Pacific International Insurance Pty Limited New Zealand Branch

Annual Financial Statements

for the year ended 30 June 2022

Index

Directors' Report

The directors present their report for the year ended 30 June 2022.

1. Review of financial results and activities

Main business and operations

The Branch 's principal activities during the financial year were the sale of general insurance policies in New Zealand. There were no major changes herein during the year.

The Branch generated a loss after tax for the year ended 30 June 2022 of $2,922,755 (2021: $2,409,416). This loss is mainly due to the advertising strategy and is in line with the companies business plan and growth strategy.

The Branch's net earned premium increased from $829,025 in the prior year to $4,616,369 for the year ended 30 June 2022.

Branch cash flows from operating activities improved from an outflow of $3,013,845 in the prior year to an outflow of $2,646,087 for the year ended 30 June 2022.

2. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations of the Branch and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

3. Events after reporting date

All events subsequent to the date of the annual financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.

The directors are not aware of any matter or circumstance arising since the end of the financial year to the date of this report that could have a material effect on the financial position of the Branch.

4. Directors' interest in contracts

To our knowledge none of the directors had any interest in contracts entered into during the year under review.

5. Authorised and issued share capital

No changes were approved or made to the authorised or issued share capital of the Branch during the year under review.

6. Dividend

No dividend was declared or paid to the shareholder during the year.

7. Directors

The directors of the Branch and the New Zealand Branch during the year and up to the date of this report are as follows:
Mr Roland Covac Lange (Executive Director - CEO)
Mr Brad Howard Hogan (Executive Director)
Mr Louis Fivas (Independent Non-Executive - Chairman Risk Committee)
Mr Jonathon Michael Broome (Independent Non-Executive Director - Chairman of the Board)
Mr Paul William Roberts (Independent Non-Executive Director - Chairman of the Risk Committee) (Appointed 1 July 2021)

Directors' Report

8. Secretary

The Branch designated secretary is FG Claughton.

9. Shareholder

There have been no changes in ownership during the current financial year. The Branch is 100% owned by Pacfic International Insurance Pty Limited (Company).

The shareholder of the Company and its interest at the end of the year is:

	Holding
Badger Holdings Australia Pty Ltd	100.00%

Directors' Responsibilities and Approval

The directors are required by the External Reporting Board, the Financial Markets Conduct Act 2013 and Insurance (Prudential Supervision) Act 2010 to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements satisfy the financial reporting standards with regards to form and content and present fairly the statement of financial position, results of operations and business of the Branch, and explain the transactions and financial position of the business of the Branch at the end of the financial year. The annual financial statements are based upon appropriate accounting policies consistently applied throughout the Branch and supported by reasonable and prudent judgements and estimates.

The Directors present their report on Pacific International Insurance Pty Limited New Zealand Branch ("Branch") for the financial year ended 30 June 2022.

The Directors are responsible for the presentation, in accordance with the Branch's constitution and the generally accepted accounting practice, of financial statements which fairly present the financial position of the Branch as at 30 June 2022 and the results of the operations for the year ended 30 June 2022.

The Directors consider that the financial statements of the Branch have been prepared using the 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:

JBroome

JM Broome
Independent Non-Executive
Director - Chairman of the Board

RC Lange
Executive Director - CEO

28 September 2022
Date

28 September 2022
Date

Pacific International Insurance Pty Limited New Zealand Branch

Financial Statements for the year ended 30 June 2022

Statement of Profit or Loss and Other Comprehensive Income

	Notes	2022 $	2021 $
Gross written premiums	7	8,901,037	1,153,707
Less: Reinsurance premiums ceded and reinsurance paid		(3,872,661)	(31,316)
Net written premiums		**5,028,376**	**1,122,391**
Change in provision for unearned premiums		**(412,007)**	**(293,367)**
Gross amount	21	(4,121,339)	(321,144)
Reinsurer's share		3,709,333	27,776
Net earned premiums		**4,616,369**	**829,024**
Commission from reinsurers		170,931	2,703
Other income	8	391,384	210,832
Claims expense	9	(3,801,167)	(541,035)
Acquisition costs	10	(423,044)	(58,429)
Administration expenses	11	(5,002,817)	(3,774,783)
Loss from operating activities		**(4,048,345)**	**(3,331,688)**
Finance income		13,358	19,798
Finance costs		(37,672)	(13,919)
Loss before tax		**(4,072,659)**	**(3,325,809)**
Income tax credit	13	1,149,904	916,393
Loss for the year		**(2,922,755)**	**(2,409,416)**
Other comprehensive income net of tax			
Exchange differences on translation			
Unrealised foreign exchange differences		(94,954)	(28,058)
Total comprehensive income / (loss)		**(3,017,709)**	**(2,437,474)**

