



7 October 2021

Ms S Nakanishi
Financial Controller
FlexiGroup (New Zealand) Limited
111 Carlton Gore Road
NEWMARKET 1023

Dear Susan

Formal Statements - Section 78 Report

Section 78 of the Insurance (Prudential Supervision) Act 2010 ("Act") requires that the Appointed Actuary make the following statements:

- a) This report has been completed by Craig Lough FNZSA, Appointed Actuary to Consumer Insurance Services Limited ('CISL').
- b) Melville Jessup Weaver has provided to the Board of CISL, insurance liability valuation reports for the non-life business and a financial condition report as at 30 June 2021. In those reports we provided assessments of the technical provisions required by CISL and an assessment of the current and future financial condition of CISL.

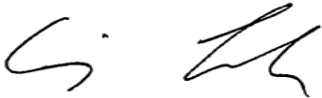
CISL have provided me with their financial statements as at 30 June 2021 (dated 7 October 2021) and supporting information, including their solvency calculations as at 30 June 2021.

The solvency calculations have been reviewed against the Reserve Bank of New Zealand's, Solvency Standard for Non-life Insurance Business in Run-off (December 2014).

- c) There were no restrictions or limitations placed on my work or on my report.
- d) I have no relationship with CISL other than being its Appointed Actuary. I hold no interests in CISL.
- e) I obtained all of the information I required.
- f) In my opinion and from an actuarial perspective:
 - a) the actuarial information included in the CISL financial statements as at 30 June 2021 was appropriately included in those financial statements, and
 - b) the actuarial information used in the preparation of the CISL financial statements as at 30 June 2021 was used appropriately.

- g) The solvency margin that applies to CISL under a condition imposed under section 21(2)(b) of the Insurance (Prudential Supervision) Act 2010 as at 30 June 2021 was the margin set out in the Solvency Standard for Non-Life Insurance Business issued by the Reserve Bank of New Zealand in December 2014. In my opinion and from an actuarial perspective, CISL is maintaining that solvency margin as at 30 June 2021.

Yours sincerely



Craig Lough FNZSA
Appointed Actuary

**Consumer Insurance Services Limited
Annual Report
for the year ended 30 June 2021**

Directory

Principal business

Insurance services

Directors

C M da Silva (Chairman)
P ter Brake

Registered office

111 Carlton Gore Road
Newmarket
Auckland, New Zealand

Auditor

PricewaterhouseCoopers New Zealand
15 Customs Street West
Private Bag 92162
Auckland, New Zealand

Banker

ANZ Bank of New Zealand Limited
ANZ Centre 23-29 Albert Street
Auckland, New Zealand

Bank of New Zealand Limited
80 Queen Street
Auckland, New Zealand

Actuary

Melville Jessup Weaver
Level 6
57 Fort Street
Auckland, New Zealand

Directors' report

The Board of Directors of Consumer Insurance Services Limited (the Company) present the financial statements for the year ended 30 June 2021.

With the agreement of its shareholder, the Company has adopted the reporting concessions available to it under section 211(3) of the Companies Act 1993.

The Board of Directors of Consumer Insurance Services Limited authorised these financial statements presented on pages 4 to 25 for issue on 7 October 2021.

For and on behalf of the Board.



Carlos M da Silva



Paula ter Brake

Consumer Insurance Services Limited

Financial statements - 30 June 2021

Contents

	Page
Statement of comprehensive income	4
Statement of financial position	5
Statement of changes in equity	6
Statement of cash flows	7
Notes to the financial statements	
1 General accounting policies	8
2 Summary of significant accounting policies	9
3 Critical accounting estimates and judgements	12
4 Premium income	13
5 Commission cost expense	13
6 Insurance claims and loss adjustment expenses	13
7 Net underwriting result	13
8 Income tax expense	14
9 Deferred acquisition costs	14
10 Outstanding claims liability	14
11 Unearned premium liability	15
12 Liability adequacy test	16
13 Deferred tax liabilities	16
14 Share capital	16
15 Dividends	17
16 Insurance contracts - risk management policies and procedures	17
17 Insurance - assumptions and methods	18
18 Actuarial information	18
19 Imputation credits	19
20 Financial risk management	19
21 Contingencies	23
22 Related parties	23
23 Capital risk management	24
24 Events occurring after the balance date	25
Independent auditor's report	26

Consumer Insurance Services Limited
Statement of comprehensive income
For the year ended 30 June 2021

Statement of comprehensive income

For the year ended 30 June 2021

	Note	30-Jun-21 \$000	30-Jun-20 \$000
Premium income	4	3,076	4,570
Interest income		<u>25</u>	<u>65</u>
Total operating income		3,101	4,635
Insurance claims and loss adjustment expenses	6	(390)	(796)
Commission cost expense	5	(466)	(631)
Acquisition cost expense	9	-	(46)
Other operating expenses	22(d)(iii)	<u>(209)</u>	<u>(620)</u>
Total expenses		<u>(1,065)</u>	<u>(2,093)</u>
Profit before income tax		<u>2,036</u>	<u>2,542</u>
Income tax expense	8	<u>(570)</u>	<u>(712)</u>
Profit for the year		<u>1,466</u>	<u>1,830</u>
Total comprehensive income		<u>1,466</u>	<u>1,830</u>
Total comprehensive income is attributable to:			
Shareholder of Consumer Insurance Services Limited		<u>1,466</u>	<u>1,830</u>

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

Statement of financial position

As at 30 June 2021

	Note	30-Jun-21 \$000	30-Jun-20 \$000
Assets			
Cash and cash equivalents		2,240	3,197
Short term deposits		3,000	2,000
Related party receivables	22(d)(i)	394	398
Sundry debtors		3	5
Total assets		5,637	5,600
Liabilities			
Payables		-	203
Related party payables	22(d)(ii)	698	16
Current tax liabilities		347	377
Outstanding claims liability	10	155	309
Unearned premium liability	11	113	137
Total liabilities		1,313	1,042
Net assets		4,324	4,558
Equity			
Share capital		3,500	3,500
Retained earnings		824	1,058
Total equity		4,324	4,558

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

The Board of Directors of Consumer Insurance Services Limited authorised these financial statements presented on pages 4 to 25 for issue on 7 October 2021.

