

# **First Insurance Limited**

Financial Statements

For the period ended 30 June 2018

# First Insurance Limited

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# First Insurance Limited

## Company Directory

## Financial Statements

For the period ended 30 June 2018

### **Board of Directors**

Malcolm Blair (Chair)  
Judith Taane (Deputy Chair)  
Peter Iles  
Steve Nichols  
Mark Joblin  
Simon Scott

### **General Manager**

Simon Scott

### **Insurance Manager**

Michael Cathro

### **Actuary**

Peter Davies BBUS, SC, FIA, FNZSA

### **Solicitor**

Anthony Harper

### **Banker**

Westpac Banking Corporation

### **Auditor**

BDO Wellington Audit Limited

### **Registered office**

111 Collingwood Street, Hamilton

### **Incorporation Number**

6331471

# First Insurance Limited

## Basis of preparation of the Financial Statements For the period ended 30 June 2018

### Reporting entity

First Insurance Limited (the "Insurer") provides loan protection insurance to policyholders who are members of First Credit Union. The Insurer is a wholly owned subsidiary of First Credit Union.

The Insurer is domiciled and registered in New Zealand. The registered office and principal place of business is 111 Collingwood Street, Hamilton.

The Insurer is a licenced insurer under the Insurance (Prudential Supervision) Act 2010. It is deemed to be a financial markets conduct reporting entity under Part 7 of the Financial Markets Conduct Act 2013 ("FMC Act") and therefore a tier 1 reporting entity for financial reporting purposes. On 11 May 2018, the Insurer was licensed by the Reserve Bank of New Zealand (RBNZ).

### Nature of the business

The principal activity of the Insurer is to provide and underwrite loan protection insurance to members of First Credit Union. The business of the Insurer is managed by its parent First Credit Union under management and agency agreements.

### Basis of preparation

For the purposes of complying with generally accepted accounting practice in New Zealand ("NZ GAAP"), the Insurer is a not-for-profit public benefit entity.

The financial statements are:

- prepared in accordance with the statutory requirements of the FMC Act and the IPS Act
- prepared in accordance with NZ GAAP.
- in compliance with Public Benefit Entity Accounting Standards (PBE Standards)
- presented in New Zealand dollars (\$) rounded to the nearest dollar, which is the Insurer's functional and presentation currency.
- stated net of GST, with the exception of receivables and payables, which include GST invoiced.
- prepared on a historical cost basis except insurance contract liabilities, which are measured on an assumed loss ratio basis as described in note 10.

### Significant accounting judgements, estimates and assumptions

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised.

Information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes:

- Note 10 Insurance contract liabilities

### Comparatives

The Insurer commenced underwriting activities on 01 June 2018. Underwriting income in these financial statements is for one month. As this is the first year of operations, there are no comparatives.

The financial statements were approved by the Board of Directors on 12 October 2018

# First Insurance Limited

## Statement of Comprehensive Income For the period ended 30 June 2018

|  | Note | 2018          |
|--|------|---------------|
| Premium revenue                                  | 1    | 138,826       |
| Claims expense                                   | 2    | (59,142)      |
| <b>Underwriting surplus</b>                      |      | <b>79,684</b> |
| Investment income                                | 3    | 111,557       |
| Operating expenses                               | 4    | (111,816)     |
| <b>Net operating surplus before tax</b>          |      | <b>79,425</b> |
| Income tax                                       | 5    | (22,239)      |
| <b>Surplus for the year after tax</b>            |      | <b>57,186</b> |
| Other comprehensive income                       |      | 0             |
| <b>Total comprehensive income for the period</b> |      | <b>57,186</b> |

## First Insurance Limited

### Statement of Changes in Equity For the period ended 30 June 2018

|  | Note | Share capital    | Retained earnings | Total equity     |
|--|------|------------------|-------------------|------------------|
| <b>Opening balance</b>                   |      | <b>0</b>         | <b>0</b>          | <b>0</b>         |
| Total comprehensive income               |      | 0                | 57,186            | 57,186           |
| Share capital introduced during the year | 11   | 4,000,000        | 0                 | 4,000,000        |
| <b>Total equity</b>                      |      | <b>4,000,000</b> | <b>57,186</b>     | <b>4,057,186</b> |

