

# **Pacific International Insurance Pty Limited New Zealand Branch**

## **Financial Statements**

**For the Year Ended 30 June 2019**

# Pacific International Insurance Pty Limited New Zealand Branch

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For the Year Ended 30 June 2019

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**Pacific International Insurance Pty Limited New Zealand Branch**

**Directors' Report**

**30 June 2019**

The directors present their report on Pacific International Insurance Pty Limited New Zealand Branch ("Branch") for the financial year ended 30 June 2019.


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 2019 and the results of the operations for the year ended 30 June 2019.

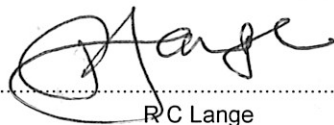
The Directors consider that the financial statements of the Branch have been prepared using accounting policies appropriate to the Branch, consistently applied and supported by reasonable and prudent judgements and estimates, and that all applicable International Financial Reporting Standards and NZ 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 30.09.2019

Pacific International Insurance Pty Limited New Zealand Branch

**Statement of Profit or Loss and Other Comprehensive Income**  
**For the Year Ended 30 June 2019**

|  | Note | 2019<br>\$       | 2018<br>\$ |
|--|------|------------------|------------|
| Gross Earned Premium                           | 4(a) | 169,328          | 161,951    |
| <b>Expenses</b>                                |      |                  |            |
| Claims expense                                 | 6    | <u>(100,971)</u> | (53,848)   |
| <b>Net Claims Expenses</b>                     |      | <u>(100,971)</u> | (53,848)   |
| Policy acquisition expenses                    |      | (6,980)          | (6,882)    |
| Other Operating Expenses                       | 5    | <u>(330,618)</u> | (282,536)  |
| <b>Total Expenses</b>                          |      | <u>(438,569)</u> | (343,266)  |
| <b>Net underwriting (loss)</b>                 |      | <u>(269,241)</u> | (181,315)  |
| Other income                                   | 4(b) | <u>143,652</u>   | 115,865    |
| <b>Other income</b>                            |      | <u>143,652</u>   | 115,865    |
| <b>Loss before income tax</b>                  |      | <u>(125,589)</u> | (65,450)   |
| Income tax benefit                             | 7    | <u>35,124</u>    | 16,045     |
| <b>Loss for the year</b>                       |      | <u>(90,465)</u>  | (49,405)   |
| <b>Other comprehensive income</b>              |      |                  |            |
| Foreign currency translation differences       |      | <u>20,105</u>    | 11,679     |
| <b>Total comprehensive income for the year</b> |      | <u>(70,360)</u>  | (37,726)   |

The accompanying notes form part of these financial statements.

Pacific International Insurance Pty Limited New Zealand Branch

**Statement of Financial Position**

As At 30 June 2019

|  | Note | 2019<br>\$       | 2018<br>\$     |
|--|------|------------------|----------------|
| <b>ASSETS</b>                            |      |                  |                |
| <b>CURRENT ASSETS</b>                    |      |                  |                |
| Cash and cash equivalents                | 8    | 901,047          | 49,094         |
| Trade and other receivables              | 9    | 62,034           | 832,884        |
| Investments - term deposit               |      | 1,959,847        | -              |
| Receivables and loans to related parties |      | 192,954          | -              |
| Deferred acquisition costs               | 13   | 4,916            | 707            |
| <b>TOTAL CURRENT ASSETS</b>              |      | <b>3,120,798</b> | <b>882,685</b> |
| <b>NON-CURRENT ASSETS</b>                |      |                  |                |
| Property, plant and equipment            | 10   | 5,747            | 7,383          |
| Deferred tax assets                      | 14   | 99,396           | 61,716         |
| <b>TOTAL NON-CURRENT ASSETS</b>          |      | <b>105,143</b>   | <b>69,099</b>  |
| <b>TOTAL ASSETS</b>                      |      | <b>3,225,941</b> | <b>951,784</b> |
| <b>LIABILITIES</b>                       |      |                  |                |
| <b>CURRENT LIABILITIES</b>               |      |                  |                |
| Trade and other payables                 | 15   | 152,404          | 84,076         |
| Outstanding Claims Liability             | 17   | 59,462           | 4,556          |
| Unearned Premium Liabilities             | 18   | 79,247           | 82,244         |
| Contract liabilities                     |      | 192,877          | -              |
| <b>TOTAL CURRENT LIABILITIES</b>         |      | <b>483,990</b>   | <b>170,876</b> |
| <b>TOTAL NON-CURRENT LIABILITIES</b>     |      | <b>-</b>         | <b>-</b>       |
| <b>TOTAL LIABILITIES</b>                 |      | <b>483,990</b>   | <b>170,876</b> |
| <b>NET ASSETS</b>                        |      | <b>2,741,951</b> | <b>780,908</b> |
| <b>EQUITY</b>                            |      |                  |                |
| Head Office Account                      |      | 3,072,354        | 1,052,630      |
| Reserves                                 |      | 31,784           | -              |
| Accumulated losses                       |      | (362,187)        | (271,722)      |
| <b>TOTAL EQUITY</b>                      |      | <b>2,741,951</b> | <b>780,908</b> |

The accompanying notes form part of these financial statements.