For and on behalf of Board.



Carlos M da Silva



Paula ter Brake

Statement of changes in equity

For the year ended 30 June 2021

	Note	Attributable to equity holders of the Company		Total equity \$000
		Share capital \$000	Retained earnings \$000	
As at 1 July 2019		<u>3,500</u>	<u>1,428</u>	<u>4,928</u>
Year ended 30 June 2020				
Profit for the year		-	<u>1,830</u>	<u>1,830</u>
Total comprehensive income		-	<u>1,830</u>	<u>1,830</u>
Transactions with owners				
Dividends	15	-	<u>(2,200)</u>	<u>(2,200)</u>
Total transactions with owners		-	<u>(2,200)</u>	<u>(2,200)</u>
As at 30 June 2020		<u>3,500</u>	<u>1,058</u>	<u>4,558</u>
As at 1 July 2020		<u>3,500</u>	<u>1,058</u>	<u>4,558</u>
Year ended 30 June 2021				
Profit for the year		-	<u>1,466</u>	<u>1,466</u>
Total comprehensive income		-	<u>1,466</u>	<u>1,466</u>
Transactions with owners				
Dividends	15	-	<u>(1,700)</u>	<u>(1,700)</u>
Total transactions with owners		-	<u>(1,700)</u>	<u>(1,700)</u>
As at 30 June 2021		<u>3,500</u>	<u>824</u>	<u>4,324</u>

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

Consumer Insurance Services Limited
Statement of cash flows
For the year ended 30 June 2021

Statement of cash flows

For the year ended 30 June 2021

	Note	30-Jun-21 \$000	30-Jun-20 \$000
Cash flows from operating activities			
Insurance premium received		3,052	4,463
Interest received		25	68
Claims paid		(544)	(786)
Net payments to related parties		(190)	(824)
Income tax paid		(600)	(600)
Net cash inflow from operating activities		<u>1,743</u>	<u>2,321</u>
Cash flows from investing activities			
Payment for short term deposits		(5,000)	(5,500)
Proceeds from short term deposits		4,000	3,500
Net cash outflow from investing activities		<u>(1,000)</u>	<u>(2,000)</u>
Cash flows from financing activities			
Dividends paid	15	(1,700)	(2,200)
Net cash outflow from financing activities		<u>(1,700)</u>	<u>(2,200)</u>
Net decrease in cash and cash equivalents		(957)	(1,879)
Cash and cash equivalents at beginning of the year		3,197	5,076
Cash and cash equivalents at end of the year		<u>2,240</u>	<u>3,197</u>
 Reconciliation of profit for the year to net cash inflow from operating activities			
Profit for the year		1,466	1,830
Decrease in accrued interest		-	3
Decrease in deferred acquisition costs		-	46
Decrease in related party receivables		4	224
Decrease in other assets		2	9
Increase in related party payables		682	16
(Decrease)/increase in current tax liabilities		(30)	125
Decrease in deferred tax liabilities		-	(13)
(Decrease)/increase in payables		(203)	178
(Decrease)/increase in outstanding claims liability		(154)	10
Decrease in unearned premium liability		(24)	(107)
Net cash inflow from operating activities		<u>1,743</u>	<u>2,321</u>

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

1 General accounting policies

Reporting entity

These financial statements are for Consumer Insurance Services Limited as a separate legal entity.

Consumer Insurance Services Limited (the "Company") provides insurance services in New Zealand.

The Company has ceased selling and renewing insurance policies from 7 June 2019. The Company's amended licence conditions effective 1 October 2019 requires the Company to:

- maintain a solvency margin of at least zero in accordance with the Solvency Standard for Non-life Insurance Business in Run-off 2014. The minimum amount of capital has been set as \$3 million; and
- notify and receive approval from the Reserve Bank of New Zealand (the "Reserve Bank") before entering into any new contracts of insurance in New Zealand.

The address of its registered office is 111 Carlton Gore Road, Newmarket, Auckland.

Statutory base

The Company is a limited liability company incorporated and domiciled in New Zealand and registered under the Companies Act 1993. The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 2013 and the Companies Act 1993. The Company is a Financial Markets Conduct reporting entity under the Financial Markets Conduct Act 2013.

Basis of preparation

The financial statements of the Company have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (GAAP). The Company is a for-profit entity for the purposes of complying with GAAP. The financial statements comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), other New Zealand accounting standards and authoritative notices that are applicable to entities that apply NZ IFRS. They comply with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS.

The going concern basis of accounting has not been applied in the preparation of the financial statements for the year ended 30 June 2021 as the Company is in run-off and there is an intention to wind up the Company. Management is working through options to wind up the entity and ensure that the shareholder's interests are protected and there is no detrimental impact to policyholders, however a wind up plan has not yet been approved by the Directors. As such, the financial statements for the year ended 30 June 2021 have been prepared on a realisation basis. There is no material difference for the Company between this basis and a going concern basis of accounting as all assets and liabilities of the Company continue to be measured at fair value or the carrying amount is a reasonable approximation of fair value. Fair value is considered to be the best indicator of realisable value in these circumstances given the orderly wind up of the Company. This also has no impact on the comparative information, which remains prepared under the going concern basis.

These financial statements are presented in New Zealand dollars, which is the Company's functional and presentation currency. All amounts in these financial statements have been rounded in thousands unless otherwise stated.

New and amended standards adopted

There are no new and amended standards adopted by the Company for the annual reporting period commencing 1 July 2020 that had any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2021 reporting periods and have not been early adopted by the Company.

The following new standard relevant to the Company has been issued:

- **NZ IFRS 17 Insurance Contracts** This standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts that fall within the scope of the standard. NZ IFRS 17 is mandatory for the Company's financial statements and is expected to apply for periods beginning on or after 1 January 2023. It will replace the current standard, NZ IFRS 4 *Insurance Contracts*. The Company is still assessing the impact on its results given the planned wind up of the Company.

1 General accounting policies (continued)

Other new accounting standards and interpretations not yet adopted are not expected to have a material impact on the Company in the current or future reporting periods and on foreseeable future transactions.

Comparative revisions

Comparative information has been revised where appropriate to conform to changes in presentation in the current year and to enhance comparability. Where there has been a material restatement of comparative information the nature of, and the reason for the restatement is disclosed.

