SOUTHERN CROSS PET INSURANCE LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED

30 June 2021

CONTENTS

ANNUAL REPORT DISCLOSURES
for the year ended 30 June 2021

The Directors present their annual report including the financial statements of Southern Cross Pet Insurance Limited (the "Company") for the year ended 30 June 2021.

Dividend

No dividends were paid during the year.

Nature of business

The Company is in the business of providing pet insurance in the New Zealand market.

Results

The Company recorded a net profit from operations of $2,478,000.

Register of Directors

N J Astwick
M J Gardiner
M L James
J M Raue

Use of company information

The Board received no notices during the year to 30 June 2021 from Directors requesting to use Company information received in their capacity as Directors which would not have been otherwise available to them.

Share dealings

No Director acquired or disposed of any interest in shares in the Company during the year.

Directors' remuneration

The Directors received $57,500 remuneration from the Company during the year.

Indemnity and insurance

Southern Cross Medical Care Society (the "Society") has insured the Company's Directors and Officers for liabilities to other parties that may arise from their positions as Directors and Officers of the Company.

Auditor

KPMG.

Authorised on behalf of the Board of Directors on 25 August 2021

M L James
Director

M J Gardiner
Director

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2021

	Note	2021 $000 12 months	2020 $000 5 months
Premium revenue		24,753	8,413
Less: outward reinsurance expense		(40)	(18)
Net premium revenue	6	24,713	8,395
Claims expense		(16,181)	(4,940)
Less: reinsurance recoveries		26	(9)
Net claims expense	4	(16,155)	(4,949)
Underwriting surplus		**8,558**	**3,446**
Operating expenses	7	(5,956)	(4,384)
Operating profit/(loss)		**2,602**	**(938)**
Interest income		48	30
Profit/(loss) before taxation		**2,650**	**(908)**
Taxation (expense)/credit	12	(172)	451
Profit/(loss) after taxation		**2,478**	**(457)**
Other comprehensive income		-	-
Total comprehensive profit/(loss) after taxation		**2,478**	**(457)**

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

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STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2021

	Note	2021 $000	2020 $000
Share capital			
Opening balance		15,000	-
Share issue	15	-	15,000
Share capital closing balance		**15,000**	**15,000**
Retained earnings			
Opening balance		(457)	-
Total comprehensive profit/(loss) after taxation		2,478	(457)
Retained profit/(loss) closing balance		**2,021**	**(457)**
Total equity		**17,021**	**14,543**

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

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STATEMENT OF FINANCIAL POSITION
as at 30 June 2021

	Note	2021 $000	2020 $000
Assets			
Cash and cash equivalents	8	8,557	12,037
Premium and other receivables	9	15,980	11,217
Investments	10	6,006	-
Intangible assets	13	7,076	8,195
Total assets		**37,619**	**31,449**
Liabilities			
Payables and other liabilities	11	1,168	1,237
Deferred tax liabilities	12	1,208	1,036
Insurance contract liabilities	3	18,222	14,633
Total liabilities		**20,598**	**16,906**
Net assets		**17,021**	**14,543**
Equity			
Share capital	15	15,000	15,000
Retained earnings		2,021	(457)
Total equity		**17,021**	**14,543**

Authorised on behalf of the Board of Directors on 25 August 2021

M L James
Director

M J Gardiner
Director

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

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STATEMENT OF CASH FLOWS
for the year ended 30 June 2021

	Note	2021 $000 12 months	2020 $000 5 months
Cash flows from/(to) operating activities			
Premium revenue received		24,892	8,477
Interest received		42	30
Payment of claims		(15,960)	(4,320)
Payments to suppliers		(6,454)	(2,528)
Net cash flows from operating activities		**2,520**	**1,659**
Cash flows (to)/from investing activities			
Net purchases of investments		(6,000)	-
Acquisition of pet insurance business	17	-	(8,033)
Cash and cash equivalents acquired with the pet insurance business	17	-	3,411
Net cash flows to investing activities		**(6,000)**	**(4,622)**
Cash flows from financing activities			
Share capital issue	15	-	15,000
Net cash flows from financing activities		**-**	**15,000**
Net (decrease)/increase in cash and cash equivalents		**(3,480)**	**12,037**
Opening cash and cash equivalents		12,037	-
Closing cash and cash equivalents		**8,557**	**12,037**

RECONCILIATION OF PROFIT/(LOSS) AFTER TAXATION TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	Note	2021 $000 12 months	2020 $000 5 months
Total comprehensive profit/(loss) after taxation		2,478	(457)
Adjustments for non-cash items included in comprehensive loss after taxation:			
Amortisation	13	1,119	1,306
Changes in assets and liabilities			
Premium and other receivables		179	82
Payables and other liabilities		(75)	551
Deferred acquisition costs	9	(1,547)	-
Deferred tax liabilities	12	172	(451)
Insurance contract liabilities		194	628
Net cash flows from operating activities		**2,520**	**1,659**

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

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2021

1 BASIS OF ACCOUNTING

INTRODUCTION

The notes to the financial statements contain detailed financial information and the accounting policies that are considered relevant and material to the understanding of the financial performance and financial position.

Additional signposting has been used throughout the notes to the financial statements to assist readers in understanding the key information in the financial statements.

Signpost
Basis of preparation
Accounting policy
Management judgements and estimates

REPORTING ENTITY

Southern Cross Pet Insurance Limited (the "Company") is a limited liability company domiciled and incorporated in New Zealand. It is a wholly owned subsidiary of The Southern Cross Medical Care Society (the "Society"). The Company's registered office is Level 12, AMP Centre, 29 Customs Street West, Auckland 1010. The Company's primary activity is the provision of pet insurance.

On 31 January 2020, the Company acquired the pet insurance business from Southern Cross Benefits Limited (refer to Note 17). Separately, on 31 January 2020, the identifiable assets and liabilities relating to the pet insurance business were transferred from Southern Cross Insurance Services Limited (refer to Note 17). As the Company commenced operating on 31 January 2020, comparative financial statement amounts as at and for the period ended 30 June 2020 are for the five months ending 30 June 2020.