Pacific International Insurance Pty Limited New Zealand Branch

**Statement of Changes in Equity**

For the Year Ended 30 June 2019

|  | Capital-Head<br>Office<br>Account | Accumulated<br>losses | Foreign<br>Currency<br>Translation<br>Reserve | Total            |
|--|-----------------------------------|-----------------------|---|------------------|
|  | \$                                | \$                    | \$  | \$               |
| <b>Balance at 1 July 2018</b>          | <b>1,052,630</b>                  | <b>(271,722)</b>      | -   | <b>780,908</b>   |
| Loss for the year                      | -                                 | (90,465)              | -   | (90,465)         |
| Cash transferred from/(to) Head Office | 2,019,724                         | -                     | -   | 2,019,724        |
| Foreign exchange translation           | -                                 | -                     | 19,959  | 19,959           |
| Foreign exchange (gain)/loss           | -                                 | -                     | 146   | 146              |
| Transfers to reserve                   | -                                 | -                     | 11,679  | 11,679           |
| <b>Balance at 30 June 2019</b>         | <b>3,072,354</b>                  | <b>(362,187)</b>      | <b>31,784</b>                                 | <b>2,741,951</b> |
| <b>Balance at 1 July 2017</b>          | 962,595                           | (233,996)             | -   | 728,599          |
| Loss for the year                      | -                                 | (37,726)              | -   | (37,726)         |
| Cash transferred from/(to) Head Office | 90,035                            | -                     | -   | 90,035           |
| <b>Balance at 30 June 2018</b>         | <b>1,052,630</b>                  | <b>(271,722)</b>      | -   | <b>780,908</b>   |

The accompanying notes form part of these financial statements.

**Pacific International Insurance Pty Limited New Zealand Branch**

**Statement of Cash Flows**  
**For the Year Ended 30 June 2019**

|   | 2019               | 2018             |
|---|--------------------|------------------|
| Note  | \$                 | \$               |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>              |                    |                  |
| Premiums and training income received                     | 493,033            | 300,425          |
| Claims payments   | (46,065)           | (102,716)        |
| Commissions   | 61,348             | (6,882)          |
| Payments to suppliers and employees                       | (335,599)          | (328,110)        |
| Interest Received   | 25                 | -                |
| Net cash provided by/(used in) operating activities       | 23 <u>172,742</u>  | <u>(137,283)</u> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>              |                    |                  |
| Purchase of property plant and equipment                  | (294)              | -                |
| Investment in term deposit                                | (1,959,847)        | -                |
| Net cash used in investing activities                     | <u>(1,960,141)</u> | <u>-</u>         |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>              |                    |                  |
| Payments from head office                                 | 2,019,724          | 90,035           |
| Loan repayments from related parties                      | 587,698            | -                |
| Net cash provided by financing activities                 | <u>2,607,422</u>   | <u>90,035</u>    |
| Net increase/(decrease) in cash and cash equivalents held | 820,023            | (47,248)         |
| Cash and cash equivalents at beginning of year            | 49,094             | 84,663           |
| Impact of foreign exchange movements                      | 31,930             | 11,679           |
| Cash and cash equivalents at end of financial year        | 8 <u>901,047</u>   | <u>49,094</u>    |

The accompanying notes form part of these financial statements.

## Pacific International Insurance Pty Limited New Zealand Branch

### Notes to the Financial Statements

For the Year Ended 30 June 2019

Pacific International Insurance Pty Limited 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 Pty Limited migrated to the New Zealand Branch of Pacific International Insurance Pty Limited (the Company) an Australian entity.

Pacific International Insurance Pty Ltd is a fully owned subsidiary of Badger Australia Holdings Pty Limited which itself is a fully owned subsidiary of Badger International (NZ) LP.

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.

During the current year the Group went through a restructure in order to simplify the structure and to unlock some efficiencies. Pacific International Insurance Pty Limited New Zealand Branch became a wholly owned subsidiary of Badger Australia Holdings Pty Limited.

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.

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 Limited. The Branch is part of Pacific international Insurance Pty Limited, 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 2019 and were authorised for issue by the Directors' on 30 September 2019.

#### 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 oriented entities. The NZ Branch has prepared its financial statements for the year ended 30 June 2019 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 cost basis, except as stated below.

These financial statements are presented in Australian dollars rounded to the nearest dollar. The Branch functional currency is New Zealand dollars, even though the Branch is financed and managed in Australia, the primary economic environment it operates in is New Zealand where it currently has two employees and offices situated in Auckland.

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 2019

#### 2 Adoption of new and revised accounting standards

The Branch has adopted all of the new or amended Accounting Standards and Interpretations issued by the International Accounting Standards Board. The following Accounting Standards and Interpretations are most relevant to the Branch:

##### NZ IFRS 9 Financial Instruments

The Branch has adopted NZ IFRS 9 from 1 July 2018. The standard introduced new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows which arise on specified dates and that are solely principal and interest. A debt investment shall be measured at fair value through other comprehensive income if it is held within a business model whose objective is to both hold assets in order to collect contractual cash flows which arise on specified dates that are solely principal and interest as well as selling the asset on the basis of its fair value.

