SOUTHERN CROSS BENEFITS LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED

30 June 2022

CONTENTS

ANNUAL REPORT DISCLOSURES
year ended 30 June 2022

The Directors present their Annual Report including the Financial Statements of Southern Cross Benefits Limited (the "Company") for the year ended 30 June 2022.

Dividend	No dividends were paid during the year ended 30 June 2022 (2021: nil).
Nature of business	The Company is in the business of providing a range of travel insurance products. The Company has a branch in Australia which provides outbound and domestic travel insurance in Australia. The Company is owned by Southern Cross Medical Care Society whom acquired 100% of the shares in the Company from Southern Cross Health Trust on 30 June 2022.
Results	The Company recorded a net loss before tax of $6,423,000. (2021: $8,062,000 loss).
Register of Directors	G W Gent (Chairman, Chair of Remuneration Committee) C M Drayton (Chair of Audit and Risk Committee) N J Astwick (appointed 30 June 2022) M P Jordan (ceased to be a director on 30 June 2022) M P Misur (ceased to be a director on 30 June 2022) T D Moore (appointed 13 October 2021 and ceased to be a director on 30 June 2022) A J Morris (ceased to be a director on 30 June 2022) J M Raue (appointed 30 June 2022) K B Taylor (ceased to be a director on 31 December 2021) C J White (ceased to be a director on 20 September 2021)
Use of Company Information	The Board received no notices during the year 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 no remuneration from the Company.
Indemnity and Insurance	The Company has insured its Directors and Officers for liabilities to other parties that may arise from their positions as Directors and Officers.
Auditor	KPMG, a New Zealand Partnership.

For and on behalf of the Board

G W Gent
Chairman
Date: 5 September 2022

C M Drayton
Director
Date: 5 September 2022

GOVERNANCE STATEMENT

The Directors of the Company ensure that robust corporate governance policies, practices and processes are in place. Responsibility for the day-to-day operation and administration of the Company is delegated by the Board to the Chief Executive Officer (CEO) and senior management. The CEO is authorised to make decisions in accordance with the strategy, plans, budgets and the specific delegation framework approved by the Board. The Company maintains a healthy risk culture under the frameworks of formal risk management, compliance, capital, investment, and delegated authority policies. Management report on these and other operational matters to the Board.

The Board delegates certain powers, duties and responsibilities to the Audit and Risk Committee and Remuneration Committee. The Chair of the Company (Greg Gent), is considered to be independent per Reserve Bank of New Zealand guidelines. The Chair of the Audit and Risk Committee (Catherine Drayton) and Julia Raue (Director) are both Directors of Southern Cross Medical Care Society, with Nick Astwick (Director), the CEO of Southern Cross Medical Care Society, the Company's sole shareholder. No executives of the Company hold a seat on the Board. All Directors and senior managers are required to meet Fit and Proper standards as prescribed by company policy.

Some key functions of the Board include:

- ensuring the Company's goals are clearly established and that strategies and business plans are in place for achieving them
- ensuring the Company's financial statements are true and fair and otherwise conform with legal requirements
- identifying steps necessary to protect the Company's financial position and brand
- appointing the CEO and determination of CEO remuneration on an ongoing basis
- monitoring the performance of management
- ensuring the Board and management adhere to high ethical standards.

The Company employs a Head of Legal, Risk and Compliance, reporting to the CEO, who holds the role of Branch Risk Officer in Australia. The Company's Chief Risk Officer in New Zealand is the CEO. The associated responsibilities with these roles is formally imbedded into the position descriptions. The Company has a Management Risk Committee which meets regularly and consists of the Senior Leadership and Risk Teams. In addition, the Company engaged PwC as their Internal Auditor (outsourced) as at 30 June 2022, noting that EY have been appointed as Internal Auditors effective 1 September 2022. The Board and Audit and Risk Committee approve an annual plan for independent review of the key risk areas of the business.

The Company monitors on a monthly basis its compliance with prudential capital requirements in accordance with Reserve Bank of New Zealand (RBNZ) and Australian Prudential Reporting Authority (APRA) regulatory requirements.

Profiles of the Company's Directors are noted below.

Greg Gent
ONZM

Chairman
Greg Gent joined the Southern Cross Benefits Board and was elected Chairman in 2014. Mr Gent is a Northland dairy farmer with a wealth of governance experience. He is Chairman of Dairy Holdings Limited, Chairman of Southern Cross Healthcare Limited and is also Chairman of the Southern Cross Health Trust.

Catherine Drayton
BCom, LLB, FCA

Catherine Drayton was appointed to the Board of Southern Cross Benefits Limited in 2018 and chairs the Audit and Risk Committee. She is Chair of Christchurch International Airport, the Guardians of New Zealand Superannuation and Mint Innovation; and is a Director of Genesis Energy. Catherine is a fellow of the Chartered Accountants Australia and New Zealand. She is also a Trustee of the Southern Cross Health Trust and a Trustee and Director of Southern Cross Medical Care Society.

Nick Astwick
BCom, MInstD

Nick was appointed to the Board of Southern Cross Benefits Limited on 30 June 2022. Nick is CEO of the Southern Cross Medical Care Society and he has more than 25 years' experience in the financial services industry in various leadership and governance roles across retail and investment banking organisations. Nick is currently a Director of the Financial Services Council, WoolAid Limited, the IFHP Council of Management and a Trustee of Leadership New Zealand. He is also a Director of Southern Cross Pet Insurance Limited.

Julia Raue
CMinstD, GAICD

Julia was appointed to the Board of Southern Cross Benefits Limited on 30 June 2022. She has extensive digital, customer, data, information technology, strategy and business transformation experience across a number of sectors including airline, telecommunications, local government and not-for-profit in New Zealand and Australia. Julia is currently a director of The Warehouse Group and Jade Software; chair of the NZ Rugby Appointments and Remuneration Committee; and a trustee of New Zealand Global Women. She is also a Trustee of the Southern Cross Health Trust, a Director of Southern Cross Healthcare Limited, a Director of Southern Cross Pet Insurance Limited and a Director of Southern Cross Medical Care Society.

STATEMENT OF COMPREHENSIVE INCOME AND CHANGES IN EQUITY
for the year ended 30 June 2022

	Note	2022 $000	2021 $000
Net premiums	6	13,381	9,235
Net claims expense	5	(7,136)	(5,097)
Underwriting surplus		6,245	4,138
Operating expenses	8	(12,889)	(12,735)
Other operating income		-	281
Operating loss		(6,644)	(8,316)
Investment and other income	7	235	293
Finance Costs		(14)	(39)
Net (loss) / profit before income taxes		(6,423)	(8,062)
Income taxes	14	(377)	(6)
(Loss) / profit for the Period		(6,800)	(8,068)
Other comprehensive income:			
Movement on foreign currency translation reserve	1	186	22
Deferred income tax relating to currency translation	14	272	-
Net comprehensive loss		(6,342)	(8,046)
Equity opening balance		29,835	37,881
Dividend paid	9	-	-
Equity closing balance		**23,493**	**29,835**

The accompanying notes form part of these financial statements.

