired risk liability for the year	**(1,036)**	366
Unexpired risk liabilities at the end of the year	**311**	1,347

(e) Risk margin

A risk margin is applied to the central estimate of claims costs, net of reinsurance and other recoveries, to reflect the inherent uncertainty in the central estimate. The risk margin was calculated to achieve a probability of adequacy of 75%. The risk margin is not applied to contractually agreed ceded reinsurance premiums (such as quota share premium).

The risk margins applied are as follows:

	2017	2016
Vehicle	**15%**	20%
Home	**20%**	20%
Watercraft	**15%**	20%

24. Outstanding claims liabilities

	2017 $'000	2016 $'000
Gross outstanding claims	**3,467**	3,737
Claims handling costs	**158**	242
Central estimate	**3,625**	3,979
Risk margin	**437**	934
Gross outstanding claims liabilities	**4,062**	4,913

24. Outstanding claims liabilities (continued)

(a) Risk margin

A risk margin is applied to the central estimate, net of reinsurance and other recoveries, to reflect the inherent uncertainty in the central estimate. The risk margin was calculated to achieve a probability of adequacy of 75%.

The risk margins applied are as follows:

	2017	2016
Vehicle	**10%**	25%
Home	**15%**	20%
Watercraft	**10%**	20%

(b) Movements in outstanding claims liabilities

	Gross $'000	**Reinsurance & other recoveries $'000**	**Net $'000**
Year ended 30 June 2016			
Outstanding claims liabilities at the beginning of the year	1,735	1,227	**508**
Claims incurred during the year - current year	19,595	15,114	**4,481**
Claims incurred during the year - change in previous year's estimate	(193)	56	**(249)**
Claims paid during the year	(16,224)	(12,937)	**(3,287)**
Outstanding claims liabilities at the end of the year	**4,913**	**3,460**	**1,453**
Year ended 30 June 2017			
Outstanding claims liabilities at the beginning of the year	4,913	3,460	**1,453**
Claims incurred during the year - current year	21,496	16,954	**4,542**
Claims incurred during the year - change in previous year's estimate	(558)	42	**(600)**
Claims paid during the year	(21,789)	(17,541)	**(4,248)**
Outstanding claims liabilities at the end of the year	**4,062**	**2,915**	**1,147**

(c) Claims development

Due to the inherently short-tail business underwritten by the Company, the amount paid on claims older than one year is an insignificant portion of total claims paid during a particular year. Claims development tables are therefore not presented.

25. Deferred tax liabilities

	2017 $'000	2016 $'000
The balance comprises temporary differences attributable to:		
Deferred expenditure immediately deductible	**78**	53
Difference between accounting and tax values of assets	**20**	52
Total deferred tax liabilities	**98**	105
Set-off of deferred tax assets pursuant to set-off provisions (note 20)	**(98)**	(105)
Net deferred tax liabilities	**-**	-

26. Contributed equity

(a) Total contributed equity

	2017 Shares	**2017 $'000**	2016 Shares	2016 $'000
Ordinary shares (no par value)				
Issued and fully paid	**630,000,000**	**63,000**	630,000,000	63,000
Total ordinary share capital	**630,000,000**	**63,000**	630,000,000	63,000
Contribution by parent for employee share option costs		**170**		134
Total contributed equity		**63,170**		63,134

26. Contributed equity (continued)
(i) Movements in ordinary share capital

Date	Details	Number of shares	Issue price	Total paid $'000
30 June 2015	Opening balance	630,000,000	0.10	63,000
30 June 2016	Closing balance	630,000,000	0.10	63,000
30 June 2017	Closing balance	630,000,000	0.10	63,000

(ii) Ordinary shares
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. On a show of hands every holder of ordinary shares at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(b) Employee share option plan
Information relating to the Youi Holdings Pty Ltd Employee Share Option Plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the reporting period, is set out in note 27.

(c) Capital management
The Company's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Reserve Bank of New Zealand (RBNZ) imposes solvency standards on the Company, as a licensed general insurer. The Company complied with these requirements during the financial period. The Company's strategy is to maintain a solvency coverage of at least 150%.