The Company is a licenced insurer under the Insurance (Prudential Supervision) Act 2010 since 30 January 2020. It is deemed to be a financial markets conduct reporting entity under Part 7 of the Financial Markets Conduct Act 2013 and therefore a Tier 1 reporting entity for financial reporting purposes.

BASIS OF PREPARATION

The Company is a profit-oriented entity for financial reporting purposes.

The financial statements are:

- prepared in accordance with the statutory requirements of the Financial Markets Conduct Act 2013, the Insurance Prudential Supervision Act 2010, the Companies Act 1993 and the Financial Reporting Act 2013.
- prepared in accordance with New Zealand generally accepted accounting practice ("NZ GAAP").
- in compliance with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and International Financial Reporting Standards ("IFRS").
- presented in New Zealand dollars ("NZD"), which is the Company's functional currency. All financial information has been rounded to the nearest thousand ($000), unless otherwise stated.
- stated net of Goods and Services Tax ("GST"), with the exception of receivables and payables, which are stated inclusive of GST where applicable. The items in the cash flow statement are shown exclusive of GST.
- prepared using historical cost as the measurement basis except for insurance contract liabilities, which are measured at fair value.

ACCOUNTING POLICIES AND STANDARDS

Accounting policies have been applied on a basis consistent with that used in the previous year.

USE OF ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised.

Information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes:

- Note 3: Insurance contract liabilities
- Note 5a: Insurance risk
- Note 12: Taxation
- Note 13: Intangible assets
- Note 16: Contingencies and subsequent events
- Note 17: Acquisition of pet insurance business

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NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2021

2 SOLVENCY

As a licensed insurer, the Solvency Standard for Non-life Insurance Business ("the Solvency Standard") issued by the Reserve Bank of New Zealand ("RBNZ") requires the Company to retain a positive solvency margin, meaning that the actual solvency capital position exceeds the minimum required under the Solvency Standard.

The Directors' policy for managing capital is to have a capital base to establish security for policyholders and enable the Company to conduct its business whilst maintaining financial soundness. The Company has a parental support resolution in place from the Society to support the pet insurance business. The Company has embedded in its capital management plan the necessary tests to ensure continuous and full compliance with the Solvency Standard.

The target range for the capital position of the Company is a solvency ratio of 1.20 to 1.50. The policy in respect of capital management is regularly reviewed by the Directors in line with the guidelines issued by the RBNZ. During 2020, the RBNZ indicated their expectation that insurers should take steps to protect, if not build, their capital positions, in response to severe economic uncertainty partly as a result of COVID-19 (refer Note 16c). This means that insurers were unable to make dividends or similar payments that would reduce insurer capital. In late 2020, the RBNZ indicated that it no longer considers it necessary for all insurers to withhold dividend payments in order to support financial stability. However, each insurer is expected to only make dividend payments where it is prudent for the insurer to do so.
The Company complied with RBNZ imposed capital requirements for the year ended 30 June 2021 (30 June 2020: In compliance).

	2021 $000	2020 $000
Disclosures of solvency required by the Solvency Standard as issued by the RBNZ		
Solvency capital	9,944	6,347
Minimum solvency capital	3,310	3,000
Solvency margin	6,634	3,347

	2021	2020
Solvency ratio	3.00	2.12

On 20 January 2021, Standard & Poor's reaffirmed the Company's Insurer Financial Strength Rating at A (Strong) (3 February 2020: A), under its global insurance industry rating methodology.

3 INSURANCE CONTRACT LIABILITIES

Insurance contracts are defined as those containing significant insurance risk at the inception of the contract. Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during the period. The Company has determined that all pet insurance policies are insurance contracts.

Estimates of the outstanding claims and unexpired risk at 30 June 2021 have been determined by the Company's Appointed Actuary, John Smeed, a Fellow of the New Zealand Society of Actuaries. These were presented to the Directors of the Company in a report dated 25 August 2021. There were no qualifications to the report. The calculations of the provisions for outstanding claims and unexpired risk each comply with both NZ IFRS 4 *Insurance Contracts* , and Professional Standard No.30: *Valuations of General Insurance Claims* , of the New Zealand Society of Actuaries.

The Appointed Actuary is satisfied as to the nature, sufficiency and accuracy of the data used to determine these provisions.

	2021 $000	2020 $000
Insurance contract liabilities		
Provision for outstanding claims	2,991	2,820
Provision for unearned premium	15,157	11,762
Assessed claims payable	74	51
Total	18,222	14,633

Provision for outstanding claims

The provision for outstanding claims is the central estimate of the present value of expected future payments for claims incurred but not settled at the balance date. The central estimate has been calculated using historical experience to determine the pattern of claims development.

A payments per active policy approach is adopted to value outstanding claims. Future claim payments are not inflated or discounted due to the short tail nature of the liabilities.

A risk margin has been added to reflect the inherent uncertainty in the central estimate. The risk margin considers both historic and future sources of volatility. A risk margin of 8.5% (30 June 2020: 10%) of the central estimate was established as at 30 June 2021. The risk margin was determined with the objective of achieving at least 75% probability of sufficiency of the provision for outstanding claims. Included within the 8.5% risk margin is a 1.5% risk allowance (30 June 2020: 3%) to reflect the additional uncertainty in estimating the outstanding liability due to the impacts of the COVID-19 lock-down. Refer to Note 16c.

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2021

3 INSURANCE CONTRACT LIABILITIES (continued)

Key assumptions:
I. Future patterns of claims development will be similar to historical patterns depending on the type of policy, type of claim and development month.
ii. Historical claims inflation of nil, based on previous claims experience.

Claims handling costs include internal and external costs incurred in connection with the settlement of claims. Internal costs include all direct expenses of the claims department and any part of the general administrative costs directly attributable to the claims function. Claims handling costs were determined to be 7% (30 June 2020: 7%) of the underlying claims amounts based on an analysis of administration expenses.