# First Insurance Limited

## Statement of Financial Position As at 30 June 2018

|                                  | Note | 2018             |
|----------------------------------|------|------------------|
| <b>Assets</b>                    |      |                  |
| Cash and cash equivalents        | 6    | 287,943          |
| Premium and other receivables    | 7    | 176,870          |
| Prepayments                      |      | 29,167           |
| Investments                      | 8    | 3,700,000        |
| <b>Total assets</b>              |      | <b>4,193,980</b> |
| <b>Liabilities</b>               |      |                  |
| Trade and other payables         | 9    | 85,137           |
| Provision for outstanding claims | 10   | 51,657           |
| <b>Total liabilities</b>         |      | <b>136,794</b>   |
| <b>Net assets</b>                |      | <b>4,057,186</b> |
| Represented by                   |      |                  |
| Retained earnings                |      | 57,186           |
| Share capital                    | 11   | 4,000,000        |
| <b>Total equity</b>              |      | <b>4,057,186</b> |



**Malcolm Blair Chair**  
12-Oct-18



**Peter Iles Director**  
12-Oct-18

# First Insurance Limited

## Statement of Cash Flows For the period ended 30 June 2018

|   | Note | 2018               |
|---|------|--------------------|
| <b>Cash flows from operating activities</b>                 |      |                    |
| Cash receipts from customers                                |      | 23,838             |
| Cash paid as claims   |      | (7,485)            |
| Cash paid to suppliers                                      |      | (55,846)           |
| Interest received   |      | 60,685             |
| Taxation paid   |      | (33,249)           |
| <b>Net cash flows used in operating activities</b>          |      | <b>(12,057)</b>    |
| <b>Cash flows used in investing activities</b>              |      |                    |
| Acquisitions of investments                                 |      | (3,700,000)        |
| <b>Net cash flows used in investing activities</b>          |      | <b>(3,700,000)</b> |
| <b>Cash flows from financing activities</b>                 |      |                    |
| Issuance of share capital                                   |      | 4,000,000          |
| <b>Net cash flows from financing activities</b>             |      | <b>4,000,000</b>   |
| <b>Net increase/(decrease) in cash and cash equivalents</b> |      | <b>287,943</b>     |
| Opening cash and cash equivalents                           |      | 0                  |
| <b>Closing cash and cash equivalents</b>                    | 6    | <b>287,943</b>     |

### Reconciliation of surplus /(deficit) with net cash flows from operating activities

|   |                 |
|---|-----------------|
| (Deficit)/surplus after taxation  | 57,186          |
| Adjustments for non-cash items included in (deficit)/surplus after taxation | 51,657          |
| <b>Changes in assets and liabilities:</b>                                   |                 |
| Premium and other receivables   | (176,870)       |
| Prepayments   | (29,167)        |
| Trade and other payables  | 85,137          |
| <b>Net cash flow (to)/from operating activities</b>                         | <b>(12,057)</b> |

# First Insurance Limited

## Notes to the financial statements

### 1 Premium income

Gross earned premiums from insurance contracts are recognised evenly over the period of cover for the contract.

Revenue is recognised on the date from which the policy is effective. Premiums are received monthly in arrears hence there is no unearned premium liability. Refer to Note 10 for further information on unearned premium liability.

|  | 2018           |
|--|----------------|
| Life premium revenue                     | 36,044         |
| Non - life premium revenue               | 102,782        |
| <b>Total premium income for the year</b> | <b>138,826</b> |

### 2 Claims expense

The claims expense represents payments made on claims and the movements in the provision for outstanding claims.

| Claims expense                                |         | 2018          |
|---|---------|---------------|
| Insurance claims paid                         |         | 7,485         |
| Movement in provisions for outstanding claims | Note 10 | 51,657        |
| <b>Total claims expense for the year</b>      |         | <b>59,142</b> |

Refer to Note 10 for further information on the provision for outstanding claims.