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STATEMENT OF FINANCIAL POSITION
as at 30 June 2022

	Note	2022 $000	2021 $000
Assets			
Cash and cash equivalents	10	23,372	16,229
Premium receivable and other assets	11	868	2,750
Investments	7	15,934	17,000
Fixed assets	12	334	779
Intangible assets	12	2,196	3,047
Total assets		42,704	39,805
Liabilities			
Payables and other liabilities	13	3,523	3,784
Insurance contract liabilities	3	15,593	6,186
Deferred tax liabilities	14	95	-
Total liabilities		19,211	9,970
Net assets		23,493	29,835
Equity			
Share capital	9	4,600	4,600
Retained earnings		19,593	26,393
Foreign currency translation reserve		(700)	(1,158)
Equity		23,493	29,835

For and on behalf of the Board

G W Gent **Chairman** ______________________ Date: 5 September 2022

C M Drayton **Director** ______________________ Date: 5 September 2022

The accompanying notes form part of these financial statements.

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STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2022

2022

	Share Capital $000	Retained Earnings $000	Foreign Currency Translation Reserve $000	Total Reserves $000
Opening balance	4,600	26,393	(1,158)	29,835
Total comprehensive income:				
Loss after taxation	-	(6,800)	-	(6,800)
Other comprehensive income:				
Movement in foreign currency translation reserve, net of tax	-	-	458	458
Total comprehensive income	-	(6,800)	458	(6,342)
Closing balance	4,600	19,593	(700)	23,493

2021

	Share Capital	Retained Earnings $000	Foreign Currency Translation Reserve $000	Total Reserves $000
Opening balance	4,600	34,461	(1,180)	37,881
Total comprehensive income:				
Loss after taxation	-	(8,068)	-	(8,068)
Other comprehensive income:				
Movement in foreign currency translation reserve, net of tax	-	-	22	22
Total comprehensive income	-	(8,068)	22	(8,046)
Closing balance	4,600	26,393	(1,158)	29,835

The accompanying notes form part of these financial statements.

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STATEMENT OF CASH FLOWS
for the year ended 30 June 2022

	2022 $000	2021 $000
Cash flows from/(to) operating activities		
Receipt of premiums from customers	20,620	5,902
Receipts of reinsurance recoveries	178	502
Distribution, interest and other income received	223	1,001
Payment of claims	(5,306)	(6,906)
Payment of reinsurance premiums	(325)	(654)
Payments to employees	(4,604)	(5,614)
Payments to suppliers	(6,460)	(6,727)
Net cash flows from/(to) operating activities	4,326	(12,496)
Cash flows from/(to) investing activities		
Proceeds from sale of other fixed assets	10	-
Payments for fixed assets	(158)	-
Payments for intangible assets	-	(27)
Net receipts for investments	1,259	12,102
Net cash flows from/(to) investing activities	1,111	12,075
Cash flows from/(to) financing activities		
Shares issued to parent	-	-
Lease Payments	(509)	(506)
Receipt of repayment from related party	2,000	-
Dividend paid	-	-
Net cash flows from/(to) financing activities	1,491	(506)
Net increase in cash and cash equivalents	6,928	(927)
Opening cash and cash equivalents	16,229	16,977
Effect of exchange rate movement on foreign currency balances	215	179
Closing cash and cash equivalents	23,372	16,229

RECONCILIATION OF NET PROFIT WITH NET CASH FLOWS FROM OPERATING ACTIVITIES

	2022 $000	2021 $000
(Loss) / Profit for the period	(6,800)	(8,068)
Adjustments for:		
Depreciation and amortisation	1,436	1,555
Gain on sale of other fixed assets and impairment	(2)	-
Foreign currency exchange movement	33	24
Finance Costs	14	39
Changes in assets and liabilities:		
Receivables and accrued interest	(264)	1,664
Payables and employee benefits	1,322	(1,949)
Insurance contract liabilities	8,587	(5,761)
Net cash flows from operating activities	4,326	(12,496)

The accompanying notes form part of these financial statements.

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NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2022

1 STATEMENT OF ACCOUNTING POLICIES

REPORTING ENTITY

Southern Cross Benefits 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 whom acquired 100% of the shares in the Company from Southern Cross Health Trust on 30 June 2022. The Company's primary activity is the provision of travel insurance. The registered office is Level 7 AON Centre, 29 Customs Street West, Auckland.

The Company is a licenced insurer under the Insurance (Prudential Supervision) Act 2010.

The Company also operates in Australia selling domestic and outbound travel insurance and is regulated by the Australian Prudential Regulation Authority ("APRA") and the Australian Securities and Investment Commission ("ASIC").

The Company was registered as a charity under the Charities Act 2005 until 30 June 2022, as part of the Southern Cross Health Trust group registration. As of 30 June 2022, the Company is deregistered as a charity.

The Company, with its shareholder's approval, has applied the exemption available under section 211 (3) of the Companies Act 1993.

BASIS OF PREPARATION

Under financial reporting standards, the Company is deemed to be a Tier 1 for-profit entity for financial reporting purposes.

The financial statements are:

- presented as at and for the year ended 30 June 2022.
- presented for the Company, including the Australian branch.
- 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").
- prepared in compliance with the Insurance (Prudential Supervision) Act 2010, Companies Act 1993, the Financial Markets Conduct Act 2013 and the Financial Reporting Act 2013.
- prepared on the historical cost basis except that the following are stated at their fair value: Investments, insurance contract liabilities and reinsurance recoveries on outstanding claims.
- presented in New Zealand dollars, which is the functional and presentation currency. The functional currency for the Australian branch is Australian dollars. Transactions in the branch are translated to New Zealand dollars as discussed in the foreign currency transactions accounting policy. All financial information presented in New Zealand dollars has been rounded to the nearest thousand, unless otherwise stated.
- stated net of GST, with the exception of receivables and payables which include GST invoiced.

ACCOUNTING POLICIES AND STANDARDS

Accounting policies have been applied on a basis consistent with that used in the audited annual financial statements for the year ended 30 June 2021. There are no new standards or amendments that have a material impact to the Company in the current period.

FINANCIAL REPORTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

The impact of the following reporting standard on the Company is outlined below.

NZ IFRS 17 Insurance Contracts ("NZ IFRS 17") will replace NZ IFRS 4 Insurance Contracts for periods beginning on or after 1 January 2023, becoming mandatory for the Company's financial statements for the year ending 30 June 2024 with comparative financial information being produced from 1 July 2022. The new standard establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued and differs significantly from NZ IFRS 4 financial reporting.

Whilst the Company has performed Scenario modelling and documented the technical accounting decisions underpinning the transition, the Company is unable to reasonably estimate the impact to the financial statements at the date of this report, until the completion of the "parallel run" outlined below.

Implementation progress and status

The project to manage the implementation of NZ IFRS 17 is well advanced and now in the final stages of completing its key milestones.

- The Company has completed technical accounting papers, in support of its accounting policies under NZ IFRS 17 and actuarial modelling has been performed to review the comparability of the alternate measurement approaches.
- The Company intends to produce comparative numbers for the year ended 30 June 2023 on a parallel basis to NZ IFRS 4 financial reporting. The Company will use this parallel run to: (a) fully understand the implications and outcomes associated with its NZ IFRS 17 accounting policy choices and produce scenario analysis, where required, to inform final policy decisions; (b) test methodology decisions that underpin the key areas of measurement, and (c) validate accuracy of data extracts that are being used to populate the IFRS application.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2022

1 ACCOUNTING POLICIES AND STANDARDS (continued)

The Reserve Bank of New Zealand ("RBNZ") has released an Interim Solvency Standard ("ISS") which includes changes related to the implementation of NZ IFRS17. The Company has reviewed the impact of this standard and provided feedback to the RBNZ on the impact of the new calculation on the minimum solvency capital requirement for the Company.