The average weighted term from 30 June 2021 to the expected settlement date for claims included in the liability for outstanding claims is 3.2 months (30 June 2020: 4.3 months). Accordingly, expected future claims payments are not discounted due to the short tail nature of the liabilities.

	Note	2021 $000	2020 $000
Provision for outstanding claims			
Central estimate of outstanding claims liability		2,586	2,403
Claims handling costs		180	168
Risk margin		233	256
Total		2,999	2,827
Reinsurance recoveries on outstanding claims			
Central estimate of reinsurance recoveries on outstanding claims liability		(8)	(7)
Total		(8)	(7)
Total net provision for outstanding claims		2,991	2,820

Reinsurance recoveries on outstanding claims liabilities are included in insurance contract liabilities in the statement of financial position.

	Note	2021 $000	2020 $000
Reconciliation of movement in provision for outstanding claims net of reinsurance recoveries			
Opening balance		2,820	-
Net outstanding claims liabilities acquired	17	-	2,243
Amounts utilised during the year		(2,511)	(1,558)
Additional provision during the year		222	26
Amounts provided during the year		2,471	1,831
Movement in claims handling costs		12	168
Movement in risk margin		(23)	110
Total		2,991	2,820

Sensitivity of outstanding claims liability

The provision for outstanding claims was calculated using alternative assumptions to assess the sensitivity of results to those assumptions. The sensitivities do not represent an upper or lower bound of possible outcomes; the sensitivities can be assessed against the total provision for outstanding claims.

	2021 $000	2020 $000
	Impact on provision for outstanding claims	
Claims payment per pet ("PPP")		
Increase by 10%	297	322
Decrease by 10%	(297)	(314)
Claims handling costs		
Increase by 2.5%	70	66
Decrease by 2.5%	(70)	(66)

Provision for unexpired risk and liability adequacy test

The liability for unearned premiums arises from premiums received for risks that have not yet expired. The provision is released evenly over the duration of the pet insurance premium and is recognised as premium income. A liability adequacy test was performed to determine whether the provision for unearned premium is adequate to cover the present value of the expected future cash flows, plus a risk margin, from the current insurance contracts. The future cash flows are future claims, associated claims handling costs and other administration costs.

If the present value of the expected future cash outflows exceeds the provision for unearned premium then the provision for unearned premium is deemed to be deficient. Any deficiency is recognised as an expense in the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2021

3 INSURANCE CONTRACT LIABILITIES (continued)

Provision for unexpired risk and liability adequacy test (continued)

The provision for unexpired risk has been calculated as the projected premium deficiency for current in-force business until the next policy anniversary date on or after 1 July 2021. As at 30 June 2021, the liability adequacy test identified a surplus (30 June 2020: surplus), therefore no deficiency in the unearned premium liability.

The calculation of the risk margin has been based on an analysis of the volatility of historical claims experience within the time period covered by the unearned premiums together with future sources of volatility. A risk margin of 12.5% of the present value of expected future cash flows has been applied at 30 June 2021 (30 June 2020: 15%), including an additional 2.5% (30 June 2020: 5%) allowance for uncertainty associated with COVID-19. The risk margin was determined with the objective of achieving at least 75% probability of sufficiency of the provision for unexpired risk. Refer to Note 16c.

Key assumptions:

i. Future claims development will be similar to historical patterns by the type of policy, type of claim and development month, with an additional 2.5% (30 June 2020: 5%) allowance to the risk margin due to the impacts of the COVID-19 lock-down.

ii. Expenses based on the business plan for 2020/21 and an analysis of administration expenses.

No explicit allowance has been made for cancellations. These are allowed for implicitly in the inflation assumption.

Expected future claims payments are not discounted due to the short tail nature of the liabilities.

	Note	2021 $000	2020 $000
Provision for unearned premium			
Opening balance		11,762	-
Unearned premium acquired	17	-	9,885
Premiums written during the year		28,148	10,290
Premiums earned during the year		(24,753)	(8,413)
Total		15,157	11,762

Premiums billed but unearned are recorded as a provision for unearned premium in the statement of financial position.

	Note	2021 $000	2020 $000
Liability adequacy test			
Unearned premium liability		15,157	11,762
Recognition of deferred acquisition costs	9	(1,547)	-
Present value of expected future cash flows for claims and expenses		(12,245)	(9,255)
Risk margin of the present value of expected future cash flows		(1,294)	(1,035)
Liability adequacy test surplus		71	1,472

4 NET CLAIMS EXPENSE

The net claims expense represents payments made on claims and the movements in the provisions for outstanding claims and unexpired risk. Details of processes and assumptions used in calculating the provisions are disclosed in Note 3.

The component of net claims expense relating to risk ceded to reinsurers is recognised as reinsurance claim recoveries in the statement of comprehensive income and as reinsurance recoveries in insurance contract liabilities in the statement of financial position.

	2021 $000 12 months	2020 $000 5 months
Net claims expense		
Claims incurred relating to risks borne in current financial year	15,973	4,655
Reinsurance recoveries relating to risks borne in current financial year	(29)	(10)
Claims incurred relating to risks borne in previous financial years	219	7
Reinsurance recoveries relating to risks borne in previous financial years	3	19
Movement in provision for claims handling costs	12	168
Movement in risk margin	(23)	110
Total	16,155	4,949

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2021

5 RISK MANAGEMENT

The Company is exposed to a number of risks in the normal course of business, specifically insurance risk, credit risk, liquidity risk, and operational risk. The Directors and management recognise the importance of having effective risk management and have put in place a comprehensive risk management program.

a. Insurance risk

The Company is exposed to insurance risk through its pet insurance activities. The key risk is that of claims costs varying significantly from the assumptions made in the setting of premium rates and putting pressure on the solvency and liquidity of the Company.

i. Risk management objectives, policies and processes for mitigating risk

The primary objective in managing insurance risk is to reduce the magnitude and volatility of claims costs. A secondary objective is to ensure funds are available to pay claims and maintain the solvency of the organisation if there is adverse deviation in experience. Key policies and methods for mitigating insurance risk include:

- Each year, as part of the planning process, the Board and the Executive Leadership Team review the underwriting and pricing performance.
- Underwriting policies and processes which evaluate new risks and offer terms that do not endanger the portfolio.
- Policy terms and conditions which clearly specify which pet care costs are reimbursed and claims management procedures which ensure those terms and conditions are adhered to in claims administration.
- A long-term pricing strategy and guidelines adopted by the Board which supports pricing based on underlying risk.
- Regular monitoring of financial and operating results.
- Maintaining a target solvency margin in excess of the minimum required by the standard established by the RBNZ. The solvency margin ensures the Company is able to withstand a period of adverse insurance or investment experience and still maintain a satisfactory financial position (refer to Note 2).
- Cash flow projection model designed to forecast major inflow and outflow items.
- A minimum liquidity reserve buffer is maintained in excess of anticipated cash flow requirements.
- During the course of the year, the Company made the decision to move from an advice to an information only model.

ii. Sensitivity to insurance risk

The scope of insurance risk is managed by the terms and conditions of the policy. Policies are subject to benefit limitations and exclusions for maximum cover in each policy period. The main insurance benefits for the pet insurance business involves the reimbursement of medical and surgical expenses depending upon the plan product terms and conditions. The level of benefits specified in the contract is a key determinant of the amount of future claims, although the exact level of claims is uncertain.

iii. Concentration of insurance risk

Management defines concentration of risk by type of insurance business and geographic region. The pet insurance business in New Zealand represents a small and not well diversified risk base, therefore, the concentration of risk by geographic region cannot be avoided. Insurance risks are well diversified within the pet insurance portfolio with claims costs spread across many different types of medical procedures and health events, and animal demographics. There is no significant exposure to individual large claims.

b. Financial risks

i. Credit risk

Credit risk is the potential risk of loss arising from the failure of a debtor or counterparty to meet their contractual obligations.

In the normal course of its business the Company is exposed to credit risk from its pet insurance operations and from investment in financial assets.

The Company maintains policies which are used to manage the exposure to credit risk. Limits on counter-party exposures have been set and are monitored on an ongoing basis. The credit quality of investment counter-parties is assessed based on published credit ratings issued by Standard & Poor's or equivalent ratings agencies. There are no concentrations of credit risk at 30 June 2021 in excess of policy (30 June 2020: Nil).

The credit quality of investment counter-parties is as follows:

	2021 $000	2020 $000
Money market		
AA	6,006	-
Total	6,006	-

The maximum exposure to credit risk at the end of the reporting period is the amount of financial assets stated in the statement of financial position. These exposures are net of any recognised provisions for impairment losses. The cash and cash equivalents balances are held with a counter-party rated AA-.

ii. Liquidity risk

The Company is exposed to ongoing operational drawdowns on its available cash resources from claims and administration expenses. Liquidity risk is the risk that payment of obligations may not be met in a timely manner at a reasonable cost. The Board sets limits on the minimum proportion of maturing funds available to meet unexpected levels of claims and expenses.

Financial liabilities are all short term. Investments can usually be liquidated at any time, under normal market conditions, to settle liabilities.

Contractual maturities of investments are between 0-6 months.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2021

5 RISK MANAGEMENT (continued)

c. Market risks

i Interest rate risk

The cash flows from the Company's investment in bank deposits are susceptible to changes in interest rates.

The fair value of fixed rate investments can fluctuate depending on changes in interest rates. The Company's policy is to hold all investments until maturity. This eliminates any effects of fair value changes to the investments upon realisation, however unrealised fair value changes are recognised in the statement of comprehensive income for each period.

ii. Fair values of financial instruments and financial liabilities

All financial assets and financial liabilities included in the statement of financial position are carried at amounts that approximate fair value.

The table below analyses financial assets measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised.

Definition of the fair value hierarchy

Level 1: Valuation based on quoted market prices (unadjusted) in an active market.

Level 2: Valuation techniques based on observable market data, either directly (as prices) or indirectly (derived from prices).

Level 3: Valuation techniques not based on observable market data.

	Level 1	Level 2	Level 3	Total
	$000	$000	$000	$000
30 June 2021				
Investments	-	6,006	-	6,006
Total	-	6,006	-	6,006
30 June 2020				
Investments	-	-	-	-
Total	-	-	-	-

d. Operational risk

Operational risk is defined as the risk of loss (including financial, non-financial and lost opportunities) resulting from inadequate or failed internal processes, people and systems or from external events.

Management of the Company's operational risk is a continual cyclic process. This process is documented in the Risk Management ("RMF") framework, and includes risk identification, analysis, evaluation and implementation of risk controls, which results in acceptance, mitigation, or avoidance of risk. The RMF forms part of the overall risk management programme and describes the strategies adopted to identify and manage key risks across all areas of the Company. Operational risk is managed in accordance with the risk appetite statement set by the Board and the process in the RMF.

6 NET PREMIUM REVENUE

Gross earned premiums from insurance contracts are recognised evenly over the annual contract period, which is considered to be in line with the pattern of the incidence of risk. Revenue is recognised on the date from which the policy is effective. Premiums written but unearned are recorded as unearned premiums. Where premiums are billed and paid by instalments, the premium to be billed up to the next renewal date is recognised as unbilled premium receivable. Premiums ceded to reinsurers are recognised as reinsurer's share of the premium and deducted from future gross premiums. The recognition of the expense in the statement of comprehensive income is in accordance with the pattern of reinsurance service received.

	2021	2020
	$000	$000
	12 months	5 months
Net premium revenue		
Premium income	24,753	8,413
Reinsurers' share of premium	(40)	(18)
Total	24,713	8,395

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2021

7 OPERATING EXPENSES

	Note	2021 $000 12 months	2020 $000 5 months
Operating expenses consist of:			
Policy acquisition		1,114	472
Policy administration		1,895	2,352
Claims administration		1,133	346
Other operating expenses		1,814	1,214
Total		5,956	4,384

Other operating expenses includes the purchase of services from related parties (refer to Note 14) for expenses for information technology, marketing, occupancy, governance, actuarial, and management.