### 3 Investment income

Investment income is all from interest and is recognised in the surplus or deficit, as it accrues using the effective interest rate method.

|  | 2018           |
|--|----------------|
| Interest on call accounts and term investments | 111,557        |
| <b>Total investment income for the year</b>    | <b>111,557</b> |

### 4 Operating expenses

|  |         | 2018           |
|--|---------|----------------|
| External audit of financial statements - BDO |         | 15,000         |
| Directors' fees                              |         | 3,623          |
| Policy acquisition                           | Note 13 | 30,963         |
| Other operating costs                        | Note 13 | 62,230         |
| <b>Total operating expenses for the year</b> |         | <b>111,816</b> |

### 5 Taxation

The income tax expense charged against the surplus for the year is the estimated liability in respect of that surplus. It is calculated using tax rates and tax laws that have been enacted by the reporting date. Current tax for the current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred income tax is provided on any temporary differences at the balance date between the tax bases of assets and liabilities, and their carrying amounts for financial reporting purposes. At this stage there are no temporary differences and consequently no deferred tax has been recognised.

# First Insurance Limited

## Notes to the financial statements

### 5 Taxation (continued)

|   | 2018     |
|---|----------|
| <b>Income tax recognised in statement of comprehensive income</b> |          |
| Net operating surplus before taxation                             | 79,425   |
| Income tax expense at current rate of 28%                         | (22,239) |
| <b>Current tax receivable</b>                                     |          |
| Taxation expense  | (22,239) |
| Resident withholding tax paid                                     | 33,249   |
| Taxation refund   | 11,010   |

### 6 Cash and cash equivalents

Cash and cash equivalents comprise call deposits that are subject to an insignificant risk of changes in their fair value and are used by the Insurer in the management of its short-term commitments.

Under PBE Standards definition of financial assets, cash and cash equivalents are classified as loans and receivables.

|  | 2018           |
|--|----------------|
| Bank balance – on call                 | 287,943        |
| <b>Total cash and cash equivalents</b> | <b>287,943</b> |

### 7 Premiums and other receivables

Premium receivables are financial assets initially stated at fair value plus transaction costs and thereafter at amortised cost using the effective interest method less any impairment losses. Impairment losses for uncollectable premiums are written off against premium revenue in the year in which they are incurred.

Under PBE Standards definition of financial assets, premiums receivables are classified as loans and receivables.

|  |         | 2018           |
|--|---------|----------------|
| Premium receivable (First Credit Union)    | Note 13 | 114,987        |
| Allowance for impairment                   |         | 0              |
| <b>Net premium receivables</b>             |         | <b>114,987</b> |
| Tax receivable                             |         | 11,010         |
| Accrued interest                           |         | 50,873         |
| <b>Total other receivables</b>             |         | <b>61,883</b>  |
| <b>Total premium and other receivables</b> |         | <b>176,870</b> |

The fair value of premium receivable and accrued interest approximates the carrying amount. Receivables are a current asset. Policyholders billing and collection of monthly premiums is managed via First Credit Union's banking system. All collected premiums are deposited in First Credit Union holding accounts, and subsequently paid to the Insurer. As such there are no receivables directly from the Policyholders themselves, only a receivable from First Credit Union. If a policyholder is in arrears, the cover is suspended, and if they are in arrears for more than 90 days, their policy lapses.

# First Insurance Limited

## Notes to the financial statements

### 8 Investments

The Insurer invests its reserves in term deposits with New Zealand banks and financial institutions with an A or better credit rating and these are classified as loans and receivables.

Term deposits with a term at inception of greater than three months are classified as investments. Investments are initially recognised at fair value plus directly attributable transaction costs and thereafter carried at amortised cost less provision for impairment.

|                          | 2018             |
|--------------------------|------------------|
| Term deposits            | 3,700,000        |
| <b>Total investments</b> | <b>3,700,000</b> |

All term deposits are held with Westpac Bank, mature within the next twelve months, and are current assets. Refer to note 13 for further information on the credit risk associated with investments.

### 9 Trade and other payables

Trade and related party payables are categorised as financial liabilities at amortised cost. Trade and related party payables are recognised initially at fair value plus any directly attributable transaction costs. Subsequently, trade and related party payables are measured at amortised cost, using the effective interest rate method. All liabilities are paid on or before the due date.

|   | 2018          |
|---|---------------|
| Trade payables                                | 22,250        |
| Related party payables                        | 60,542        |
| <b>Total trade and related party payables</b> | <b>82,792</b> |
| GST payable                                   | 2,345         |
| <b>Total trade and other payables</b>         | <b>85,137</b> |

### 10 Insurance contract liabilities

Insurance contracts are defined as those containing significant insurance risk at the inception of the contract.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during the period.