Measurement of Insurance Contracts

NZ IFRS 17 permits the use of a simplified approach, the Premium Allocation Approach ("PAA") as an alternative to the standard's general measurement model for either short-term insurance policies or where the results between approaches are not materially different.

The measurement principles of the PAA differ from the 'earned premium approach' used by the Company under IFRS 4 in the following key areas:

- The losses on onerous contracts are measured based on the net outflow of expected fulfilment cashflows over the coverage period. The level at which onerous contracts are identified and measured is more granular than the level at which the Liability Adequacy Test ("LAT") is carried out. The LAT is currently performed for both the New Zealand and Australian business as a whole whereas onerous contracts will be identified at a product level amongst contracts with similar characteristics.

- The definition of expenses that are attributable to a portfolio is much broader than under NZ IFRS 4 financial reporting with "directly attributable" expenses being allocated between acquisition and maintenance expenses. Insurance maintenance costs are expensed as incurred within insurance service expenses. Acquisition costs reduce the Liability For Remaining Coverage (LFRC) and are recognised as insurance service expenses using a systematic and rational approach to amortise the expense over the coverage period. Expenses which are not directly attributable to a portfolio of insurance contracts must be expensed as incurred. The Company has developed a model to attribute costs as either acquisition, maintenance or "other" costs which will run parallel from 1 July 2022.

- The period of obligation to the customer is determined based on the definition of a 'contract boundary', whereas NZ IFRS 4 did not have a similar definition. The recognition of earned premium, which is currently recognised from the start date of travel, will be brought forward for some products with a portion of premium recognised as income during the period between the policy sale and the start date of travel.

- The measurement of insurance contract liabilities includes a risk adjustment which replaces the risk margin under NZ IFRS 4. The risk margin reflects the inherent uncertainty in the central estimate of liabilities calculated in terms of NZ IFRS 4, whereas the risk adjustment is defined as the compensation required for bearing the uncertainty that arises from non-financial risk. A risk adjustment paper has been completed and authored by our Appointed Actuary where the "Cost of capital" approach to derive a risk adjustment was recommended where the compensation for risk is based on charging a cost to the amount of capital held to support the insurance contracts. This approach was selected over the alternative "Quantile" technique given the subjective nature of determining the target level of confidence under the quantile approach as NZ IFRS 17 does not specify the level of confidence required.

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 underlying assumptions are reviewed on an ongoing 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 relate to note 3 insurance contract liabilities and note 4a insurance risk.

COVID-19 IMPACTS AND GOING CONCERN

The Company was heavily impacted by Covid-19 over the last two financial periods due to border closures and international travel restrictions arising from the Covid-19 pandemic. However, with border closures now removed, business has lifted, particularly for outbound travel products. In response to pandemic, the Company took a number of actions including labour reduction, cost reductions, application for wage subsidies as well as launching domestic travel products in both New Zealand and Australia. Liquidity has been supported by the Company's cash and investment assets and no external funding has been sought.

The Appointed Actuary continues to regularly monitor, assess and value the current Omicron claims experience as well as future exposure. As such, one risk margin is used, inclusive of Covid-19 experience and there is no explicit loading of the risk margin for Covid-19, noting that the loss ratios selected for the premium liability also make allowance for Covid claims. On a central estimate basis, this is $187,000 AUD for TravelCare Australia, $678,000 NZD for TravelCare New Zealand, $29,000 AUD Domestic Travel AU and $32,000 NZD for Domestic Travel NZ.

The Board has considered the impact of COVID-19 in relation to forecast performance, cash flow position and capital requirements of the Company. In making these assessments, the Board has considered detailed five year cash flow forecasts under a range of potential scenarios which incorporate management's current view of the anticipated recovery from the Covid-19 pandemic, with assistance from the Company's independent Appointed Actuary. The Company's results are forecast to return to profitable levels within the next two financial periods with the timing of the recovery varying between the considered scenarios. All of the scenarios are underpinned by the assumption that borders, which have now opened, will remain open throughout the forecast period, however some uncertainty remains such as the potential for future waves of the pandemic. All scenarios support the going concern assumption over the next twelve months from the date of authorisation of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2022

1 ACCOUNTING POLICIES AND STANDARDS (continued)

Acknowledging the inherent risks in relation to the unknown future impacts of COVID-19, these financial statements and the cash flow forecast adopted by the Board have been prepared based on currently available information and the Board's best estimates of the future operations of the Company.

The Directors have assessed that the Company will maintain sufficient liquidity and solvency to meet their financial obligations as they arise. The Company does not hold any external borrowings and does not anticipate requiring any additional funding.

The Board's assessment is that there is no material uncertainty with regard to the appropriateness of the going concern assumption. As such, these financial statements have been prepared on the basis of a going concern.

FOREIGN CURRENCY TRANSACTIONS

Transactions in foreign currencies that are settled in the reporting period are translated at the settlement rate. Transactions in foreign currency that are not settled in the reporting period, resulting in monetary assets and liabilities denominated in foreign currencies at the reporting date, are translated to New Zealand dollars at the foreign exchange rate at that date. Foreign exchange differences arising on their translation are recognised in the profit or loss.

Foreign operations

Activities of the Australian Branch are recorded in Australian dollars, its functional currency. Profit or loss items are translated to New Zealand dollars at an average exchange rate for each month. The assets and liabilities of the branch are initially translated to New Zealand dollars at the foreign exchange rate on the date they arise. At balance date, all the assets and liabilities are re-translated at the exchange rate on that date with any foreign exchange differences arising being recognised in other comprehensive income and the foreign currency translation reserve.

In the current period the Company recognised a foreign exchange gain in other comprehensive income of $186,000 (2021: $22,000 gain) on the net assets of the Australian branch due to the recent strengthening of the Australian dollar against the New Zealand dollar.

2 FINANCIAL SOUNDNESS

The minimum solvency capital the Company is required to retain under the Solvency Standard for Non-life Insurance Business issued by the RBNZ is per the table below. The Company has adopted a formal capital management plan to maintain a strong capital base and satisfy capital adequacy standards as prescribed by the RBNZ and by APRA for the Australian branch. An additional capital buffer of $2.6 million (2021: $2.0 million) for the Company has been determined by the Directors as sufficient for maintaining financial soundness.

During the year the Company has complied with all externally imposed capital requirements.

Actual solvency capital at 30 June 2022 for the Australia branch was AUD $7.1m (2021: AUD $8.4m) calculated in accordance with APRA requirements. Minimum solvency capital required to be retained by the Branch to satisfy APRA requirements is AUD $5 million.

Solvency capital requirements for the Company are detailed below.	2022 $000	2021 $000
Minimum solvency capital	4,833	6,029
Actual Solvency capital	16,381	19,876
Solvency Margin	11,548	13,847
Solvency Ratio	3.39	3.30

In January 2022 Standard & Poor's reaffirmed the Company's Insurer Financial Strength Rating of A. This signifies the insurer "has strong financial security characteristics".

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 travel insurance policies provided to customers are insurance contracts.