	Notes	2017 $'000	2016 $'000
Capital			
Qualifying ordinary shares	26	**63,170**	63,134
Retained earnings / accumulated losses at the end of the reporting period		**(34,714)**	(28,251)
Less Deductions from capital		**(44)**	(51)
Actual solvency capital		**28,412**	34,832
Minimum solvency capital		**4,554**	5,539
Solvency margin		**23,858**	29,293
Solvency ratio		**624%**	629%

27. Share based payments

Employee share option plan

The Youi Holdings Pty Ltd employee share option plan was established and approved by the Board of directors on 27 May 2008. The plan provides a facility to employees of the Group to acquire shares in Youi Holdings Pty Ltd. The primary purpose of the plan is to appropriately attract, incentivise and retain senior managers within the group.

In terms of the plan rules, options may be issued over existing issued share capital or over new shares to be issued upon exercise of the options. Shares held by employees as a result of the exercise of share options under the plan are limited to 20% of the total issued share capital of Youi Holdings Pty Ltd.

The exercise price of options is based on the market value of ordinary shares in Youi Holdings Pty Ltd on the date of issue of the options, as determined by the Board of directors and subject to review by an independent valuer.

Options granted under the plan carry no dividend or voting rights.

Valuation methodology

The fair value of options is determined at grant date and expensed over the vesting period of the options. The fair value of options at grant date is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

A share based payment expense is only recognised if the market value of the underlying shares is expected to rise above the strike price over the vesting period of the options.

Further disclosure regarding share options issued is not included as the amounts are not material to the financial statements.

28. Key management personnel

(a) Directors

The following persons were directors of Youi NZ Pty Ltd during the financial period:

(i) Chairman - non-executive

CE Corfe

(ii) Executive directors

PA Broome

DH Matthee

(iii) Non-executive directors

JC Charlston

MG Goldfinch

JF Hughes

WT Roos

28. Key management personnel (continued)

(b) Other key management personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, during the financial period:

Name	*Position*	*Employer*
H Aron	Group Chief Executive Officer	Youi Pty Ltd
BA Bakker	Chief Operating Officer	Youi Pty Ltd
H Combrinck	Chief Financial Officer	Youi Pty Ltd
KL Frank	Group Chief Strategic Officer	Youi Pty Ltd
DW Inman	Head of Information Technology	Youi Pty Ltd
CJ Overs	Head of Compliance	Youi Pty Ltd
IA Pierce	Head of Human Capital	Youi Pty Ltd
CM Pollack	Chief Actuary	Youi Pty Ltd
H Schreuder	Group Head of Marketing	Youi Pty Ltd
FX Costigan	Deputy Chief Executive Officer	Youi Pty Ltd
SW North	Chief Risk Officer	Youi Pty Ltd
MC Visser	Group Head of Actuarial	OUTsurance Insurance Company Ltd

(c) Key management personnel compensation

	2017	2016
	$	$
Short-term employee benefits	**510,300**	368,310
Post-employment benefits	**-**	-
Share based payments	**7,102**	12,363
	517,402	380,673

(d) Loans to key management personnel

There were no loans to/from key management personnel.

(e) Other transactions with key management personnel

Key management personnel may hold insurance policies with the Company at normal commercial terms. The results of these transactions during the period were as follows:

	2017	2016
	$	$
Insurance premiums received	**1,840**	3,106
Insurance claims paid	**-**	240

29. Related party transactions

(a) Parent entities

The holding company of Youi NZ Pty Ltd is Youi Holdings Pty Ltd, a company incorporated in Australia. Youi Holdings Pty Ltd owns 100% of the issued ordinary shares of Youi NZ Pty Ltd. The ultimate holding company of the group is RMI Holdings Ltd, incorporated in South Africa.

(b) Key management personnel

Disclosure relating to key management personnel is set out in note 28.

29. Related party transactions (continued)

(c) Transactions with related parties

The following transactions occurred with related parties:

	2017 $	2016 $
Sales of goods and services		
Management fee received from group companies	**21,496,528**	21,876,058
Purchase of goods and services		
Management fee paid to group companies	**7,839,774**	7,785,872
KiwiSaver employer contributions		
Employer contributions to KiwiSaver	**477,510**	512,652

(d) Outstanding balances arising from transactions with related parties

	2017 $	2016 $
Payables to group companies		
Balance at the beginning of the year	**207,152**	237,943
Amounts advanced	**8,203,682**	8,749,779
Amounts repaid	**(8,374,248)**	(8,780,570)
Balance at the end of the year	**36,586**	207,152
Receivables from group companies		
Balance at the beginning of the year	**-**	14,085
Amounts advanced	**21,680,594**	21,917,593
Amounts repaid	**(21,558,516)**	(21,931,678)
Balance at the end of the year	**122,078**	-

(e) Terms and conditions

The amount due to group companies is unsecured and non-interest bearing and is repayable on demand.

