

First Insurance Limited

Financial Statements

For the year ended 30 June 2020

First Insurance Limited

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First Insurance Limited

Company Directory Financial Statements For the year ended 30 June 2020

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 year ended 30 June 2020

Reporting entity

First Insurance Limited (the "Insurer") provides loan protection and funeral plan insurance to members of First Credit Union Incorporated. The Insurer is a wholly owned subsidiary of First Credit Union Incorporated.

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 life and non life 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), and on 29 November 2018 this license was modified to include life insurance and to offer its products to members of other Credit Unions.

Nature of the business

The principal activity of the Insurer is to provide and underwrite loan protection and funeral plan insurance to members of First Credit Union Incorporated through group policies. The business of the Insurer is managed by it's parent First Credit Union Incorporated 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 accumulation method 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.

The financial statements were approved by the Board of Directors on 26 August 2020.

First Insurance Limited

Statement of Comprehensive Revenue and Expense For the year ended 30 June 2020

	Note	2020	2019
Premium revenue	1	2,129,647	1,955,335
Claims expense	2	(1,071,526)	(903,793)
Underwriting surplus		1,058,121	1,051,542
Investment income	3	166,974	180,713
Operating expenses	4	(1,173,921)	(1,128,649)
Net operating surplus before tax		51,174	103,606
Income tax	5	(14,329)	(29,010)
Surplus for the year after tax		36,845	74,596
Other comprehensive revenue and expense		0	0
Total comprehensive revenue and expense for the year		36,845	74,596

First Insurance Limited

Statement of Changes in Net Assets/Equity For the year ended 30 June 2020

	Note	Share capital	Accumulated revenue and expense	Total equity
Balance as at 30 June 2018		4,000,000	57,186	4,057,186
Total comprehensive revenue and expense		0	74,596	74,596
Share capital introduced during the year		2,000,000	0	2,000,000
Balance as at 30 June 2019		6,000,000	131,782	6,131,782
Total comprehensive revenue and expense		0	36,845	36,845
Balance as at 30 June 2020		6,000,000	168,627	6,168,627

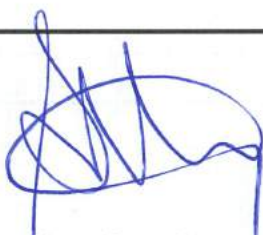
First Insurance Limited

Statement of Financial Position As at 30 June 2020

	Note	2020	2019
Assets			
Cash and cash equivalents	6	92,265	183,375
Premium and other receivables	7	134,978	217,017
Prepayments		0	29,167
Investments	8	6,800,000	6,200,000
Total assets		7,027,243	6,629,559
Liabilities			
Trade and other payables	9	328,363	83,000
Provision for outstanding claims	10	530,253	414,777
Total liabilities		858,616	497,777
Net assets		6,168,627	6,131,782
Represented by			
Accumulated Revenue and Expense		168,627	131,782
Share capital	11	6,000,000	6,000,000
Total equity		6,168,627	6,131,782

J. A. Taane.

Judith Taane, Deputy Chair
26 August 2020



Simon Scott, Director
26 August 2020

First Insurance Limited

Statement of Cash Flows For the year ended 30 June 2020

	Note	2020	2019
Cash flows from operating activities			
Cash receipts from customers		2,167,792	1,977,560
Cash paid as claims		(956,073)	(540,673)
Cash paid to suppliers		(855,493)	(1,177,530)
Interest received		173,091	186,675
Taxation paid		(20,427)	(50,600)
Net cash flows used in operating activities		508,889	395,432
Cash flows used in investing activities			
Acquisitions of investments		(600,000)	(2,500,000)
Net cash flows used in investing activities		(600,000)	(2,500,000)
Cash flows from financing activities			
Issuance of share capital		0	2,000,000
Net cash flows from financing activities		0	2,000,000
Net increase/(decrease) in cash and cash equivalents		(91,110)	(104,568)
Opening cash and cash equivalents		183,375	287,943
Closing cash and cash equivalents	6	92,265	183,375

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

Surplus for the year after tax	36,845	74,596
Adjustments for non-cash items included in the surplus after taxation:		
Change in provision for outstanding claims	115,476	363,120
Changes in assets and liabilities:		
Premium and other receivables	82,039	(40,147)
Prepayments	29,167	-
Trade and other payables	245,362	(2,137)
Net cash flow (to)/from operating activities	508,889	395,432

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.