All other financial assets are classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading or contingent consideration recognised in a business combination) in other comprehensive income. Despite these requirements, a financial asset may be irrevocably designated as measured at fair value through profit or loss to reduce the effect of, or eliminate, an accounting mismatch. For financial liabilities designated at fair value through profit or loss, the standard requires a portion of the change in fair value that relates to the entity's own credit risk to be presented in other comprehensive income (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements use an 'expected credit loss' model to recognise an allowance. Impairment is measured using a 12-month expected credit loss method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime expected credit loss method is adopted. For receivables, a simplified approach to measuring expected credit losses using a lifetime expected loss allowance is available.

##### NZ IFRS 15 Revenue from Contracts with Customers

The Branch has adopted NZ IFRS 15 from 1 July 2018. The standard provides a single comprehensive model for revenue recognition. The core principle of the standard is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for goods or services. The standard introduced a new contract-based revenue recognition model with a measurement approach that is based on an allocation of the transition price. This is described further in the accounting policies below. Credit risk is presented separately as an expense rather than adjusted against revenue. Contracts with customers are presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Customer acquisition costs and costs to fulfil a contract can, subject to certain criteria, be capitalised as an asset and amortised over the contract period.

NZ IFRS 15 is only applicable to the Branch's training income stream as revenue from insurance premiums fall under NZ IFRS 17 Insurance Contracts.

##### Impact of adoption

NZ IFRS 9 and 15 were adopted and the impact is immaterial to the accounts.

#### (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.

## Notes to the Financial Statements

### For the Year Ended 30 June 2019

**(a) Revenue (cont'd)**

Training Enrolment Income

Training enrolment income consists of revenue generated through the training division. Training is provided to students over a three year period and quarterly assessments are performed by an external assessor for competency appraisal. Revenue is recognised on a monthly straight line basis (over time) with a possible quarterly adjustment once the assessments are performed.

**(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.

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.

## Notes to the Financial Statements For the Year Ended 30 June 2019

### (e) Income Tax (cont'd)

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 Branch 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:

| <b>Fixed asset class</b>                         | <b>Depreciation rate</b> |
|--|--------------------------|
| 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.

### (h) Financial instruments

Financial assets and financial liabilities are recognised when the Branch becomes a part to the contractual provisions to the instrument. For financial assets, this is the equivalent to the date that the Branch commits itself to either purchase or sale of the asset (i.e. trade date accounting is adopted). Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified 'at fair value through profit or loss', in which case transaction costs are expensed to profit or loss immediately.

## Notes to the Financial Statements For the Year Ended 30 June 2019

### (h) Financial instruments (cont'd)

Classification and Subsequent Measurement.

#### Financial Liabilities

Financial liabilities are subsequently measured at amortised cost using the effective interest rate method. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest expense to the profit or loss over the relevant period. The effective interest rate is the internal rate of return of the financial asset or liability. That is, it is the rate that exactly discounts the estimated future cash flows through the expected life of the instrument to the net carrying amount at initial recognition.

A financial liability cannot be reclassified.

#### Financial Assets

Financial assets are subsequently measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss. Measurement is on the basis of two primary criteria being the contractual cash flow characteristics of the financial asset and the business model for managing the financial asset.

A financial asset is subsequently measured at fair value through other comprehensive income where the contractual terms within the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding on specified dates.

A financial asset is subsequently measured at fair value through other comprehensive income where the contractual terms within the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding on specified dates and the business model for managing the financial asset comprises both contractual cash flow collections and the selling of the financial asset.

By default, all other financial assets that do not meet the measurement condition of amortised cost and fair value through other comprehensive income are subsequently measured at fair value through profit or loss.

#### Derecognition

##### Derecognition of Financial Liabilities

A liability is derecognised when it is extinguished (i.e. when the obligation in the contract is discharged, cancelled or expires). An exchange of an existing financial liability for a new one with substantially modified terms, or a substantial modification to the terms of a financial liability, is treated as an extinguishment of the existing liability and recognition of a new financial liability.

The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

##### Derecognition of Financial Assets

A financial asset is derecognised when the holder's contractual rights to its cash flows expires, or the asset is transferred in such a way that all the risks and rewards of ownership are substantially transferred. The criteria for the derecognition of a financial asset is satisfied when the right to receive cash flows from the asset has expired or been transferred, all risks and rewards of ownership of the asset have been substantially transferred and the Branch no longer controls the asset (i.e.: has no practical ability to make a unilateral decision to sell the asset to a third party).

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

## Notes to the Financial Statements

### For the Year Ended 30 June 2019

#### (h) Financial instruments (cont'd)

##### Expected Credit Loss

The Branch recognised a loss allowance for expected credit losses on financial assets that are measured at amortised cost or fair value through other comprehensive income. Expected credit losses are the probability-weighted estimate of credit losses over the expected life of a financial instrument. A credit loss is the difference between all contractual cash flows that are due and all cash flows expected to be received, all discounted at the original effective interest rate of the financial instrument.

The Branch uses the simplified approach to impairment. The simplified approach does not require tracking of changes in credit risk at every reporting period, but instead requires the recognition of expected credit loss at all times. This approach is applicable to trade receivables.

#### (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 Branch'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 Branch 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 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.