The Insurer has determined that all loan protection insurance policies provided to members are insurance contracts.

#### Provision for outstanding claims

Provision for outstanding claims has been determined on the basis of an assumed loss ratio.

#### Key assumptions

- Future patterns of claims development will be similar to historical patterns depending on the type of policy, type of claim and development month.
- Historical patterns have been maintained by the policy owner and are equivalent to the pricing assumption of 50% of net premiums. Refer to Note 16 for further details on the policy owner.
- Processing of claims will continue to be consistent at the Insurer.

Provision for outstanding claims are assessed against the central estimate of the present value of expected future payments for claims incurred but not settled at 30 June 2018, whether reported or not. The liability recognised represents the greater of the present value of the expected future payments or the outstanding claims determined on the basis of the assumed loss ratio.

Claims are predominantly short-term in nature and are generally settled within 12 months of being incurred. Accordingly, amounts are not discounted.

# First Insurance Limited

## Notes to the financial statements

### 10 Insurance contract liabilities (continued)

The liability for outstanding claim is disclosed below:

|   | 2018          |
|---|---------------|
| Provision for outstanding claims                    | 51,657        |
| <b>Total insurance contract liabilities</b>         | <b>51,657</b> |
| Central estimate                                    | 51,657        |
| Opening claims provision                            | 0             |
| Amounts utilised during the period                  | 0             |
| Additional provision/(reversal of unused provision) | 0             |
| Amounts provided during the year                    | Note 2 51,657 |
| <b>Total insurance contract liabilities</b>         | <b>51,657</b> |

The above provisions have been included in the total of claims expense in the statement of comprehensive income.

#### Provision for claims

An actuarial report has been obtained to assess the provision for claims incurred but not paid (which includes claims not yet notified) at period end:

- The effective date of the assessment in the actuarial report was 30 June 2018.
- The name and qualification of the actuary is Peter Davies of Davies Financial and Actuarial Limited, Fellow of the New Zealand Society of Actuaries.
- Policy Liabilities and the amount of the outstanding claims liability were determined in accordance with Professional Standard no. 20 ("PS 20") of the New Zealand Society of Actuaries.
- The actuary is satisfied as to the nature, sufficiency and accuracy of the data used to determine the outstanding claims liability.
- The actuarial report contained no qualifications.

#### Unearned premium liability

Unearned premium liabilities are determined using the Accumulation Method set out in PS 20 in accordance with PBE IFRS 4. In the Actuary's opinion, this method will lead to the even emergence of profit over the life of the Insurer's insurance contracts, in proportion to the services rendered. The unearned premium liabilities equal the unearned premium, which at balance date is zero, as premiums are received monthly in arrears.

#### Unexpired risk provision and liability adequacy test

A liability adequacy test is performed to assess whether there is any deficiency in the unearned premium liability arising from expected claims and administration costs during the period covered by the unearned premium.

The test is performed on all the policies as a whole, as risks are broadly similar and are managed together as a single portfolio. The central estimate of claims and administration expenses is calculated. The total is compared with the unearned premium liability. Any deficiency is recognised as an expense in the statement of comprehensive income.

Although the unearned premium at balance date is zero, with premiums being received monthly in arrears, a liability adequacy test is still performed to determine whether any unearned premium liability would be adequate to cover the present value of the expected future cash flows arising from rights and obligations under current insurance contracts, plus an additional risk margin to reflect the inherent uncertainty in the central estimate. The future cash flows are future claims, associated claims-handling costs and other administration costs relating to the business.

If the present value of the expected future cash flows plus the additional risk margin to reflect the inherent uncertainty in the central estimate were to exceed the unearned premium liability the unearned premium liability would be deemed to be deficient.

An unexpired risk liability is calculated as the projected premium deficiency for current in-force business, expressed as a percentage of any unearned premium. There is no unexpired risk liability for the year ended 30 June 2018, nor would such a liability be required if there were an unearned premium liability at balance date.

