

Pacific International Insurance Pty Ltd New Zealand Branch

Financial Statements

For the Year Ended 30 June 2018

Pacific International Insurance Pty Ltd New Zealand Branch

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For the Year Ended 30 June 2018

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Pacific International Insurance Pty Ltd New Zealand Branch

Directors' Report

30 June 2018

The directors present their report on Pacific International Insurance Pty Ltd New Zealand Branch - NZ Branch ("Branch") for the financial year ended 30 June 2018.

The Directors are responsible for the preparation, in accordance with the Branch's constitution and generally accepted accounting practice, of financial statements which fairly present the financial position of the Branch as at 30 June 2018 and the results of the operations for the year ended 30 June 2018.

The Directors consider that the financial statements of the Branch have been prepared using accounting policies appropriate to the Branch, consistently applied and supported by reasonable and prudent judgements and estimates, and that all applicable International Financial Reporting Standards and NZ IFRS have been followed.

The Directors have responsibility for ensuring that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Branch and enable them to ensure that the financial statements comply with the relevant accounting standards.

The Directors have responsibility for the maintenance of a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting. The Directors consider that adequate steps have been taken to safeguard the assets of the Branch and to prevent and detect fraud and other irregularities.

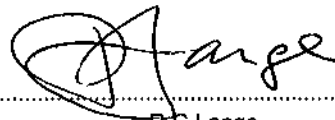
Signed in accordance with a resolution of the Board of Directors:

Director:



S J S Garrett

Director:



R C Lange

Dated

23-10-2018

Pacific International Insurance Pty Ltd New Zealand Branch

Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 30 June 2018

| | | 2018 | 2017 |
|------------------------------------------------|-------------|------------------|------------------|
| | Note | \$ | \$ |
| Gross Earned Premium | 4 | 161,951 | 143,214 |
| Expenses | | | |
| Claims expense | 6 | (53,848) | (24,359) |
| Net Claims Expenses | | <u>(53,848)</u> | <u>(24,359)</u> |
| Policy acquisition expenses | | (6,882) | (4,935) |
| Other Operating Expenses | 5 | (282,536) | (613,358) |
| Total Expenses | | <u>(343,266)</u> | <u>(642,652)</u> |
| Net underwriting (loss)/profit | | (181,315) | (499,438) |
| Other Income | 4 | 115,865 | 446,810 |
| Investment & Other income | | <u>115,865</u> | <u>446,810</u> |
| Loss before income tax | | <u>(65,450)</u> | <u>(52,628)</u> |
| Income tax benefit | 7 | 16,045 | 34,865 |
| Loss for the year | | <u>(49,405)</u> | <u>(17,763)</u> |
| Gain/(Loss) on exchange differences | | 11,679 | (22,391) |
| Total comprehensive income for the year | | <u>(37,726)</u> | <u>(40,154)</u> |

The accompanying notes form part of these financial statements.

Pacific International Insurance Pty Ltd New Zealand Branch

Statement of Financial Position

As At 30 June 2018

| | Note | 2018 \$ | 2017 \$ |
|--------------------------------------|------|----------------|----------------|
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | 8 | 49,094 | 84,663 |
| Trade and other receivables | 9 | 832,884 | 827,711 |
| Deferred acquisition costs | 13 | 707 | 4,656 |
| TOTAL CURRENT ASSETS | | 882,685 | 917,030 |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 10 | 7,383 | 8,622 |
| Deferred tax assets | 14 | 61,716 | 45,719 |
| TOTAL NON-CURRENT ASSETS | | 69,099 | 54,341 |
| TOTAL ASSETS | | 951,784 | 971,371 |
| LIABILITIES | | | |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 15 | 84,076 | 126,167 |
| Outstanding Claims Liability | 17 | 4,556 | 33,587 |
| Unearned Premium Liabilities | 18 | 82,244 | 83,018 |
| TOTAL CURRENT LIABILITIES | | 170,876 | 242,772 |
| TOTAL NON-CURRENT LIABILITIES | | - | - |
| TOTAL LIABILITIES | | 170,876 | 242,772 |
| NET ASSETS | | 780,908 | 728,599 |
| EQUITY | | | |
| Head Office Account | 20 | 1,052,630 | 962,595 |
| Retained earnings | | (271,722) | (233,996) |
| TOTAL EQUITY | | 780,908 | 728,599 |

The accompanying notes form part of these financial statements.

Pacific International Insurance Pty Ltd New Zealand Branch

Statement of Changes in Equity
For the Year Ended 30 June 2018

2018

| | Capital-Head Office Account | Retained Earnings | Total |
|----------------------------------------|-----------------------------------|----------------------|----------------|
| | \$ | \$ | \$ |
| Balance at July 1, 2017 | 962,595 | (233,996) | 728,599 |
| Loss for the year | - | (49,405) | (49,405) |
| Cash transferred from/(to) Head Office | 90,035 | - | 90,035 |
| Foreign exchange gain | - | 11,679 | 11,679 |
| Balance at 30 June 2018 | 1,052,630 | (271,722) | 780,908 |
| Balance at July 1, 2016 | 657,718 | (193,842) | 463,876 |
| Loss for the year | - | (17,763) | (17,763) |
| Cash transferred from/(to) Head Office | 304,877 | - | 304,877 |
| Foreign exchange loss | - | (22,391) | (22,391) |
| Balance at 30 June 2017 | 962,595 | (233,996) | 728,599 |

The accompanying notes form part of these financial statements.

Pacific International Insurance Pty Ltd New Zealand Branch

Statement of Cash Flows

For the Year Ended 30 June 2018

| | Note | 2018 | 2017 |
|-----------------------------------------------------------|-------------|-------------|-------------|
| | | \$ | \$ |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Premiums received | | 300,425 | 161,554 |
| Claims payments | | (102,716) | (29,264) |
| Commissions paid | | (6,882) | (7,044) |
| Payments to suppliers and employees | | (328,110) | (406,430) |
| Net cash used in operating activities | 24 | (137,283) | (281,184) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Purchase of property plant and equipment | | - | (3,804) |
| Net cash used in investing activities | | - | (3,804) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Payments (to)/from head office | | 90,035 | 304,877 |
| Net cash provided by/(used in) financing activities | | 90,035 | 304,877 |
| Net (decrease)/increase in cash and cash equivalents held | | (47,248) | 19,889 |
| Cash and cash equivalents at beginning of year | | 84,663 | 87,165 |
| Impact of foreign exchange movements | | 11,679 | (22,391) |
| Cash and cash equivalents at end of financial year | 8 | 49,094 | 84,663 |

The accompanying notes form part of these financial statements.

