

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

**Annual Financial Statements  
for the year ended 30 June 2023**

# Pacific International Insurance Pty Limited New Zealand Branch

Annual Financial Statements for the year ended 30 June 2023

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# Pacific International Insurance Pty Limited New Zealand Branch

Annual Financial Statements for the year ended 30 June 2023

## General Information

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<b>Country of Incorporation and Domicile</b>	New Zealand
<b>Registration Date</b>	01 August 2014
<b>Nature of Business and Principal Activities</b>	The Branch's principal activities during the financial year were the sale of general insurance policies in New Zealand.
<b>Directors</b>	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) Mr Roland Covac Lange (Executive Director - CEO) Mr Brad Howard Hogan (Executive Director) Mr Louis Fivaz (Independent Non-Executive - Chairman Audit Committee)
<b>Shareholder</b>	Badger Holdings Australia Pty Limited
<b>Registered Office</b>	Suite 3.02 Level 3 352 Hunter Street Newcastle, NSW 2300
<b>Branch Secretary</b>	SH Visser

# Pacific International Insurance Pty Limited New Zealand Branch

Annual Financial Statements for the year ended 30 June 2023

## Directors' Report

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The directors present their report for the year ended 30 June 2023.

### 1. Review of financial results and activities

#### Principal business activities

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

#### Operating results

The Branch generated a loss after tax for the year ended 30 June 2023 of \$2,837,182 (2022: \$2,922,754).

The Branch's net earned premiums increased from \$5,028,375 in the prior year to \$9,042,358 for the year ended 30 June 2023.

Branch cash flows from operating activities decreased from an outflow of \$2,646,087 in the prior year to an outflow of \$2,828,697 for the year ended 30 June 2023.

### 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 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

During the current financial year cash was transferred from the Head office of \$3,455,067.

### 6. Dividend

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

# Pacific International Insurance Pty Limited New Zealand Branch

Annual Financial Statements for the year ended 30 June 2023

## Directors' Report

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### 7. Directors

The directors of the Branch during the year and up to the date of this report are as follows:

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)

Mr Roland Covac Lange (Executive Director - CEO)

Mr Brad Howard Hogan (Executive Director)

Mr Louis Fivaz (Independent Non-Executive - Chairman Audit Committee)

### 8. Secretary

The Branch's designated secretary is SH Visser.

### 9. Shareholder

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

The shareholder and their interest at the end of the year is:

	<b>Holding</b>
Badger Holdings Australia Pty Limited	100.00%

# Pacific International Insurance Pty Limited New Zealand Branch

Annual Financial Statements for the year ended 30 June 2023

## Statement of Profit or Loss and Other Comprehensive Income

	Notes	2023 \$	2022 \$
<b>Gross written premium</b>	7	16,337,975	8,901,037
Less: Reinsurance premiums ceded and reinsurance paid		(7,295,618)	(3,872,661)
<b>Net written premiums</b>		<b>9,042,358</b>	<b>5,028,376</b>
<b>Change in provision for unearned premiums</b>		<b>(23,168)</b>	<b>(412,007)</b>
Gross amount	21	(3,687,092)	(4,121,339)
Reinsurer's share		3,663,924	3,709,333
<b>Net earned premiums</b>		<b>9,019,189</b>	<b>4,616,369</b>
Commission from reinsurers		1,827,322	170,931
Finance income		175,403	13,358
Other income	8	530,894	391,384
<b>Net income</b>		<b>11,552,808</b>	<b>5,192,042</b>
<b>Net claims incurred</b>		<b>(6,523,690)</b>	<b>(3,801,167)</b>
Gross amount	9	(7,395,770)	(3,801,167)
Reinsurer's share		872,080	-
Acquisition costs	10	(2,246,846)	(423,044)
Administration expenses	11	(6,642,373)	(5,002,817)
Finance costs		(86,886)	(37,672)
<b>Loss before tax</b>		<b>(3,946,987)</b>	<b>(4,072,658)</b>
Income tax credit	13	1,109,805	1,149,904
<b>Loss for the year</b>		<b>(2,837,182)</b>	<b>(2,922,754)</b>
<b>Other comprehensive income net of tax</b>			
Unrealised foreign exchange difference		(5,188)	(94,954)
<b>Total comprehensive income / (loss)</b>		<b>(2,842,370)</b>	<b>(3,017,709)</b>

# Pacific International Insurance Pty Limited New Zealand Branch

Annual Financial Statements for the year ended 30 June 2023

## Statement of Financial Position

	Notes	2023 \$	2022 \$
<b>Assets</b>			
Cash and cash equivalents	14	3,142,487	1,682,936
Trade and other receivables	15	2,520,207	2,124,507
Reinsurance share of insurance liabilities	21	7,134,369	2,955,016
Deferred acquisition costs	16	1,570,952	843,584
Property, plant and equipment	17	146,188	233,910
Right-of-use assets	22	349,122	541,643
Intangible assets	18	77	214
Deferred tax assets	19	3,345,491	2,235,686
<b>Total assets</b>		<b>18,208,893</b>	<b>10,617,497</b>
<b>Equity and liabilities</b>			
<b>Liabilities</b>			
Trade and other payables	20	2,697,810	1,466,568
Insurance liabilities	21	9,484,454	5,361,222
Deferred reinsurance income		1,421,676	546,986
Deferred income		385	85,799
Provisions		150,194	133,137
Lease liabilities	22	400,594	582,700
<b>Total liabilities</b>		<b>14,155,112</b>	<b>8,176,412</b>
<b>Equity</b>			
Head office account	23	12,832,120	8,377,053
Accumulated loss		(8,683,384)	(5,846,203)
Other non-distributable reserves		(94,954)	(89,766)
<b>Total equity</b>		<b>4,053,781</b>	<b>2,441,084</b>
<b>Total equity and liabilities</b>		<b>18,208,893</b>	<b>10,617,497</b>