The calculation of the risk margin has been based on an analysis of the volatility of historical claims experience. A risk margin of 20% of the present value of expected future claims has been applied at 30 June 2018. The risk margin was determined with the objective of achieving at least 75% probability of sufficiency of the unexpired risk liability.

# First Insurance Limited

## Notes to the financial statements

### 10 Insurance contract liabilities (continued)

#### Unexpired risk provision and liability adequacy test (continued)

Key assumptions:

- A loss ratio for any deferred revenue period of 38.5%.
  - An expense allowance of 25% of future claims.
  - A commission component of 23% of any unearned premium.
- Expected future payments are not discounted due to the short-tail nature of the liabilities.

### 11 Capital and solvency requirement

The Insurer is a wholly owned subsidiary of First Credit Union. The Insurer has four shares that were issued during the year to three Directors who hold them on trust on behalf of the Parent. Each share has a \$1,000,000 par value. The Insurer's solvency capital of \$4,057,186 is equal to the net assets as disclosed in the financial statements minus deductions from net assets as determined by the Reserve Bank of New Zealand solvency standard (zero at 30 June 2018). During the year, the parent contributed \$4,000,000 to the insurer in order to meet the solvency requirements.

As a consequence of being a fully licenced insurer, the Solvency Standard for Non-life Insurance Business issued by the Reserve Bank requires the Insurer to retain a solvency margin of greater than zero, meaning that the actual solvency capital position exceeds the minimum required under the solvency standard.

The Insurer's financial strength rating issued by Fitch is BB+ with a Stable Outlook.

|                          | 2018      |
|--------------------------|-----------|
| Actual solvency capital  | 4,057,186 |
| Minimum solvency capital | 3,000,000 |
| Solvency margin          | 1,057,186 |
| Solvency ratio           | 135%      |

During the year ended 30 June 2018, the Insurer complied with the RBNZ imposed capital requirements.

The Directors' policy for managing capital is to have a strong capital base to establish security for policyholders and members of First Credit Union and enable the Insurer to conduct its business whilst maintaining financial soundness. The Insurer has embedded in its risk management plan the necessary tests to ensure continuous and full compliance with the solvency standard. The policy in respect of solvency capital is regularly reviewed by the Directors in line with the guidelines issued by the Reserve Bank.

The First Insurance risk management plan targets a buffer above the RBNZ minimum requirement, equal to 100% of one year's expected claims. The target at 30 June 2018 was \$3,641,376, relative to an actual solvency capital of \$4,057,186.

# First Insurance Limited

## Notes to the financial statements

### 12 Risk management

The insurer is exposed to a number of risks in the normal course of business, specifically insurance risk, credit risk, liquidity risk and interest rate risk. The Board recognise the importance of having effective risk management and have put in place a comprehensive risk management programme.

#### Insurance risk

The Insurer is exposed to insurance risk through its insurance activities. The key risk is that of claims costs varying significantly from what was assumed in the setting of premium rates and putting pressure on the solvency and liquidity of the insurer.

The Insurer has adopted a risk management strategy that is set by the Board and managed operationally by First Credit Union staff, which provides a holistic view of risk exposure across all levels of the business. Such a strategy will allow the Insurer to run a sustainable and progressive business with a strong future.

The Insurer's objectives regarding the management of risks arising from all insurance contracts is to ensure:

- there is a sufficient financial buffer, in excess of that set by the Reserve Bank, to absorb any claims volatility
- strong underwriting that aligns with industry standards
- a pricing strategy that covers the underlying risk of insurance products
- strong operations through robust claims and member processes.

The Insurer further mitigates the risks arising from insurance contracts by structuring its investment portfolio and financial policies to allow for sufficient cash flow during periods of volatility.

Sensitivity risk represents impact of variables on the Insurer's key metrics. The financial results of the Insurer are primarily affected by the level of claims incurred relative to that implicit in the premiums. The assumptions used in the valuation of the outstanding claims provision directly affect the level of estimated claims incurred. The key assumptions used are detailed in note 10. The sensitivity of the outstanding claims provision to changes in the claims settlement pattern is:

|  | 2018   |
|--|--------|
| Base assumptions                                       | 51,657 |
| Claims provision with an assumed loss ratio 10% higher | 57,589 |
| Claims provision with an assumed loss ratio 10% lower  | 45,726 |

The Insurer's insurance risk is concentrated to within the loan protection insurance sector.