Pacific International Insurance Pty Limited New Zealand Branch

Financial Statements for the year ended 30 June 2022

Statement of Financial Position

	Notes	2022 $	2021 $
Assets			
Cash and cash equivalents	14	1,682,936	2,258,887
Trade and other receivables	15	2,124,508	391,118
Loan to group entity		-	151
Deferred acquisition costs	16	843,584	50,567
Reinsurance share of insurance liabilities	21	2,955,016	(3,032)
Property, plant and equipment	17	233,910	344,447
Right-of-use assets	22	541,643	540,164
Intangible assets	18	214	357
Deferred tax assets	19	2,235,686	1,095,341
Total assets		**10,617,497**	**4,678,000**
Equity and liabilities			
Liabilities			
Trade and other payables	20	1,466,568	82,621
Insurance liabilities	21	5,361,222	522,691
Deferred income		632,785	221,896
Provisions		133,137	54,394
Lease liabilities	22	582,700	552,199
Total liabilities		**8,176,412**	**1,433,801**
Equity			
Head office account	23	8,377,053	6,162,459
Accumulated loss		(5,846,203)	(2,923,448)
Other non-distributable reserves		(89,766)	5,188
Total equity		**2,441,084**	**3,244,199**
Total equity and liabilities		**10,617,497**	**4,678,000**

Statement of Changes in Equity

		Head office account	Foreign currency translation reserve $	Accumulated loss $	Total $
Balance at 1 July 2020		3,213,710	33,246	(514,032)	2,732,924
Changes in equity					
Loss for the year		-	-	(2,409,416)	(2,409,416)
Other comprehensive income		-	(28,058)	-	(28,058)
Cash transferred from Head Office		2,948,749	-	-	2,948,749
Balance at 30 June 2021		**6,162,459**	**5,188**	**(2,923,448)**	**3,244,199**
Balance at 1 July 2021		6,162,459	5,188	(2,923,448)	3,244,199
Changes in equity					
Loss for the year		-	-	(2,922,755)	(2,922,755)
Other comprehensive income		-	(94,954)	-	(94,954)
Cash transferred from Head Office		2,214,594	-	-	2,214,594
Balance at 30 June 2022		**8,377,053**	**(89,766)**	**(5,846,203)**	**2,441,084**
	Notes	**23**			

Statement of Cash Flows

	Notes	2022 $	2021 $
Net cash flows used in operations	28	**(2,646,087)**	**(3,013,845)**
Cash flows (used in) / from investing activities			
Proceeds from sales of property, plant and equipment		21,163	757
Purchase of property, plant and equipment		(4,624)	(403,465)
Purchase of intangible assets		(41)	(570)
Purchase of right of use assets		(191,608)	(621,188)
Proceeds from disposal of term deposit		-	2,050,000
Loan advanced to group entity		151	(151)
Cash flows (used in) / from investing activities		**(174,959)**	**1,025,383**
Cash flows from financing activities			
Increase in Head office advances		2,214,594	2,948,749
Increase in lease liabilities		30,501	552,199
Cash flows from financing activities		**2,245,095**	**3,500,948**
Net (decrease) / increase in cash and cash equivalents before effect of exchange rate changes		**(575,951)**	**1,512,486**
Effect of exchange rate changes on cash and cash equivalents		-	2,703
Net (decrease) / increase in cash and cash equivalents		**(575,951)**	**1,515,189**
Cash and cash equivalents at beginning of the year		2,258,887	743,698
Cash and cash equivalents at end of the year	**14**	**1,682,936**	**2,258,887**

Accounting Policies

1. General information

Pacific International Insurance Pty Limited (the Company) is a for-profit proprietary Company, incorporated and domiciled in Australia. The Company operates a New Zealand Branch office (the Branch).

The Company is a wholly owned subsidiary of Badger Holdings Australia Pty Limited which itself is a wholly owned subsidiary of Badger International (NZ) LP.

The Company was issued with an insurance license by the Reserve Bank of New Zealand with effect from 1 August 2014. The Branch provides indemnity and liability insurance to the pest, weed and carpet cleaning industries in New Zealand. During the course of this year, the Branch also issued pet insurance and travel insurance cover to retail customers. The Branch also entered into a binder agreement for latend defect warranties. Additionally, the Branch provides New Zealand Qualifications Authority accredited training courses to the pest, weed and carpet cleaning industries.

The financial statements have been prepared on a going concern basis, the validity of which depends on the continued support of the Company. 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. The Company 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 Branch for the year ended 30 June 2022 and were authorised for issue by the Directors on 28 September 2022.

2. Basis of preparation and summary of significant accounting policies

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 Tier 1 profit oriented entities. The Branch has prepared its financial statements for the year ended 30 June 2022 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 New Zealand 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 has offices situated in Auckland.

These financial statements comply with International Financial Reporting Standards ("IFRS").

2.1 Revenue from contracts with customers

Revenue is measured under IFRS 15 at the fair value of the consideration received or receivable. The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Company and specific criteria have been met for each of the Company’s activities as described below.

Premium revenue

Direct premium revenue comprises amounts charged to policy holders. The earned portion of premiums, 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 under written.

Other income

Other income arises from revenue generated through the training division in the New Zealand Branch. 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 as the performance obligation is fulfilled, which is over the contract period on a monthly straight line basis.

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.

2.2 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.

2.3 Expenses

Claims expense

Claims expense represents payments made on claims and the movement in the outstanding claims liability as described in note 2.8. Current year claims relate to loss events that occurred during the current financial year. Prior year claims represent the movement on estimates held for claims that occurred in all previous financial periods.

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.

2.4 Income tax and deferred tax

The income tax expense or benefit for the year is the taxation payable on the current year's taxable income adjusted for any non-deductible items on assessable taxable income. The income tax expense or benefit also includes changes in deferred tax assets or liabilities.