# Pacific International Insurance Pty Limited New Zealand Branch

Annual Financial Statements for the year ended 30 June 2023

## Statement of Changes in Equity

	Head office account \$	Foreign currency translation reserve \$	Accumulated loss \$	Total \$
<b>Balance at 1 July 2021</b>	6,162,459	5,188	(2,923,447)	3,244,200
<b>Changes in equity</b>				
Loss for the year	-	-	(2,922,756)	(2,922,756)
Other comprehensive income	-	(94,954)	-	(94,954)
Total comprehensive income for the year	-	(94,954)	(2,922,756)	(3,017,710)
Cash transferred from Head office	2,214,594	-	-	2,214,594
<b>Balance at 30 June 2022</b>	<b>8,377,053</b>	<b>(89,766)</b>	<b>(5,846,203)</b>	<b>2,441,084</b>
<b>Balance at 1 July 2022</b>	8,377,053	(89,766)	(5,846,203)	2,441,084
<b>Changes in equity</b>				
Loss for the year	-	-	(2,837,182)	(2,837,182)
Other comprehensive income	-	(5,188)	-	(5,188)
Total comprehensive income for the year	-	(5,188)	(2,837,182)	(2,842,370)
Cash transferred from Head office	4,455,067	-	-	4,455,067
<b>Balance at 30 June 2023</b>	<b>12,832,120</b>	<b>(94,954)</b>	<b>(8,683,384)</b>	<b>4,053,781</b>

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# Pacific International Insurance Pty Limited New Zealand Branch

Annual Financial Statements for the year ended 30 June 2023

## Statement of Cash Flows

	Notes	2023 \$	2022 \$
<b>Net cash flows used in operations</b>	28	<b>(2,917,214)</b>	<b>(2,646,087)</b>
Interest paid		(86,886)	-
Interest received		175,403	-
<b>Net cash flows used in operating activities</b>		<b>(2,828,697)</b>	<b>(2,646,087)</b>
<b>Cash flows from / (used in) investing activities</b>			
Proceeds from sales of property, plant and equipment		-	21,163
Purchase of property, plant and equipment		-	(4,624)
Purchase of intangible assets		-	(41)
Purchase of right of use assets		15,288	(191,608)
(Increase) / decrease in loans to related parties		-	151
<b>Cash flows from / (used in) investing activities</b>		<b>15,288</b>	<b>(174,959)</b>
<b>Cash flows from financing activities</b>			
Increase in Head office advances		4,455,067	2,214,594
(Decrease) / Increase in lease liabilities		(182,106)	30,501
<b>Cash flows from financing activities</b>		<b>4,272,960</b>	<b>2,245,095</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>1,459,551</b>	<b>(575,951)</b>
Cash and cash equivalents at beginning of the year		1,682,936	2,258,887
<b>Cash and cash equivalents at end of the year</b>	14	<b>3,142,487</b>	<b>1,682,936</b>

# Pacific International Insurance Pty Limited New Zealand Branch

Annual Financial Statements for the year ended 30 June 2023

## Accounting Policies

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### 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 latent 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 2023 were authorised for issue by the Directors on 25 September 2023.

### 2. Basis of preparation and summary of significant accounting policies

#### 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 Tier 1 profit oriented entities. The Branch has prepared its financial statements for the year ended 30 June 2023 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 and other income

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.

# Pacific International Insurance Pty Limited New Zealand Branch

Annual Financial Statements for the year ended 30 June 2023

## Accounting Policies

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### *Basis of preparation and summary of significant accounting policies continued...*

#### *Gross earned premium*

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 underwritten.

#### *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 2.12. 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.

# Pacific International Insurance Pty Limited New Zealand Branch

Annual Financial Statements for the year ended 30 June 2023

## Accounting Policies

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### *Basis of preparation and summary of significant accounting policies continued...*

#### *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 payable 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.

##### **2.6.1 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.

# Pacific International Insurance Pty Limited New Zealand Branch

Annual Financial Statements for the year ended 30 June 2023

## Accounting Policies

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### *Basis of preparation and summary of significant accounting policies continued...*

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.

## **2.6.2 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.

## **2.6.3 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.

## **2.7 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.

# Pacific International Insurance Pty Limited New Zealand Branch

Annual Financial Statements for the year ended 30 June 2023

## Accounting Policies

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*Basis of preparation and summary of significant accounting policies continued...*

### 2.8 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.

### 2.9 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.

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

# Pacific International Insurance Pty Limited New Zealand Branch

Annual Financial Statements for the year ended 30 June 2023

## Accounting Policies

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### *Basis of preparation and summary of significant accounting policies continued...*

Fixed asset class	Measurement base	Depreciation rate
Furniture, Fixtures and Fittings	Diminishing value basis	10.50%
Leasehold improvements	Diminishing value basis	30%
Motor vehicles	Diminishing value basis	31%-36%
Computer equipment	Diminishing value basis	26%-50%
Office equipment	Diminishing value basis	11%-67%

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.

### 2.11 Intangible assets

Intangible assets is carried at cost, less accumulated amortisation and impairment losses.