Restatement of prior year comparatives

There has been a classification error identified and corrected in note 20(g) to the financial statements as follows:

- short term deposits, which are held to back general insurance liabilities and have been designated as financial assets measured at FVTPL to reduce an accounting mismatch, were incorrectly classified as held at amortised cost rather than at fair value through profit or loss.

The impact of this correction had no impact on the amount recognised in relation to short term deposits as amortised cost is a reasonable approximation of fair value given the short term nature of these instruments. The impact of this correction also had no impact on the net assets or total comprehensive income previously reported in the prior period.

2 Summary of significant accounting policies

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

(a) Interest income

Interest income is recognised in the profit or loss using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocation of the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

(b) Premium revenue

Premium revenue includes amounts charged to the insured but excludes fire service levies, goods and services tax ("GST") and other amounts collected on behalf of third parties.

Premium revenue is recognised in the profit or loss from the attachment date over the period of the contract. Premium revenue is earned in accordance with the pattern of the underlying exposure to risk expected under the insurance contract.

The portion of premium received or receivable not earned in the profit or loss at the balance date is recognised in the statement of financial position as unearned premium liability.

(c) Income tax

The income tax expense or benefit for the year is the taxation payable on the current year's taxable income at tax rates that have been enacted or substantively enacted as at balance date. This is adjusted by changes in deferred tax assets and deferred tax liabilities attributable to temporary differences and to unused tax losses.

Deferred 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, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also 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 substantively enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred 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.

2 Summary of significant accounting policies (continued)

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 tax 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.

(d) GST

Revenue, expenses and assets are recognised net of GST except to the extent that GST is not recoverable from the Inland Revenue. In these circumstances, GST is recognised as part of the expense or cost of the asset.

(e) Cash and cash equivalents

Cash and cash equivalents includes deposits held on call with banks and other short term highly liquid investments with original maturities of three months or less.

(f) Financial assets and financial liabilities

Financial assets

The Company's financial assets comprise such items as cash and cash equivalents, short term deposits, related party receivables and sundry debtors.

(i) *Financial assets at amortised cost*

NZ IFRS 9 *Financial Instruments* has three classification categories for financial assets; amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification is based on the business model under which the financial asset is managed and its contractual cash flows. The Company applies the following policies for the classification categories under NZ IFRS 9:

Amortised cost – A financial asset will be measured at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

Cash and cash equivalents, related party receivables and sundry debtors are measured at amortised cost.

(ii) Financial assets at FVOCI

FVOCI – A financial asset will be measured at FVOCI if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

The Company had no assets in this category as at 30 June 2021 and 30 June 2020.

(iii) *Financial assets at fair value*

FVTPL – All financial assets that are not measured at amortised cost or FVOCI will be measured at FVTPL. All financial assets that are equity instruments will be measured at FVTPL.

In addition, the Company might also irrevocably designate financial assets at FVTPL if doing so significantly reduces or eliminates a mismatch created by assets and liabilities being measured on different bases. The Company has determined that an accounting mismatch is reduced if financial assets backing general insurance liabilities are measured at FVTPL. For these instruments, the Company has applied the option to designate these financial assets at FVTPL.

2 Summary of significant accounting policies (continued)

Short term deposits, which are held to back general insurance liabilities, have been designated as financial assets measured at FVTPL.

Purchases and sales of financial assets are recognised at trade date. Financial assets are derecognised when the rights to receive the cash flows have expired or the Company has transferred substantially all risks and rewards of ownership.

Financial liabilities

Financial liabilities are recognised when an obligation arises.

The Company's financial liabilities are measured initially at fair value and subsequently at amortised cost, using the effective interest method.

Financial liabilities are derecognised when the obligation is discharged, cancelled or expires.

(g) Impairment of financial assets

Under the expected credit loss model the Company applies a three stage approach to measuring the expected credit loss (ECL) based on credit migration between the stages.

Stage 1: 12 month ECL - No significant increase in credit risk. Financial instruments that have not had a significant increase in credit risk since initial recognition require, at initial recognition, a provision for ECL associated with the probability of default events occurring within the next 12 months (12 month ECL). For those financial assets with a remaining maturity of less than 12 months, a probability of default is used that corresponds to the remaining maturity.

Stage 2: Lifetime ECL - Significant increase in credit risk. In the event of a significant increase in credit risk since initial recognition, a provision is required for the lifetime ECL representing losses over the life of the financial instrument (lifetime ECL).

Stage 3: Lifetime ECL - Defaulted. Financial instruments that move into Stage 3 once credit impaired and purchase of credit impaired assets will require a lifetime provision.

(h) Assets backing general insurance liabilities

As part of its investment strategy the Company actively manages its short term deposits to ensure that sufficient liquid funds are available to meet the expected pattern of future cash flows arising from general insurance liabilities.

The Company has determined that its short term deposits are held to back general insurance liabilities.

(i) Liability adequacy test

Liability adequacy testing is performed in order to recognise in the profit or loss any deficiencies arising from the carrying amount of the unearned premium liability less any related deferred acquisition costs and intangible assets not meeting the estimated future claims under current insurance contracts. The estimated future claims under current insurance contracts are measured using the present value of the expected cash flows relating to future claims and associated expenses (discounted using a risk free interest rate) plus an additional risk margin to reflect the inherent uncertainty of those estimated cash flows.

(j) Commission and acquisition costs

The Company incurs commission costs in the operation of its business. Previously where these costs were incurred to acquire general insurance contracts, they were deferred and recognised as assets when they could be reliably measured and it was probable that they would give rise to premium revenue in subsequent periods.

Due to the Company being in run-off, the Company did not incur any acquisition costs during the current or prior year and therefore no deferred acquisition costs are recognised as at 30 June 2021 and 30 June 2020.

(k) Outstanding claims liability

The liability for outstanding claims is measured as the central estimate of the present value of expected future payments against claims incurred at the balance date under general insurance contracts issued by the Company, with an additional risk margin to allow for the inherent uncertainty in the central estimate.

The expected future payments include those in relation to claims reported but not yet paid, claims incurred but not reported (IBNR), claims incurred but not enough reported (IBNER) and anticipated claims handling costs.