## Notes to the Financial Statements For the Year Ended 30 June 2019

### (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 2019 and 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.

### (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 Branch has decided not to early adopt these Standards. The following table summarises those future requirements, and their impact on the Branch where the standard is relevant:

#### Issued and effective

The New Zealand International Financial Reporting Standards and Interpretations applicable for the current reporting year as described in Note 2. 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.

## Notes to the Financial Statements

### For the Year Ended 30 June 2019

#### (q) New Accounting Standards and Interpretations (cont'd)

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

| Standard Name                  | Effective date for entity | Impact            |
|--------------------------------|---------------------------|-------------------|
| NZ IFRS 16 Leases              | 1 January 2019            | Immaterial impact |
| NZ IFRS 17 Insurance Contracts | 1 January 2021            | Material impact   |

The standards, amendments and interpretations to existing standards which are listed above are not mandatory for the Branch 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.

### 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.

**Notes to the Financial Statements**  
For the Year Ended 30 June 2019

**3 Critical Accounting Estimates and Judgments (cont'd)**

**Outstanding claims liability (cont'd)**

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**

**(a) Premium comprises:**

|  | <b>2019</b>    | <b>2018</b> |
|--|----------------|-------------|
|  | <b>\$</b>      | <b>\$</b>   |
| - Gross written premium                | <b>166,331</b> | 161,177     |
| - Movement in unearned premium reserve | <b>2,997</b>   | 774         |
| <b>Gross earned premium</b>            | <b>169,328</b> | 161,951     |

**(b) Other Income breakup**

|                             |                |         |
|-----------------------------|----------------|---------|
| - Interest income           | <b>25</b>      | -       |
| - Training enrolment income | <b>127,176</b> | 115,865 |
| - Other income              | <b>16,451</b>  | -       |
| <b>Other income</b>         | <b>143,652</b> | 115,865 |

**5 Other operating expenses**

Included in other underwriting expenses are:

|                              |                |         |
|------------------------------|----------------|---------|
| Employee cost                | <b>87,747</b>  | 108,145 |
| Training expense             | <b>44,428</b>  | 14,705  |
| Defined contribution expense | -              | 2,286   |
| Office rent                  | <b>35,713</b>  | 12,026  |
| Other occupancy costs        | -              | 17,571  |
| Travel costs                 | <b>13,636</b>  | 24,823  |
| Depreciation                 | <b>1,930</b>   | 1,239   |
| Audit fees                   | <b>19,953</b>  | 24,708  |
| Accounting service cost      | <b>8,959</b>   | 44,967  |
| Memberships & Subscriptions  | <b>2,840</b>   | 8,572   |
| Other expenses               | <b>115,412</b> | 23,494  |
|                              | <b>330,618</b> | 282,536 |

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.



**Notes to the Financial Statements**  
**For the Year Ended 30 June 2019**

**6 Claims expense**

|                  | 2019           | 2018          |
|------------------|----------------|---------------|
|                  | \$             | \$            |
| Claims paid      | 46,513         | 29,806        |
| Claims estimates | 41,579         | 23,105        |
| IBNER            | 12,879         | 937           |
| <b>Total</b>     | <b>100,971</b> | <b>53,848</b> |

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:

|                                   |          |          |
|-----------------------------------|----------|----------|
| Current tax expense               |          |          |
| Local income tax - current period | (35,124) | (16,045) |

(b) Reconciliation of income tax to accounting profit:

|  |                 |               |
|--|-----------------|---------------|
| Loss before taxation                   | (125,589)       | (65,450)      |
| Taxation at 28% (2018: 28%)            |                 |               |
| Current Year: Deferred Tax Expense     | (35,124)        | 15,998        |
| Prior year: Income Tax Under Provision | -               | 47            |
|  | <b>(35,124)</b> | <b>16,045</b> |

**8 Cash and cash equivalents**

|              |                |               |
|--------------|----------------|---------------|
| Cash on hand | 1,122          | 343           |
| Cash at bank | 899,925        | 48,751        |
|              | <b>901,047</b> | <b>49,094</b> |

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 | 51,547        | 829,614        |
| GST Receivable    | -             | 1,325          |
| Prepayments       | 10,487        | 1,945          |
|                   | <b>62,034</b> | <b>832,884</b> |

There is no impairment charge against trade and other receivables in 2019. It is expected that all receivables will be recovered inside the next twelve months.

## Notes to the Financial Statements

For the Year Ended 30 June 2019

### 10 Property, plant and equipment

|                                  | 2019                | 2018                |
|----------------------------------|---------------------|---------------------|
|                                  | \$                  | \$                  |
| Motor vehicles                   |                     |                     |
| At cost                          | 18,995              | 18,239              |
| Accumulated depreciation         | (18,889)            | (18,091)            |
| Total motor vehicles             | <u>106</u>          | <u>148</u>          |
| Furniture and fittings           |                     |                     |
| At cost                          | 31,886              | 30,618              |
| Opening balance - Owned          | (26,337)            | (23,540)            |
| Total furniture and fittings     | <u>5,549</u>        | <u>7,078</u>        |
| Computer equipment               |                     |                     |
| At cost                          | 10,216              | 9,809               |
| Accumulated depreciation         | (10,124)            | (9,652)             |
| Total computer equipment         | <u>92</u>           | <u>157</u>          |
| <b>Total plant and equipment</b> | <b><u>5,747</u></b> | <b><u>7,383</u></b> |

### 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.

#### (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.

## Notes to the Financial Statements

For the Year Ended 30 June 2019

### 11 Financial Risk Management (cont'd)

#### (a) Risk Management roles and responsibilities (cont'd)

- 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.