The amortisation rates used for each class of intangible asset are shown below:

Intangible asset class	Measurement base	Amortisation rate
Computer software	Finite life	25% - 33%

### 2.12 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.

### 2.13 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.

### 2.14 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.

# Pacific International Insurance Pty Limited New Zealand Branch

Annual Financial Statements for the year ended 30 June 2023

## Accounting Policies

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### *Basis of preparation and summary of significant accounting policies continued...*

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, 2021, 2020 or 2019.

### **2.15 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.

### **2.16 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 2023 or for annual periods beginning after 1 July 2023 that have material impact on the Branch other than the below.

At the date of authorisation of these financial statements for the year ended 30 June 2023, the following IFRSs were adopted:

Application of the above standards did not impact these annual financial statements.



# Pacific International Insurance Pty Limited New Zealand Branch

Annual Financial Statements for the year ended 30 June 2023

## Accounting Policies

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### *Changes in accounting policies and disclosures continued...*

#### 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 Contracts	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.

#### 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.

# Pacific International Insurance Pty Limited New Zealand Branch

Annual Financial Statements for the year ended 30 June 2023

## Accounting Policies

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### *Critical accounting estimates and judgements continued...*

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 Company'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, counterparty, insurance, concentration, operational and governance risk.

### **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 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.

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

Credit Risk - rises 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 arises through the groups reinsurance arrangements.

Asset / Counterparty Concentration Risk - risk of loss to the Company from large exposures to one or a few counterparties that a significant holding or commitment to the company.

# Pacific International Insurance Pty Limited New Zealand Branch

Annual Financial Statements for the year ended 30 June 2023

## Accounting Policies

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### *Financial Risk Management policies and procedures continued...*

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 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 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.

### **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 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:

- 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 Company is exposed to;
- Use of reinsurance to preserve the Company's capital by reducing the Company'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.

### **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.

# Pacific International Insurance Pty Limited New Zealand Branch

Annual Financial Statements for the year ended 30 June 2023

## Accounting Policies

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### *Financial Risk Management policies and procedures continued...*

#### Concentration of risk

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

#### 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 premiums 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.

	2023	2022
<b>Financial Assets</b>		
Cash and cash equivalents	<u>3,142,487</u>	<u>1,682,936</u>
<b>Loans and receivables</b>		
Trade and other receivables	2,520,207	2,124,507
Related party receivables	-	-
	<u>2,520,207</u>	<u>2,124,507</u>
<b>Total financial assets</b>	<u>5,662,694</u>	<u>3,807,443</u>
<b>Financial liabilities</b>		
Trade and other payables	2,697,810	1,466,568
<b>Total financial liabilities</b>	<u>2,697,810</u>	<u>1,466,568</u>

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 23rd of February 2023. The credit rating is an indication of the Company's current and future claims paying ability (Refer to Note 21.8 - Liability Adequacy Test).

# Pacific International Insurance Pty Limited New Zealand Branch

Annual Financial Statements for the year ended 30 June 2023

## Accounting Policies

### *Financial Instruments continued...*

#### **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 counterparty default rates:

	<b>2023</b>	<b>2022</b>
Credit exposure by credit rating		
AA to A-	3,142,487	1,682,936
Unrated	2,520,207	2,124,507
<b>Total</b>	<b>5,662,694</b>	<b>3,807,443</b>

#### **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.

	<b>At call</b>		<b>1 year or less</b>		<b>Total</b>	
	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
<b>Financial Assets</b>						
Cash and cash equivalents	3,142,487	1,682,936	-	-	3,142,487	1,682,936
Investments	-	-	-	-	-	-
	<b>3,142,487</b>	<b>1,682,936</b>	<b>-</b>	<b>-</b>	<b>3,142,487</b>	<b>1,682,936</b>
<b>Loans and receivables</b>						
Trade and other receivables	-	-	2,520,207	2,124,507	2,520,207	2,124,507
Related party receivables	-	-	-	-	-	-
	<b>-</b>	<b>-</b>	<b>2,520,207</b>	<b>2,124,507</b>	<b>2,520,207</b>	<b>2,124,507</b>
<b>Total financial assets</b>	<b>3,142,487</b>	<b>1,682,936</b>	<b>2,520,207</b>	<b>2,124,507</b>	<b>5,662,694</b>	<b>3,807,443</b>
<b>Financial liabilities</b>						
Trade and other payables	-	-	2,697,810	1,466,568	2,697,810	1,466,568
Related party payables	-	-	-	-	-	-
Loan payable	-	-	-	-	-	-
	<b>-</b>	<b>-</b>	<b>2,697,810</b>	<b>1,466,568</b>	<b>2,697,810</b>	<b>1,466,568</b>
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>2,697,810</b>	<b>1,466,568</b>	<b>2,697,810</b>	<b>1,466,568</b>

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.