Estimates of the provision for outstanding claims for Southern Cross Benefits Limited as at 30 June 2022 have been determined by the Company's Appointed Actuary, Win-Li Toh, MA (Oxon) of Taylor Fry Consulting Actuaries, a Fellow of the New Zealand Society of Actuaries and a Fellow of the Institute of Actuaries of Australia, previously the Chair of the General Insurance Practice Committee in Australia and currently a Director for the Institute of Actuaries of Australia. The calculation of the provision for outstanding claims complies with both NZ IFRS 4: Insurance Contracts and Professional Standard No. 30: General Insurance Business 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.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2022

3 INSURANCE CONTRACT LIABILITIES (continued)

Insurance contract liabilities

	2022 $000	2021 $000
Provision for outstanding claims (refer note 3a)	4,828	2,156
Provision for unearned premium (refer note 3b)	10,765	3,301
Provision for unexpired risks (refer note 3c)	-	729
	15,593	6,186

a. Provision for outstanding claims

For travel insurance, a standard chain ladder method is used for claims outstanding twelve months or more on TravelCare policies and four months or more on non-TravelCare policies. Claims outstanding in respect of the most recent twelve months for TravelCare policies and most recent four months for non-TravelCare policies are determined by first applying an estimated loss ratio and the percentage estimated as unpaid to the gross earned premiums for the month. This result is then blended with the results from the standard chain ladder method. Additional allowance is made in the New Zealand and Australian outstanding claims provisions for large claim case estimates and associated reinsurance recoveries.

A risk margin of 15% (2021: 30%) has been added to the central estimate of the outstanding claim costs for the New Zealand travel business and 19% (2021: 30%) for the Australian business, to take account of the uncertainties inherent in the setting of claim provisions.

The risk margin provides a 75% probability of adequacy.

A further provision has been made for direct and indirect claim management costs using a fixed dollar approach for both the New Zealand travel business and the Australian business.

	2022 $000	2021 $000
Central estimate of outstanding claims liability	3,763	1,226
Claims handling costs	461	563
Risk margin	604	367
Provision for outstanding claims	4,828	2,156

Claims are predominantly short-term in nature and are generally settled within twelve months of being incurred. Accordingly, amounts are not discounted.

	2022 $000	2021 $000
Central estimate of reinsurance recoveries on outstanding claims liability	39	179
Risk margin	7	2
Reinsurance recoveries on outstanding claims	46	181

Reinsurance recoveries on outstanding claims liabilities are included in other assets in the statement of financial position.

Reconciliation of movement in provision for outstanding claims net of reinsurance recoveries	2022 $000	2021 $000
Opening balance	1,975	3,942
Amounts utilised during the year	(933)	(2,450)
Additional provision / (reversal of unused provision)	12	(493)
Amounts provided during the year	3,597	1,122
Decrease in claims handling costs	(101)	(165)
Increase in risk margin	232	19
Closing balance	4,782	1,975

b. Provision for unearned premium	2022 $000	2021 $000
Opening balance	3,301	7,012
Premiums written in the year	22,407	8,072
Premium cancellations	(911)	(1,294)
Premium refunds for duplicate policies	-	(122)
Premiums earned during the year	(14,032)	(9,580)
Premiums refundable as a result of Covid-19 travel restrictions	-	(787)
Closing balance	10,765	3,301

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NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2022

3 INSURANCE CONTRACT LIABILITIES (continued)

c. Provision for unexpired risks	2022 $000	2021 $000
Opening balance	729	244
Additional Provision	(729)	485
Closing balance	-	729

Premium refunds for cancelled contracts

The Company acknowledges that many customers during the lockdown as a response to COVID-19 have not been able to travel and make use of their travel insurance policies. The Company performed an analysis and identified customers eligible for refunds. These customers have been contacted to inform them that they are eligible to cancel and receive a refund of the policy purchased. As at 30 June 2022, a total of $54,000 (June 2021: $787,000) in premium refund obligations are recognised within payables and other liabilities.

Unexpired risk provision 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 travel period for travel insurance contracts and is recognised as premium income.

The Appointed Actuary has reviewed the adequacy of the unearned premium provision at 30 June 2022. In performing this test, an additional margin has been added to the central estimate of the future claim costs, to take account of the uncertainties inherent in the central estimate. A further allowance has been made for direct and indirect claim management costs and also policy administration costs.

A liability adequacy test is performed to assess whether there is any deficiency in the unearned premium liability arising from expected claims and administration costs during the period covered by the unearned premium. For both the New Zealand and Australian travel insurance businesses, the test has been performed on the aggregate portfolio as risks are broadly similar and are managed together as a single portfolio.

In the Actuary's view, the liability adequacy tests (LAT) identified a surplus for both the New Zealand and Australian businesses. Accordingly, there was no write down of deferred acquisition costs (2021: write down of $382,000). The unexpired risks provision was assessed at $0 (2021: $729,000).

If the loss ratio was to increase by 10%, the premium liability will also increase by a similar amount. The margin between the premium liability and the unearned premium provision means that the liability adequacy test in respect of unearned premiums can accommodate such levels of variability in the loss ratio. There was no premium deficiency resulting from the liability adequacy test (2021 deficiency: $1,110,000).

	2022		2021	
	New Zealand $000	Australia $000	New Zealand $000	Australia $000
Sensitivity				
Net Incurred But Not Paid (including margins) *	3,498	1,284	1,976	116
20% increase in the initial claims ratio for recent event months**	4,031	1,577	2,048	138
20% decrease in the initial claims ratio for recent event months**	2,965	991	1,904	93

* For the purpose of the sensitivity for the Australian branch in 2021, the gross IBNP was referenced rather than the net IBNP, because COVID recoveries exceeded the gross IBNP.

**Sensitivity is applied to the loss ratios of the product that makes up the largest proportion of the IBNP estimate for the respective countries. For NZ this was International Student in 2021 due to the impacts of Covid-19 reducing the TravelCare book, in 2022 this is Travelcare for Australia and New Zealand.

This sensitivity analysis does not indicate upper or lower bounds of all possible outcomes. Future experience could be considerably more adverse (or favourable) than the scenarios presented.

4 RISK MANAGEMENT

The Company is exposed to a number of risks in the normal course of business. Primarily there is the risk of conducting an insurance business (insurance risk). Other risks include financial risks (credit risk and liquidity risk), market risks (foreign currency risk, interest rate risk and price risk), and non-financial risks (operational risk and compliance risk). The directors and management recognise the importance of having an effective risk management policy. The risks and any objectives, policies and processes to manage the risks are described below in summary; a detailed risk register and risk management framework underpin this summary.

4 RISK MANAGEMENT (continued)

a. Insurance risk

The Company assumes insurance risk through its travel insurance activities. The key risk arises in respect of claims costs and, in particular, those costs varying from what was assumed in the setting of premium rates.

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

The primary objective in managing risk is, as far as possible, 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 business if there is adverse deviation in experience. Key policies and methods for mitigating risk include:

* Underwriting policies and processes which evaluate new risks and offer terms that do not endanger the portfolio.
* Strict claims management procedures to ensure the payment of claims is in accordance with policy conditions and the Delegated Authority Policy.
* Maintaining a reinsurance programme for the business which protects the Company against single large claims in excess of the Company's retention, and against a catastrophic event involving multiple claims.
* A long-term pricing strategy which supports pricing based on underlying risk.
* Monthly monitoring of financial and operating results and detailed investigations into the claims experience of the portfolio.
* Adherence to a formal capital management plan monitored monthly to ensure minimum prudential capital requirements are complied with.
* Implementation of a risk management strategy, which is in accordance with the prudential standards issued by RBNZ and APRA.