Pacific International Insurance Pty Ltd New Zealand Branch

Notes to the Financial Statements

For the Year Ended 30 June 2018

Pacific International Insurance Pty Ltd New Zealand Branch is a for-profit proprietary Company, incorporated and domiciled in Australia. On 1 August 2014 the New Zealand business of Pacific International Insurance Limited migrated to the New Zealand Branch of Pacific International Insurance Pty Ltd (the Company) an Australian entity.

Pacific International Insurance Pty Ltd is a fully owned subsidiary of Rapid Solutions Holdings Pty Ltd which itself is a fully owned subsidiary of Gramar Family Holdings Pty Limited.

On 10 May 2018, Badger International (NZ) LP acquired all issued shares of Gramar Family Holdings Pty Limited and as such is now the ultimate parent of Pacific International Insurance Pty Ltd

The New Zealand Branch was issued with an insurance license by the Reserve Bank of New Zealand that it has an insurance licence with effect from 1 August 2014. The Branch provides indemnity and liability insurance to the pest, weed and carpet cleaning industries in New Zealand. Additionally, the branch provides New Zealand Qualifications Authority accredited training courses to these particular industries.

Assets and liabilities were transferred to the Branch, at their carrying value in the New Zealand corporate entity, at 1 August 2014, as a common control transaction.

The financial statements have been prepared on a going concern basis, the validity of which depends on the continued support of Pacific International Insurance Pty Ltd. The Branch is part of Pacific international Insurance Pty Ltd, which is incorporated in Australia. The assets of the Branch are legally available for the satisfaction of debts of the entire company, not solely those appearing on the accompanying statement of financial position and its debts may result in claims against assets not appearing thereon. This entity has confirmed that its policy is to ensure that the Branch is in a position to meet its obligations as and when those obligations fall due.

The financial statements of the New Zealand branch are for the year ended 30 June 2018 and were authorised for issue by the Directors' on 23 October 2018.

1 Basis of Preparation

These financial statements have been prepared in accordance with and comply with Generally Accepted Accounting Practice in New Zealand and for the purpose of complying with GAAP, the company is a 'for-profit-entity'. They comply with International Financial Reporting Standards and New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable financial reporting standards appropriate for profit orientated entities. The NZ Branch has prepared its financial statements for the year ended 30 June 2018 on the basis of full disclosure under NZ IFRS. The financial statements have been prepared in accordance with the requirements of the External Reporting Board, the Financial Markets Conduct Act 2013 and the Insurance (Prudential Supervision) Act 2010.

The financial statements have been prepared on the historical costs basis, except as stated below.

These financial statements are presented in Australian dollars rounded to the nearest dollar. The branch functional currency is Australian Dollars as the branch is financed and managed in Australia even though the primary economic environment it operates in is New Zealand.

These financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Notes to the Financial Statements

For the Year Ended 30 June 2018

2 Summary of Significant Accounting Policies

(a) Revenue

Premium revenue

Direct premium revenue comprises amounts charged to policyholders. The earned portion of premiums receivable, including unclosed business, is recognised as income. Premium is earned from the date of attachment of the risk, over the contract period based on the pattern of the risks underwritten.

Training Enrolment Income

Training enrolment income consists of revenue generated through the training division of Pacific International Insurance Pty Ltd - New Zealand Branch.

(b) Goods and services tax (GST)

All balances are presented net of goods and services tax (GST), stamp duty and fire service levies, except for receivables and payables which are presented inclusive of GST.

Cash flows in the statement of cash flows are included on a gross basis and the GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

(c) Reinsurance

The Branch is covered by the Reinsurance policies taken out by the Australian corporate entity. There has been no apportionment of the reinsurance expense taken out by the Australian corporate entity because of the expected immateriality of the charge.

(d) Expenses

Claims expense

Claims expense represents payments made on claims and the movement in the outstanding claims liability as described below under outstanding claims liability.

Operating lease payments

Payments made under operating leases, including any lease incentives, are recognised in the profit or loss on a straight line basis over the term of the lease.

Finance income and expenses

Finance income comprises interest income. Interest income is recognised as it is accrued, using the effective interest rate method. Finance expenses comprise interest income on bank borrowings, unwinding of the discount on provisions.

(e) Income Tax

The income tax expense or credit for the year is the taxation payable on the current year's taxable income adjusted for changes in deferred taxation assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and the carrying amounts in the financial statements and changes in any unused taxation.

Notes to the Financial Statements

For the Year Ended 30 June 2018

2 Summary of Significant Accounting Policies (cont'd)

(e) Income Tax (cont'd)

Deferred income tax is provided in full and is recognised on temporary differences between the tax bases of assets and liabilities and their carrying values in the financial statements.

Deferred tax assets are recognised where it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Where an item, which gives rise to a temporary difference, is recognised in or against equity, the deferred income tax is also recognised against equity.

(f) Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, which are subject to an insignificant risk of changes in value.

(g) Property, plant and equipment

Owned assets

Plant and equipment is stated at cost, less accumulated depreciation and impaired losses.

Where material parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Subsequent costs

Subsequent costs are added to the carrying amount of an item of property, plant and equipment when that cost is incurred if it is probable that the future economic benefits embodied in the item will flow to the Company and the cost of the item can be measured reliably. All other costs are recognised as an expense in the statement of profit or loss and other comprehensive income in the period the cost has been incurred.

Depreciation

Depreciation is charged over the estimated useful life to the profit or loss. The residual value of assets is reassessed annually.