# Pacific International Insurance Pty Limited New Zealand Branch

Annual Financial Statements for the year ended 30 June 2023

## Notes to the Annual Financial Statements

	2023	2022
	\$	\$
<b>7. Gross written premium</b>		
<b>Gross written premium comprises:</b>		
Professional Indemnity	17,244	276,891
Liability and Warranty	22,210	31,771
Pet Insurance	8,712,881	4,654,202
Travel	4,484,764	676,052
Warranty	3,100,876	3,262,121
	<b>16,337,975</b>	<b>8,901,037</b>
<b>8. Other income</b>		
Insurance licence fee	439,820	250,128
Other income	5,274	173
Training income (New Zealand Branch)	85,799	141,083
<b>Total other income</b>	<b>530,894</b>	<b>391,383</b>
<b>9. Claims expense</b>		
Claims paid	6,801,866	3,083,682
Claims estimate (decrease) / increase	(199,527)	327,681
IBNR movement	749,669	389,804
Claims handling expense	43,762	-
	<b>7,395,770</b>	<b>3,801,167</b>
<b>10. Acquisition costs</b>		
Commission	1,948,053	242,472
Referral fees	298,793	180,571
	<b>2,246,846</b>	<b>423,043</b>

# Pacific International Insurance Pty Limited New Zealand Branch

Annual Financial Statements for the year ended 30 June 2023

## Notes to the Annual Financial Statements

	2023	2022
	\$	\$
<b>11. Administration expenses</b>		
<b>Administration expenses comprise:</b>		
Admin and management fees paid to related parties	104,178	153,277
Amortisation	137	184
Auditors remuneration	12 5,675	-
Bad debts	-	1,070
Bank charges	90,270	59,852
Consulting and legal fees	129,167	66,541
Depreciation	264,955	284,126
Donations	10,435	15,786
Employee cost (including directors)	1,235,048	1,342,884
Insurance	2,157	2,752
Marketing	4,299,095	2,744,122
Other expenses	221,166	210,688
Printing and stationery	25,241	23,492
Profit share	74,843	-
Reinsurance broker fees	2,626	4,459
Rental of premises	3,159	-
Repairs and maintenance	3,124	2,606
Staff training	1,588	-
Telephone and internet	46,861	48,750
Training fees	12,426	20,452
Travel costs	110,223	21,776
<b>Total other expenses</b>	<b>6,642,373</b>	<b>5,002,818</b>
<b>12. Auditors remuneration</b>		
Audit services - PWC internal audit*	<b>5,675</b>	-
*PKF external audit fees are paid by the head office.		
<b>13. Income tax (credit)</b>		
<b>13.1 Income tax recognised in profit or loss:</b>		
<b>Current tax</b>		
Current year	-	(9,559)
<b>Deferred tax</b>		
Deferred tax	(1,109,805)	(1,140,345)
<b>Total income tax credit</b>	<b>(1,109,805)</b>	<b>(1,149,904)</b>

# Pacific International Insurance Pty Limited New Zealand Branch

Annual Financial Statements for the year ended 30 June 2023

## Notes to the Annual Financial Statements

	2023 \$	2022 \$
<i>Income tax (credit) continued...</i>		
<b>13.2 The income tax for the year can be reconciled to the accounting loss as follows:</b>		
Loss before tax from operations	(3,946,987)	(4,072,658)
Income tax calculated at 28%	(1,105,156)	(1,140,345)
Tax effect of		
- Correction of prior year income tax provision	-	(9,559)
- Tax losses deducted	(4,649)	-
<b>Tax charge</b>	<b>(1,109,805)</b>	<b>(1,149,904)</b>
<b>14. Cash and cash equivalents</b>		
<b>Cash</b>		
Balances with banks	3,142,487	1,682,936
<b>15. Trade and other receivables</b>		
<b>Trade and other receivables comprise:</b>		
Trade receivables	1,331,813	1,690,097
Prepaid expenses	278,712	149,473
Deposits	38,563	38,563
Claims float receivable	871,119	246,375
<b>Total trade and other receivables</b>	<b>2,520,207</b>	<b>2,124,507</b>
<b>16. Deferred acquisition costs</b>		
At the beginning of the year	843,584	50,567
Amortisation charged to income	(2,246,846)	(423,043)
Acquisition costs deferred	2,974,214	1,216,061
<b>Net book value at the end of the year</b>	<b>1,570,952</b>	<b>843,585</b>



# Pacific International Insurance Pty Limited New Zealand Branch

Annual Financial Statements for the year ended 30 June 2023

## Notes to the Annual Financial Statements

### 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 \$
<b>Reconciliation for the year ended 30 June 2023</b>						
<b>Balance at 1 July 2022</b>						
At cost	94,716	58,016	65,876	78,579	125,052	<b>422,239</b>
Accumulated depreciation	(33,030)	(25,612)	(11,154)	(43,612)	(74,921)	<b>(188,329)</b>
<b>Net book value</b>	<b>61,686</b>	<b>32,403</b>	<b>54,722</b>	<b>34,967</b>	<b>50,131</b>	<b>233,910</b>
<b>Movements for the year ended 30 June 2023</b>						
Depreciation	(19,808)	(18,705)	(6,130)	(12,405)	(30,673)	<b>(87,722)</b>
<b>Property, plant and equipment at the end of the year</b>	<b>41,877</b>	<b>13,698</b>	<b>48,592</b>	<b>22,562</b>	<b>19,459</b>	<b>146,188</b>
<b>Closing balance at 30 June 2023</b>						
At cost	94,716	58,016	65,876	24,132	125,052	<b>367,792</b>
Accumulated depreciation	(52,838)	(44,317)	(17,284)	(1,570)	(105,594)	<b>(221,603)</b>
<b>Net book value</b>	<b>41,877</b>	<b>13,698</b>	<b>48,592</b>	<b>22,562</b>	<b>19,459</b>	<b>146,188</b>