II. Sensitivity to insurance risk

The financial results of the Company are primarily affected by the level of claims incurred relative to that assumed when pricing the premiums of the policies. The assumptions used in the valuation of the outstanding claims provision and the liability adequacy test directly affect the level of estimated claims incurred. The key assumptions used are detailed in note 3.

The scope of insurance risk is managed by the terms and conditions of the policy. The main insurance benefit for the travel insurance business involves the reimbursement of losses during travel for medical expenses in addition to the losses relating to personal property, cancellation, personal accident, personal liability, and rental vehicle excesses.

III. Concentration of insurance risk

The Company transacts travel insurance business in New Zealand for inbound, domestic and outbound customers, and in Australia for domestic and outbound customers. The nature of its business means that this concentration of risk cannot be avoided. Management defines concentration of risk by geographic region, specific destination, and unknown and unforeseen accumulations of insured on a single transport carrier. The Company is most at risk to the global commercial aviation industry and its ability to offer continuous operations given the impacts of oil prices, pandemics, natural disasters and terrorism, which lends itself to a single event resulting in a high volume of relatively low dollar value cancellation / delay claims.

The Company's travel related concentration risks are mitigated by its catastrophe, pandemic and terrorism reinsurance treaties for the travel insurance business, to protect it from high severity losses and catastrophic events. Reinsurance is placed to cover losses in excess of agreed retentions.

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 incurs credit risk from its travel insurance operations and from investment in financial assets. There are no significant concentrations of credit risk other than the $2.0 million on deposit with Kiwibank (2021: $10.0 million), $9.5 million on deposit with ANZ Bank (2021: $7.0 million) and $4.0 million AUD (2021: nil) on deposit with National Australia Bank.

The Company has internal controls in place to manage premium accounts receivable credit risk and an investment policy is also maintained which is used to manage the exposure to credit risk. The Company has a reinsurance management strategy in place to manage the credit risk from its reinsurance programme.

The maximum exposure to credit risk at reporting date is the amount of financial assets reported in the statement of financial position.

These exposures are net of any recognised provisions for impairment losses. There were no impairments at 30 June 2022 (2021: none). The Company does not require any collateral or security to support financial assets due to the quality of the counter-party organisations. The credit quality of counter-parties is assessed based on published credit ratings, issued by Standard & Poor's or equivalent ratings agencies.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2022

4 RISK MANAGEMENT (continued)

The credit quality of counter-parties is as follows:	2022 $000	2021 $000
AAA	19	3
AA	39,474	33,332
A	42	218
BBB	-	-
Non-rated	639	2,426
	40,174	35,979

The cash and cash equivalents balances are held with counter-parties rated AA - (30 June 2021: AA -).

The non-rated balances are predominantly premium receivables due from a large number of counter-parties and related party balances. Analysing these by credit quality would not be feasible, as the majority of counter-parties will be non-rated. Credit risk for premium receivables is considered low as the Company is able to terminate or suspend policies for non-payment, at the Company's discretion.

II. Liquidity risk

The Company is exposed to daily calls 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 investment policy sets out criteria to ensure funds are available to meet calls to cover claims and expenses at unexpected levels of demand.

For both the New Zealand and Australian operations, invested funds are held in bank term deposits over a range of tenures that are less than one year. Cash and cash equivalents are available on call. The majority of premium accounts receivable, are due within one month of balance date. Substantially all liabilities are payable within one year of balance date.

c. Market risks

I. Foreign currency risk

At 30 June 2022, the New Zealand operations had assets of NZD $14,000 and no liabilities denominated in foreign currencies (30 June 2021: assets of $14,000 and no liabilities).

A movement of 100 basis points on these exchange rates would have an immaterial impact on the statement of profit or loss and other comprehensive income (2021: immaterial).

The Company’s Australian branch exposes it to currency risk, as the branch's functional currency is Australian dollars. The New Zealand dollar equivalents of the Australian assets and liabilities at reporting date amounted to $13.0 million and $6.0 million respectively (2021: assets of $10.1 million and liabilities of $1.0 million).

As the Australian operation is considered an ongoing investment, no hedging of the foreign currency exposure is undertaken. Any movement in the Australian dollar exchange rate is reflected in the foreign currency translation reserve. A movement of 100 basis points on the Australian dollar exchange rate at year end would have an impact of $50,000 (2021: $91,000) on the net assets of the Company and the foreign currency translation reserve.

II. Interest rate risk

During the year, the Company invested in Kiwibank, ANZ bank and National Australia bank deposits. Through the underlying investments in these funds, the Company has indirect exposure to interest rate risk. There is a risk that any movement in interest rates can have an effect on the profitability and cash flows of the Company. The Company maintains an investment policy to mitigate this risk.

(i) *Cash flow interest rate risk*

The cash flows from investments of the Company in the short term are susceptible to changes in interest rates.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2022

4 RISK MANAGEMENT (continued)

Impact of change in interest rates	2022 $000	2021 $000	2022 $000	2021 $000
	Increase / (decrease) in cash flows		Increase / (decrease) in profitability	
Increase by 100 basis points	393	332	(2)	(15)
Decrease by 100 basis points	(393)	(332)	2	(15)

d. Fair values of financial assets and financial liabilities

All financial assets and financial liabilities included in the statement of financial position are measured at fair value. The table below analyses financial assets measured at fair 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 $000	Level 2 $000	Level 3 $000	Total $000
30 June 2022				
Bank deposits	-	15,934	-	15,934
	-	15,934	-	15,934
30 June 2021				
Bank deposits	-	17,000	-	17,000
	-	17,000	-	17,000

5 NET CLAIMS EXPENSE

The net claims expense represents payments made on claims and the movements in the outstanding claims and unexpired risk provisions.

The component of claims expense relating to risk ceded to reinsurers is recognised as reinsurance claim recoveries in the profit or loss and as reinsurance recoveries in the statement of financial position.

	2022 $000	2021 $000
Claims expense	7,167	4,864
Reinsurance claims recovery	(31)	233
Net claims expense	7,136	5,097
Claims incurred relating to risk borne in current financial year (gross)	6,964	5,729
Claim recoveries relating to risk borne in current financial year	(36)	-
Claims incurred relating to risk borne in the current financial year (net)	6,928	5,729
Claims incurred relating to risk borne in previous financial year (gross)	72	(725)
Claim recoveries relating to risk borne in previous financial year	5	239
Claims incurred relating to risk borne in previous financial year (net)	77	(486)
Increase / (decrease) in provision for claims handling cost	(101)	(165)
Increase / (decrease) in risk margin	232	19
Net claims expense	7,136	5,097

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NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2022

6 PREMIUM REVENUE

Gross written premiums from insurance contracts are recognised evenly over the period covered by the contract. Revenue is recognised from the date on which the travel period commences. Premiums written but unearned are recorded as unearned premiums. Premiums are stated net of fire service levies and stamp duty. Where premiums are billed and paid by instalments, the premium to be billed up to the next renewal date is recognised as a receivable and unearned premium liability.