The depreciation rates used for each class of depreciable asset are shown below:

| Fixed asset class | Depreciation rate |
|--------------------------------------------------|-------------------|
| Furniture and Fittings - diminishing value basis | 11% - 67% |
| Computer Equipment - diminishing value basis | 26% - 50% |
| Motor Vehicles - diminishing value basis | 30% - 36% |

At the end of each annual reporting period, the depreciation method, useful life and residual value of each asset is reviewed. Any revisions are accounted for prospectively as a change in estimate.

Notes to the Financial Statements

For the Year Ended 30 June 2018

2 Summary of Significant Accounting Policies (cont'd)

(h) Non-derivative financial instruments

Non derivative financial instruments comprise investments, trade and other receivables, related party receivables, loans to shareholders, loans to other related parties, cash and cash equivalents, term loans and related party payables, including head office account payable.

Non-derivative financial assets except for investments are classified as loans and receivables.

Investments are initially recognised at fair value with the transaction costs being expensed in profit or loss. Subsequent to initial recognition investments are valued at fair value with changes in fair value recognised in profit or loss. Fair value of government stock is established by reference to quoted bid prices. Interest income is recognised in profit or loss as earned.

Other non-derivative financial instruments are recognised initially at fair value plus any attributable transactions costs. Subsequent to initial recognition, other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

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

(i) Trade receivables

Trade receivables are recognised when due and measured on initial recognition at the fair value of the consideration receivable. Subsequent to initial recognition, trade receivables are measured at amortised cost less any impairment.

(j) Impairment

Assets that have an indefinite useful life are not subject to amortisation and are reviewed at each balance date to determine if there is any indication of impairment. If any such impairment exists, the assets recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds the recoverable amount. Impairment losses directly reduce the carrying amount of assets and are recognised in profit or loss.

(k) Payables

Trade payables and other accounts payable are recognised when the Branch becomes obliged to make future payments resulting from the purchase of goods and services.

(l) Outstanding claims liability

Outstanding claims liabilities are recognised when contracts are entered into or acquired and loss events have occurred and are based on the estimated ultimate cost of the claims incurred but not settled at the year-end date, together with related claims handling costs.

The Company's insurance products provide cover on a 'claims made' basis rather than on an 'occurrence' basis and therefore a claim must be notified to the Company before it is incurred.

A central estimate is made of the present value of claims reported but not paid and incurred but not enough reported. A risk margin is added to this central estimate to allow for the inherent uncertainty in the central

Notes to the Financial Statements

For the Year Ended 30 June 2018

2 Summary of Significant Accounting Policies (cont'd)

(l) Outstanding claims liability (cont'd)

estimate.

Delays can be experienced between the notification and settlement of certain types of claims, therefore the ultimate cost of these claims cannot be known with certainty at the balance date. The liability is calculated at the reporting date using projection techniques based on historical data, trends and current assumptions. The liability is discounted for the time value of money, where material using the risk free government stock rate. Changes in claims that have been notified, but which have not been settled, are reflected by adjusting the liability. The liability is derecognised when the claim is discharged or withdrawn.

(m) Acquisition costs

Acquisition costs incurred in obtaining and recording insurance contracts are deferred in recognition that they represent future benefits. Deferred acquisition costs are only recognised if they can be reliably measured and are expected to give rise to future benefits. Deferred acquisition costs are amortised over the expected pattern of the incidence of risk under the insurance contract.

(n) Unearned premium reserve and liability adequacy testing

The reserve for unearned premiums includes premiums received for risks that have not yet expired. Generally the reserve is released over the term of the contract and is recognised as premium income.

A liability adequacy test is performed to assess whether there are any deficiencies in the unearned premium reserve due to expected future claims. The amount of these expected future claims is estimated using the present value of future claims and expenses plus an additional risk margin to reflect the inherent uncertainty in those cash flows. This is compared to the unearned premium reserve and deferred acquisition costs. Any deficiency is recognised in the statement of profit or loss and other comprehensive income after first writing down any deferred acquisition costs. Any additional amount is recognised in the balance sheet as an unexpired risk liability.

The liability adequacy test is performed at the level of portfolio contracts that are subject to broadly similar risks and are managed together as a single portfolio. No deficiency was recognised in 2018.

(o) Employee benefits

The Company only provides short term benefits to its employees. The short term benefit obligations are measured on an undiscounted basis and are expensed as the relative service is provided.

(p) Foreign currency transactions and balances

Transaction and balances

Transactions in foreign currency that are settled in the accounting period are translated at the settlement rate. Transactions in foreign currency that are not settled in the accounting period, resulting in monetary assets and liabilities denominated in foreign currencies at the balance date, are translated to Australian Dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on their translation, when settled subsequent to balance date, are recognised in the statement of profit or loss and other comprehensive income.

Notes to the Financial Statements

For the Year Ended 30 June 2018

2 Summary of Significant Accounting Policies (cont'd)

(q) New Accounting Standards and Interpretations

The External Reporting Board has issued new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods. The Company has decided not to early adopt these Standards. The following table summarises those future requirements, and their impact on the Company where the standard is relevant:

Issued and effective

The New Zealand International Financial Reporting Standards and Interpretations applicable for the current reporting year are given below. The adoption of these standards did not have a material financial impact:

Issued but not yet effective

As at the date of this financial report, there are a number of new and revised accounting standards published by the External Reporting Board for which the mandatory application dates fall after the end of this current reporting year.

None of these standards have been early adopted and applied in the current reporting year.

| Standard Name | Effective date for entity | Impact |
|---------------------------------------------------------------------------------|---------------------------|--------------------------------------------|
| NZ IFRS 9 Financial instruments (Final) | 1 January 2018 | Immaterial impact |
| NZ IFRS 15 Revenue from Contracts with Customers | 1 January 2018 | Likely material impact for training income |
| NZ IFRS 16 Leases | 1 January 2019 | No impact |
| NZ IFRS 17 Insurance Contracts | 1 January 2021 | Material impact |
| IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration | 1 January 2018 | Immaterial impact |

The standards, amendments and interpretations to existing standards which are listed above are not mandatory for the company until the financial year when they are expected to be applied.