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;

## Notes to the Financial Statements

### For the Year Ended 30 June 2019

#### 11 Financial Risk Management (cont'd)

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

- 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.

##### (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.  |

## Notes to the Financial Statements

For the Year Ended 30 June 2019

### 12 Fair Value (cont'd)

#### Fair value hierarchy (cont'd)

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 2019 and 30 June 2018 all cash and cash equivalents and bank overdrafts held by the Company are categorised as Level 1 securities.

### 13 Deferred acquisition costs

|   | 2019         | 2018       |
|---|--------------|------------|
|   | \$           | \$         |
| Deferred acquisition costs as at 1 July | 707          | 4,656      |
| Acquisition costs deferred              | 11,189       | 2,933      |
| Amortisation charged to income          | (6,980)      | (6,882)    |
| Deferred acquisition costs at 30 June   | <u>4,916</u> | <u>707</u> |

### 14 Deferred tax

Deferred taxation assets are attributable to:

|                            |               |               |
|----------------------------|---------------|---------------|
| Employee benefits          | 2,570         | 2,358         |
| Losses carried forward     | 96,826        | 59,358        |
| <b>Deferred tax assets</b> | <u>99,396</u> | <u>61,716</u> |

Deferred taxation liabilities are attributable to:

|                                  |               |               |
|----------------------------------|---------------|---------------|
| Deferred taxation liabilities    | -             | -             |
| <b>Total deferred tax assets</b> | <u>99,396</u> | <u>61,716</u> |

#### Net deferred tax asset

Movements during the year

|                                       |               |               |
|---------------------------------------|---------------|---------------|
| Deferred taxation assets              |               |               |
| Balance at the beginning of the year  | 63,021        | 47,023        |
| PY under/over provision               | 1,251         | -             |
| Profit or loss                        | 35,124        | 15,998        |
| <b>Balance at the end of the year</b> | <u>99,396</u> | <u>63,021</u> |

Deferred taxation liability

|   |               |               |
|---|---------------|---------------|
| Balance at the beginning of the year    | 1,305         | 1,305         |
| Current year movement                   | (1,305)       | -             |
| Net deferred taxation asset at year end | <u>99,396</u> | <u>61,716</u> |

## Notes to the Financial Statements

For the Year Ended 30 June 2019

### 15 Trade and Other Payables

|                        | 2019           | 2018          |
|------------------------|----------------|---------------|
|                        | \$             | \$            |
| Trade payables         | 21,002         | 40,176        |
| Related party payables | 62,977         | -             |
| GST payable            | 13,946         | -             |
| Accrued expenses       | 54,479         | 43,900        |
|                        | <u>152,404</u> | <u>84,076</u> |

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

### 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:

|                                    | 2019             | 2018           |
|------------------------------------|------------------|----------------|
|                                    | \$               | \$             |
| <b>Financial Assets</b>            |                  |                |
| Cash and cash equivalents          | 901,047          | 49,094         |
| Trade and receivables              | 51,547           | 52,232         |
| Related party receivables          | 192,954          | 780,652        |
| <b>Total financial assets</b>      | <u>1,145,548</u> | <u>881,978</u> |
| <b>Financial Liabilities</b>       |                  |                |
| Trade and other payables           | 89,427           | 54,254         |
| Related party payables             | 62,977           | 29,822         |
| <b>Total financial liabilities</b> | <u>152,404</u>   | <u>84,076</u>  |

#### Credit risk

The concentrations of credit risk are outlined by counterparty type below

|                           |               |               |
|---------------------------|---------------|---------------|
| Bank                      | 901,047       | 49,094        |
| Related party receivables | 192,954       | 780,652       |
| Trade receivables         | <u>66,950</u> | <u>52,232</u> |

(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:

## Notes to the Financial Statements

For the Year Ended 30 June 2019

### 16 Financial Instruments (cont'd)

#### Credit exposure by credit rating

|              | 2019             | 2018           |
|--------------|------------------|----------------|
|              | \$               | \$             |
| AA to A-     | 2,860,894        | 49,094         |
| BBB+ to BBB- | 192,954          | 832,884        |
| Unrated      | 62,034           | -              |
| <b>Total</b> | <b>3,115,882</b> | <b>881,978</b> |