	Note	2021	2020
Included within operating expenses are the following specific items:			
Auditor's remuneration:			
• audit of annual financial statements		85	85
• audit of annual financial statements - prior years		20	-
• audit of annual insurer solvency return		35	35
Purchase of services	14a	5,585	2,365
Amortisation	13	1,119	1,306
Deferred acquisition cost credit		(1,547)	-

8 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand and current account balances in bank accounts, which are readily convertible to cash, with original maturities of less than three months, and are carried at amortised cost as proxy for fair value through profit or loss as they are subject to an insignificant risk of changes in value.

9 PREMIUM AND OTHER RECEIVABLES

Premium and other receivables are stated at their cost less any impairment losses, using an expected credit losses model. Impairment losses for uncollectible premiums are written off against premium revenue in the year in which they are incurred. Premium and other receivables are classified as financial assets at amortised cost. The recoverability of reinsurance recoveries receivable is assessed at the reporting date and impairment is recognised where there is objective evidence that the Company may not receive the amounts due to it and these amounts can be reliably measured. Premium and other receivables are current assets. The fair values of premium and other receivables approximate the carrying amounts.

	Note	2021 $000 12 months	2020 $000 5 months
Premium and other receivables			
Premium receivable		14,419	11,148
Deferred acquisition costs		1,547	-
Other receivables		14	69
Total		15,980	11,217
Reconciliation of movement in deferred acquisition expenses			
Opening balance		-	-
Recognition of deferred acquisition costs	3	1,547	-
Total		1,547	-

Acquisition costs incurred in obtaining and recording insurance contracts are deferred and recognised as an asset to the extent that they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in comprehensive income in subsequent reporting periods.

Regular assessment of operating costs is required to ensure compliance with deferral cost requirements. Deferred acquisition costs of $1,547,000 (30 June 2020: Nil) have been recognised in the year ended 30 June 2021 as cost analysis and insights have matured post acquisition of the pet insurance business, enabling identification of direct and indirect costs on a reliable basis.

Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk of insurance contracts.

10 INVESTMENTS

Investments are recognised on the date they are originated and de-recognised on the date of maturity or sale of an investment.

The Company designates its investments as "financial assets at fair value through profit or loss" at inception. Changes in fair value are recognised in the statement of comprehensive income. The credit quality, contractual maturities, and fair value hierarchies of investments are disclosed in Note 5.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2021

10 INVESTMENTS (continued)

	2021 $000	2020 $000
Investments		
Bank deposits	6,006	-
Total	6,006	-

11 PAYABLES AND OTHER LIABILITIES

Payables and other liabilities are current liabilities, stated at cost.

	2021 $000	2020 $000
Payables and other liabilities		
Trade creditors and accruals	1,168	1,237
Total	1,168	1,237

12 TAXATION

The Company is subject to income tax, and is able to utilise tax losses of the Society's subsidiaries group. Deferred tax expense is recognised in respect of temporary differences between the carrying amount of assets and liabilities in the financial statements and the amounts used for taxation purposes. Deferred tax assets are only recognised to the extent it is probable it will be utilised.

a Income tax

Tax expense comprises deferred tax, calculated using the tax rate enacted or substantively enacted at balance date and any adjustments to tax payable in respect of prior years.

	Note	2021 $000	2020 $000
Reconciliation of income tax to profit/(loss) before taxation			
Profit/(loss) before taxation		2,650	(908)
Income tax at the domestic tax rate of 28%		742	(254)
Tax effect of permanent differences		1	1
Tax effect of group loss offsets	14	(571)	(198)
Total income tax expense/(benefit)		172	(451)

b Deferred tax

The Company has offset the $2,040,000 taxable profit for the year ending 30 June 2021 (30 June 2020: $707,000) against the accumulated tax losses of the Society's subsidiaries group. After the tax loss offset, the Society group inclusive of the Company, has accumulated tax losses carried forward of $38,998,000 as at 30 June 2021 (30 June 2020: $41,620,000), of which the Company has accumulated tax losses carried forward of nil (30 June 2020: Nil).

	Note	2021 $000	2020 $000
Deferred tax comprises temporary differences attributable to:			
Intangible assets		(808)	(1,122)
Deferred acquisition costs	3	(433)	-
Payables and other liabilities		33	86
Total deferred tax liabilities		(1,208)	(1,036)
Expected to crystallise within 12 months		(533)	(228)
Expected to crystallise in greater than 12 months		(675)	(808)
Total deferred tax liabilities		(1,208)	(1,036)
Movements in deferred tax liabilities			
Opening balance		(1,036)	-
Net deferred tax liabilities recognised on acquisition	17	-	(1,487)
Intangible assets temporary differences recognised in the statement of comprehensive income		314	365
Deferred acquisition costs recognised in the statement of comprehensive income	3	(433)	-
Other temporary differences recognised in the statement of comprehensive income		(53)	86
Closing deferred tax liabilities		(1,208)	(1,036)

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2021

13 INTANGIBLE ASSETS

Intangible assets are measured at cost, less accumulated amortisation and impairment losses. As disclosed in Note 17, the Company acquired intangible assets of $5,309,000 representing customer base and portfolio-in-force upon acquisition of the pet insurance business from Southern Cross Benefits Limited on 31 January 2020. Goodwill arising on acquisition totalled $4,192,000.