(r) Insurance risk and sensitivity

The Branch has insurance contracts which transfer insurance risk from the policyholder to the Branch. The insurance risk taken on by the Branch is the possibility that an insured event occurs when that event will occur and the uncertainty surrounding the amount of any resulting claim. The Branch has estimated in these financial statements the likely amounts which are expected to be paid out both with respect of claims incurred and expected future claims. The Branch is however still at risk that the carrying amounts of insurance liabilities and assets recognised in the financial statements will be exceeded by the amount of the actual claim. This could occur when there are more claims than expected or where a claim is greater than the severity expected.

The Branch's objective is to minimise this insurance risk to within acceptable levels through the policies which manage its insurance risk. The Branch's policies to manage this risk include the diversification of risk. The Branch has developed an underwriting strategy which diversifies the types of insurance contracts written. Within each type of insurance written the Branch's policy is to ensure that there is a sufficient volume of contracts to reduce the variability in the expected outcome. The Company also cedes reinsurance which includes the Branch's insured risks. The reinsurance programme is an excess of loss arrangement whereby cover is provided on the basis of claims notified on policies issued or renewed during the period of cover.

Notes to the Financial Statements

For the Year Ended 30 June 2018

3 Critical Accounting Estimates and Judgments

The preparation of the financial statements in conformity with NZ IFRS requires management to make judgements and estimates with respect to assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Outstanding claims liability

The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. Given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

Claims reported to the Company at balance date are estimated with due regard to the claim circumstance as reported by the insured, legal representative, assessor, loss adjuster and/or other third party and then combined, where appropriate, with historical evidence on the cost of settling similar claims. Estimates of the cost of claims reported are reviewed regularly and are updated as and when new information arises.

Long-tail classes of business will typically display greater variations between initial estimates and final outcomes because there is a greater degree of difficulty in estimating IBNER reserves. Short-tail claims are typically reported soon after the claim event, and hence, estimates are more certain.

In calculating the estimated cost of unpaid claims, the Company uses a variety of estimation techniques, generally based upon statistical analysis of historical and industry experience that assumes that the development pattern of the current claims will be consistent with past experience and/or general industry benchmarks as appropriate. Allowance is made, however, for changes or uncertainties that may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims. The ultimate net outstanding claims provision also includes an additional risk margin to allow for the uncertainty within the estimation process.

4 Revenue

Premium comprises:

| | 2018 | 2017 |
|-----------------------------|----------------|----------------|
| | \$ | \$ |
| - Gross written premium | 161,177 | 161,273 |
| - Movement | 774 | (18,059) |
| Gross earned premium | 161,951 | 143,214 |
| | | |
| - Training enrolment income | 115,865 | 446,810 |

5 Other operating expenses

Included in other underwriting expenses are:

| | | |
|------------------------------|---------|---------|
| Salaries and wages | 108,145 | 464,095 |
| Training expense | 14,705 | 30,693 |
| Defined contribution expense | 2,286 | 10,546 |
| Office rent | 12,026 | 10,806 |
| Other occupancy costs | 17,571 | 21,661 |
| Travel costs | 24,823 | 13,578 |

Notes to the Financial Statements

For the Year Ended 30 June 2018

5 Other operating expenses (cont'd)

| | | |
|-----------------------------------------------|----------------|----------------|
| Depreciation | 1,239 | 12,030 |
| Audit fees | 24,708 | - |
| Accounting service cost | 44,967 | 11,862 |
| Memberships & Subscriptions | 8,572 | 2,220 |
| Loss on sale of property, plant and equipment | - | 23,972 |
| Other expenses | 23,494 | 11,895 |
| | 282,536 | 613,358 |

The branch is only in existence for the purpose of supporting the underwriting activity in New Zealand. As such as expenses incurred with the operating of the Branch are considered to be underwriting by nature excluding costs of providing training.

6 Claims expense

| | | |
|----------------|---------------|---------------|
| Claims expense | 53,848 | 24,359 |
|----------------|---------------|---------------|

Current year claims relate to risks borne in the current reporting period and relating to a reassessment of risks borne in all previous reporting periods. There are no reinsurance reimbursements in the current or prior years.

7 Income Tax Expense

(a) The major components of tax expense (income) comprise:

| | 2018 | 2017 |
|-----------------------------------|-----------------|-----------------|
| | \$ | \$ |
| Current tax expense | | |
| Local income tax - current period | (16,045) | (34,865) |

(b) Reconciliation of income tax to accounting profit:

| | | |
|----------------------------------------------------|-----------------|-----------------|
| Loss before taxation 28% (2017: 28%) | (65,450) | (52,628) |
| Other comprehensive(expense)/ income 28% 2017: 28% | 11,679 | (22,391) |
| | (53,771) | (75,019) |

Add:

Permanent differences:

| | | |
|-----------------------------------------------|-----------------|-----------------|
| - Non-deductible expenses | - | 292 |
| - Foreign exchange impact on financial assets | - | 22,391 |
| - Other | (3,364) | 150 |
| | (57,135) | (52,186) |

Taxation at 28%

| | | |
|---------------------------------------|---------------|---------------|
| Current Year: Deferred Tax Expense | 15,998 | 14,747 |
| Prior year: Deferred Tax Adjustment | - | 20,118 |
| Prior year: Income Tax Over Provision | 47 | - |
| | 16,045 | 34,865 |

Notes to the Financial Statements

For the Year Ended 30 June 2018

8 Cash and cash equivalents

| | | |
|------------------|---------------|---------------|
| Cash on hand | 343 | - |
| Cash at bank | 48,751 | 74,950 |
| Deposits at call | - | 9,713 |
| | <u>49,094</u> | <u>84,663</u> |

The deposits at banks bear interest rates that range between 2.35% and 3.00% and are available on demand.

9 Trade and other assets

| | | |
|-------------------|----------------|----------------|
| Trade receivables | 829,614 | 811,918 |
| GST Receivable | 1,325 | - |
| Prepayments | 1,945 | 15,793 |
| | <u>832,884</u> | <u>827,711</u> |

There is no impairment charge against trade and other receivables in 2018. It is expected that all receivables will be recovered inside the next twelve months.