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. Deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted by reporting date, and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

2.5 Goods and services tax (GST)

All balances are presented net of goods and services tax (GST), 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 are classified as operating cash flows.

2.6 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.

Classification and Subsequent Measurement

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 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.

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.

Derecognition

Derecognition of Financial Assets

A financial asset is derecognised when the holders 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.

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.

Impairment of financial assets

The carrying amounts of the Company's assets, property, plant and equipment, intangible assets and financial assets 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 the Statement of Profit or Loss and Other Comprehensive Income.

Trade and other 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.

Cash and cash equivalents

Cash comprises cash in bank and on hand. 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.

Trade and other payables

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

2.7 Property, plant and equipment

Initial measurement

An item of property, plant and equipment that qualifies for recognition as an asset is initially measured at its cost.

The cost of an item of property, plant and equipment includes:

- its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

Subsequent measurement - Cost model

After initial recognition, property, plant and equipment is measured at cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation

Depreciation of an asset commences when it is available for use, and ceases at the earlier of the date that the asset is classified as held for sale, or the date that the asset is derecognised.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in profit or loss unless it is included in the carrying amount of another asset. The depreciable amount of an asset shall be allocated on a systematic basis over its useful life. The depreciable amount of an asset is determined after deducting its residual value.

Residual values, useful lives and depreciation methods are reviewed at each financial year end. Where there are significant changes in the expected pattern of economic consumption of the benefits embodied in the asset, the relevant changes will be made to the residual values and depreciation rates, and the change will be accounted for as a change in accounting estimate.

The measurement base, useful life or depreciation rate as well as the depreciation method for all major classes of assets are as follows:

Asset class	**Measurement base**	**Useful life / depreciation**
Leasehold improvements	Diminishing value basis	30%
Motor vehicles	Diminishing value basis	31% - 36%
Fixtures and fittings	Diminishing value basis	10.50%
Office equipment	Diminishing value basis	11% - 67%
Computer equipment	Diminishing value basis	26% - 50%

2.8 Outstanding claims liability

Outstanding claims liabilities are recognised when contracts are entered into 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 and reduction for the expected value of salvage and reinsurance recoveries.

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 in 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 occurred, but which have not been settled, are reflected by adjusting the liability. The liability is derecognised when the claim is discharged or withdrawn.

The Company's insurance portfolio has experienced several impacts as a result of COVID-19. There is a risk that the associated economic factors could be more severe than estimated and, as a result, the development of the claims over time could result in the ultimate cost of those claims being higher than the current outstanding claims liability established. The impact of COVID-19 on claims experience is expected to materially differ between classes of business and, for certain classes, potentially impact across more than one accident year.

Where the effect of COVID-19 on insurance liabilities is quantifiable and reflected in the data, the impact has been appropriately captured within the outstanding claims liability.

2.9 Deferred acquisition costs

Acquisition costs incurred in obtaining and recording insurance contracts are deferred in recognition when 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.

2.10 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 by writing down any deferred acquisition costs first with the remaining amount recognised in the Statement of Financial Position 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 2022 or 2021.

2.11 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.

2.12 Insurance risk and sensitivity

The Branch has insurance contracts which transfer insurance risk from the policy holder 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 Company's objective is to minimise this insurance risk to within acceptable levels through the policies which manage its insurance risk. The Company's approach to manage this risk includes the diversification of risk. The Company has developed an underwriting strategy which diversifies the types of insurance contracts written. Within each type of insurance written the Company'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. Changes in accounting policies and disclosures

3.1 Standards and Interpretations effective and adopted in the current year

There are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial reporting period ended 30 June 2022 or for annual periods beginning after 1 July 2022 that have material impact on the Branch other than the below.

3.2 New standards and interpretations not yet adopted

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

Standard Name	Effective date for entity	Impact
NZ IFRS 17 Insurance	1 January 2023	Material

The standard introduces a new general measurement model for accounting for Insurance contracts, with the application of a simplified approach permitted in certain circumstances. The mandatory application of NZ IFRS 17 has been deferred to 1 January 2023. The first applicable annual reporting period for the Branch will be for the year ending 30 June 2024, with the comparative period for the year ending 30 June 2023 and the Statement of Financial Position at the start of the comparative period (i.e. 1 July 2022) also presented under NZ IFRS 17.

The first applicable reporting period for the Branch is expected to be the year ending 30 June 2024. The standard introduces a new general measurement model for accounting for insurance contracts, with the application of a simplified approach permitted in certain circumstances.

The Branch has completed an impact assessment of the new standard and has determined that the Branch is expected to be eligible to apply the simplified approach to the insurance contracts issued by the Branch (based on the current portfolio mix). It is expected that there will be a number of changes in presentation of the financial statements and disclosures.

Given the complexity and differing interpretations around key requirements of the standard, the final impact of certain requirements may not be determined until global interpretations and regulatory responses to the new standard are finalised.

Accounting Policies

4. Critical accounting estimates and judgements

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.

5. Financial Risk Management policies and procedures

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

The Company's financial condition and operating activities are affected by the following core risks - strategic, balance sheet and market, interest, credit, liquidity, solvency, counter party, insurance, concentration, operational and governance risk.