Amortisation is recognised to allocate the assets' costs, net of any residual amounts, over their estimated useful lives. The assets' useful lives are reviewed and adjusted if appropriate at each balance date. An asset's carrying amount is written down to its recoverable amount if it is considered that the carrying amount is greater than its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Assets	Estimated useful lives
• Customer base	16 years
• Portfolio-in-force	1 year
• Goodwill	Indefinite

Customer base

Customer base represents the value of a customer base acquired, through its ability to generate future cash flows from retained business. It is recognised as an intangible asset when a business is acquired and when the criteria for recognition are met. A customer base is initially recognised at cost, which is the fair value at the acquisition date, and subsequently carried at cost less accumulated amortisation and any accumulated impairment losses. The capitalised costs are amortised on a diminishing value basis, net of any residual amounts, over the period when future economic benefits are expected to flow to the Company. Useful life represents management's estimate of the period of time over which the asset is expected to generate future cash flows from the pet lives insured and customers acquired. Amortisation is recognised using a systematic allocation of the expected retention of insured pet lives acquired at 31 January 2020. The retention of insured pet lives acquired is used for the purposes of assessing impairment and remaining useful life. No impairment losses on customer base were recognised during the year to 30 June 2021 (30 June 2020: Nil). The recoverable amount of the cash-generating units ("CGU") is determined based on value-in-use calculations, determined by discounting the future cash flows to be generated from the CGU. These calculations use discounted cash flow projections based on past experience, actual operating results and profit forecasts approved by management as part of the operating budget and forecast process. The discounted cash flow model has used a 16 year projection with a terminal value, a discount rate of 12.5%, and annual growth rates for insured pets lives and customer base acquired.

Key assumptions underlying the valuation relate to management's assessment of new business growth, claims cost escalation, premium increases and operating expenses. Management utilised local market data as well as Society expertise and experience to validate key assumptions. The key assumptions described above may change as economic and market conditions change. The Company estimates that reasonably possible changes in these assumptions are not expected to cause the recoverable amount of the CGU to decline below the carrying amount.

Portfolio-in-force

Portfolio-in-force represents the difference between the fair value of acquired insurance liabilities, and the fair value of the future claim and administration obligations arising in respect of those contracts. A portfolio-in-force is initially recognised at cost, which is the fair value at the acquisition date, and subsequently carried at cost less accumulated amortisation and any accumulated impairment losses. The capitalised costs are amortised on a diminishing value basis, net of any residual amounts, over the period when future economic benefits are expected to flow to the Company. No impairment losses on portfolio-on-force were recognised during the year to 30 June 2021 (30 June 2020: Nil).

Goodwill

Goodwill relates entirely to the pet insurance business acquired on 31 January 2020. The cost of an acquisition is measured as the fair value of the total identifiable net assets acquired. On acquisition of a business combination, the excess of purchase consideration over the fair value of identifiable net assets acquired is recognised as goodwill. Following initial recognition, goodwill is not amortised as it has an indefinite useful life, but is tested for impairment annually and assessed at each reporting date for indicators of impairment. For the purposes of impairment testing, goodwill is allocated to the CGU. No goodwill impairment assessment was performed at 30 June 2020, as it was included in the assessment of the fair value of the assets and liabilities acquired. At 30 June 2021, goodwill was tested using the value in use methodology, using projected cash flows for the next five years. The cash flows were discounted using a nominal rate of 12.79% after tax, with a terminal growth rate of 2%. Adverse changes in actual performance or future rates of growth will reduce the calculated recoverable amount. A reduction of 13% in the projected average five year underwriting result growth would result in impairment of the value in use. The recoverable amount using the five year projection exceeds the carrying amount, and no impairment losses on goodwill were recognised during the year to 30 June 2021 (30 June 2020: Nil).

Intangible assets	Note	Customer base $000	Portfolio-in-force $000	Goodwill $000	Total $000
As at 30 June 2021					
Cost	17	3,761	1,548	4,192	9,501
Accumulated amortisation and impairment		(284)	(1,022)	-	(1,306)
Opening net book value		**3,477**	**526**	**4,192**	**8,195**
Amortisation		(593)	(526)	-	(1,119)
Closing net book value		**2,884**	**-**	**4,192**	**7,076**
As at 30 June 2021					
Cost		3,761	1,548	4,192	9,501
Accumulated amortisation and impairment		(877)	(1,548)	-	(2,425)
Closing net book value		**2,884**	**-**	**4,192**	**7,076**

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2021

14 RELATED PARTIES

a Identity of related parties:	**Relationship**	**Balance Date**
• The Southern Cross Medical Care Society ("Society")	Parent	30 June
• Southern Cross Health Services Limited ("Health Services")	100% subsidiary of Society	30 June
• Southern Cross Insurance Services Limited ("SCISL")	100% subsidiary of Society	30 June
• Southern Cross Ventures Limited ("SCVL")	100% subsidiary of Society	30 June
• CareHQ Limited Partnership	Joint venture of SCVL	30 June
• CareHQ (General Partner) Limited	Joint venture of SCVL	30 June
• Southern Cross Health Trust ("Trust")	Related party of Society	30 June
• Southern Cross Benefits Limited ("SCBL")	100% subsidiary of Trust	30 June
• Southern Cross Healthcare Limited ("Hospitals")	100% subsidiary of Trust	30 June

The Company, the Society, SCBL, Hospitals and the Trust (the "Group") are separate legal entities. All entities provide their normal services to other group entities on normal commercial terms, except for related party advances which are not interest bearing. However, some goods and services are purchased by the Group and other related parties on a combined basis, and are on-charged to other related parties at cost.

All related party balances are payable on normal trading terms and unsecured, except for related party advances. No related party balances have been written off or forgiven during the year ended 30 June 2021 (30 June 2020: Nil).

	Note	2021 $000	2020 $000
Total amount of transactions with Society			
Purchase of services	7	5,585	2,365
Share capital issued	15	-	15,000
Total amount of transactions with other related parties			
Sale of services to SCISL	7	-	27
Acquisition of pet insurance business from SCBL	17	-	8,077
Transfer of pet insurance net liabilities from SCISL	17	-	(44)
Total outstanding balances with Society			
Payables		527	515
Total outstanding balances with other related parties			
Receivable from SCISL		-	27

Tax loss offsets with other related parties

The Company has offset $2,040,000 (30 June 2020: $707,000) of tax profits with the unrecognised tax losses of Southern Cross Health Services Limited, with no subvention payments.

b Remuneration of directors

From 31 January 2020, remuneration was paid by the Company to directors.