10 Property, plant and equipment

| | 2018 \$ | 2017 \$ |
|------------------------------|--------------|--------------|
| Motor vehicles | | |
| At cost | 18,239 | 18,239 |
| Accumulated depreciation | (18,091) | (18,026) |
| Total motor vehicles | <u>148</u> | <u>213</u> |
| Furniture and fittings | | |
| At cost | 30,618 | 30,618 |
| At cost | 30,618 | 30,618 |
| Accumulated depreciation | (23,540) | (22,496) |
| Total furniture and fittings | <u>7,078</u> | <u>8,122</u> |
| Computer equipment | | |
| At cost | 9,809 | 9,809 |
| Accumulated depreciation | (9,652) | (9,522) |
| Total computer equipment | <u>157</u> | <u>287</u> |
| Total plant and equipment | <u>7,383</u> | <u>8,622</u> |

11 Financial Risk Management

The Branch's operations are exposed to a number of key risks including financial and insurance risk. The Branch's policies and procedures in managing these risks are set out below.

The Branch's financial condition and operating activities are affected by the following core risks - strategic, balance sheet and market, liquidity, solvency, counterparty, insurance, concentration, operational, contagion and governance risk.

Notes to the Financial Statements

For the Year Ended 30 June 2018

11 Financial Risk Management (cont'd)

(a) Risk Management roles and responsibilities

The Company's Board has the responsibility for setting and maintaining an appropriate risk management framework and risk appetite for the New Zealand Branch. Management has implemented risk management policies, procedures and controls to manage the risk and regularly reports to the Board Audit Committee and the Board on the current status of the risk management framework.

The key risks addressed by the risk management framework include:

- Strategic risk - the risk of internal or external events impacting on the Branch leading to failed business, policyholder or shareholder objectives.
- Balance sheet and Market risk - the risk arises from adverse movements in; interest rates in New Zealand and Australia, foreign exchange rates and general market volatilities and its impact on the market value of the company's assets and liabilities.
- Liquidity risk - the risk that the Branch will not be able to meet its cash flow requirements in the future. Liquidity risk arises from the requirement to settle claim payments and other financial obligations in the timely manner.
- Solvency risk - the risk that the Branch has insufficient assets to meet its regulatory requirements or to maintain its ongoing business operations.
- Counterparty risk - the risk that one party to a financial instrument will cause a financial loss to the Branch. Credit risk rises from receivables due from policy owners and investments in financial instruments.
- Insurance risk - The risk associated with inadequate underwriting guidelines or claims processes including the risks that arise through the group's reinsurance arrangements.
- Concentration risk - the amalgamation of risks held by the Branch to a particular counterparty, geographic region or industry.
- Operational risk - the risk of loss resulting from inadequate or failed internal processes, people, systems or from external events.
- Governance risks - the risk of loss to the Branch from ineffective control or oversight of its operations at management and board level leading to inadequate decision making processes.
- Contagion risk - The risk arising from the failure or inability of a related party to provide services as required by the Branch.

(b) The objectives for managing risk

The Branch's policies and procedures, processes and controls are designed to manage risk. These systems address all material risks, financial and non-financial likely to be faced by the Branch. The Board, aided by the Board Risk Committee and the Board Audit Committee, directs and monitors implementation, practice and performance throughout the organisation. The Branch has adopted the AS/NZS ISO 31000:2009 Standard Approach to Risk Management.

Notes to the Financial Statements

For the Year Ended 30 June 2018

11 Financial Risk Management (cont'd)

(b) The objectives for managing risk (cont'd)

The process involves establishing the context of the risk and risk assessment through:

- Identification of the risk;
- Analysing and evaluating the risk;
- Implementing controls to mitigate or reduce the risk to within Board risk appetite;
- The monitoring of risk performance against set target measures;
- And to communicate and obtain advice from internal and external stakeholders at each stage of the risk management process.

Key processes and controls used to mitigate any identified risks are:

- Well established policies, procedures and controls around the acceptance, underwriting and pricing of insurance risks;
- Maintenance and use of computer systems to provide up to date and reliable information on the risks that the Branch is exposed to;
- Use of reinsurance to preserve the Branch's capital by reducing the Branch's exposure to the costs of large claims;
- Strong processes around the development and approval of new product proposal with approval required from the Board of Directors;
- Investment that ensures that the Branch's funds are invested with secure financial institutions;
- Use of an external internal auditor, reporting to the Board Audit Committee to review compliance with Board approved policies; and
- Board appointed external actuary involved on both the pricing of new products and the establishment of claims reserves.

Terms and conditions of insurance policies

The terms and conditions attaching to insurance policies affect the level of risk accepted by the Branch. There are no special terms and conditions in any non standard contracts that have a material impact on the financial statements.

Concentration of risk

The Branch's exposure to concentrations of insurance risk is mitigated by diverse geographical location of the risks underwritten. The reinsurance policies purchased minimise the exposure of the Branch to large claims losses.

Notes to the Financial Statements

For the Year Ended 30 June 2018

11 Financial Risk Management (cont'd)

(c) Credit risk

Credit risk is the risk that one party to a financial instrument or contract will cause financial loss to the other party by failing to discharge an obligation.

12 Fair Value

The Directors consider that the carrying amounts of financial assets and financial liabilities recognised in the financial statements approximate their fair values.

Fair value hierarchy

The Company's financial assets and liabilities are carried at fair value on the Statement of Financial Position in accordance with IFRS 13. IFRS 13 *Fair Value Measurement* requires all assets and liabilities measured at fair value to be assigned to a level in the fair value hierarchy as follows:

| | |
|---------|----------------------------------------------------------------------------------------------------------------------------------------|
| Level 1 | Unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date. |
| Level 2 | Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. |
| Level 3 | Unobservable inputs for the asset or liability. |

The valuation methodology of assets valued at fair value are summarised below:

-Cash and cash equivalents and bank overdrafts are carried at face value of the amounts deposited or drawn.

As at 30 June 2018 and 30 June 2017 all cash and cash equivalents and bank overdrafts held by the Company are categorised as Level 1 securities.