#### 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.

|                                    | Carrying<br>value | Less than<br>one year | One to two<br>years | Three years and<br>greater than three<br>years |
|------------------------------------|-------------------|-----------------------|---------------------|--|
|                                    | \$                | \$                    | \$                  | \$   |
| <b>2019</b>                        |                   |                       |                     |  |
| <b>Financial assets</b>            |                   |                       |                     |  |
| Cash and cash equivalents          | 901,047           | 901,047               | -                   | -  |
| Investments - term deposit         | 1,959,847         | 1,959,847             | -                   | -  |
| Related party receivable           | 192,954           | 192,954               | -                   | -  |
| Trade receivables                  | 51,547            | 51,547                | -                   | -  |
| <b>Total financial assets</b>      | <b>3,105,395</b>  | <b>3,105,395</b>      | <b>-</b>            | <b>-</b>                                       |
| <b>Financial liabilities</b>       |                   |                       |                     |  |
| Trade and other payables           | 89,427            | 89,427                | -                   | -  |
| Related party payable              | 62,977            | 62,977                | -                   | -  |
| <b>Total financial liabilities</b> | <b>152,404</b>    | <b>152,404</b>        | <b>-</b>            | <b>-</b>                                       |
| <b>2018</b>                        |                   |                       |                     |  |
| Cash and cash equivalents          | 49,094            | 49,094                | -                   | -  |
| Related party receivable           | 780,652           | 780,652               | -                   | -  |
| Trade receivables                  | 52,232            | 52,232                | -                   | -  |
| <b>Total financial assets</b>      | <b>881,978</b>    | <b>881,978</b>        | <b>-</b>            | <b>-</b>                                       |
| <b>Financial liabilities</b>       |                   |                       |                     |  |
| Trade and other payables           | 54,254            | 54,254                | -                   | -  |
| Related party payable              | 29,822            | 29,822                | -                   | -  |
| <b>Total financial liabilities</b> | <b>84,076</b>     | <b>84,076</b>         | <b>-</b>            | <b>-</b>                                       |

## Notes to the Financial Statements

For the Year Ended 30 June 2019

### 16 Financial Instruments (cont'd)

#### Market risk

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

|              | 2019<br>NZD      | 2018<br>NZD   |
|--------------|------------------|---------------|
| Bank         | 941,322          | 52,618        |
| Term deposit | 2,050,000        | -             |
| <b>Total</b> | <b>2,991,322</b> | <b>52,618</b> |

#### 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.

### 17 Outstanding claims liabilities

|   | 2019<br>\$    | 2018<br>\$   |
|---|---------------|--------------|
| Central estimate of outstanding claims liability    | 47,774        | 3,708        |
| Claims handling costs                               | 4,718         | 361          |
| Discount  | (597)         | (93)         |
| Risk margin   | 7,568         | 580          |
| <b>Total outstanding claims liability</b>           | <b>59,463</b> | <b>4,556</b> |
| Outstanding claims at 1 July                        | 4,556         | 33,587       |
| Claims paid - prior                                 | (551)         | (926)        |
| Movement in discount                                | 219           | (37)         |
| Other movements                                     |               |              |
| Prior years   | 1,817         | (32,198)     |
| Current year  | 53,421        | 4,130        |
| <b>Total outstanding claims liability - 30 June</b> | <b>59,462</b> | <b>4,556</b> |

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 2019 (2018: \$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.



**Notes to the Financial Statements**  
For the Year Ended 30 June 2019

**17 Outstanding claims liabilities (cont'd)**

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

|  | 2019       | 2018       |
|--|------------|------------|
| Inflation rate                               | Implicit   | Implicit   |
| Discount rate                                | 1.0%       | 2.01%      |
| Claims handling expense rate                 | 10.0%      | 10.8%      |
| Future loss ratios                           | 26% - 38%  | 26% - 38%  |
| Risk margin                                  | 17%        | 18%        |
| Weighted average expected term to settlement | 1.07 years | 1.11 years |

**Sensitivity analysis**

| 2019                                       | Movement<br>in variable | Profit<br>before<br>taxation | Profit after<br>taxation | Equity    |
|--|-------------------------|------------------------------|--------------------------|-----------|
|  | %                       | \$                           | \$                       | \$        |
| Recognised amount per Financial Statements |                         | (125,589)                    | (95,465)                 | 2,741,951 |
| <b>Variable</b>                            |                         |                              |                          |           |
| Claims handling ratio expense              | 10%                     | (126,061)                    | (95,824)                 | 2,741,592 |
|  | -10%                    | (125,117)                    | (95,106)                 | 2,742,310 |
| Discount rate                              | 0.5%                    | (125,389)                    | (95,313)                 | 2,742,103 |
|  | -0.5%                   | (125,789)                    | (95,617)                 | 2,741,799 |
| Risk margin                                | 5%                      | (125,967)                    | (95,753)                 | 2,741,663 |
|  | -5%                     | (125,211)                    | (95,177)                 | 2,742,239 |

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:

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.

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.