The Society has provided the Society group, including the Company, directors and officers with directors' and officers' liability insurance cover, for liabilities to other parties that may arise from their positions as director. Other operating expenses in relation to governance are met by the Company. The Company does not provide loans or advances to directors or officers.

N J Astwick and J M Raue have pet insurance policies with the Company and medical insurance policies with the Society.

Director	Board Amount	Audit & Risk Committee Amount	Total Remuneration Amount
Actual directors' remuneration paid by the Company for the year ended 30 June 2021 was as follows:			
N J Astwick	-	-	-
M J Gardiner	15,000	2,500 Chair	17,500
M L James	25,000 Chair	-	25,000
J M Raue	15,000	-	15,000
Total	55,000	2,500	57,500

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2021

14 RELATED PARTIES (continued)

Director	Board Amount	Audit & Risk Committee Amount	Total Remuneration Amount
Actual directors' remuneration paid by the Company for the year ended 30 June 2020 was as follows:			
N J Astwick	-	-	-
M J Gardiner	6,264	1,044 Chair	7,308
M L James	10,440 Chair	-	10,440
J M Raue	6,264	-	6,264
Total	22,968	1,044	24,012

c. Remuneration of personnel

The Company has no direct employees. Key management personnel are members of the Society Leadership Team. Society key management personnel and employees manage the operations of the pet insurance business under a management services agreement. Management services costs are recorded as purchase of services in the statement of comprehensive income.

15 SHARE CAPITAL

Share capital comprises 15,000,100 authorised, issued and fully paid $1.00 ordinary shares (30 June 2020: 15,000,100). 15,000,000 shares were issued on 15 June 2020. All ordinary shares have equal voting rights, and share equally in dividends and surplus on winding up. No dividends were paid for the year to 30 June 2021 (30 June 2020: Nil).

16 CONTINGENCIES AND SUBSEQUENT EVENTS

a Contingent liabilities

The Company had no contingent liabilities at 30 June 2021 (30 June 2020: Nil).

b Subsequent events

On 17 August 2021, the New Zealand government announced a countrywide lockdown. As this is an event subsequent to the Balance Sheet date, the Company has not made any further COVID-19 risk allowances for the year ended 30 June 2021, other than those referred to in Note 3. At this time the impact of the lockdown is unknown.

c COVID-19 pandemic

On 11 March 2020 the World Health Organisation announced that the coronavirus ("COVID-19") outbreak be classified as a pandemic. This resulted in the New Zealand government introducing various measures to combat the outbreak, including travel restrictions, quarantines, closure on non-essential businesses and lock-downs of the country.

As a result of the COVID-19 pandemic and the country lock-down measures, certain key inputs and assumptions that underpin insurance contract liabilities and revenue recognition were re-assessed as at 30 June 2021 for any identifiable change in claims behaviour and the broader economic uncertainty. Management concluded that the effects of the COVID-19 Level 3 and Level 4 lock-downs had largely flowed through claims experience for the year ended 30 June 2021. As a result, there was no specific allowance for COVID-19 in the central estimate of outstanding claims liabilities or premium liabilities, but risk margins for each were increased in response to COVID-19 uncertainty. Amounts recognised in the financial statements as at 30 June 2021 were adjusted by an additional 1.5% (30 June 2020: 3%) in the risk margin for outstanding claims liabilities and an additional 2.5% (30 June 2020: 5%) in the risk margin for premium liabilities (refer to Note 3) to reflect management assessment of the impact of COVID-19 as at 30 June 2021. Due to the short term nature of the Company's claims liabilities, it is assumed that the effects of the lock-downs have largely flowed through with claims experience largely returning to normal. As a result, no explicit allowance has been made for COVID-19 as at 30 June 2021 (30 June 2020: Nil).

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2021

17 ACQUISITION OF PET INSURANCE BUSINESS

On 31 January 2020, the Company acquired the assets and liabilities relating to the pet insurance business from SCBL and SCISL. Since the purchase of the pet insurance business by SCBL in 2012, the day to day oversight and management of the pet insurance business had been outsourced to the Society, via its subsidiary SCISL. The Company acquired the pet insurance business because it combines ownership within the Society with the existing management operation of the business.

The assets and liabilities acquired from SCBL were acquired via an Asset Sale Agreement for $8,077,000. An independent valuation of the business was obtained for the acquisition price. The acquisition of the control of the business from SCBL meets the definition of a business combination under NZ IFRS 3 *Business Combinations* .

The fair value of the assets and liabilities acquired were determined to be equivalent to the carrying value at the date of acquisition, except for customer base and portfolio-in-force.

Estimates of the fair value of the acquired insurance contract liabilities were determined by an external actuary at the date of acquisition.

The identifiable assets and liabilities relating to the pet insurance business as at 31 January 2020 were transferred from SCISL, using carrying value as the measurement basis.

The fair values of the identifiable assets and liabilities acquired are outlined below.

	Note	SCBL	SCISL	Elimination	Total
		$000	$000	$000	$000
Assets					
Cash and cash equivalents		3,411	-	-	3,411
Premium and other receivables		9,450	579	(606)	9,423
Intangible assets		5,309	-	-	5,309
Total assets		18,170	579	(606)	18,143
Liabilities					
Payables and other liabilities		670	623	(606)	687
Insurance contract liabilities	3	12,128	-	-	12,128
Deferred tax liabilities	3	1,487	-	-	1,487
Total liabilities		14,285	623	(606)	14,302
Total identifiable net assets/(liabilities) at fair value		**3,885**	**(44)**	**-**	**3,841**
Goodwill arising on acquisition		4,192	-	-	4,192
Purchase consideration transferred		**8,077**	**(44)**	**-**	**8,033**

Insurance contract liabilities acquired were comprised of provision for outstanding claims net of reinsurance recoveries $2,243,000 and provision for unearned premium $9,885,000.