Premiums ceded to reinsurers are recognised as reinsurer's share of the premium and deducted from gross premiums. The recognition of the expense in the profit or loss is in accordance with the pattern of reinsurance service received.

	2022 $000	2021 $000
Premium income	14,032	9,580
Reinsurers' share of premium	(651)	(345)
Net premiums	13,381	9,235

7 INVESTMENTS

The Company designates its investments as "financial assets at fair value through the profit or loss" at inception and they are held to match insurance contract liabilities. This eliminates or significantly reduces measurement or recognition inconsistency between assets and liabilities.

The Company is required to hold designated levels of funds in Australia to comply with the capital adequacy requirements of APRA in relation to the activities of the Australian branch (refer note 2).

Interest income is recognised in the profit or loss as it accrues using the effective interest rate method.

Investment and other income	2022 $000	2021 $000
Interest income	235	293
Investment and other income	235	293

The amount and fair value hierarchies of investments are disclosed in Note 4.

8 OPERATING EXPENSES

	2022 $000	2021 $000
External Auditor's remuneration:		
– Audit of financial statements	205	162
– Other related audit services	149	68
Internal Auditor's remuneration	88	114
Depreciation (note 12)	585	698
Amortisation of intangibles (note 12)	851	859
Employee benefits expense	4,689	4,573
Rental of premises	156	115
Bank charges	221	78
Acquisition costs	419	848
Other direct expenses	2,992	2,601
Other overhead expenses	2,534	2,619
Operating expenses	12,889	12,735

External auditor's remuneration for other related audit services consist of auditing the year end regulatory solvency return to the RBNZ ($41,000), annual APRA reporting on the Australian branch ($40,000) and the IFRS 17 project ($68,000). Other direct expenses include items such as marketing, actuary fees and underwriting expenses. Other overhead expenses include items such as I.T costs, consultants, legal and regulatory expenses.

The Company applied for and received five fortnightly New Zealand Government wage subsidy payments from August 2021 to October 2021. A total of $232,000 has been recognised as a reduction of Employee benefits expenses in the statement of comprehensive income in the current year (2021:$302,000).

The Company made no donations during the year (2021: nil).

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2022

9 SHARE CAPITAL

Share capital comprises 4,600,000 (2021: 4,600,000) authorised, issued and fully paid ordinary shares. All ordinary shares have equal voting rights, and share equally in dividends and surplus on winding up.

No dividends were paid or declared during the year (30 June 21: nil).

10 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 they are subject to an insignificant risk of changes in value.

11 PREMIUM RECEIVABLE AND OTHER ASSETS

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.

The costs incurred in acquiring insurance contracts are deferred in recognition that they represent future benefits.

Any amounts that give rise to premium income in subsequent reporting periods are deferred as an asset and amortised over the period covered by the insurance contract.

Premium and other receivables are stated at their cost less impairment losses. Impairment losses for uncollectable premiums are recorded as bad debt expense in the profit or loss. Under the NZ IFRS 9 definition of financial assets, premium and other receivables are classified as “financial assets at amortised cost”.

	2022	**2021**
	$000	**$000**
Premium accounts receivable	139	136
Reinsurance recoveries receivable (note 11a)	3	12
Deferred acquisition costs (note 11b)	205	-
Deferred reinsurance assets	-	4
Advance to Southern Cross Health Trust (note 15)	-	2,000
Other assets	521	598
Premium Receivable and Other Assets	868	2,750

a. Reconciliation of movements in reinsurance recoveries receivable	**2022**	**2021**
	$000	**$000**
Opening balance	12	155
Gross reinsurance recoveries on claims paid during the year	169	356
Reinsurance recoveries settled by reinsurer during the year	(178)	(499)
Closing balance	3	12

b. Reconciliation of movements in deferred acquisition cost	**2022**	**2021**
	$000	**$000**
Opening balance	-	436
Gross commissions paid during the year	406	794
Deferred acquisition cost (write down) / reinstatement	218	(382)
Commissions incurred during the year	(419)	(848)
Closing balance	205	-

Premium and other receivables is a current asset. Other assets include reinsurance recoveries of $46,000 (2021: $181,000) on outstanding claims as well as prepayments and GST balances.

There was no write down of deferred acquisition costs (2021: write down of $0.4m) following the Actuary's assessment of a shortfall in the liability adequacy test (LAT) (refer note 3).

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2022

12 FIXED AND INTANGIBLE ASSETS

Fixed assets and intangibles are non-current assets.

FIXED ASSETS	Right-of-use assets	Leasehold Improvement	Other fixed assets	Work in progress	Total
At 30 June 2021	**$000**	**$000**	**$000**	**$000**	**$000**
Cost	1,388	966	2,052	-	4,406
Accumulated depreciation	(854)	(847)	(1,926)	-	(3,627)
Opening net book value	**534**	**119**	**126**	**-**	**779**
Additions	-	-	1	157	158
Disposals - Cost	-	-	(26)	-	(26)
Disposals - accumulated depreciation	-	-	18	-	18
Derecognition of leased asset - cost	(28)	-	-	-	(28)
Derecognition of leased asset - accumulated depreciation	18	-	-	-	18
Depreciation	(419)	(87)	(79)	-	(585)
Closing net book value	**105**	**32**	**40**	**157**	**334**
At 30 June 2022					
Cost	1,360	966	2,027	157	4,510
Accumulated depreciation	(1,255)	(934)	(1,987)	-	(4,176)
Closing net book value	**105**	**32**	**40**	**157**	**334**

Other fixed assets include furniture and fittings, office equipment and computer equipment. Capital expenditure on all projects is initially recorded as work in progress. On completion of the project the asset is transferred to the appropriate asset category when the project will generate future economic benefits. Work in progress is not depreciated or amortised.

The derecognition of leased asset relates to the cancellation of the car park lease in August 2021.

INTANGIBLE ASSETS	Computer Software	Total
At 30 June 2021	**$000**	**$000**
Cost	12,152	12,152
Accumulated amortisation	(9,105)	(9,105)
Opening net book value	**3,047**	**3,047**
Additions	-	-
Disposals - Cost	(265)	(265)
Disposals - accumulated amortisation	265	265
Amortisation for the year	(851)	(851)
Closing net book value	**2,196**	**2,196**
At 30 June 2022		
Cost	11,887	11,887
Accumulated amortisation and impairment	(9,691)	(9,691)
Closing net book value	**2,196**	**2,196**

Recognition and measurement, including impairment

The carrying amounts of the Company's assets are reviewed at each balance date to determine whether there is any objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses directly reduce the carrying amount of the asset and are recognised in the profit or loss. The estimated recoverable amount of assets is the greater of fair value less costs to sell, or 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 ("CGU")). Management consider there to be only one CGU being the travel business as a whole. As such, an impairment test is performed for the whole of the Company using the value-in-use ("VIU") method to test the recoverable amount of the CGU.

Fixed Assets

Fixed assets are measured at cost, less accumulated depreciation and impairment losses. Where material parts of an item of fixed assets have different useful lives, they are accounted for as separate items of fixed assets.

Subsequent costs are added to the carrying amount of an item of fixed assets when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Company and the cost of the item can be measured reliably. All other costs are recognised in the profit or loss as an expense as incurred.