# Pacific International Insurance Pty Limited New Zealand Branch

Annual Financial Statements for the year ended 30 June 2023

## Notes to the Annual Financial Statements

### Property, plant and equipment continued...

	Leasehold improvements \$	Motor vehicles \$	Fixtures and fittings \$	Office equipment \$	Computer equipment \$	Total \$
<b>Reconciliation for the year ended 30 June 2022</b>						
<b>Balance at 1 July 2021</b>						
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)	(94,331)
<b>Net book value</b>	<b>83,585</b>	<b>74,204</b>	<b>60,712</b>	<b>47,407</b>	<b>78,540</b>	<b>344,448</b>
<b>Movements for the year ended 30 June 2022</b>						
Additions from acquisitions	-	-	91	-	4,533	4,624
Depreciation	(21,899)	(20,636)	(6,081)	(12,440)	(32,942)	(93,998)
Disposals	-	(21,165)	-	-	-	(21,165)
<b>Property, plant and equipment at the end of the year</b>	<b>61,686</b>	<b>32,403</b>	<b>54,722</b>	<b>34,967</b>	<b>50,131</b>	<b>233,909</b>
<b>Closing balance at 30 June 2022</b>						
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)
<b>Net book value</b>	<b>61,686</b>	<b>32,403</b>	<b>54,722</b>	<b>34,967</b>	<b>50,131</b>	<b>233,910</b>

# Pacific International Insurance Pty Limited New Zealand Branch

Annual Financial Statements for the year ended 30 June 2023

## Notes to the Annual Financial Statements

### 18. Intangible assets

	Computer software \$	Total \$
<b>Reconciliation for the year ended 30 June 2023</b>		
<b>Balance at 1 July 2022</b>		
At cost	570	570
Accumulated amortisation	(356)	(356)
<b>Net book value</b>	<b>214</b>	<b>214</b>
<b>Movements for the year ended 30 June 2023</b>		
Amortisation	(137)	(137)
<b>Intangible assets at the end of the year</b>	<b>77</b>	<b>77</b>
<b>Closing balance at 30 June 2023</b>		
At cost	570	570
Accumulated amortisation	(492)	(492)
<b>Net book value</b>	<b>77</b>	<b>77</b>
<b>Reconciliation for the year ended 30 June 2022</b>		
<b>Balance at 1 July 2021</b>		
Cost	570	570
Accumulated amortisation	(213)	(213)
<b>Net book value</b>	<b>357</b>	<b>357</b>
<b>Movements for the year ended 30 June 2022</b>		
Acquisitions through internal development	41	41
Amortisation	(184)	(184)
<b>Intangible assets at the end of the year</b>	<b>214</b>	<b>214</b>
<b>Closing balance at 30 June 2022</b>		
At cost	570	570
Accumulated amortisation	(356)	(356)
<b>Net book value</b>	<b>214</b>	<b>214</b>

# Pacific International Insurance Pty Limited New Zealand Branch

Annual Financial Statements for the year ended 30 June 2023

## Notes to the Annual Financial Statements

	2023	2022
	\$	\$
<b>19. Deferred tax</b>		
<b>The analysis of deferred tax assets and deferred tax liabilities is as follows:</b>		
<b>Deferred taxation assets:</b>		
Employee benefits	34,203	13,605
Lease liability	112,166	163,156
Losses carried forward	3,296,876	2,211,077
	<u>3,443,245</u>	<u>2,387,838</u>
<b>Deferred tax liabilities:</b>		
Prepayments	-	(492)
Right Of Use Asset	(97,754)	(151,660)
	<u>(97,754)</u>	<u>(152,152)</u>
<b>Net deferred tax assets</b>	<u><b>3,345,491</b></u>	<u><b>2,235,686</b></u>
<b>20. Trade and other payables</b>		
<b>Trade and other payables comprise:</b>		
Trade payables	1,761,212	1,031,124
Accrued expenses	27,951	1,067
Other payables	2,200	-
Withholding Tax	38,546	108,465
Profit share provision	1,899	-
Claims float payable	701,438	246,375
GST payable	164,563	79,536
<b>Total trade and other payables</b>	<u><b>2,697,810</b></u>	<u><b>1,466,568</b></u>

# Pacific International Insurance Pty Limited New Zealand Branch

Annual Financial Statements for the year ended 30 June 2023

## Notes to the Annual Financial Statements

### 21. Insurance liabilities

#### 21.1 Insurance liabilities comprise:

	2023			2022		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
<b>Claims Estimates (OCR)</b>						
Outstanding estimates	128,154	(95,689)	32,465	327,681	(91,897)	235,784
IBNR	1,133,363	(220,527)	912,836	497,696	(73,051)	424,646
Subtotal	1,261,517	(316,216)	945,301	825,377	(164,948)	660,429
Non RI recoveries	-	-	-	-	-	-
Outstanding claims provision	1,261,517	(316,216)	945,301	825,377	(164,948)	660,429
Reinsurance recovery on paid claims	-	(56,864)	(56,864)	-	-	-
Total claims estimates	<b>1,261,517</b>	<b>(373,080)</b>	<b>888,437</b>	<b>825,377</b>	<b>(164,948)</b>	<b>660,429</b>
<b>Unearned Premium (UPR)</b>	<b>8,222,938</b>	<b>(6,761,289)</b>	<b>1,461,649</b>	4,535,845	(2,790,068)	1,745,777
<b>Total insurance liabilities</b>	<b>9,484,454</b>	<b>(7,134,369)</b>	<b>2,350,086</b>	<b>5,361,222</b>	<b>(2,955,016)</b>	<b>2,406,207</b>