18 CHANGES IN FINANCIAL REPORTING STANDARDS

New accounting standards not yet effective

There are a number of standards, amendments and interpretations which have been approved but are not yet effective. The Company expects to adopt these when they become due for adoption. The impact of these is still to be determined. The most significant of these is NZ IFRS 17 *Insurance Contracts* ("NZ IFRS 17").

NZ IFRS 17 will replace NZ IFRS 4 *Insurance Contracts* for annual periods beginning on or after 1 January 2023. This means that the Company will be required to produce comparative financial information with effect from 1 July 2022 and a first set of full year financial statements under the new standard for the year ending 30 June 2024.

- The new standard establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued.
- A NZ IFRS 17 project team was put in place at the beginning of 2020. Phase I of the project is complete which included the initial gap analysis, various impact assessments, preparation and review of key technical position papers. Phase II is underway, which includes discovery and selection of an appropriate disclosure solution, testing of our approach with regards to onerous contracts, and preparation of second tranche technical position papers.
- The Company will pursue the application of the Premium Allocation Approach given the short term nature of insurance policies in the Company, which will simplify and limit the impact of this new standard in respect of recognition and measurement of the insurance contracts in the Company. The most significant impact relates to identification and measurement of onerous contracts.
- Presentation and disclosure requirements under NZ IFRS 17 differs significantly from NZ IFRS 4, and Phase II of the project is focussing on finding an appropriate response to this impact. We do not expect a significant impact on our systems (changes to the core system will be limited but opportunities will be considered on a cost/benefit basis to make improvements to systems and processes).

Independent Auditor's Report

To the shareholder of Southern Cross Pet Insurance Limited

Report on the audit of the financial statements

Opinion

In our opinion, the accompanying financial statements of Southern Cross Pet Insurance Limited (the 'Company') on pages 2 to 17:

i. present fairly in all material respects the Company's financial position as at 30 June 2021 and its financial performance and cash flows for the year ended on that date; and

ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying financial statements which comprise:

— the statement of financial position as at 30 June 2021;

— the statements of comprehensive income, changes in equity and cash flows for the year then ended; and

— notes, including a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Company 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.

Our firm has also provided other services to the Company in relation to the audit of the Annual Insurer Solvency Return. Subject to certain restrictions, partners and employees of our firm may also deal with the Company on normal terms within the ordinary course of trading activities of the business of the Company. These matters have not impaired our independence as auditor of the Company. The firm has no other relationship with, or interest in, the Company.

Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole. The materiality for the financial statements as a whole was set at $291,000 determined with reference to a benchmark of the Company's net assets. We chose the benchmark because, in our view, net assets is a key indicator of the Company's solvency and its ability to pay claims which is a primary area of focus for users of the financial statements.

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**
Valuation of insurance contract liabilities	
Refer to note 3 to the financial statements. Valuation of the Company's provision for outstanding claims requires significant judgement from management and the Company's externally appointed actuarial specialist.	Our audit procedures included: — comparing the data used in the actuary's valuation to the Company's underlying accounting records and systems; — testing a sample of claims payments to check whether they had the appropriate level of authorisation and support; — with support from our actuarial specialists, assessing the work of the Company's Appointed Actuary in estimating the future claims costs on claims incurred prior to 30 June 2021, including: - the appropriateness of the valuation methodology, estimates and assumptions, against relevant accounting and actuarial standards; - the appropriateness of key assumptions including claims frequency, payment patterns and claims inflation against benchmark information; - separate consideration of the impact of COVID-19 on the valuation methodology and assumptions; and - performing a hindsight analysis to assess actual versus expected claims experience during the year ended 30 June 2021 in relation to claims incurred pre 30 June 2020. — Performing a review on claims development post 30 June 2021 to assess adequacy of the outstanding claims provision as at 30 June 2021. We did not identify material exceptions from procedures performed, and found the judgements and assumptions to be balanced and consistent with our understanding of the Company.

Other information

The Directors, on behalf of the Company, are responsible for the other information included in the entity's financial statements. Other information includes annual report disclosures and the Appointed Actuary's report issued under section 78 of the Insurance (Prudential Supervision) Act 2010. 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 shareholder as a body. Our audit work has been undertaken so that we might state to the shareholder 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 shareholder 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 Company, are responsible for:

— the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;

— implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and

— assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objective is:

— to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and

— to issue an independent auditor's report that includes our opinion.

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

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of these financial statements is located at the External Reporting Board (XRB) website at:
http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-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 Kay Baldock.

For and on behalf of

KPMG

KPMG
Auckland
30 August 2021

finity

25 August 2021

The Directors
Southern Cross Pet Insurance Limited
Auckland

Dear Directors

Review of Actuarial Information Contained in Financial Statements as at 30 June 2021

Finity Consulting Pty Limited (Finity) has been asked by Southern Cross Pet Insurance Limited (SCPI) to carry out a review of the 30 June 2021 Actuarial Information contained in the financial statements and used in their preparation and to provide an opinion as to the appropriateness of this information. John Smeed is an employee of Finity and is the Appointed Actuary to SCPI. Finity has no relationship with SCPI apart from being a provider of actuarial services.

SCPI's policy is to seek and adopt the advice of the Appointed Actuary in respect of the Actuarial Information contained in its financial statements. We confirm that the financial statements as at 30 June 2021 have been prepared in accordance with this policy, and as such this satisfies the requirements of the Insurance (Prudential Supervision) Act 2010.

Having carried out the Actuarial Review, nothing has come to our attention that would lead us to believe that the Actuarial Information used in the financial statements or their preparation, or the determination of the solvency position for the Society as at 30 June 2021 is inappropriate. No limitations were placed on us in performing our review and all data and information requested was provided.

In our opinion SCPI has maintained a solvency margin in excess of the minimum required as at the balance date.

This report is being provided for the sole use of SCPI for the purpose stated above. It is not intended, nor necessarily suitable, for any other purpose and should only be relied on for the purpose for which it is intended.

Yours sincerely

John Smeed | Samuel Cosgriff