2 Summary of significant accounting policies (continued)

Claims handling costs include costs that can be associated directly with individual claims, such as legal and other professional fees, and costs that can only be indirectly associated with individual claims, such as claims administration costs.

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

The outstanding claims liability has been determined using the Bornhuetter-Ferguson (incurred claims) methodology (an actuarial method). It has been assumed that future incurred claims patterns will continue to follow observed historic patterns.

(l) Share capital

Ordinary shares are recognised at the amount paid up per ordinary share, net of directly attributable issue costs.

Dividends on ordinary shares are recognised in equity in the year in which they are approved by the Company's directors.

(m) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the Company, on or before the end of the financial year but not distributed at balance date.

(n) Offsetting

The Company does not apply offsetting. The Company does not have any material financial assets or financial liabilities which are subject to enforceable master netting arrangements or similar agreements.

(o) Statement of Cash Flows

The net payments to related parties have been shown on a net basis in the statement of cash flows in accordance with NZ IAS 7 *Statement of Cash Flows*.

3 Critical accounting estimates and judgements

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Management also needs to exercise judgement in applying the Company's accounting policies.

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 entity and that are believed to be reasonable under the circumstances.

While the specific areas of judgement as noted below did not change, the impact of COVID-19 resulted in the application of further judgement within those identified areas. Given the dynamic and evolving nature of COVID-19, changes to the estimates and outcomes that have been applied in the measurement of the Company's assets and liabilities may arise in the future.

The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are outlined below.

Outstanding claims liability

The estimated costs of claims includes direct expenses to be incurred in settling claims. IBNR claims may not be apparent to the Company until several months after the events. In calculating the estimated cost of unpaid claims the Company used estimation techniques. Refer to note 17.

In addition, the COVID-19 pandemic is leading to material structural shifts in the behaviour of the economy and customers, and unprecedented actions by governments and regulators in response. In determining the adequacy of outstanding claims liability at 30 June 2021, the Company has reviewed the assumptions in calculating the outstanding claims liability including policyholder behaviours and experience to date during COVID-19 and how those risks are managed. The Company did not experience a material change in the claims experience stemming from COVID-19 from 1 July 2020 to 30 June 2021.

4 Premium income

	30-Jun-21 \$000	30-Jun-20 \$000
Gross written premiums	3,052	4,463
Movement in unearned premiums (note 11)	<u>24</u>	<u>107</u>
Premium income	<u>3,076</u>	<u>4,570</u>

5 Commission cost expense

	30-Jun-21 \$000	30-Jun-20 \$000
Commission cost expense	<u>466</u>	<u>631</u>
	<u>466</u>	<u>631</u>

All commission costs are expensed when incurred.

6 Insurance claims and loss adjustment expenses

	30-Jun-21 \$000	30-Jun-20 \$000
Gross claims expense		
Risks borne in the current year	390	682
Reassessment of risks borne in previous periods	-	116
Other recoveries revenue		
Reassessment of risks borne in previous periods	<u>-</u>	<u>(2)</u>
	<u>390</u>	<u>796</u>

7 Net underwriting result

	30-Jun-21 \$000	30-Jun-20 \$000
Analysis of insurance operating result		
Premium revenue	3,076	4,570
Gross claims expense	(390)	(798)
Other recoveries revenue	<u>-</u>	<u>2</u>
Net claims incurred	<u>(390)</u>	<u>(796)</u>
Acquisition cost expense	-	(46)
Commission cost expense	<u>(466)</u>	<u>(631)</u>
Expenses	<u>(466)</u>	<u>(677)</u>
Net underwriting result	2,220	3,097

8 Income tax expense

	30-Jun-21 \$000	30-Jun-20 \$000
(a) Income tax expense		
Current tax	570	725
Deferred tax - temporary differences (note 13)	<u>-</u>	<u>(13)</u>
Total income tax expense	<u>570</u>	<u>712</u>
(b) Reconciliation of income tax expense to prima facie tax payable		
Profit before income tax	<u>2,036</u>	<u>2,542</u>
Tax at the New Zealand tax rate of 28.0% (30 June 2020: 28.0%)	<u>570</u>	<u>712</u>

9 Deferred acquisition costs

	30-Jun-21 \$000	30-Jun-20 \$000
Opening balance	-	46
Amortisation charged to profit or loss	<u>-</u>	<u>(46)</u>
Closing balance	<u>-</u>	<u>-</u>
Current	-	-
Non-current	<u>-</u>	<u>-</u>
Total deferred acquisition costs	<u>-</u>	<u>-</u>

10 Outstanding claims liability

	30-Jun-21 \$000	30-Jun-20 \$000
(a) Outstanding claims liability		
Central estimate	83	163
Discount to present value	<u>-</u>	<u>-</u>
	83	163
Claims handling costs	<u>19</u>	<u>44</u>
	102	207
Risk margin	<u>53</u>	<u>102</u>
Gross outstanding claims liability	<u>155</u>	<u>309</u>
Gross claims incurred - undiscounted	156	310
Current	155	250
Non-current	<u>-</u>	<u>59</u>
Total	<u>155</u>	<u>309</u>

10 Outstanding claims liability

(b) Risk margin

Process for determining risk margin

The overall risk margins for both outstanding claims and liability adequacy testing have been determined using stochastic techniques allowing for diversification and having regard to the inherent variation observed in historical claims development. The risk margins for the portfolio are applied to the central estimates in order to arrive at an overall provision that is intended to provide a probability of sufficiency of 90% (30 June 2020: 90%).

A probability of sufficiency of 90% is required under the Solvency Standard for Non-life Insurance Business in Run-off 2014. Management has decided to adopt the same approach in the valuation of the outstanding claims liability within the financial statements.

	30-Jun-21 %	30-Jun-20 %
<i>Risk margin applied in the valuation of the outstanding claims liability</i>		
Overall risk margin	57.1	55.6

(c) Reconciliation of movement in outstanding claims liability

	30-Jun-21 \$000	30-Jun-20 \$000
Opening balance	309	299
Incurred claims recognised in profit or loss	390	796
Claims payments	<u>(544)</u>	<u>(786)</u>
Closing balance	<u>155</u>	<u>309</u>

(d) Claims development tables

Claims development tables have not been provided as claims are typically resolved within one year.