13 Deferred acquisition costs

| | 2018 | 2017 |
|----------------------------------------------|---------|---------|
| | \$ | \$ |
| Deferred acquisition costs as at 1 July 2017 | 4,656 | 2,548 |
| Acquisition costs deferred | 2,933 | 7,043 |
| Amortisation charged to income | (6,882) | (4,935) |
| Deferred acquisition costs at 30 June 2018 | 707 | 4,656 |

Notes to the Financial Statements

For the Year Ended 30 June 2018

14 Deferred tax

Deferred taxation assets are attributable to:

| | 2018 \$ | 2017 \$ |
|-----------------------------|---------------|---------------|
| Employee benefits | 2,358 | 2,696 |
| Deferred taxation on losses | 15,055 | 22,998 |
| Losses brought forward | 44,303 | 21,329 |
| Deferred tax assets | 61,716 | 47,023 |

Deferred taxation liabilities are attributable to:

| | | |
|----------------------------------|---------------|---------------|
| Deferred acquisition costs | - | 1,304 |
| Deferred taxation liabilities | - | 1,304 |
| Total deferred tax assets | 61,716 | 45,719 |

Net deferred tax asset

Movements during the year

| | | |
|---------------------------------------|---------------|---------------|
| Deferred taxation assets | | |
| Balance at the beginning of the year | 47,023 | 10,854 |
| Profit or loss | 15,998 | 36,169 |
| Balance at the end of the year | 63,021 | 47,023 |

Deferred taxation liability

| | | |
|--------------------------------------|-------|-------|
| Balance at the beginning of the year | 1,305 | 713 |
| Profit or loss | - | 591 |
| | 1,305 | 1,304 |

Net deferred taxation asset at year end

| | |
|---------------|---------------|
| 61,716 | 45,719 |
|---------------|---------------|

15 Trade and Other Payables

Current

| | | |
|------------------|---------------|----------------|
| Trade payables | 40,176 | 124,948 |
| GST payable | - | 1,219 |
| Accrued expenses | 43,900 | - |
| | 84,076 | 126,167 |

It is expected that all payables will be settled in the next twelve months.

Notes to the Financial Statements

For the Year Ended 30 June 2018

16 Financial Instruments

The Company has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

The analysis of financial assets and liabilities into their categories and classes is set out in the following table:

| | 2018 | 2017 |
|------------------------------------|------------------|------------------|
| | \$ | \$ |
| Financial Assets | | |
| Cash and cash equivalents | 49,094 | 84,663 |
| Trade and other assets | 52,232 | 18,876 |
| Related party receivables | 780,652 | 793,041 |
| Total financial assets | 881,978 | 896,580 |
| Financial Liabilities | | |
| Trade and other payables | 54,254 | 120,260 |
| Related party payables | 29,822 | 5,907 |
| Head office account | 1,052,630 | 962,595 |
| Total financial liabilities | 1,136,706 | 1,088,762 |

Credit risk

The concentrations of credit risk are outlined by counterparty type below

| | | |
|---------------------------|---------|---------|
| Bank | 49,094 | 84,663 |
| Related party receivables | 780,652 | 793,041 |
| Trade receivables | 52,232 | 18,876 |

(i) Credit quality of financial assets that are neither past due nor impaired.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if applicable) or to historical information about counterparty default rates:

Credit exposure by credit rating

| | | |
|--------------|----------------|----------------|
| AAA to AA+ | | |
| AA to A- | 49,094 | 84,663 |
| BBB+ to BBB- | 832,884 | 811,917 |
| Unrated | | |
| Total | 881,978 | 896,580 |

Liquidity risk

The maturity table, based on the contractual arrangements is presented below for the purposes of disclosing the cash flows that are expected to occur over the life of the Branch's financial assets and liabilities.

Notes to the Financial Statements

For the Year Ended 30 June 2018

16 Financial Instruments (cont'd)

Liquidity risk (cont'd)

| | Carrying value \$ | Less than one year \$ | One to two years \$ | Three years and greater than three years \$ |
|------------------------------------|-------------------------|-----------------------------|---------------------------|------------------------------------------------------|
| 2018 | | | | |
| Financial assets | | | | |
| Banks | 49,094 | 49,094 | - | - |
| Related party receivable | 780,652 | 780,652 | - | - |
| Trade receivables | 52,232 | 52,232 | - | - |
| Total financial assets | 881,978 | 881,978 | - | - |
| Financial liabilities | | | | |
| Trade and other payables | 54,254 | 54,254 | - | - |
| Related party payable | 29,822 | 29,822 | - | - |
| Head office account | 1,052,630 | 1,052,630 | - | - |
| Total financial liabilities | 1,136,706 | 1,136,706 | - | - |

Market risk

The Branch's exposure to foreign currency risk was as follows:

| | 2018 NZD | 2017 NZD |
|------|-------------|-------------|
| Bank | 52,618 | 88,651 |

Sensitivity Analysis

Cash is held as operating cash in a transaction account and bears no interest. Other related parties and the head office account are interest free. A movement in the market interest is expected to have little or no impact on profit.

The branch has an exposure to foreign exchange movements but it is not expected to have a material impact on profits as transactions are completed at the current exchange rates in the month the transaction occurs.

Notes to the Financial Statements

For the Year Ended 30 June 2018

17 Outstanding claims liabilities

| | 2018 | 2017 |
|-----------------------------------------------------|--------------|---------------|
| | \$ | \$ |
| Central estimate of outstanding claims liability | 3,708 | 27,856 |
| Claims handling costs | 361 | 2,665 |
| Discount | (93) | (1,209) |
| Risk margin | 580 | 4,275 |
| Total outstanding claims liability | 4,556 | 33,587 |
| Outstanding claims at 1 July | 33,587 | 22,266 |
| Claims paid - prior | (926) | (5,228) |
| Movement in discount | (37) | (275) |
| Other movements | | |
| Prior years | (32,198) | (12,476) |
| Current year | 4,130 | 29,300 |
| Total outstanding claims liability - 30 June | 4,556 | 33,587 |

The outstanding claims liability is based on best available information at the time the financial statements are signed. Subsequent information or actions can affect the amount ultimately settled on a claim. There were no reinsurance or other recoveries made during the period ended 30 June 2018 (2017: \$0).