# Pacific International Insurance Pty Limited New Zealand Branch

Annual Financial Statements for the year ended 30 June 2023

## Notes to the Annual Financial Statements

### *Insurance liabilities continued...*

#### 21.2 Outstanding estimates

	2023			2022		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Opening balance	327,681	(91,897)	235,784	1	-	1
Change in previous year estimates	294,096	80,666	374,762	191,007	(31,714)	159,293
Previous year claims paid	(578,081)	-	(578,081)	(82,254)	-	(82,254)
Current year claims incurred	6,315,994	(691,268)	5,624,726	3,221,105	(65,656)	3,155,449
Current year claims paid	(6,231,536)	606,810	(5,624,726)	(3,002,178)	5,473	(2,996,705)
<b>Outstanding claims closing balance</b>	<b>128,154</b>	<b>(95,689)</b>	<b>32,465</b>	<b>327,681</b>	<b>(91,897)</b>	<b>235,784</b>

The outstanding claims liability is based on best available information at the time the financial statements are signed.

#### 21.3 IBNR

	2023			2022		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Opening balance	497,696	(73,051)	424,645	107,892	-	107,892
Movement for the year	635,666	(147,476)	488,190	389,804	(73,051)	316,753
<b>IBNR closing balance</b>	<b>1,133,362</b>	<b>(220,527)</b>	<b>912,835</b>	<b>497,696</b>	<b>(73,051)</b>	<b>424,645</b>

# Pacific International Insurance Pty Limited New Zealand Branch

Annual Financial Statements for the year ended 30 June 2023

## Notes to the Annual Financial Statements

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*Insurance liabilities continued...*

### 21.4 Unearned premium (UPR)

	2023			2022		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Opening balance	4,535,845	(2,790,068)	1,745,777	414,798	3,032	417,830
Movement for the year	3,687,092	(3,971,221)	(284,129)	4,121,047	(2,793,100)	1,327,947
<b>IBNR closing balance</b>	<b>8,222,937</b>	<b>(6,761,289)</b>	<b>1,461,648</b>	<b>4,535,845</b>	<b>(2,790,068)</b>	<b>1,745,777</b>

# Pacific International Insurance Pty Limited New Zealand Branch

Annual Financial Statements for the year ended 30 June 2023

## Notes to the Annual Financial Statements

	2023	2022
	\$	\$

### *Insurance liabilities continued...*

#### 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:

	2023	2022
Inflation rate implicit	Implicit	Implicit
Discount rate	4.27%	1.89%
Claims handling expense rate	10%	10%
Future loss ratios	51%	53%
Risk margin	8.8%	10.3%
Weighted average expected term to settlement	0.44 years	0.44 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	57,770	(4,004,757)	(2,803,330)	3,996,011
10% additional Pet IBNR development for March 2023 onwards	281,471	(4,228,458)	(2,959,920)	3,772,310
10% increase in Pet loss ratios	126,910	(4,073,897)	(2,851,728)	3,926,871

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.



# Pacific International Insurance Pty Limited New Zealand Branch

Annual Financial Statements for the year ended 30 June 2023

## Notes to the Annual Financial Statements

### *Insurance liabilities continued...*

#### 21.7 Claims development

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

	Prior \$000s	2017 \$000s	2018 \$000s	2019 \$000s	2020 \$000s	2021 \$000s	2022 \$000s	2023 \$000s	Total \$000s
At the end of accident year	-	36	85	55	47	548	3,446	6,655	10,872
One year later	148	11	84	101	30	536	3,344	-	4,254
Two years later	145	13	95	103	33	541	-	-	930
Three years	153	13	95	121	33	-	-	-	415
Four years	155	13	98	121	-	-	-	-	387
Five years	155	13	98	-	-	-	-	-	266
Six years	155	13	-	-	-	-	-	-	168
Seven years later	155	-	-	-	-	-	-	-	155
Central estimate of ultimate incurred claims at 30 June 2023	155	13	98	121	33	541	3,344	6,655	10,960
Payments to 30 June 2023	155	13	98	121	33	539	3,328	5,879	10,166
Net undiscounted outstanding claims liability	-	-	-	-	-	2	16	783	801
Discount to present value	-	-	-	-	-	-	1	7	8
Net discounted outstanding claims liability	-	-	-	-	-	2	15	776	793
Claims handling costs	-	-	-	-	-	-	1	75	76
Risk margin	-	-	-	-	-	-	2	74	76
Net outstanding claims liability	-	-	-	-	-	2	18	925	945

# Pacific International Insurance Pty Limited New Zealand Branch

Annual Financial Statements for the year ended 30 June 2023

## Notes to the Annual Financial Statements

### *Insurance liabilities continued...*

#### 21.8 Liability adequacy test

A liability adequacy test was performed for 30 June 2023 which indicates a surplus of \$376,734 (2022: \$126,131). The tests were based on the following assumptions:

	<b>2023</b>	<b>2022</b>
Central estimate of the present value of expected future cash flows (\$)	729,758	720,525
Component of the present value of expected future cash flows related to risk margin (\$)	81,810	85,512
The percentage risk margin adopted in determining the present value of expected future cash flows (%)	11.2%	11.9%
The probability of adequacy intended to be achieved through the adoption of the risk margin (%)	75%	75%

#### 22. Lease liabilities

##### 22.1 Lease liabilities comprise:

Lease - Auckland, New Zealand	400,594	582,700
Non-current liabilities	229,190	396,806
Current liabilities	171,404	185,894
	<b>400,594</b>	<b>582,700</b>