11 Unearned premium liability

	30-Jun-21 \$000	30-Jun-20 \$000
Opening balance	137	244
Premiums received	3,052	4,463
Earning of premiums	<u>(3,076)</u>	<u>(4,570)</u>
Closing balance	<u>113</u>	<u>137</u>
Current	113	137
Non-current	<u>-</u>	<u>-</u>
Total	<u>113</u>	<u>137</u>

12 Liability adequacy test

The liability adequacy test has identified a surplus for the Company's insurance contracts.

	30-Jun-21	30-Jun-20
	\$000	\$000
Unearned premium liability	<u>113</u>	<u>137</u>
Central estimate of present value of expected future cash flows arising from future claims on contracts issued	44	47
Risk margin 105.1% (30 June 2020: 108.1%)	<u>36</u>	<u>35</u>
Present value of expected future cash flows for future claims	<u>80</u>	<u>82</u>
Net surplus	<u>33</u>	<u>55</u>

The process for determining the overall risk margin, including the way in which diversification of risks has been allowed for is discussed in note 10 (b). As with outstanding claims, the overall risk margin is intended to achieve a 90% probability of adequacy (30 June 2020: 90%).

13 Deferred tax liabilities

	30-Jun-21	30-Jun-20
	\$000	\$000
The balance comprises temporary differences attributable to:		
Deferred acquisition costs	<u>-</u>	<u>-</u>
Opening balance	-	13
Credited to income tax expense (note 8)	<u>-</u>	<u>(13)</u>
Closing balance at 30 June	<u>-</u>	<u>-</u>

14 Share capital

	30-Jun-21	30-Jun-20	30-Jun-21	30-Jun-20
	Shares	Shares	\$000	\$000
	000	000	\$000	\$000
Ordinary shares fully paid	<u>3,500</u>	<u>3,500</u>	<u>3,500</u>	<u>3,500</u>

At 30 June 2021 the total number of authorised shares was 3.5 million (30 June 2020: 3.5 million) with no par value. All issued shares are fully paid.

Ordinary shares have no par value and entitle the holder to participate in dividends and proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

Every holder of ordinary shares present at a meeting in person or by proxy is entitled to one vote and upon a poll each share is entitled to one vote.

15 Dividends

On 23 September 2019 a dividend of 40.0 cents per fully paid share amounting to \$1,400,000 was paid.

On 25 February 2020 a dividend of 22.9 cents per fully paid share amounting to \$800,000 was paid.

On 15 March 2021 a dividend of 48.6 cents per fully paid share amounting to \$1,700,000 was paid.

16 Insurance contracts - risk management policies and procedures

The general insurance business of the Company involves a number of non-financial risks.

The risk management activities include prudent policy guidelines, pricing and management of risk, together with claims management, reserving and investment management. The objective of these disciplines is to enhance the financial performance and manage the risk profile of the insurance operations.

(a) Financial soundness

The Company ensures the financial soundness of its operations by: (i) maintaining a strong capital base to safeguard its ability to continue meeting all liabilities when due during the planned wind up of the Company and (ii) investing its assets in accordance with Board approved treasury policy. Refer also to Note 23 for further details in relation to capital risk management.

(b) Concentration of insurance risk

The Company has one class of business: Payment Protection Cover. Payment Protection Cover protects customers' ability to meet or partially meet their repayment of credit or loans if the customer faces circumstances that may prevent them from earning an income to service the debt.

(c) Insurance company rating

Rating	30-Jun-21	30-Jun-20
Insurer financial strength rating	B+(good)	B+(good)
Issuer credit rating	bbb-	bbb-
Ratings outlook	stable	stable

The outlook for both ratings is stable at 30 June 2021 and 30 June 2020.

(d) Licence

The Company holds a licence from the Reserve Bank of New Zealand to carry on non-life insurance business in New Zealand. The requirement to be licensed is a requirement of the Insurance (Prudential Supervision) Act 2010. The Company's amended licence conditions effective 1 October 2019 requires the Company to:

- Maintain a solvency margin of at least zero in accordance with the Solvency Standard for Non-life Insurance Business in Run-off 2014. The minimum amount of capital has been set as \$3 million; and
- notify and receive approval from the Reserve Bank before entering into any new contracts of insurance in New Zealand.

17 Insurance - assumptions and methods

The insurance written by the Company is short tail in nature meaning that claims are typically settled within one year of being reported.

The cost of claims notified to the Company at the balance date are reflected in the outstanding claims liability.

Actuarial assumptions

The following assumptions have been made in determining the outstanding claims liability.

	30-Jun-21	30-Jun-20
Average weighted term to settlement from balance date	5.9 mths	7.8 mths
Expense rate	23.4%	27.7%
Risk margin	57.1%	55.6%

Process used to determine assumptions

Average weighted term to settlement

The average weighted term to settlement is calculated based on historic settlement patterns.

The assumed loss ratio of 10% (30 June 2020: 10%) was determined by a consideration of observed ultimate loss ratios for earlier loss quarters. This process requires professional judgement due to variation from quarter to quarter due to the relatively small size of the portfolio.

Future incurred claims settlement patterns

The outstanding claims liability has been determined using the Bornhuetter-Ferguson (incurred claims) methodology. It has been assumed that future incurred claims settlement patterns will continue to follow observed historic patterns.

Expense rate

Claims handling expenses were calculated by reference to past experience of claims handling costs.

Inflation and discount rates

For outstanding claims liabilities, the period between the valuation date and the settlement date of most claims is expected to be short and the increase in costs as a result of inflation is not likely to be material. The outstanding claims liabilities have been discounted for the time value of money using rates of 0.25% to 0.4% (30 June 2020: 0.2% to 0.9%).

Sensitivity analysis - insurance contracts

An increase/decrease of 10% in the key variables (average weighted term to settlement, assumed loss ratios, future incurred claims settlement patterns and expense rate) does not have a material impact on the Company's profit or equity.

18 Actuarial information

Craig Lough of Melville Jessup Weaver ("MJW"), a Fellow of the New Zealand Society of Actuaries, was appointed as the Actuary of Consumer Insurance Services Limited in accordance with the Insurance (Prudential Supervision) Act 2010.