(a) Risk Management roles and responsibilities

The Board has the responsibility for setting and maintaining an appropriate risk management framework, which is included in the "Group Risk Management Strategy" and risk appetite for the Company. Management has implemented risk management policies, procedures and controls to manage the risk and regularly reports to the Board Risk Committee, 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 Company leading to failed business, policy holder or shareholder objectives.

Balance sheet and Market risk - the risk arises from adverse movements in; interest rates, foreign exchange rates and general market volatilities and its impact on the market value of the Company's assets and liabilities.

Interest rate risk - The risk of loss of current and future earnings and unfavourable movements in the value of interest bearing assets and liabilities from changes in interest rates.

Liquidity risk - the risk that the Company 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 Company has insufficient capital to meet its regulatory requirements or to maintain its ongoing business operations.

Counter party Risk - the risk that one party to a financial instrument will cause a financial loss to the Company.

Credit Risk - arises from receivables due from policy owners, the placement of reinsurance and investments in financial instruments.

Insurance risk - The risk associated with inadequate underwriting guidelines or claims processes including the risks that arise through the Company's reinsurance arrangements.

Asset / Counter party Concentration Risk - risk of loss to the Company from large exposures to one or a few counter parties that a significant holding or commitment to the Company.

Insurance Concentration risk - The amalgamation of insurance risks held by the Company to a particular insured, industry or potential event or events.

Concentration risk - the amalgamation of risks held by the Company to a particular counter party, geographic region or industry.

Operational risk - the risk of loss resulting from inadequate or failed internal processes and controls, people, systems or from external events.

Governance Risks - the risk of loss to the Company 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 Company.

(b) The objectives for managing insurance risk

The Company'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 Company. The Board, aided by the Board Risk Committee and the Board Audit Committee, directs and monitors implementation, practice and performance throughout the organisation. The Company pursues alignment with ISO 31000:2009 Standard - Risk Management, together with all APRA - issued standards, including but not limited to CPS220 - Risk Management, CPS510 - Governance, and incoming CPS511 - Remuneration.

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

- Risk identification
- Risk analysis
- Risk evaluation
- Risk treatment
- Monitoring and review
- Communication and consultation

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

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 Company's capital by reducing the Branch's exposure to the costs of large claims;
- Processes around the development and approval of new product proposal with approval required from the Board of Directors;
- Investment that ensures that the Company's funds are invested with secure financial institutions;
- Use of an independent internal auditor, reporting to the Board Audit Committee to review compliance with Board approved policies; and
- Board appointed external actuarial involved on both the pricing of new products and the establishment of claims reserves.

(c) Terms and conditions of insurance policies

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

(d) Concentration of risk

The Company's exposure to concentrations of insurance risk is mitigated by diverse geographical locations of the risks under written. The reinsurance policies purchased minimise the exposure of the Company to large claims losses.

(e) 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.

The key sources of credit risk are premium receivables and investments in financial instruments.

6. Financial Instruments

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

- Credit risk
- Liquidity risk
- Market risk

Credit risk

The Company's credit risk arises predominantly from investment activities, reinsurance activities, premium debtors and dealings with other intermediaries. The significant concentrations of credit risk are outlined below.

Accounting Policies

	2022	2021
Financial Assets		
Cash and cash equivalents	1,682,936	2,258,887
Investments	-	-
	1,682,936	**2,258,887**
Loans and receivables:		
Trade and other receivables	2,124,507	391,118
Related party receivables	-	151
	2,124,507	**391,269**
Total financial assets	**3,807,443**	**2,650,156**
Financial liabilities		
Trade and other payables	1,466,568	82,621
Related party payables	-	-
Total financial liabilities	**1,466,568**	**82,621**

Credit quality of financial assets listed are neither past due nor impaired.

The Company received a financial strength rating of B++ (Good) from the USA rating agency A.M. Best on the 11th of February 2022. The credit rating is an indication of the Company's current and future claims paying ability (Refer to Note 22.8 - Liability Adequacy Test).

Overseas Preference

Under Australian law, if Pacific is wound up, its assets in Australia must be applied to its Australian liabilities before they can be applied to overseas liabilities. To this extent, New Zealand policyholders may not be able to rely on Pacific’s Australian assets to satisfy New Zealand liabilities.

Credit quality

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 counter party default rates:

	2022	2021
Credit exposure by credit rating		
AA to A-	1,682,936	2,258,887
Unrated	2,124,507	391,269
Total	**3,807,443**	**2,650,156**

Liquidity risk

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

Accounting Policies

	At call		1 year or less		Total	
	2022	**2021**	**2022**	**2021**	**2022**	**2021**
	$	**$**	**$**	**$**	**$**	**$**
At fair value through profit or loss:						
Cash and cash equivalents	1,682,936	2,258,887	-	-	1,682,936	2,258,887
Investments	-	-	-	-	-	-
	1,682,936	**2,258,887**	**-**	**-**	**1,682,936**	**2,258,887**
Loans and receivables						
Trade and other receivables	-	-	2,124,507	391,118	2,124,507	391,118
Related party receivables	-	-	-	151	-	151
	-	**-**	**2,124,507**	**391,269**	**2,124,507**	**391,269**
	1,682,936	**2,258,887**	**2,124,507**	**391,269**	**3,807,443**	**2,650,156**
Financial liabilities						
Trade and other payables	-	-	1,466,568	82,621	1,466,568	82,621
Related party payables	-	-	-	-	-	-
	-	**-**	**1,466,568**	**82,621**	**1,466,568**	**82,621**

Interest rate risk and sensitivity analysis on foreign exchange and interest.