The Board defines concentration of risk by type of insurance business and geographic region. The insurer underwrites insurance business in New Zealand and predominantly in the North Island. Therefore, the concentration of risk by type of insurance and geographic region cannot be avoided. There is no significant exposure to individual large claims.

#### Credit risk

Credit risk is the potential risk of loss arising from the failure of a debtor or counterparty to meet their contractual obligations. In the normal course of its business the insurer incurs credit risk from investment in financial assets.

The insurer maintains policies which are used to manage the exposure to credit risk. Limits on counter-party exposures have been set and are monitored on an ongoing basis. In addition, the RBNZ has issued concentration risk limits, as part of its solvency standards. The credit quality of counter-parties is assessed based on published credit ratings issued by Standard & Poor's or equivalent ratings agencies. There are no concentrations of credit risk at 30 June 2018 in excess of policy.

The credit quality of investment counterparties is as follows:

|            | 2018      |
|------------|-----------|
| AA - rated | 3,700,000 |
|            | 3,700,000 |

# First Insurance Limited

## Notes to the financial statements

### 12 Risk management (continued)

#### Credit risk (continued)

The above \$3.7 million is the face value of term deposits held. All term deposits and cash and cash equivalents are held with one New Zealand trading bank.

The maximum exposure to credit risk at the end of the reporting period is the amount of financial assets stated in the statement of financial position.

These exposures are net of any recognised allowance for impairment losses. The Insurer does not require any collateral or security to support financial assets due to the quality of the counterparty organisations.

Premium receivables are due from First Credit Union, the Insurer's parent. The details of the premium receivables as disclosed in note 7.

#### Liquidity risk

The Insurer is exposed to daily calls on its available cash resources from claims and administration expenses. Liquidity risk is the risk that payment of financial liability obligations may not be met in a timely manner at a reasonable cost.

The portfolio is managed to ensure funds are available to meet such calls to cover claims and expenses at unexpected levels of demand.

The contractual maturities of investments are as follows:

|                             | 2018             |
|-----------------------------|------------------|
| Less than 6 months          | 700,000          |
| Between 6 months and 1 year | 3,000,000        |
|                             | <b>3,700,000</b> |

|   |         |
|---|---------|
| Cash and cash equivalents are available on call                                 | 287,943 |
| Premium receivables are due within one month of the end of the reporting period | 114,987 |

|   |        |
|---|--------|
| Financial liabilities are all short term and are due and settled within 1 month of the reporting period | 85,137 |
|---|--------|

#### Interest rate risk

The Insurer invests in term deposits and cash at call held in financial institutions. There is a risk that any movement in interest rates could have an effect on the profitability and cash flows. The Insurer maintains a spread of maturity profiles to mitigate this risk.

#### Cash flow interest rate risk

The cash flows from the Insurer's investments in the short term are susceptible to changes in interest rates. However, as the majority of investments are fixed rate and these investments are held until maturity, this exposure is mitigated. The following analysis shows the impact of any changes in interest rates on the cash flows (based on average investments held).

|   | 2018   |
|---|--------|
| Full-year impact of 1% interest rate increase or decrease on interest earnings in the surplus or deficit and equity | 36,978 |

The Insurer used 1% in its sensitivity analysis as this is considered a reasonably possible variation in the base interest rates.

#### Fair values of financial assets and liabilities

All financial assets and financial liabilities are carried at amounts that approximate fair value.

# First Insurance Limited

## Notes to the financial statements

### 13 Related-party transactions

The only related party dealings the Insurer has are through the management and agency agreements it has with the parent First Credit Union.

*The amount of transactions with the parent*

|   |        |
|---|--------|
| Re-charged administrative costs (people, rent, marketing) | 35,254 |
| Return on capital   | 20,000 |
| Policy acquisition costs                                  | 30,963 |

*The outstanding balances with the parent*

|             |         |
|-------------|---------|
| Receivables | 114,987 |
| Payables    | 60,542  |

All related party balances are payable on normal trade terms and are unsecured. No related party transactions have taken place at nil or nominal value. No related party balances have been written off or forgiven in the period.