An Insurance Liability Valuation Report effective 30 June 2021 was provided by MJW to the Company. Overall, the Actuary confirmed that he is satisfied with the nature, accuracy and sufficiency of the information provided to him to determine the outstanding claims liability.

The key assumptions used by the Actuary in determining the outstanding claims liability are included in note 17.

19 Imputation credits

The Company is a member of the FlexiGroup consolidated income tax group and can access imputation credits of the imputation group. The amount of imputation credits available to the Company as at 30 June 2021 is \$81,941,309 (30 June 2020: \$52,862,000).

20 Financial risk management

(a) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Interest revenues may increase or decrease as a result of changes in market interest rates.

The Company is a controlled entity of humm Group Limited, which operates a group Asset and Liability Committee ("ALCO") that is responsible for managing interest rate risk in accordance with its charter and treasury risk management policies. In addition, the Company operates an Insurance Committee ("INSCO"), which along with ALCO, oversees the management of interest rate risk.

Cash flow sensitivity analysis

The following tables summarise the sensitivity of the Company's financial assets and financial liabilities held at reporting date to cash flow interest rate risk. The analysis demonstrates the impact of a +/- 100 basis point change in interest rates, with all other variables held constant, on the Company's after-tax profits and equity.

30 June 2021	Carrying amount \$000	Cash flow interest rate risk			
		-1% Profit after income tax expense \$000	Equity \$000	+1% Profit after income tax expense \$000	Equity \$000
Financial assets					
Cash and cash equivalents	2,240	(16)	(16)	16	16
Short term deposits	3,000	(22)	(22)	22	22
Related party receivables	394	-	-	-	-
Other financial assets	3	-	-	-	-
Financial liabilities					
Payables	-	-	-	-	-
Related party payables	(698)	-	-	-	-
Total (decrease)/increase		(38)	(38)	38	38

30 June 2020	Carrying amount \$000	Cash flow interest rate risk			
		-1% Profit after income tax expense \$000	Equity \$000	+1% Profit after income tax expense \$000	Equity \$000
Financial assets					
Cash and cash equivalents	3,197	(23)	(23)	23	23
Short term deposits	2,000	(14)	(14)	14	14
Related party receivables	398	-	-	-	-
Other financial assets	5	-	-	-	-
Financial liabilities					
Payables	(203)	-	-	-	-
Related party payables	(16)	-	-	-	-
Total (decrease)/increase		(37)	(37)	37	37

20 Financial risk management

No fair value sensitivity analysis has been disclosed due to the impact of reasonably possible changes in interest rates not being material as at 30 June 2021 and 30 June 2020.

(b) Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its payment obligations. It includes the risk that the Company may have insufficient liquid funds, or may not be able to raise sufficient funds to meet its payment obligations. This situation can arise if there is a significant mismatch of its financial assets and financial liabilities.

ALCO oversees all aspects of balance sheet risk assessment and management, including liquidity risk. ALCO has a formal charter which outlines its role and responsibilities. All treasury related activity must comply with formal treasury risk management policies.

The Company manages liquidity risk by monitoring day to day funding requirements and balance sheet liquidity ratios.

Maturity analysis

The tables below present the Company's cash flows by remaining contractual maturities at balance date. The amounts disclosed are the contractual undiscounted cash flows.

	Call	Up to 6 months	Over 6 months and up to 1 year	Over 1 year and up to 2 years	Over 2 years and up to 5 years	Over 5 years	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
30 June 2021							
Financial assets							
Cash at bank	2,240	-	-	-	-	-	2,240
Short term deposits	-	3,000	-	-	-	-	3,000
Related party receivables	-	394	-	-	-	-	394
Other financial assets	-	3	-	-	-	-	3
	<u>2,240</u>	<u>3,397</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,637</u>
Financial liabilities							
Payables	-	-	-	-	-	-	-
Related party payables	-	(698)	-	-	-	-	(698)
	<u>-</u>	<u>(698)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(698)</u>
30 June 2020							
Financial assets							
Cash at bank	3,197	-	-	-	-	-	3,197
Short term deposits	-	2,000	-	-	-	-	2,000
Related party receivables	-	398	-	-	-	-	398
Other financial assets	-	5	-	-	-	-	5
	<u>3,197</u>	<u>2,403</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,600</u>
Financial liabilities							
Payables	-	(203)	-	-	-	-	(203)
Related party payables	-	(16)	-	-	-	-	(16)
	<u>-</u>	<u>(219)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(219)</u>

20 Financial risk management

The tables below analyse the Company's cash flows from insurance assets and insurance liabilities by expected maturities at balance date.

	Up to 6 months	Over 6 months and up to 1 year	Over 1 year and up to 2 years	Over 2 years and up to 5 years	Over 5 years	Total
30 June 2021	\$000	\$000	\$000	\$000	\$000	\$000

Insurance liabilities

Outstanding claims liability	81	74	-	-	-	155
Unearned premium liability	<u>113</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>113</u>
	<u>194</u>	<u>74</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>268</u>

	Up to 6 months	Over 6 months and up to 1 year	Over 1 year and up to 2 years	Over 2 years and up to 5 years	Over 5 years	Total
30 June 2020	\$000	\$000	\$000	\$000	\$000	\$000

Insurance liabilities

Outstanding claims liability	209	41	31	27	1	309
Unearned premium liability	<u>137</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>137</u>
	<u>346</u>	<u>41</u>	<u>31</u>	<u>27</u>	<u>1</u>	<u>446</u>

(c) Credit risk

The Company is exposed to credit risk, which is the risk that a counterparty will cause a financial loss for the Company by failing to discharge an obligation. Credit exposures arise principally in relation to cash and cash equivalents and short term deposits held with other entities and related party receivables.

The Company is a controlled entity of FlexiGroup (New Zealand) Limited, which has a Credit Committee which oversees all aspects of credit risk assessment and management across the group. The Credit Committee operates within formal credit policies and guidelines approved by the Board.