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 2019

### 17 Outstanding claims liabilities (cont'd)

#### Claims development

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

|  | Prior<br>\$'000 | 2013<br>\$'000 | 2014<br>\$'000 | 2015<br>\$'000 | 2016<br>\$'000 | 2017<br>\$'000 | 2018<br>\$'000 | 2019<br>\$'000 | Total<br>\$'000 |
|--|-----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|-----------------|
| <b>Central estimate of ultimate incurred claims</b>          |                 |                |                |                |                |                |                |                |                 |
| At end of accident year                                      | -               | -              | -              | -              | 23             | 36             | 85             | 55             | -               |
| One year later   | -               | -              | -              | 20             | 15             | 11             | 84             | -              | -               |
| Two years later  | -               | -              | 1              | 20             | 14             | 13             | -              | -              | -               |
| Three years later  | -               | 19             | 1              | 18             | 14             | -              | -              | -              | -               |
| Four years later   | 96              | 18             | -              | 18             | -              | -              | -              | -              | -               |
| Five years later   | 95              | 18             | -              | -              | -              | -              | -              | -              | -               |
| Six years later  | 95              | 18             | -              | -              | -              | -              | -              | -              | -               |
| Seven years later  | 103             | -              | -              | -              | -              | -              | -              | -              | -               |
| Central estimate of ultimate incurred claims at 30 June 2019 | 103             | 18             | -              | 18             | 14             | 13             | 84             | 55             | 305             |
| Payments to 30 June 2019                                     | 103             | 18             | -              | 18             | 14             | 11             | 82             | 12             | 258             |

### 18 Unearned Premium Liabilities

|  | 2019<br>\$ | 2018<br>\$ |
|--|------------|------------|
| Unearned premium liability 1 July                        | 82,244     | 83,018     |
| Deferral of premium on contracts written during the year | (172,325)  | (163,315)  |
| Premiums earned  | 169,328    | 162,541    |
| Unearned premium liability 30 June                       | 79,247     | 82,244     |

#### Liability adequacy test

A liability adequacy test was performed on 30 June 2019 and 30 June 2018 which indicates a surplus of \$39,092 (2018: \$32,940). The test was based on the following assumptions:

|  |        |        |
|--|--------|--------|
| Central estimate of the present value of expected future cash flows (\$)                               | 29,712 | 41,325 |
| Component of the present value of expected future cash flows related to the risk margin (\$)           | 5,527  | 7,272  |
| The percentage risk margin adopted in determining the present value of expected future cash flows (%)  | 17%    | 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 2019

### 19 Capital and Leasing Commitments

#### Leases as lessee

|   | 2019          | 2018          |
|---|---------------|---------------|
|   | \$            | \$            |
| Non-cancellable operating lease rentals are payable as follows: |               |               |
| - not later than one year                                       | 46,446        | 12,118        |
| - between one year and five years                               | -             | 2,020         |
| - later than five years   | -             | -             |
|   | <u>46,446</u> | <u>14,138</u> |

There are no capital commitments as at 30 June 2019.

### 20 Head Office Account

|  |                         |                  |
|--|-------------------------|------------------|
| Balance as at 1 July                             | 1,052,630               | 962,595          |
| Cash transferred from Head office                | <u>2,019,724</u>        | <u>90,035</u>    |
| <b>Head office account balance as at 30 June</b> | <u><b>3,072,354</b></u> | <u>1,052,630</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, subject to regulatory rules in New Zealand. No interest is charged by the Company to the Branch on any outstanding balance. Foreign currency translation reserve is reflected in the Head Office account.

### 21 Contingencies

In the opinion of the Directors, the Company did not have any contingencies at 30 June 2019 (30 June 2018: None).

### 22 Credit Rating

Pacific International Insurance Pty Limited has received a financial strength rating of B++ (Good) Financial Strength with developing implications from AM Best on 12 April 2019. The credit rating is an indication of the Branch's current and future claims paying ability.

#### (a) Identity of related parties

Badger Australia Holdings Pty Ltd, Badger 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, Rapid Solutions Holdings Pty Ltd, AI Insurance Pty Limited, PD Insurance Agency Pty Limited and its parent company Badger Australia Holdings Pty Limited 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 2019

### (b) Transactions and balances

Transactions during the year:

|   | 2019           | 2018     |
|---|----------------|----------|
|   | \$             | \$       |
| <b>Outstanding balances; Assets/(Liabilities)</b> |                |          |
| <b>Related party receivables</b>                  |                |          |
| Rapid Admin Pty Ltd                               | -              | 780,652  |
| Pacific International Insurance Pty Limited       | <u>192,954</u> | <u>-</u> |

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                      | 9,236         | 4,792         |
| Rapid Admin Pty Ltd                         | -             | 6,130         |
| Pacific International Insurance Pty Limited | 44,326        | 18,900        |
| AI Insurance Holdings Pty Limited           | <u>9,415</u>  | <u>-</u>      |
| <b>Total related party payables</b>         | <u>62,977</u> | <u>29,822</u> |

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.

## 23 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:

|   | 2019           | 2018             |
|---|----------------|------------------|
|   | \$             | \$               |
| Loss for the year                                   | (90,465)       | (37,726)         |
| Non-cash flows in profit:                           |                |                  |
| - depreciation of property, plant and equipment     | 1,930          | 1,239            |
| - (profit)/loss on foreign exchange movements       | (146)          | (11,679)         |
| Changes in assets and liabilities:                  |                |                  |
| - (increase) in trade and other receivables         | (9,802)        | (5,173)          |
| - (increase)/decrease in deferred acquisition costs | (4,209)        | 3,949            |
| - (increase) in deferred taxation                   | (37,680)       | (15,998)         |
| - increase/(decrease) in trade and other payables   | 68,328         | (42,090)         |
| - (decrease) in unearned premium reserve            | (2,997)        | (774)            |
| - increase/(decrease) in outstanding claims         | 54,906         | (29,031)         |
| - increase in trade and other payables              | <u>192,877</u> | <u>-</u>         |
| Cashflows from operations                           | <u>172,742</u> | <u>(137,283)</u> |

## 24 Events Occurring After the Reporting Date

The financial report was authorised for issue on 30 September 2019 by the board of directors.