	2020	2019
Life premium revenue	403,727	429,996
Non - life premium revenue	1,725,920	1,525,339
Total premium income for the year	2,129,647	1,955,335

2 Claims expense

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

Claims expense		2020	2019
Insurance claims paid		956,073	540,673
Movement in provisions for outstanding claims	Note 10	115,453	363,120
Total claims expense for the year		1,071,526	903,793

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.

	2020	2019
Interest on call accounts and term investments	166,974	180,713
Total investment income for the year	166,974	180,713

4 Operating expenses

		2020	2019
External audit of financial statements - BDO		35,263	37,040
BDO Other Services (Actuarial)		5,750	0
Directors' fees	Note 13	43,478	43,478
Policy commission	Note 13	470,945	444,422
Other operating costs	Note 13	618,485	603,709
Total operating expenses for the year		1,173,921	1,128,649

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 reporting 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)

	2020	2019
Income tax recognised in statement of comprehensive revenue and expense		
Net operating surplus before taxation	51,174	103,606
Income tax expense at current rate of 28%	(14,329)	(29,010)
Current tax receivable		
Taxation expense	(14,329)	(29,010)
Resident withholding tax paid	53,028	61,611
Taxation refund	38,699	32,601

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.

	2020	2019
Bank balance – on call	92,265	183,375
Total cash and cash equivalents	92,265	183,375

7 Premiums and other receivables

Premium receivables are financial assets initially stated at fair value plus directly attributable 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 receivables in the year in which they are incurred.

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

		2020	2019
Premium receivable (First Credit Union Incorporated)	Note 13	54,617	92,762
Allowance for impairment		0	0
Net premium receivables		54,617	92,762
Tax receivable		38,699	32,601
GST receivable		2,869	46,744
Accrued interest		38,793	44,910
Total other receivables		80,361	124,255
Total premium and other receivables		134,978	217,017

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 Incorporated's banking system. All collected premiums are deposited in First Credit Union Incorporated 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 Incorporated. 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.

	2020	2019
Term deposits	6,800,000	6,200,000
Total investments	6,800,000	6,200,000

All term deposits are held with Westpac Bank and ANZ, mature within the next twelve months, and are current assets. Refer to note 12 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.

		2020	2019
Trade payables		35,000	83,000
Related party payables	Note 13	293,363	0
Total trade and related party payables		328,363	83,000

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 and funeral plan insurance policies provided to members are insurance contracts. Life Insurance covers the death of a member with benefits paid to a beneficiary. Non life insurance covers other situations such as illness, disability, redundancy and bankruptcy.

Provision for outstanding claims

Provision for outstanding claims has been determined on the basis of assumed claim development patterns for disability claims, and reporting patterns for other claims.

Key assumptions

- Claim development patterns for disability claims have been based on industry experience, adjusted in the early periods for the Insurer's own experience, in quarterly chain-ladder steps.
- Claim provisions for other claims have been derived from the Insurer's recent experience of claim volumes and reporting times.

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:

	2020	2019
Provision for outstanding claims	530,253	414,777
Total insurance contract liabilities	530,253	414,777
Central estimate	530,253	414,777
Opening claims provision	414,777	51,657
Amounts utilised during the year	(185,937)	(16,308)
Additional provision/(reversal of unused provision)	(173,757)	(32,263)
Amounts provided during the year	475,170	411,691
Total insurance contract liabilities	530,253	414,777

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 2020.
- 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 reporting 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 reporting 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. 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 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 2020, nor would such a liability be required if there were an unearned premium liability at reporting date.