Cash, related party loans and interest bearing liabilities are held at fair value through profit or loss and subject to fixed interest rates. Related party receivables and payables are non-interest bearing. Other trade receivables and payables are also non-interest bearing.

Trade and other payables are due and payable in less than 30 days.

Notes to the Financial Statements

	2022 $	2021 $
7. Gross written premium		
Professional Indemnity	276,891	277,183
Liability and Warranty	31,771	36,314
Pet Insurance	4,654,202	826,268
Travel	676,052	13,942
Warranty	3,262,121	-
Total gross written premium	**8,901,037**	**1,153,707**
8. Other income		
Commissions received and other income	173	197
Insurance licence fee	250,128	325
Training income - New Zealand branch	141,083	210,310
Total other income	**391,384**	**210,832**
9. Claims expense		
Claims paid	3,083,682	498,794
Claims estimate (decrease) / increase	327,681	(47,499)
IBNER movement	389,804	89,740
Total claims expense	**3,801,167**	**541,035**
10. Acquisition costs		
Commission	176,322	11,903
Referral fees	246,722	46,526
Total acquisition costs	**423,044**	**58,429**

Notes to the Financial Statements

11. Administration expenses

	Note	2022 $	2021 $
Administration fees - Related parties		153,277	99,490
Amortisation		184	213
Auditors remuneration	12	-	-
Bad debts		1,070	-
Bank charges		59,852	27,671
Broker fees		4,459	171
Consulting and legal fees		66,541	149,221
Depreciation		284,126	143,797
Donations		15,786	4,991
Employee cost (including directors)		1,342,884	1,264,562
Insurance		2,752	-
Marketing		2,744,122	1,556,243
Other expenses		210,688	255,413
Printing and stationery		23,492	27,080
Rental of premises		-	77,194
Repairs and maintenance		2,606	7,922
Telephone and internet		48,750	24,077
Training fees		20,452	39,768
Travel costs		21,776	96,970
Total administration expenses		**5,002,817**	**3,774,783**

12. Auditors remuneration

	2022 $	2021 $
Audit services - KPMG*	**-**	**-**

**In the 2022 and 2021 financial year audit fees were paid by the Australian Corporate Entity.*

13. Income tax (credit)

13.1 Income tax recognised in profit or loss:

	2022 $	2021 $
Current tax		
Current year	(9,559)	-
Deferred tax		
Deferred tax	(1,140,345)	(916,393)
Total income tax credit	**(1,149,904)**	**(916,393)**

Notes to the Financial Statements

13.2 The income tax for the year can be reconciled to the accounting loss as follows:

	2022 $	2021 $
Loss before tax from operations	(4,072,659)	(3,325,809)
Income tax calculated at 28.0%	(1,140,344)	(931,227)
Tax effect of		
- Correction of prior year income tax provision	(9,559)	14,833
Tax charge	**(1,149,903)**	**(916,394)**

14. Cash and cash equivalents

	2022 $	2021 $
Cash		
Balances with banks	**1,682,936**	**2,258,887**

15. Trade and other receivables

	2022 $	2021 $
Trade receivables	1,690,097	184,366
Sundry debtors	-	4,266
Prepayments	149,473	163,923
Deposits	38,563	38,563
Claims float receivable	246,375	-
Total trade and other receivables	**2,124,508**	**391,118**

16. Deferred acquisition costs

	2022 $	2021 $
Opening balance	50,567	8,407
Acquisition costs deferred	1,216,061	100,589
Amortisation charged to income	(423,043)	(58,429)
	843,585	**50,567**

17. Property, plant and equipment

Balances at year end and movements for the year

	Leasehold improvements $	Motor vehicles $	Fixtures and fittings $	Office equipment $	Computer equipment $	Total $
Reconciliation for the year ended 30 June 2022						
Balance at 1 July 2021						
At cost	94,716	79,180	65,785	78,579	120,519	**438,779**
Accumulated depreciation	(11,131)	(4,976)	(5,073)	(31,172)	(41,979)	**(94,332)**
Net book value	**83,585**	**74,204**	**60,712**	**47,407**	**78,540**	**344,447**
Movements for the year ended 30 June 2022						
Additions from acquisitions	-	-	91	-	4,533	**4,624**
Depreciation	(21,899)	(20,636)	(6,081)	(12,440)	(32,942)	**(93,998)**
Disposals	-	(21,163)	-	-	-	**(21,163)**
Property, plant and equipment at the end of the year	**61,686**	**32,405**	**54,722**	**34,967**	**50,131**	**233,911**
Closing balance at 30 June 2022						
At cost	94,716	58,016	65,876	78,579	125,052	**422,239**
Accumulated depreciation	(33,030)	(25,612)	(11,154)	(43,612)	(74,921)	**(188,329)**
Net book value	**61,686**	**32,404**	**54,722**	**34,967**	**50,131**	**233,910**