30. Commitments

(a) Lease commitments

(i) Non-cancellable operating leases

The Company leases its office building under a non-cancellable operating lease expiring within a maximum of eight years. The lease is not renewable.

	2017 $'000	2016 $'000
Commitments for minimum lease payments:		
within one year	**1,402**	1,735
later than one year but not later than five years	**5,995**	7,419
later than five years but not later than ten years	**2,548**	5,219
Total	**9,945**	14,373

31. Contingencies

The Company had no known contingent assets or liabilities at 30 June 2017.

32. Events after the balance sheet date

No matter or circumstance has arisen since 30 June 2017 that has significantly affected, or may significantly affect the Company's operations, the results of those operations, or the Company's state of affairs in future financial years.

Youi NZ Pty Ltd
Notes to the financial statements for the year ended 30 June 2017
(continued)

33. Cash (utilised in) / generated from operations

	2017	2016
	$'000	$'000
Profit/(loss) before income tax	**(6,479)**	(11,058)
Investment income	**(1,283)**	(1,681)
Depreciation and amortisation	**940**	986
Net loss/(gain) on disposal of property, plant and equipment	**46**	(20)
Share based payments expense	**52**	74
Change in operating assets and liabilities		
Decrease/(increase) in trade and other receivables	**2,603**	(4,231)
Decrease/(increase) in deferred reinsurance expense	**1,322**	(1,990)
Decrease/(increase) in reinsurance and other recoveries	**1,672**	(2,977)
(Decrease)/increase in trade and other payables	**(3,066)**	3,161
(Decrease)/increase in provisions - current liabilities	**(372)**	105
(Decrease)/increase in unearned premium liabilities	**(2,937)**	5,116
(Decrease)/increase in unexpired risk reserve	**(1,036)**	366
(Decrease)/increase in outstanding claims liabilities	**(851)**	3,178
Increase in provisions - non-current liabilities	**2,161**	22
Cash (utilised in) / generated from operations	**(7,228)**	(8,949)

Youi NZ Pty Limited

Section 78 Appointed Actuary's Report

As at 30 June 2017

This report has been prepared in accordance with section 78 of the Insurance Prudential Supervision Act 2010 ("Act") and details the review of the actuarial information, as defined in section 77(4), used in the preparation of the Youi NZ Pty Limited ("Youi") 30 June 2017 financial statements as required under section 77 of the Act ("review"). It states the following:

a) The review was carried out by Charles Pollack, Youi's Appointed Actuary.
b) The Appointed Actuary reviewed the actuarial information and financial statements.
c) The review covers actuarial information in, or used in the preparation of, financial statements. There was no limitation to the review of actuarial information carried out by the Appointed Actuary.
d) The relationships (other than that of actuary) and interests that the actuary has in Youi (or any of the related bodies corporate) are as follows:
    i. None
e) All the information and explanations required by the Appointed Actuary were provided.
f) In the opinion of the Appointed Actuary and from an actuarial perspective:
    i. the actuarial information contained in the financial statements has been appropriately included in those statements; and
    ii. the actuarial information used in the preparation of the financial statements has been used appropriately.
g) In the opinion of the Appointed Actuary, Youi is maintaining the solvency margin that applies under a condition imposed under section 21 (2) (b) of the Act at 30 June 2017.
h) Youi does not underwrite any life insurance products. As such, no opinion under section 78(h) of the Act is required.

This report is not required to be prepared in accordance with professional standard 9.2: Communication of Professional Advice of the New Zealand Society of Actuaries. All matters that are required under that standard are contained within the 30 June 2017 Insurance Liabilities Valuation Report and 30 June 2017 Financial Condition Report.

Signed Charles Pollack

Charles Pollack
Appointed Actuary
Youi NZ Pty Limited
Fellow of the Institute of Actuaries of Australia

Date 24/8/2017