### 14 Subsequent events

The Insurer has applied 31 July 2018 to the RBNZ to be licensed as a life insurer, to underwrite funeral cover for members of First Credit Union. This application is currently being considered by the RBNZ. The life licence requires an additional \$2,000,000 in capital for the Insurer, and First Credit Union has made this available subject to the licence being granted.

### 15 Accounting standards issued but not yet effective

At the date of authorisation of the financial statements the following Public Benefit Entity Standards applicable to the Insurer were in issue but not yet effective:

PBE IFRS 9 – Financial Instruments effective 1 January 2021. The impact of this is yet to be assessed.

### 16 Policy acquisition

The Insurer acts as underwriter for First Credit Union effective 01 June 2018. The Insurer's obligations to policyholders therefore commence from this date. Any valid claims arising where the date of entitlement occurred prior to 01 June 2018 and where the claim has been previously accepted, or is subsequently accepted after 01 June 2018, are the previous underwriters obligations, not the Insurers. The Insurer underwrites the risk of the policies, the ownership of the policies and member information is First Credit Union's (the Parent), as such there are no portfolio acquisition considerations.

**INDEPENDENT AUDITOR'S REPORT  
TO THE SHAREHOLDERS OF FIRST INSURANCE LIMITED**

**Opinion**

We have audited the financial statements of First Insurance Limited ("the Insurer"), which comprise the statement of financial position as at 30 June 2018, and the statement of comprehensive income and changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Insurer as at 30 June 2018, and its financial performance and its cash flows for the year then ended in accordance with Public Benefit Entity Standards ("PBE Standards") issued by the New Zealand Accounting Standards Board.

**Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ("ISAs (NZ)"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Insurer in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the Insurer.

**Other Information**

The directors are responsible for the other information. The other information obtained at the date of this auditor's report is information contained in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Directors' Responsibilities for the Financial Statements**

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

In preparing the financial statements, the directors are responsible on behalf of the Insurer for assessing the Insurer'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 Insurer or to cease operations, or have no realistic alternative but to do so.

## Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISAs (NZ), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Insurer's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting by the directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Insurer's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Insurer to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

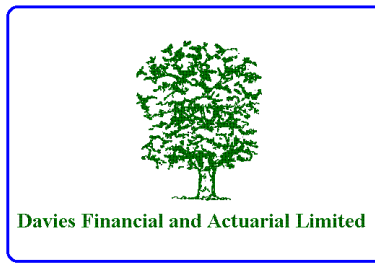
We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

## Who we Report to

This report is made solely to the Insurer's shareholders, as a body. 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 Insurer and the Insurer's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

*BDO Wellington Audit Limited*

BDO Wellington Audit Limited  
Wellington  
New Zealand  
12 October 2018



15<sup>th</sup> October 2018

To: The Directors  
First Insurance Limited

From: Peter Davies  
Appointed Actuary

**Re: First Insurance Limited ("the Company"): Report as at 30<sup>th</sup> June 2018 under Sections 77 and 78 of the Insurance (Prudential Supervision) Act 2010**

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

1. I have reviewed the actuarial information included in the audited accounts for the Company as at 30<sup>th</sup> June 2018. "Actuarial information" includes the following:
  - claim provisions and unexpired risk / unearned premium provisions;
  - solvency calculations in terms of the RBNZ Solvency Standard;
  - balance sheet and other information allowed for in the calculation of the company's solvency position; and
  - disclosures regarding the methodology and assumptions used for calculating claim provisions, unexpired risk provisions, and other disclosures.
2. No limitations have been placed on my work.
3. I am independent with respect to the Company as defined under professional standard ISA (NZ) 620 of the External Reporting Board.
4. I have been provided with all information that I have requested in order to carry out this review.

5. In my view the actuarial information contained in the financial statements has been appropriately included, and the actuarial information used in the preparation of the financial statements has been appropriately used.
6. As at 30<sup>th</sup> June 2018, the Company's solvency position under the RBNZ Solvency Standard for Non-Life Insurance Business (2014) was as follows:

|                             | 30 June 2018 |
|-----------------------------|--------------|
| Total solvency requirement: | 3,000,000    |
| Actual solvency capital     | 4,057,186    |
| Solvency margin:            | 1,057,186    |
| Solvency coverage:          | 135.2%       |

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

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

Yours sincerely



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