Notes to the Financial Statements

Reconciliation for the year ended 30 June 2021	Leasehold improvements $	Motor vehicles $	Fixtures and fittings $	Office equipment $	Computer equipment $	Total $
Balance at 1 July 2020						
At cost	-	84	-	24,978	11,010	**36,071**
Accumulated depreciation	-	(84)	-	(20,795)	(10,680)	**(31,559)**
Net book value	**-**	**-**	**-**	**4,183**	**330**	**4,512**
Movements for the year ended 30 June 2021						
Additions from acquisitions	94,716	79,186	65,785	54,268	109,510	**403,465**
Depreciation	(11,131)	(4,892)	(5,073)	(10,377)	(31,299)	**(62,772)**
Disposals	-	(90)	-	(667)	-	**(757)**
Property, plant and equipment at the end of the year	**83,585**	**74,204**	**60,712**	**47,407**	**78,541**	**344,448**
Closing balance at 30 June 2021						
At cost	94,716	79,180	65,785	78,579	120,519	**438,779**
Accumulated depreciation	(11,131)	(4,976)	(5,073)	(31,172)	(41,979)	**(94,332)**
Net book value	**83,585**	**74,204**	**60,712**	**47,407**	**78,540**	**344,447**

18. Intangible assets

Reconciliation of changes in intangible assets

	Computer Software $	Total $
Reconciliation for the year ended 30 June 2022		
Balance at 1 July 2021		
At cost	570	**570**
Accumulated amortisation	(213)	**(213)**
Net book value	**357**	**357**
Movements for the year ended 30 June 2022		
Acquisitions through internal development	41	**41**
Amortisation	(184)	**(184)**
Intangible assets at the end of the year	**214**	**214**
Closing balance at 30 June 2022		
At cost	570	**570**
Accumulated amortisation	(356)	**(356)**
Net book value	**214**	**214**
Reconciliation for the year ended 30 June 2021		
Balance at 1 July 2020		
At cost	-	**-**
Accumulated amortisation	-	**-**
Net book value	**-**	**-**
Movements for the year ended 30 June 2021		
Acquisitions through internal development	570	**570**
Amortisation	(213)	**(213)**
Intangible assets at the end of the year	**357**	**357**
Closing balance at 30 June 2021		
At cost	570	**570**
Accumulated amortisation	(213)	**(213)**
Net book value	**357**	**357**

Notes to the Financial Statements

19. Deferred tax

	2022 $	2021 $
Deferred tax assets:		
Employee benefits	13,605	13,708
Lease liability	163,156	154,616
Losses carried forward	2,211,077	1,078,263
	2,387,838	1,246,587
Deferred tax liabilities:		
Right Of Use Asset	(151,660)	(151,246)
Prepayments	(492)	-
	(152,152)	(151,246)
Net deferred tax assets	**2,235,686**	**1,095,341**

20. Trade and other payables

	2022 $	2021 $
Trade payables	1,031,125	81,039
Accrued expenses	-	1,063
Accrued expenses	1,067	-
Withholding tax	108,465	182
Claims float payable	246,375	-
GST payable	79,536	337
Total trade and other payables	**1,466,568**	**82,621**

21. Insurance liabilities

21.1 Insurance liabilities comprise:

	2022			2021		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Claims Estimates (OCR)						
Outstanding estimates	327,681	(91,897)	235,784	1	-	1
IBNR	497,696	(73,051)	424,646	107,892	-	107,892
Unearned premium (UPR)	4,535,845	(2,790,068)	1,745,777	414,798	3,032	417,830
	5,361,222	**(2,955,016)**	**2,406,207**	**522,693**	**3,032**	**525,723**

21.2 Outstanding estimates

	2022			2021		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Opening balance	1	-	1	47,500	-	47,500
Previous years claims paid	(82,254)	-	(82,254)	(47,499)	-	(47,499)
Change in previous year estimates	191,007	(31,714)	159,293	77,219	-	77,219
Current year claims incurred	3,221,105	(65,656)	3,155,449	(458,020)	-	(458,020)
Current year claims paid	(3,002,178)	5,473	(2,996,705)	380,801	-	380,801
	327,681	**(91,897)**	**235,784**	**1**	**-**	**1**

21.3 IBNR

	2022			2021		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Opening balance	107,892	-	107,892	18,151	-	18,151
Movement for the year	389,804	(73,051)	316,753	89,741	-	89,741
	497,696	**(73,051)**	**424,645**	**107,892**	**-**	**107,892**

21.4 Unearned premium (UPR)

	2022			2021		
	Gross	**Reinsurance**	**Net**	**Gross**	**Reinsurance**	**Net**
Opening balance	414,798	3,032	417,830	93,654	-	93,654
Movement per IS for the year	4,121,047	(2,793,100)	1,327,947	321,144	3,032	324,176
	4,535,845	**(2,790,068)**	**1,745,777**	**414,798**	**3,032**	**417,830**

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.