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NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2022

12 FIXED ASSETS AND INTANGIBLES (continued)

Depreciation is recognised in the profit or loss on a straight-line basis over the estimated useful lives of each part of an item of fixed assets. The depreciation rates for the current and comparative periods are as follows:

- Computer equipment 25% - 40% per annum
- Furniture and fittings 15% - 20% per annum
- Office equipment 15% - 20% per annum
- Leasehold improvements 8% - 20% per annum

Computer Software and Work in Progress

Most of the computer software and work in progress is internally generated.

Computer software is recognised as an intangible asset when it is not an integral part of the computer hardware. Software development expenditure that meets the criteria for recognition as an intangible asset is capitalised and amortised over its expected useful life, subject to impairment testing. The useful life of each capitalised asset is assessed by management, taking into account the expected duration that the asset will contribute value to the business. The capitalised costs are amortised on a straight line basis over the period following completion of a project or implementation of part of a project.

Capital expenditure on major projects is initially recorded as work in progress. On completion of the project the asset is transferred to computer software. Work in progress is not depreciated.

13 PAYABLES AND OTHER LIABILITIES

Payables are measured at cost. Under the NZ IFRS 9 definition of financial liabilities, payables are classified as "other liabilities at amortised cost".

	Note	2022 $000	2021 $000
Accounts payable		2,287	1,449
Employee benefits		646	561
Lease liability	13a	128	634
Premium refunds payable		54	787
Other liabilities		408	353
Payables and other liabilities		3,523	3,784

Payables and other liabilities are all current liabilities with the exception of the lease liability which in the current year has a non-current portion of nil (2021: $130,000).

Employee benefits represent the current obligation to employees in respect of outstanding salaries, leave entitlements and other short term benefits.

a. Lease liabilities	**Premises**	**Total**
	$000	**$000**
At 30 June 2021		
Cost	1,523	1,523
Accumulated interest expense and principal repayments	(889)	(889)
Opening net book value	**634**	**634**
Movement for the year:		
Interest expense	14	14
Derecognition of Lease - cost	(11)	(11)
Principal repayment	(509)	(509)
Closing net book value	**128**	**128**
At 30 June 2022		
Cost	1,512	1,512
Accumulated amortisation and impairment	(1,384)	(1,384)
Closing net book value	**128**	**128**

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2022

14 INCOME TAX
The Company has previously been exempt from New Zealand income tax due to its previous charitable status. The Company deregistered as a charity with effect from 30 June 2022 and as a result is now subject to New Zealand income tax on both New Zealand and Australian activities. The Company is liable to file and meet corporate income tax obligations commencing 1 July 2022. Upon deregistration as a charity, the Company is required to and has recognised deferred tax balances to the extent that there are temporary differences between the carrying amount of assets and liabilities in the financial statements and the amounts calculated for taxation purposes. The balances for taxation purposes at 30 June 2022 are calculated on the same basis as if the Company had always been a tax payer in the past.

In Australia, whilst the Company does not have a Permanent Establishment, the Company sells Domestic Australia travel insurance. As such, under s142 of the Income Tax Assessment Act 1936, the Company is subject to pay an effective income tax of 3%, (being the corporate tax rate of 30% being applied to 10% of the Domestic Australia premium income).

Income Tax

Tax expense comprises deferred tax, calculated using the tax rate enacted or substantively enacted at balance date.

	2022	2021
	$000	$000
Tax effect of temporary differences	367	-
Effect of Australian tax imposed on SCBL's branch income	10	6
Total income tax	**377**	**6**

Deferred Tax

	2022	2021
Deferred tax (liabilities) / assets	**$000**	**$000**
Fixed and intangible assets	(380)	-
Deferred acquisition costs	(58)	-
Payables and other liabilities	71	-
Foreign currency translation reserve	272	-
Total deferred tax liabilities	**(95)**	**-**
Expected to crystallise within 12 months	10	-
Expected to crystallise in greater than 12 months	(105)	-
Total deferred tax liabilities	**(95)**	**-**

	2022	2021
Movements in deferred tax (liabilities) / assets		
Opening balance	-	-
Fixed and intangible assets temporary differences recognised in the statement of comprehensive income	(380)	-
Deferred acquisition costs recognised in the statement of comprehensive income	(58)	-
Other temporary differences recognised in the statement of comprehensive income	71	-
Foreign currency translation reserve recognised in the statement of comprehensive income	272	-
Closing balance	**(95)**	**-**

Deferred tax on temporary differences has been calculated using the New Zealand company tax rate of 28%.

15 RELATED PARTIES

a. Identity and relationship of related parties:

♦ Southern Cross Health Trust (“Health Trust”)	Parent of the Company until 30 June 2022
♦ Southern Cross Healthcare Limited (“Healthcare”) (previously Hospitals)	100% subsidiary of Health Trust
♦ Southern Cross Medical Care Society (“Society”)	Parent of the Company at 30 June 2022
♦ Southern Cross Insurance Services Limited	Fellow subsidiary
♦ Southern Cross Ventures Limited	Fellow subsidiary
♦ Southern Cross Health Services Limited	Fellow subsidiary
♦ Southern Cross Pet Insurance Limited ("SCPIL")	Fellow subsidiary

All these related entities have 30 June balance dates.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2022

15 RELATED PARTIES (Continued)

The Company, Healthcare and the Society are separate legal entities which work together in certain areas such as legal, payroll and HR, under fully costed service level agreements as well as the secondment of staff between entities. In 2022, such costs to the Company totalled $120,000 (2021: $7,000).

Any other costs incurred by one entity on behalf of another are reimbursed monthly.

The Company purchased health insurance for its employees from the Society, to the value of $50,000 (2021: $52,000).

No advances to the Health Trust were made during 2022 (2021: none). A $2,000,000 advance was repaid by the Health Trust on 30 June 2022.

The amount of transactions with other related parties	**2022 $000**	**2021 $000**
Sales of services	102	155
Purchase of services	187	64
The outstanding balances with other related parties		
Receivables	2	2,024
Payables	2	4

Employees and directors may purchase the Company's travel insurance in the usual course of business. J M Raue had a travel insurance policy with the Company during the period. M P Jordan, M P Misur and D Bridgman (directors of Society) also had a travel insurance policy with the Company during the period. All current SCBL directors have medical insurance policies with the Society. N J Astwick and J M Raue have pet insurance policies with SCPIL.

b. Remuneration of Directors

The Company did not pay any Directors' fees for 2022 (2021: nil) as fees were paid on behalf of the Company by the Trust. The Company provides Directors with directors' and officers' liability insurance cover for liabilities to other parties that may arise from their positions as directors.

c. Remuneration of key management personnel	**2022 $000**	**2021 $000**
Salaries and other short-term benefits	1,206	1,342

Key management personnel include the chief executive officer and senior executives. The Company does not provide loans, advances or post-employment benefits to key management personnel. At each reporting date there are amounts outstanding to key management personnel comprising salaries, earned leave and short-term incentives.

16 CONTINGENT LIABILITIES

The Company has a standby letter of credit arrangement as a requirement of its merchant acquiring facility in Australia. The maximum value of this facility is $200,000 Australian dollars (2021: $200,000 Australian dollars).