Assumptions adopted in calculation of general insurance liabilities.

The actuarial report was prepared by Tim Andrews, who is a Fellow of the Institute of Actuaries of Australia, and is employed by Finity Consulting Pty Limited. The Actuary is satisfied as to the accuracy of the data upon which the calculation of insurance liabilities has been made and is satisfied that the accounting provisions held in respect of the insurance liabilities are adequate.

The key assumptions which have the greatest effect on the net outstanding claims liabilities are:

| | 2018 | 2017 |
|----------------------------------------------|------------|-----------|
| | Implicit | Implicit |
| Inflation rate | | |
| Discount rate | 2.01% | 2.02% |
| Future loss ratios | 26% - 38% | 26% - 40% |
| Risk margin | 18% | 16.8% |
| Weighted average expected term to settlement | 1.11 years | 1.9 years |

Notes to the Financial Statements

For the Year Ended 30 June 2018

17 Outstanding claims liabilities (cont'd)

Process for determining the risk margin

| Sensitivity analysis | | | | |
|--------------------------------------------|------------------------------|------------------------------------|--------------------------------|--------------|
| | Movement in variable % | Profit before taxation \$ | Profit after taxation \$ | Equity \$ |
| Recognised amount per Financial Statements | - | (65,450) | (49,405) | 780,908 |
| Variable | | | | |
| Claims handling ratio expense | 5% | (65,468) | (49,419) | 780,984 |
| | -5% | (65,432) | (49,391) | 780,922 |
| Discount rate | 1% | (65,397) | (49,365) | 780,948 |
| | -1% | (65,503) | (49,445) | 780,868 |
| Risk margin | 1% | (65,456) | (49,409) | 780,904 |
| | -1% | (65,444) | (49,401) | 780,912 |

The table highlights what the result would be in the event that the variable movement is realised.

Process for determining the risk margin

The risk margin is determined by allowing for uncertainty taking into account the following:

- i) Independent risks, comprising variation in future claims costs due to the randomness inherent in the insurance process and random variation in the historical claims costs affecting the parameters selected for use in the actuarial models.
- ii) External systemic risk, comprising variation in future claims costs due to risks external to the modelling process, for example, catastrophic events or changes in the legislative environment.
- iii) Internal systemic risk which represents variation in future claims costs due to the models not being fully representative of the underlying insurance process and due to errors in the data on which the models are based.

The risk margin is intended to achieve a provision which will have 75% probability of sufficiency.

Notes to the Financial Statements

For the Year Ended 30 June 2018

17 Outstanding claims liabilities (cont'd)

Process for determining the risk margin

Claims development

The following table shows the development of outstanding claims relative to the ultimate claims costs for the eight most recent years.

| | Prior | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | Total |
|--------------------------------------------------------------|--------|--------|--------|-------|--------|--------|--------|--------|---------|
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Central estimate of ultimate incurred claims | | | | | | | | | |
| At end of accident year | - | - | - | - | 18,235 | 23,110 | 35,333 | 85,316 | - |
| One year later | - | - | - | - | 19,566 | 15,087 | 11,425 | - | - |
| Two years later | - | - | 17,613 | 1,255 | 19,728 | 13,695 | - | - | - |
| Three years later | - | 16,048 | 18,504 | 510 | 18,269 | - | - | - | - |
| Four years later | 78,966 | 16,684 | 17,659 | 4 | - | - | - | - | - |
| Five years later | 79,499 | 16,048 | 17,613 | - | - | - | - | - | - |
| Six years later | 78,966 | 16,048 | - | - | - | - | - | - | - |
| Seven years later | 78,966 | - | - | - | - | - | - | - | - |
| Central estimate of ultimate incurred claims at 30 June 2018 | 78,966 | 16,048 | 17,613 | 4 | 18,269 | 13,695 | 11,425 | 85,316 | 241,336 |
| Payments to 30 June 2018 | 78,966 | 16,048 | 17,613 | - | 18,235 | 13,558 | 11,255 | 81,316 | 237,628 |

18 Unearned Premium Liabilities

| | 2018 | 2017 |
|----------------------------------------------------------|-----------|-----------|
| | \$ | \$ |
| Unearned premium liability transferred | 83,018 | 64,959 |
| Deferral of premium on contracts written during the year | (163,315) | (125,155) |
| Transferred premiums earned | 162,541 | 143,214 |
| Unearned premium liability June 30 | 82,244 | 83,018 |

Liability adequacy test

A liability adequacy test was performed on 30 June 2018 and 30 June 2017 which indicates a surplus of \$536,581 (2017: \$539,776). The test was based on the following assumptions:

| | | |
|--------------------------------------------------------------------------------------------------------|--------|--------|
| Central estimate of the present value of expected future cash flows (\$) | 41,325 | 36,273 |
| Component of the present value of expected future cash flows related to the risk margin (\$) | 7,272 | 6,285 |
| The percentage risk margin adopted in determining the present value of expected future cash flows (%) | 19% | 19% |
| The probability of adequacy intended to be achieved through the adoption the risk margin (%) (Note 17) | 75% | 75% |

Notes to the Financial Statements

For the Year Ended 30 June 2018

19 Capital and Leasing Commitments

Leases as lessee

| | 2018 | 2017 |
|-----------------------------------------------------------------|---------------|--------------|
| | \$ | \$ |
| Non-cancellable operating lease rentals are payable as follows: | | |
| - not later than one year | 12,118 | 1,900 |
| - between one year and five years | 2,020 | - |
| - later than five years | - | - |
| | <u>14,138</u> | <u>1,900</u> |

There are no capital commitments as at 30 June 2018.

20 Head Office Account

| | | |
|-------------------------------------------------------|-------------------------|-----------------------|
| Balance as at 1 July 2017 | 962,595 | 657,718 |
| Cash transferred from Head office | 90,035 | 304,877 |
| Head office account balance as at 30 June 2018 | <u>1,052,630</u> | <u>962,595</u> |

The Head office account is used to provide Head Office funding to support the financial soundness of the Branch. The Head office account is repayable on demand. No interest is charged by the Company to the Branch on any outstanding balance.