First Insurance Limited

Notes to the financial statements

10 Insurance contract liabilities (continued)

Unexpired risk provision and liability adequacy test (continued)

Key assumptions:	LPI 2020	LPI 2019	Funeral 2020	Funeral 2019
Claim ratio	50.0%	44.5%	54.0%	54.0%
Administration allowance	25.0%	25.0%	15.0%	15.0%
Commission allowance	23.0%	23.0%	20.0%	20.0%
Total	98.0%	92.5%	89.0%	89.0%

11 Capital and solvency requirement

The Insurer is a wholly owned subsidiary of First Credit Union Incorporated. The Insurer has four shares that were issued during the year to three Directors who hold them on trust on behalf of the Parent. The Insurer's solvency capital of \$6,168,627 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 (\$6,131,782 at 30 June 2019).

As a fully licenced insurer, the Solvency Standard for Life and 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.

	2020	2019
Actual solvency capital	6,168,627	6,131,782
Minimum solvency capital	5,000,000	5,000,000
Solvency margin	1,168,627	1,131,782
Solvency ratio	123%	123%

During the year ended 30 June 2020, 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 Incorporated 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 Insurer's 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 2020 was \$6,089,171 (2019: 5,903,203) relative to an actual solvency capital of \$6,168,627.

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 Incorporated 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:

	2020	2019
Base assumptions	530,253	414,777
Claims provision with an assumed development/reporting pattern 10% longer	606,065	474,079
Claims provision with an assumed development/reporting pattern 10% shorter	422,661	330,616

The Insurer's insurance risk is concentrated to within the loan protection and funeral plan insurance sectors.

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 2020 in excess of policy.

The credit quality of investment counterparties is as follows:

	2020	2019
AA- rated	6,931,058	6,428,285
BB- rated	54,617	92,762

First Insurance Limited

Notes to the financial statements

12 Risk management (continued)

Credit risk (continued)

The above \$6.8 million is the face value of term deposits held. All term deposits and cash and cash equivalents are held with two New Zealand trading banks.

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 Incorporated, 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:

	2020	2019
Less than 6 months	6,200,000	6,200,000
Between 6 months and 1 year	600,000	0
Investments	6,800,000	6,200,000
Cash and cash equivalents are available on call	92,265	183,375
Premium receivables are due within one month of the end of the reporting period	54,617	92,762
Financial liabilities are all short term and are due and settled within 1 month of the reporting period	328,363	83,000
Insurance contract liabilities, predominantly short term and settled within 12 month of reporting period	530,253	414,777

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).

	2020	2019
Full-year impact of 1% interest rate increase or decrease on interest earnings in the surplus or deficit and equity	68,000	62,000

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 Incorporated.

The amount of transactions with the parent

Re-charged administrative costs (people, rent, marketing)
Policy commission

The outstanding balances with the parent

Receivables
Payables

	2020	2019
	606,474	536,587
	470,945	444,422
	54,617	92,762
	293,364	0

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.

Key Management Personnel ('KMP') are those people having authority and responsibility for planning, directing and controlling the activities of the Insurer, directly or indirectly, including any Director (whether executive or otherwise). Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. KMP is the 6 Directors and were paid Director fees of \$43,478 in 2020 (2019: \$43,478).

14 Subsequent events

There are no subsequent events as at 30 June 2020.

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

PBE IFRS 17 – Insurance Contracts effective 1 January 2022. The impact of this is yet to be assessed.

16 Policy acquisition

The Insurer acts as underwriter for First Credit Union Incorporated 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.

17 Covid -19

The outbreak of COVID-19 and the subsequent measures imposed by the New Zealand and other governments as well as the travel and trade restrictions imposed by New Zealand and other countries in during 2020 have caused disruption to businesses and economic activity. The financial effects of COVID-19 have been reflected in the financial statements at 30 June 2020 where applicable.