##### 22.2 Additional disclosures

Lease obligation payable within 12 months	171,404	217,575
Lease obligation payable after 12 months	229,190	430,025
Total undiscounted lease liabilities	400,594	647,600

##### 22.3 Amounts recognised in the statement of financial position

###### Right-of-use assets

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

349,122	541,643
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##### 22.4 Amounts recognised in the statement of profit or loss and other comprehensive income

Depreciation	(177,233)	(190,129)
Interest expense	(26,381)	(34,672)
	<b>(203,614)</b>	<b>(224,801)</b>

##### 22.5 Amounts recognised in the statement of cash flows

Total cash outflow for leases	(182,106)	30,501
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# Pacific International Insurance Pty Limited New Zealand Branch

Annual Financial Statements for the year ended 30 June 2023

## Notes to the Annual Financial Statements

	2023 \$	2022 \$
<b>23. Head office account</b>		
<b>Head office account detail</b>		
Balance as at 1 July	5,163,343	6,162,459
Cash transferred from Head Office	7,668,777	2,214,594
	<u>12,832,120</u>	<u>8,377,053</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.

## 24. Credit rating

The Company received a financial strength rating of B++ (Good) from the USA rating agency A.M. Best on the 23rd February 2023. 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. 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 \$29,308,000. As at year end the Company had a surplus capital of \$22,833,000 above the APRA requirement. The below values are disclosed in Australian Dollar(AUD).

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

As at year end the Company solvency margin is:

	2023 \$000s	2022 \$000s
Actual Solvency Capital	52,141	27,094
Prudential / minimum capital requirement	(29,308)	(16,690)
Solvency margin	<u>22,833</u>	<u>10,404</u>
<b>Solvency ratio</b>	<u>177.91%</u>	<u>162.34%</u>

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.

# Pacific International Insurance Pty Limited New Zealand Branch

Annual Financial Statements for the year ended 30 June 2023

## Notes to the Annual Financial Statements

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### 26. Related parties

#### 26.1 Group companies

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 cancelled and all products are now distributed through Pacific's own AFSL.

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.

Badger Software Pty Ltd

Badger Software Pty Ltd is the development company of the proprietary policy administration and claims system for the Badger Group. Badger Software Pty Ltd provides the full end to end development for all products and services that the group offer and the platform that Pacific International Insurance Pty Ltd uses for its policy administration and claims management.

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.

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.

Rapid Training Pty Ltd

Rapid Training Pty Ltd offers accredited training to the pest control industry and is considered a "value add" opportunity for Pacific. The Company charged Pacific International Insurance Pty Ltd a risk mitigation fee for training provided in the past to its insured clients.

# Pacific International Insurance Pty Limited New Zealand Branch

Annual Financial Statements for the year ended 30 June 2023

## Notes to the Annual Financial Statements

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### *Related parties continued...*

#### **26.2 Other related parties**

Badger International (Pty) Ltd SA

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

Badger Holdings Pty Ltd SA

Badger Holdings Pty Ltd SA is a holding company in South Africa that also provides administrative services.

Dotsure Insurance Limited

Dotsure Insurance Limited is a company in South Africa that also provides non-life insurance services.

# Pacific International Insurance Pty Limited New Zealand Branch

Annual Financial Statements for the year ended 30 June 2023

## Notes to the Annual Financial Statements

*Related parties continued...*

### 26.3 Related party transactions and balances

	Badger International (Pty) Ltd SA	Badger Holdings Pty Ltd SA	Dotsure Insurance Limited	Pacific International Insurance Limited (Australia branch)	Total \$
<b>Year ended 30 June 2023</b>					
<b>Related party transactions</b>					
Admin and management fees paid	27,297	17,687	59,194	-	104,178
<b>Total related party transactions</b>	<b>27,297</b>	<b>17,687</b>	<b>59,194</b>	<b>-</b>	<b>104,178</b>
<b>Total outstanding loan accounts</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Year ended 30 June 2022</b>					
<b>Related party transactions</b>					
Admin and management fees paid	107,082	-	32,938	-	140,020
<b>Total related party transactions</b>	<b>107,082</b>	<b>-</b>	<b>32,938</b>	<b>-</b>	<b>140,020</b>
<b>Outstanding balances for related party transactions</b>					
Amounts payable	-	-	(11,680)	(11,898)	(23,578)
Amounts receivable	42,043	-	-	-	42,043
<b>Total outstanding balances for related party transactions</b>	<b>42,043</b>	<b>-</b>	<b>(11,680)</b>	<b>(11,898)</b>	<b>18,465</b>
<b>Total outstanding loan accounts</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

# Pacific International Insurance Pty Limited New Zealand Branch

Annual Financial Statements for the year ended 30 June 2023

## Notes to the Annual Financial Statements

	2023 \$	2022 \$
<b>27. Contingencies</b>		
In the opinion of the Directors, the Company did not have any contingencies at 30 June 2023 (30 June 2022: None).		
<b>28. Cash flows from operating activities</b>		
<b>Loss for the year</b>	<b>(2,837,182)</b>	<b>(2,922,756)</b>
<b>Adjustments for:</b>		
Income tax expense	(1,109,805)	(1,140,345)
Finance income	(175,403)	-
Finance costs	86,886	-
Depreciation and amortisation expense	265,092	284,310
Gains and losses on foreign exchange realised in profit or loss	(5,188)	(94,954)
<b>Change in operating assets and liabilities:</b>		
Adjustments for increase in trade accounts receivable	(395,699)	(1,733,391)
Adjustments for increase in trade accounts payable	1,231,242	1,383,952
Adjustments for increase in deferred income	789,275	410,889
Adjustments for employee benefits	17,057	78,743
Adjustments for reinsurers' share of insurance liabilities	(4,179,353)	(2,958,048)
Adjustments for deferred acquisition costs	(727,368)	(793,018)
Adjustments for insurance liabilities	4,123,232	4,838,532
<b>Net cash flows from operations</b>	<b>(2,917,214)</b>	<b>(2,646,087)</b>

## 29. Events after the reporting date

No 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.