21 Contingencies

In the opinion of the Directors, the Company did not have any contingencies at 30 June 2018 (30 June 2017: None).

22 Credit Rating

Pacific International Insurance Pty Limited has received a financial strength rating of B++ (Good) with Stable outlook from AM Best on 29 March 2018. The credit rating is an indication of the Company's current and future claims paying ability.

23 Related Parties

(a) Identity of related parties

Rapid Solutions Holdings Pty Ltd, Rapid Group Companies

The Branch has a related party relationship with its Australian counterparts, Rapid Admin Pty Ltd, Rapid Solutions Pty Ltd, Rapid Training Pty Ltd and its ultimate parent company Rapid Solutions Holdings Pty Ltd through their key management personnel, which are its shareholders, directors and executive officers.

Key Management Personnel

The key management personnel (KMP) of the Branch are those persons who have authority and responsibility for planning directing and controlling activities of the Branch, directly and indirectly. KMP includes some directors of the Company (executive and non executive) as well as executives of the Company whose roles have responsibilities that include the activities of the Branch. No key management personnel expense was charged to the Branch during the current and prior year.

Notes to the Financial Statements

For the Year Ended 30 June 2018

23 Related Parties (cont'd)

(b) Transactions and balances

Transactions during the year:

| | 2018 \$ | 2017 \$ |
|---------------------------------------------------|------------|------------|
| Rapid Training Pty Ltd - Management Fee | - | 15,000 |
| Outstanding balances; Assets/(Liabilities) | | |
| Related party receivables | | |
| Rapid Admin Pty Ltd | 780,652 | 793,041 |

The total receivable balance relates to recharge of expenses incurred by the New Zealand Branch. There is no interest receivable and no fixed collection date.

Related party payables

| | | |
|--------------------------------------------|---------------|--------------|
| Rapid Training Pty Ltd | 4,792 | 3,061 |
| Rapid Admin Pty Ltd | 6,130 | 2,846 |
| Pacific International Insurance Pty Ltd AU | 18,900 | - |
| Total related party payables | 29,822 | 5,907 |

The total payable balance relates to recharge of expenses incurred by the above mentioned related parties. There is no interest payable and no fixed repayment date.

24 Cash Flow Information

(a) Reconciliation of result for the year to cashflows from operating activities

Reconciliation of net income to net cash provided by operating activities:

| | 2018 \$ | 2017 \$ |
|------------------------------------------------------|------------------|------------------|
| Loss for the year | (37,726) | (40,154) |
| Non-cash flows in profit: | | |
| - depreciation of property, plant and equipment | 1,239 | 12,030 |
| - (profit)/loss on foreign exchange movements | (11,679) | 22,391 |
| - loss on sale of property, plant and equipment | - | 23,972 |
| - amortisation of deferred acquisition costs | - | 4,935 |
| Changes in assets and liabilities: | | |
| - decrease/(increase) in trade and other receivables | (5,173) | (351,515) |
| - decrease/(increase) in deferred acquisition costs | 3,949 | (2,826) |
| - decrease/(increase) in deferred taxation | (15,998) | (35,578) |
| - (decrease)/increase in trade and other payables | (42,090) | 56,181 |
| - (decrease)/increase in unearned premium reserve | (774) | 18,059 |
| - (decrease)/increase in outstanding claims | (29,031) | 11,321 |
| Cashflows from operations | (137,283) | (281,184) |

Notes to the Financial Statements

For the Year Ended 30 June 2018

25 Events Occurring After the Reporting Date

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

26 Capital management and solvency

The capital/solvency of the branch from a regulatory standpoint is included within that of the company in Australia. The company aims to retain a sufficient level of capital to achieve a 2:1 solvency coverage ratio to maintain its claims paying ability. The minimum capital requirement imposed by the Australian Prudential Regulatory Authority (APRA) is \$5,000,000. As at 30 June 2018 the Company had surplus capital of \$7.760m above the APRA requirement.

Post migration the Minimum Solvency Capital requirement for the Company is outlined below.

As at 30 June 2018 the Company solvency margin is.

| | 2018 | 2017 |
|--------------------------|--------|--------|
| | \$ | \$ |
| Actual Solvency Capital | 12,760 | 13,185 |
| Minimum Solvency Capital | 5,000 | 5,000 |
| Solvency Margin | 7,760 | 8,185 |
| Solvency ratio % | 255% | 264% |

The methodology for determining the Solvency Margin is in accordance with the requirements of the Prudential Standards for a General Insurance business as published by the Australian Prudential Regulation Authority.



Independent Auditor's Report

To the shareholders of Pacific International Insurance Pty Ltd - the New Zealand branch

Report on the financial statements

Opinion

In our opinion, the accompanying financial statements of New Zealand Branch of Pacific International Insurance Pty Ltd (the branch) on pages 2 to 26:

- i. present fairly in all material respects the branch's financial position as at 30 June 2018 and its financial performance and cash flows for the year ended on that date; and
- ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying financial statements which comprise:

- the statement of financial position as at 30 June 2018;
- the statements of comprehensive income, changes in equity and cash flows for the year then ended; and
- notes, including a summary of 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)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the branch in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

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



Other information

The Directors, on behalf of the branch, are responsible for the other information included in the entity's Annual Report. Our opinion on the financial statements does not cover any other information and we do not express any form of 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 materially misstated. If, based on the work we have performed, 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.



Use of this independent auditor's report

This independent auditor's report is made solely to the shareholders as a body. Our audit work has been undertaken so that we might state to the shareholders those matters we are required to state to them in the independent 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 shareholders as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.



Responsibilities of the Directors for the financial statements

The Directors, on behalf of the branch, are responsible for:

- the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.



Auditor's responsibilities for the audit of the financial statements

Our objective is:

- 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 independent auditor's report that includes our opinion.

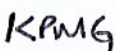
Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They 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 these financial statements is located at the External Reporting Board (XRB) website at:

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

This description forms part of our independent auditor's report.



KPMG
Sydney

23 October 2018