21.5 Assumptions adopted in calculation of general insurance liabilities

The actuarial report was prepared by Aaron Cutter, who is a Fellow of both the Institute of Actuaries of Australia and the New Zealand Society of Actuaries, 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:

	2022	2021
Inflation rate implicit	Implicit	Implicit
Discount rate	1.89%	0.00%
Claims handling expense rate	10%	10%
Future loss ratios	53%	60%
Risk margin	10.3%	8.8%
Weighted average expected term to settlement	0.44 years	1.03 years

21.6 Sensitivity Analysis

The impact of changes in key variables on the outstanding claims provision is summarised in the table below:

	Movement in Outstanding Claims	Loss before taxation	Loss after taxation	Equity
	$	$	$	$
5% Increase in loss ratios across all portfolios	31,938	(4,104,597)	(2,955,310)	2,409,146
10% additional Pet IBNR development for Mar-22 onwards	174,252	(4,246,910)	(3,057,775)	2,266,833
10% increase in Pet loss ratios	53,262	(4,125,920)	(2,970,663)	2,387,823

Note: 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 was 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.

21.7 Claims development

The following table shows the development of net outstanding claims for both short and long tail classes relative to the ultimate claims costs for the eight most recent

Net central estimate of ultimate incurred claims	Prior ($000s)	2016 ($000s)	2017 ($000s)	2018 ($000s)	2019 ($000s)	2020 ($000s)	2021 ($000s)	2022 ($000s)	Total ($000s)
At end of accident		23	36	85	55	47	548	3,446	4,240
One year	136	15	11	84	101	30	536		913
Two years later	133	14	13	95	103	33			391
Three years later	131	14	13	95	121				374
Four years later	139	16	13	98					266
Five years later	139	16	13						168
Six years later	139	16							155
Seven years later	139								139
Net central estimate of ultimate incurred claims at 30 June 2022	139	16	13	98	121	33	536	3,446	4,403
Payments to 30 June 2022	139	16	13	98	121	33	532	2,886	3,839
Net undiscounted outstanding claims liability							4	512	516
Discount to present value							(1)	(5)	(6)
Net discounted outstanding claims liability	-	-	-	-	-	-	3	507	510
Reconciliation									
Claims handling costs								32	32
Risk margin							1	55	56
Net outstanding claims liability	-	-	-	-	-	-	4	594	598

Notes to the Financial Statements

	2022 $	2021 $

21.8 Liability adequacy test

A liability adequacy test was performed for 30 June 2022 which indicates a surplus of $126,131 (2021: $147,022). The tests were based on the following assumptions:

	2022	2021
Central estimate of the present value of expected future cash flows ($)	720,525	191,076
Component of the present value of expected future cash flows related to the risk margin ($)	85,512	26,463
The percentage risk margin adopted in determining the present value of expected future cash flows (%)	11.9%	13.8%
The probability of adequacy intended to be achieved through the adoption the risk margin (%)	75%	75%

22. Lease liabilities

22.1 Lease liabilities comprise:

	2022	2021
Lease - Auckland, New Zealand	582,700	552,199
Non-current liabilities	396,806	409,274
Current liabilities	185,894	142,925
	582,700	**552,199**

22.2 Additional disclosures

	2022	2021
Lease obligation payable within 12 months	217,575	170,775
Lease obligation payable after 12 months	430,025	438,728
Total undiscounted lease liabilities	647,600	609,503

22.3 Amounts recognised in the statement of financial position

Right-of-use assets

	2022	2021
Part Level 16, AIA Building, 5-7 Byron Avenue, Takapuna, Auckland	541,643	540,164

Part Level 16, AIA Building, 5-7 Byron Avenue, Takapuna, Auckland

	2022	2021
Cost price on 01/11/2020	621,188	621,188
Cost price on 01/11/2021 - Signage	191,608	-
Less: Accumulated depreciation	(271,153)	(81,025)
	541,643	**540,164**

Notes to the Financial Statements

	2022 $	2021 $

22.4 Amounts recognised in the statement of profit or loss and other comprehensive income

	2022 $	2021 $
Depreciation	(190,129)	(81,025)
Interest expense	(34,672)	(13,903)
	(224,801)	**(94,928)**

22.5 Amounts recognised in the statement of cash flows

	2022 $	2021 $
Total cash outflow for leases	30,501	552,199

23. Head office account

	2022 $	2021 $
Balance as at 1 July	6,162,459	3,213,710
Cash transferred from Head Office	2,214,594	2,948,749
	8,377,053	**6,162,459**

Additional disclosures

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.

24. Credit rating

The Company received a financial strength rating of B++ (Good) from the USA rating agency A.M. Best on the 11th of February 2022. The credit rating is an indication of the Company's current and future claims paying ability (Refer to Note 21.8 - Liability Adequacy Test).