Maximum exposure to credit risk before collateral held or other credit enhancements

	30-Jun-21	30-Jun-20
	\$000	\$000
Cash and cash equivalents	2,240	3,197
Short term deposits	3,000	2,000
Related party receivables	394	398
Other financial assets	<u>3</u>	<u>5</u>
	<u>5,637</u>	<u>5,600</u>

The above table shows the maximum credit risk exposure at 30 June 2021 and 30 June 2020. No collateral is held by the Company for the assets listed in the table above. Cash and cash equivalents and short term deposits are held with two financial institutions (30 June 2020: 2). At balance date the two financial institutions have a long term credit rating of "AA-" from Standard & Poor's (30 June 2020: "AA-").

While the financial assets noted above are subject to the impairment requirements of NZ IFRS 9, the identified impairment allowances for expected credit losses was immaterial as the financial assets held are short term in nature and the counterparties have a strong capacity to meet their contractual obligations in the near term.

20 Financial risk management

(d) Fair value estimation

The carrying value of all financial assets and financial liabilities has been determined to be a reasonable approximation of their fair value, due to the short term nature of these financial instruments. In particular, the carrying values of cash and cash equivalents, short term deposits, related party receivables, sundry debtors, payables, and related party payables approximate their fair values.

(e) Foreign exchange risk

As at 30 June 2021 the Company had no foreign currency exposure (30 June 2020: \$Nil).

(f) Other activities

The Company has no involvement in funds management, securitisation, custodial or trust activities.

(g) Financial instruments by category

	At fair value through profit or loss \$000	At amortised cost \$000	Total \$000
At 30 June 2021			
Financial assets			
Cash and cash equivalents	-	2,240	2,240
Short term deposits	3,000	-	3,000
Related party receivables	-	394	394
Other financial assets	-	3	3
Total	3,000	2,637	5,637
Financial liabilities			
Related party payables	-	(698)	(698)
Total	-	(698)	(698)
	At fair value through profit or loss	At amortised cost	Total
At 30 June 2020 (Restated)			
Financial assets			
Cash and cash equivalents	-	3,197	3,197
Short term deposits	2,000	-	2,000
Related party receivables	-	398	398
Other financial assets	-	5	5
Total	2,000	3,600	5,600
Financial liabilities			
Payables	-	(203)	(203)
Related party payables	-	(16)	(16)
Total	-	(219)	(219)

21 Contingencies

There were no material contingent assets or liabilities at 30 June 2021 (30 June 2020: \$Nil).

22 Related parties

(a) Parent entities

The Company is controlled by humm (NZ) Limited ("humm (NZ)"), a New Zealand company whose name was changed with effect from 31 May 2021 from Flexi Cards Limited, which in turn is a wholly owned subsidiary of FlexiGroup (New Zealand) Limited, a New Zealand company. FlexiGroup (New Zealand) Limited is a wholly owned subsidiary of Flexirent Capital Pty Limited, an Australian company.

(b) Directors

The names of persons who were directors of the Company at any time during the year ended 30 June 2021 were as follows: C M da Silva, P ter Brake, JH Murray and R D Aucutt.

Effective 22 July 2020, R D Aucutt ceased as a director of the Company.

Effective 22 July 2020, JH Murray was appointed as a director of the Company, and effective 3 September 2021 ceased as a director of the Company.

(c) Key management and personnel compensation

Key management personnel are defined as being Directors and executives of the Company. Compensation to key management personnel for the year ended 30 June 2021 of \$34,000 (year ended 30 June 2020: \$76,000) was paid by humm (NZ) and reimbursed by the Company.

(d) Transactions with related parties

The related party balances are settled on a monthly basis, with no interest charged.

(i) Related party receivables comprise of:

	30-Jun-21 \$000	30-Jun-20 \$000
Receivable from		
- Other entities controlled by ultimate parent entity	<u>394</u>	<u>398</u>

(ii) Related party payables comprise of:

	30-Jun-21 \$000	30-Jun-20 \$000
- humm (NZ) Limited	695	16
- Other entities controlled by ultimate parent entity	<u>3</u>	<u>-</u>
	<u>698</u>	<u>16</u>

22 Related parties

(iii) Other transactions

Other transactions with related parties are shown below:

	30-Jun-21	30-Jun-20
	\$000	\$000
Other transactions		
- Audit of financial statements - paid by humm (NZ)	32	29
- Other assurance related services (assurance over solvency return) - paid by humm (NZ)	7	7
Dividends paid to humm (NZ) (note 15)	1,700	2,200
Insurance premiums collected by entities controlled by the ultimate parent company	3,052	4,463
Insurance commissions paid to entities controlled by the ultimate parent company	466	631
Overheads recharged by humm (NZ)	186	620
Interest expense settled by humm (NZ) on behalf of the Company	23	-

humm (NZ)'s recharges for the period 1 September 2020 to 30 June 2021 were allocated based on services provided. Recharges were waived by humm (NZ) for the period 1 March 2020 to 31 August 2020 and resumed from 1 September 2020. Recharges waived for the two month period to 31 August 2020 amounted to approximately \$80,000 (four month period to 30 June 2020 amounted to approximately \$200,000).

The payment of insurance commissions were waived by entities controlled by humm (NZ) for the period 1 March 2020 to 31 August 2020 and resumed from 1 September 2020. Commissions costs waived for the two months to 31 August 2020 amounted to approximately \$119,000 (four month period to 30 June 2020 amounted to approximately \$283,000).

The auditor (PricewaterhouseCoopers) has also provided other services to FlexiGroup (New Zealand) Limited or other entities controlled by FlexiGroup (New Zealand) Limited which were relevant to the Company in part. These included tax compliance services, and tax pooling services. The fees in relation to these services totalled \$52,826 (year ended 30 June 2020: \$300,437) and were paid by FlexiGroup (New Zealand) Limited or other entities controlled by FlexiGroup (New Zealand) Limited.

23 Capital risk management

The Company's objectives when managing capital are:

- to safeguard the Company's ability to continue meeting all liabilities when due during the planned wind up of the Company and to provide returns to its shareholder; and
- to maintain a strong capital base to support the development of its business.

The level of capital is determined by the Board taking into account the requirements of the Insurance (Prudential Supervision) Act 2010 and the Solvency Standard for Non-life Insurance Business in Run-off 2014, as well as internal policies.