**Notes to the Financial Statements**  
**For the Year Ended 30 June 2019**

**24 Events Occurring After the Reporting Date (cont'd)**

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.

**25 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 \$5,446,000. As at 30 June 2019 the Company had surplus capital of \$4,931,000 above the APRA requirement.

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

As at 30 June 2019 the Company solvency margin is.

|                          | <b>2019</b>     | <b>2018</b>   |
|--------------------------|-----------------|---------------|
|                          | <b>\$'000</b>   | <b>\$'000</b> |
| Actual Solvency Capital  | <b>10,376</b>   | 12,760        |
| Minimum Solvency Capital | <b>5,446</b>    | 5,000         |
| Solvency Margin          | <b>4,931</b>    | 7760          |
| Solvency ratio %         | <b>190.54 %</b> | 255.22 %      |

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 Limited – 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 Limited ("the Branch") on pages 2 to 27:

- i. present fairly in all material respects the Branch's financial position as at 30 June 2019 and its financial performance and cash flows for the year ended on that date; and
- ii. comply with New Zealand Generally Accepted Accounting Practice, which in this instance means New Zealand Equivalents to International Financial Reporting Standards ('NZIFRS') and International Financial Reporting Standards.

We have audited the accompanying financial statements and supplementary information which comprise:

- the statement of financial position as at 30 June 2019;
- the statements of profit or loss and other 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) ('ISA's (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 ISA (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.



## 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 in the current period. Except for the matter described in the material uncertainty related to going concern, we summarise below those matters and our key audit procedures to address those matters in order that the Directors as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the financial statements as a whole and we do not express discrete opinions on separate elements of the financial statements.

### The key audit matter

### How the matter was addressed in our audit

#### Outstanding Claim Liability (\$59,462)

Refer to Note 3 to the Financial Report.

Outstanding claim liability is a key audit matter as a result of significant complexity relating to:

##### *Valuation of Outstanding claims*

The valuation of outstanding claims is significant to the key audit matter as:

- judgement is required by us to consider the central estimate of the outstanding claims. This is a significant estimate as the eventual outcomes of incurred but unsettled claims at the balance sheet date are inherently uncertain;
- there is limited information available and a greater level of uncertainty inherent in assessing estimations of claims which have been incurred by the balance sheet date but have not yet been reported to the branch;
- judgment is required when considering the application of historical experience of claims development to determine current estimates, including the greater variability between the original estimation and the ultimate settlement of claims where there is a long time delay between the claim being incurred and the ultimate settlement;
- the claims estimation uses an actuarial modelling process which involves complex and subjective actuarial methodologies, judgements and assumptions about future events and developments, both within and external to the branch. Small changes in these methodologies, judgments and assumptions can have significant implications to the quantification of outstanding claims;

Our audit procedures included:

##### *Valuation of Outstanding claims*

We assessed the selection of methods and key assumptions to consider evidence of management bias. We challenged the actuarial methods and key assumptions by performing an assessment of the accuracy of previous estimates and comparability to the industry and with previous periods.

We interpreted and evaluated the Branch's actuarial modelling processes and methodology for determining the level of provisions for outstanding claims. We also considered the work and findings of appointed actuary of the branch.

Our procedures around the financial records and controls included, amongst others:

- testing the design and implementation of accounting and actuarial controls such as the reconciliation of key data;
- testing the design and implementation of key controls over claims case estimates; and
- testing a sample of paid claims and claims case estimates.

##### *Risk margins and probability of adequacy*

We assessed the Branch's estimation of risk margins with a view to identifying management bias. We evaluated the Branch's actuarial methodologies for consistency with those used in the industry and with prior periods.

## The key audit matter

## How the matter was addressed in our audit

- judgment is required to assess the estimation of the periods the claims are expected to be settled in; and
- the estimation of claims at year end relies on the integrity of the key underlying data.

### *Risk margins and probability of adequacy*

The evaluation of the risk margins and probability of adequacy is significant to the key audit matter as it is complex and necessitated a significant level of judgment by us in our audit.

Outstanding claims include statistically determined risk margins developed by the branch to make allowance for the inherent uncertainty in estimating ultimate claim settlements. The risk margins are included to achieve a specified probability of adequacy for the total outstanding claims reserves.

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## Other information

The Directors, on behalf of the Branch, are responsible for the other information included in the entity's Financial Report. Our opinion on the disclosure statement 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.

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## Use of this independent auditor's report

This independent auditor's report is made solely to the shareholders as a body. Our 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 work, this independent auditor's report, or any of the opinions or conclusions we have formed.

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## 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 NZIFRS and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of financial statements that are 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.

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## Auditor's responsibilities for the audit of the financial statements

Our objective is:

- to obtain reasonable assurance about whether the financial statement as a whole is 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 ISA's (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 this 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-2/>

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

KPMG  
Sydney

30 September 2019