17 CAPITAL COMMITMENTS

The Company had no capital commitments at 30 June 2022 (2021: Nil)

18 SUBSEQUENT EVENTS

There were no events subsequent to the reporting period which would materially affect the financial statements (30 June 2021: Nil)

Independent auditor's report

To the shareholder of Southern Cross Benefits Limited

Report on the audit of the financial statements

Opinion

We have audited the accompanying financial statements of Southern Cross Benefits Limited (the "Company") which comprise:

- the statement of financial position as at 30 June 2022;
- the statements of comprehensive income and changes in equity, changes in equity and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies.

In our opinion, the financial statements of the Company on pages 3 to 20 present fairly, in all material respects, the Company's financial position as at 30 June 2022 and its financial performance and cash flows for the year ended on that date in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

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)* (the "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 year-end insurer solvency return and annual APRA reporting. 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 $515,500 determined with reference to a benchmark of the Company's net assets. We chose the benchmark because, in our view, this 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 the provision for outstanding claims and reinsurance recoveries on outstanding claims	
Refer to Note 3, Note 4a, and Note 11 to the financial statements. Valuation of the Company's provision for outstanding claims (included within insurance contract liabilities in Note 3), and valuation of reinsurance recoveries on outstanding claims (included within other assets in Note 11) requires significant judgement from management and the Company's externally appointed actuarial specialist. The COVID-19 pandemic has continued to create significant additional risks in the assessment of the outstanding claims liabilities. The expected claims experience is inherently more uncertain due to changes in claims incidence. This increased risk impacted the extent and nature of audit evidence that we had to gather, specifically in relation to the key actuarial assumptions and judgements applied.	Our audit procedures included: — Testing a sample of claim payments to check whether they had the appropriate level of authorisation and support; — Testing the reconciliation of claims data from the underlying claims systems to the data used in the actuary's valuation of outstanding claims and reinsurance recoveries; — Comparing a sample of reinsurance recoveries recognised to the terms of the underlying reinsurance contracts and claims data; — Assessing the recoverability of balances owed by reinsurer counterparties by considering their credit worthiness and capital strength, based on external sources of information and historical experience; and — With support from our actuarial specialists, assessing the work of the Company's appointed actuary in estimating the future claims costs on claims incurred by 30 June 2022 and associated reinsurance recoveries, 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 ongoing impact of COVID-19 on the valuation methodology and assumptions; and - comparing previous estimates to actual claims development in the current year (i.e. performing a hindsight analysis). We did not identify any material exceptions from procedures performed.

The key audit matter	How the matter was addressed in our audit
Business operations and basis of preparation	
Refer to Note 1 to the financial statements. The COVID-19 pandemic has had a significant impact on the size and scale of the Company's operations, with revenue significantly reduced, and pressure on cashflows from premium refunds and fixed costs. International travel continued to be significantly restricted during the year, following the closure of the New Zealand borders on 19 March 2020, despite borders undergoing a staged re-opening throughout the year, with Australian borders reopening in November 2021, and New Zealand borders only fully re-opening on 31 July 2022. In addition to the above, the Company underwent an internal restructuring to "right-size" its operations in the previous year, and applied for and received the Government wage subsidy during the previous and current years. The Company is currently in the process of scaling its operations back up to respond to the increase in demand as the travel industry sees a recovery. The above factors may indicate the existence of events or conditions casting doubt on going concern, and may suggest indicators of impairment of non-financial assets. The COVID-19 impact on 30 June 2022 financial statements has been pervasive and required significant management attention and judgement.	Our audit procedures included: — Evaluating management's assessment of the existence of any onerous contracts against relevant accounting standards; — Assessing the recognition and measurement of the wage subsidy against relevant accounting standards, and agreeing the amount recognised to communication from the New Zealand government, and bank statements; — Evaluating management's assessment of the use of the going concern assumption, and challenging management's judgements and assumptions underlying this analysis; — Evaluating management's impairment assessment of non-financial assets against relevant accounting standards, including the identification of the CGU, and challenging the key inputs and assumptions used in the Value in Use calculation; and — With support from our actuarial specialists, assessing the work of the Company's appointed actuary in estimating the impact on the valuation of insurance contract liabilities, including the impact of the new domestic products and the new COVID-19 policy endorsement. We did not identify any material exceptions from procedures performed.

Other information

The Directors, on behalf of the Company, are responsible for the other information included in the Company's Annual Report. Other information includes the annual report disclosures, the governance statement, 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 Jamie Munro.

For and on behalf of

KPMG

KPMG
Auckland

6 September 2022

Appointed Actuary's report to the Directors of Southern Cross Benefits Limited

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Report in respect of a review of actuarial information in, or used in the preparation of, financial statements

This report is provided under section 78 of the Insurance (Prudential Supervision) Act 2010 ("the Insurance Act"), and relates to a review of the actuarial information in, or used in the preparation of, the financial statements of Southern Cross Benefits Limited ("SCBL") for the year ended 30 June 2022.

I have been advised by SCBL that the financial statements for SCBL are scheduled to be authorised for issue by the Board of Directors on 5 September 2022 and that the accompanying independent auditors' report is scheduled to be issued as soon as practicable after the issue of the signed financial statements to the auditors.

Name of Appointed Actuary conducting the review

I, Win-Li Toh, of Taylor Fry Consulting Actuaries ("Taylor Fry") am a Fellow of the New Zealand Society of Actuaries and have conducted this review in my role as appointed actuary to SCBL.

Work done in relation to actuarial information used in the financial statements

The actuarial information used in the financial statements comprises the following items, determined in accordance with the New Zealand Equivalent to International Financial Reporting Standard 4 ("NZ IFRS 4") as at 30 June 2022:

- Outstanding claims provision at a 75% probability of sufficiency;
- Unearned premium / unexpired risk provision;
- Deferred acquisition cost asset;
- Solvency capital requirement, calculated in accordance with the Solvency Standard for Non-life Insurance Business issued by the Reserve Bank of New Zealand ("RBNZ").

The Statement of Financial Position consolidates the outstanding claims provision and the unearned premium / unexpired risk provision as a single line item "insurance contract liabilities". The information received, methods, assumptions and limitations of the estimation of insurance liabilities are set out in two reports:

- "Southern Cross Benefits Limited – New Zealand Insurance Liabilities at 30 June 2022" dated 23 August 2022 and
- "Southern Cross Benefits Limited – Australian Branch Insurance Liabilities at 30 June 2022" dated 23 August 2022.

These reports also, amongst other things, set out the results of applying the Liability Adequacy Test.

The components of the solvency capital requirement were advised to SCBL in the form of the Insurer Solvency Return on 18 August 2022. This is to be submitted to the RBNZ.

Scope and limitations of review

This report is prepared for the Directors of SCBL, solely for the purposes set out in section 78 of the Insurance Act and for no other purpose.

Confirmation of independence

Other than that of appointed actuary, I confirm that I have no relationship with, or any other interests in SCBL.

Information received

I consider that I have been provided with all relevant information and explanations from SCBL.

Opinion

In my opinion:

- SCBL is maintaining the solvency margin that applies under section 21(2)(b) of the Insurance Act at 30 June 2022;
- The actuarial information contained in the financial statements for SCBL has been appropriately included in those statements; and
- The actuarial information used in the preparation of the financial statements for SCBL has been used appropriately.

Win-Li Toh

Fellow of the New Zealand Society of Actuaries

29 August 2022