The Solvency Standard for Non-life Insurance Business in Run-off 2014 requires a licensed insurer to:

- at all times, maintain a Solvency Margin as defined in the solvency standard. The Solvency Margin must always be a positive amount, and a licensed insurer must maintain Actual Solvency Capital in excess of the amount required to maintain this Solvency Margin;
- if a licensed insurer has reasonable grounds to believe that a failure to maintain a Solvency Margin is likely to occur at any time within the next three years, the licensed insurer must report the likely failure to the Reserve Bank of New Zealand as soon as is reasonably practicable; and
- maintain a probability of sufficiency of 90%.

The Company has complied with these minimum capital requirements during the periods reported.

23 Capital risk management

The tables below show the calculation of the solvency capital.

(a) Actual solvency capital

	30-Jun-21 \$000	30-Jun-20 \$000
Share capital	3,500	3,500
Retained earnings	824	1,058
Dividend declared post balance sheet	(800)	-
Total tier one capital	<u>3,524</u>	<u>4,558</u>

(b) Minimum solvency capital

	30-Jun-21 \$000	30-Jun-20 \$000
Minimum solvency capital required *	3,000	3,000
Solvency margin	524	1,558
Solvency ratio	117%	152%

* Minimum solvency capital is the greater of the sum of the capital charges or \$3.0 million, as required by the Insurance (Prudential Supervision) Act 2010 and the Solvency Standard for Non-life Insurance Business in Run-off 2014.

24 Events occurring after the balance date

Effective 3 September 2021, JH Murray ceased as a director of the Company.

On 17 August 2021, the New Zealand Government announced a move from Alert Level 1 to Alert Level 4 for the entire country following confirmation of community spread of the COVID-19 Delta variant. This increase in Alert Levels did not result in changes to the assumptions relating to the Company's key estimates and judgements referred to in the financial statements. The Alert Level has subsequently decreased to either Alert 3 or Alert 2 for each region throughout the country.

On 7 October 2021, the Company declared a dividend of 22.9 cents per fully paid share amounting to \$800,000 to humm (NZ).

There have been no other material subsequent events after the balance sheet date.



Independent auditor's report

To the shareholder of Consumer Insurance Services Limited

Our opinion

In our opinion, the accompanying financial statements of Consumer Insurance Services Limited (the Company), present fairly, in all material respects, the financial position of the Company as at 30 June 2021, 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).

What we have audited

The financial statements comprise:

- the statement of financial position as at 30 June 2021;
- 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 significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) 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.

Independence

We are independent of the Company in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the *International Code of Ethics for Professional Accountants (including International Independence Standards)* issued by the International Ethics Standards Board for 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 relation to assurance over the regulatory solvency return. Our firm also carries out other services for FlexiGroup (New Zealand) Limited and other entities controlled by FlexiGroup (New Zealand) Limited in relation to tax compliance services and tax pooling services which are relevant to the Company in part. Subject to certain restrictions, partners and employees of our firm may also individually deal with the Company on normal terms within the ordinary course of trading activities of the Company. These services and relationships have not impaired our independence as auditor of the Company.

Emphasis of matter – Basis of preparation

We draw attention to Note 1 of the financial statements, which states that the financial statements of the Company for the year ended 30 June 2021 have been prepared on a realisation basis rather than a going concern basis and the reasons why the Company is no longer regarded as a going concern. Our opinion is not modified in respect of this matter.



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 year. 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.

Description of the key audit matter	How our audit addressed the key audit matter
<p>Valuation of the outstanding claims liability</p> <p>2021 \$155,000, 2020 \$309,000</p> <p>The valuation of the outstanding claims liability is a key audit matter because of the complexity involved in the estimation process and the significant judgements that management makes in determining the balance.</p> <p>Management appointed an external actuary (the Company's actuary) to assist with the valuation of the outstanding claims liability. Key actuarial assumptions used in calculating the outstanding claims liability include the assumed loss ratios, claims handling expenses and the risk margin.</p> <p>The risk margin allows for an inherent uncertainty in the central estimate of the future claim payments. As the Company is no longer writing new policies and is in run-off, the valuation of the outstanding claims liability has been determined at a level equivalent to a probability of sufficiency of 90% in determining the risk margin. This is in line with the Solvency Standard for Non-life Insurance Business in Run-off 2014 issued by the Reserve Bank of New Zealand.</p> <p>The valuation process also relies on the quality of the underlying claims data.</p> <p>Management assessed the impact of COVID-19 on the valuation of the outstanding claims liability, as referred to in note 3 of the financial statements</p> <p><i>Relevant references in the financial statements</i></p> <p>Refer to notes 2(k), 10 and 17 to the financial statements, which also describe the elements that comprise the balance and the assumptions and methods applied.</p>	<p>Our audit procedures included obtaining an understanding of key actuarial controls, including key data reconciliations and management's review of the estimates.</p> <p>Historical claims data is a key input to the actuarial estimates. Accordingly, we inspected a sample of claims paid during the year to confirm that they were supported by appropriate documentation and approved within delegated authority limits.</p> <p>Together with PwC actuarial experts we:</p> <ul style="list-style-type: none"> • Evaluated the actuarial methodologies used to determine the valuation of the outstanding claims liability; • Considered the work and findings of the Company's actuary; • Assessed key actuarial judgements and assumptions, including the assumed loss ratios and the claims handling expenses, and challenged these by comparing with our expectations based on historical results, our own sector knowledge and the planned wind up of the Company; and • Assessed the risk margin by comparing to known industry practices. <p>We understood and assessed the impact of COVID-19 on the underlying business and potential impact on the valuation of the outstanding claims liability and the associated disclosures in the financial statements.</p> <p>We have no matters to report from the procedures performed.</p>



Our audit approach

Overview

Materiality	<p>Overall materiality: \$99,900, which represents approximately 5% of profit before tax.</p> <p>We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Company is most commonly measured by users, and is a generally accepted benchmark.</p>
Key audit matters	<p>As reported above, we have one key audit matter, being:</p> <ul style="list-style-type: none">• Valuation of the outstanding claims liability

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance about whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

Other information

The Directors are responsible for the other information. The other information comprises the information included 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 that we 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.



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/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 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 Callum Dixon.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
7 October 2021

Auckland