## 30. Comparatives

Certain comparative balances have been reclassified to align with the APRA submission. The aggregate effect of the reclassification of the comparatives on the annual financial statements for the year is nil.

# Pacific International Insurance Pty Limited New Zealand Branch

Annual Financial Statements for the year ended 30 June 2023

## Directors' Responsibilities and Approval

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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 2023.

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 2023 and the results of the operations for the year ended 30 June 2023.

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:



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**Mr Jonathon Michael Broome**  
**(Independent Non-Executive**  
**Director - Chairman of the Board)**

27 September 2023



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**Mr Roland Covac Lange**  
**(Executive Director - CEO)**

27 September 2023





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## INDEPENDENT AUDITOR'S REPORT

### TO THE SHAREHOLDERS OF PACIFIC INTERNATIONAL INSURANCE PTY LIMITED – THE NEW ZEALAND BRANCH

#### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of the New Zealand Branch of Pacific International Insurance Pty Limited (the Branch), which comprise the statement of financial position as at 30 June 2023, the statement of profit or loss and other comprehensive income, statement of changes in equity, and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information for the Branch.

In our opinion, the Branches financial statements present fairly, in all material respects, the financial position of the Branch as at 30 June 2023, and its financial performance and its cash flows for the year then ended in accordance with New Zealand equivalents to International Financial Reporting Standards.

This report is made solely to the Branch's shareholders, as a body. Our audit work has been undertaken so that we might state to the Branch's shareholders those matters which we are required to state to them in the 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 Branch's shareholders, as a body, for our review procedures, for this report, or for the conclusion we have formed.

#### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Branch in accordance with Professional and Ethical Standard 1 (Revised) 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 IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. This matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter. For the matter below, our description of how our audit addressed the matter is provided in that context.

Why it is significant	How our audit addressed the key audit matter
<p><b><u>Outstanding Claims Liability (\$32,465)</u></b> Refer to Note 21.1 to the Financial Report.</p> <p>Outstanding claims liability is a key audit matter as a result of significant complexity relating to:</p> <p><b><i>Valuation of Outstanding claims</i></b></p> <p>The valuation of outstanding claims is significant to the key audit matter as:</p> <ul style="list-style-type: none"> <li>• The significant judgement required by the Branch and the inherent uncertainty in estimating the expected future payments for claims incurred, including those not yet reported;</li> <li>• The uncertainty related to catastrophe events, particularly those occurring closer to year end, and in relation to classes of business where there is a greater length of time between the initial claim event and settlement, because of the inherent difficulty in assessing amounts until further evidence is available;</li> <li>• Models used to calculate the net outstanding claims liability across the Group are complex and judgement is applied in determining the appropriate construct of the models;</li> <li>• The higher degree of auditor judgement and effort in performing procedures and evaluating audit evidence related to significant assumptions, particularly loss ratios, claim frequencies and average claim sizes, and allowance for future claims inflation; and</li> <li>• The audit effort required the use of experts with specialised skills and knowledge.</li> </ul>	<p>To address the key audit matter, together with PKF's actuarial experts, our audit procedures included:</p> <p><b><i>Valuation of Outstanding claims</i></b></p> <p>We assessed the selection of methods and key assumptions to consider evidence of management bias.</p> <p>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.</p> <p>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.</p> <p>Our procedures around the financial records and controls included, amongst others:</p> <ul style="list-style-type: none"> <li>• testing the design and implementation of accounting and actuarial controls such as the reconciliation of key data;</li> <li>• testing the design and implementation of key controls over claims case estimates; and</li> <li>• testing a sample of paid claims and claims case estimates.</li> </ul>
<p><b><i>Risk margins and probability of adequacy</i></b></p> <p>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.</p> <p>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.</p>	<p><b><i>Risk margins and probability of adequacy</i></b></p> <p>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.</p>



## Information Other than the Financial Statements and Auditor's Report

The directors of the Branch are responsible for the Annual Report, which includes information other than the financial statements and audit report which is expected to be made available to us prior to the date of this auditor's report.

Our opinion on the financial statements do not cover the 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 to be materially misstated.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and, if uncorrected, to take appropriate action to bring the matter to the attention of users for whom our auditor's report was prepared.

## Directors' Responsibilities for the Financial Statements

The directors are responsible on behalf of the Branch for the preparation and fair presentation of the financial statements in accordance with New Zealand equivalents to International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible, on behalf of the Branch, for assessing the Branch's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Branch or cease operations, or have no realistic alternative but to do so.

The directors are responsible for overseeing the Branch's financial reporting process.

## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (NZ), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Branch's internal control.



## Auditor's Responsibilities for the Audit of the Financial Statements (cont'd)

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the use of the going concern basis of accounting by the directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Branch's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Branch to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Scott Tobutt.

A stylized, handwritten signature of 'PKF' in black ink.

PKF

27 SEPTEMBER 2023

SYDNEY, NSW