COVID-19 was characterised as a pandemic by the World Health Organisation on 11 March 2020. The Insurer was deemed an essential service and continued to offer services during all alert levels. Services within Branches were limited during levels 3 and 4 however. Staff working from home were available by telephone or email and were able to respond to member needs.

FIL is exposed to higher than usual claim costs due to the Covid-19 pandemic. In accordance with requests from RBNZ to all NZ-registered insurers, FIL has modelled potential Covid-19 related losses since March 2020 and updated them regularly with guidance from the Consultant Actuary. The current modelling shows that, under realistic assumptions for mortality, health and unemployment outcomes, FIL could meet these additional claim costs from existing capital without a significant impact on solvency margins.

Given the inherent unpredictability associated with the COVID-19 outbreak, the actual claims cost could be significantly different to the estimates disclosed. The economic effects arising from the COVID-19 outbreak are expected to affect the results of the Insurer for the year ending 30 June 2021.

**INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDER 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 2020, and the statement of comprehensive revenue and expense, statement of changes in net assets/equity and statement of cash flows 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 2020, 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 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of Claims Liability	How The Matter Was Addressed in Our Audit
<p>The valuation of the claims liability is a key audit matter due to the significant judgement and complexity required by management and the directors in determining the estimate as at 30 June 2020. Refer to note 10.</p> <p>This is a significant estimate as the eventual outcomes of incurred but unsettled claims at the balance date are inherently uncertain.</p> <p>The valuation of the outstanding claims relies on the quality of the underlying data. It involves complex and subjective judgements about future events, both internal and external to the business, for which small changes in assumptions can</p>	<p>Our audit procedures included, amongst others:</p> <ul style="list-style-type: none">• We checked that the data used by the Insurer's actuary was consistent with the data in the financial statements.• We engaged an independent actuary to perform the following:<ul style="list-style-type: none">○ Evaluate the actuarial models and methodologies used by the Appointed Actuary in determining the claims liability.○ Assess key actuarial judgements and assumptions and challenged them by comparing expectations based on the expert's experience, sector knowledge and independently observable industry trends.

result in material impacts to the estimate.

Management engaged their own independent actuary to determine the liability.

- Recalculate the provision based on the claims data in the financial statements.
- Evaluate the claims liability for considerations and impact of Covid-19.
- Assessing the disclosures in the financial report using our understanding obtained from our testing and against the requirements of the accounting standards.

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.

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/assurance-standards/auditors-responsibilities/audit-report-2/>.

This description forms part of our auditor's report.

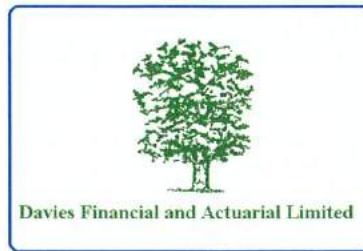
Who we Report to

This report is made solely to the Insurer's shareholder, 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 shareholder, as a body, 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 Mark Bewley.

BDO Wellington Audit Limited

BDO WELLINGTON AUDIT LIMITED
Wellington
New Zealand
26 August 2020



24th September 2020

To: The Directors
First Insurance Limited

From: Peter Davies
Appointed Actuary

**Re: First Insurance Limited ("the Company"): Report as at
30th June 2020 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 30th June 2020. "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 30th June 2020, the Company's solvency position under the RBNZ Solvency Standard for Life Insurance Business (2014) (showing, by comparison, its position at the previous year-end under the Solvency Standard for Non-Life Insurance Business (2014)) was as follows:

	30 June 2020	30 June 2019
Actual solvency capital	6,168,627	6,131,781
Total solvency requirement:	5,000,000	5,000,000
Solvency margin:	1,168,627	1,131,781
Solvency coverage:	123.4%	122.6%

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