25. Related parties

25.1 Group entities

Badger International NZ LP	Badger International NZ LP is a New Zealand registered limited liability partnership and the ultimate holding company for the Group. The entity does not have any trading activities and is an investment holding company.
Badger Australia Holdings Pty Ltd	Badger Australia Holdings Pty Ltd (Badger) became the 100% shareholder of Pacific International Insurance Pty Ltd as part of the group restructure. Badger is an investment holding company with almost no trading activities. Badger has injected additional share capital into Pacific International Insurance Pty Ltd to stimulate growth.
AI Insurance Holdings Pty Ltd	AI Insurance Holdings Pty Ltd (AI) is an underwriting agency that traditionally only placed business with the Hollard Insurance Company Pty Ltd. As part of the restructure AI took over the business of Rapid Solutions Pty Ltd. AI sold all of its assets to Pacific International Insurance Pty Ltd. AI is now in run off and it's AFSL has been canceled and all products are now distributed through Pacific's own AFSL.
PD Insurance Agency Pty Ltd	PD Insurance Agency Pty Ltd is an underwriting agency that owned the Progressive Direct (PD) brand. As part of the restructure, Pacific International Insurance Pty Ltd bought 30% of the shares in 2019. These shares were sold to Badger Australia Holdings Pty Ltd during 2020. PD Insurance is now a direct product of Pacific.
Blue Badge Insurance Australia Pty Ltd	Blue Badge Insurance Australia Pty Ltd (BBIA) is an underwriting agency doing car insurance for people with disability. Pacific acquired 100% of the shares in BBIA during the year. The Company then went on to purchase the business including the brand name and customer list from the agency to make this a direct product of Pacific.
Rapid Solutions Holding Pty Limited	Rapid Solutions Holdings Pty Limited was de-registered on the 8th July 2021.
Rapid Admin Pty Limited	Rapid Admin Pty Limited was de-registered on the 8th July 2021.
Rapid Solutions Pty Limited	Rapid Solutions Pty Ltd was de-registered on the 8th July 2021.
Rapid Training Pty Limited	Rapid Training Pty Ltd offers accredited training to the pest control industry. Rapid Training charged Pacific International Insurance Pty Limited a risk mitigation fee for training provided in the past to its insured clients.

25.2 Other related parties

Badger International (Pty) Ltd	Badger International (Pty) Ltd is a holding company in South Africa that also provides administrative services.
Dotsure Insurance Limited	Dotsure Insurance Limited is a holding company in South Africa that also provides administrative services.

25.3 Related party transactions and balances

	Pacific International Insurance Limited (Australia branch)	Badger International (Pty) Ltd	Dotsure Insurance Limited	Total $
Year ended 30 June 2022				
Related party transactions				
Administration fees paid	-	107,082	32,938	**140,020**
Outstanding balances for related party transactions				
Amounts payable	(11,898)	-	(11,680)	**(23,578)**
Amounts receivable	-	42,043	-	**42,043**
Year ended 30 June 2021				
Related party transactions				
Administration fees paid	-	98,338	-	**98,338**
Outstanding balances for related party transactions				
Amounts payable	-	(19,041)	-	**(19,041)**

26. Capital management and solvency

The Company considers share capital, retained earnings and reserves to be capital. 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 a minimum of $16,690,000. As at yearend the Company had a surplus capital of $10,404,000 above the APRA requirement. The below values are disclosed in Australian Dollar.

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

Notes to the Financial Statements

	2022 $	2021 $

As at 30 June 2022 the Company solvency margin is:

	2022 ($000s)	2021 ($000s)
Actual Solvency Capital	27,094	24,710
Prudential / minimum capital requirement	(16,690)	(8,380)
Solvency margin	**10,404**	**16,330**
Solvency ratio	**162.34%**	**294.87%**

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.

If applicable, has the entity complied with the externally imposed capital management requirements to which it is subject

27. Contingencies

In the opinion of the Directors, the Company did not have any contingencies at 30 June 2022 (30 June 2021: None).

28. Cash flows from operating activities

	2022 $	2021 $
Loss for the year	**(2,922,756)**	**(2,409,414)**
Adjustments for:		
Income tax expense	(1,140,345)	(918,789)
Depreciation and amortisation expense	284,310	144,010
Fair value gains and losses	-	(2,703)
Unrealised foreign exchange differences	(94,954)	(28,058)
Change in operating assets and liabilities:		
Adjustments for increase in trade accounts receivable	(1,733,391)	(324,675)
Adjustments in deferred acquisition costs	(793,018)	(42,159)
Adjustments in insurance liabilities	4,838,532	366,417
Adjustments in reinsurer's share of insurance liabilities	(2,958,048)	-
Adjustments for increase in trade accounts payable	1,383,952	78,458
Adjustments for increase in deferred income	410,889	88,497
Adjustments for provisions	78,743	34,572
Net cash flows from operations	**(2,646,087)**	**(3,013,845)**

29. Events Occurring After the Reporting Date

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

Independent Auditor's Report

To the Shareholder of Pacific International Insurance Pty Limited – the New Zealand Branch

Report on the audit of the financial statements

Opinion

In our opinion, the accompanying financial statements of the New Zealand Branch of Pacific International Insurance Pty Limited ("the Branch") on pages 2 to 37:

— present fairly in all material respects the Branch's financial position as at 30 June 2022 and its financial performance and cash flows for the year ended on that date; and

— 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 which comprise:

— the statement of financial position as at 30 June 2022;

— 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.

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 International Code of Ethics for Assurance Practitioners (Including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) ('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, or interest 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. We summarise below those matters and our key audit procedures to address those matters in order that the shareholder 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 Claims Liability ($235,784)	
Refer to Note 21.1 to the Financial Report. Outstanding claims 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 the 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.

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.	*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.

Other information

The Directors, on behalf of the Branch, are responsible for the other information included in the entity's Financial Report. Other information includes the Directors' 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 ('NZIFRS') 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-2/

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

The engagement partner on the audit resulting in this independent auditor's report is Andrew Reeves

For and on behalf of

KPMG

KPMG

Sydney
28 September 2022