SOUTHERN CROSS PET INSURANCE LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED

30 June 2022

CONTENTS

ANNUAL REPORT DISCLOSURES
for the year ended 30 June 2022

The Directors present their annual report including the financial statements of Southern Cross Pet Insurance Limited (the "Company") for the year ended 30 June 2022.

Dividend
The Company paid a dividend of $750,000 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 $1,328,000.

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 2022 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 who were entitled to remuneration from the Company received $57,500 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 23 August 2022

M L James
Director

M J Gardiner
Director

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 June 2022

	Note	2022 $000	2021 $000
Premium revenue		31,254	24,753
Less: outward reinsurance expense		(37)	(40)
Net premium revenue	6	31,217	24,713
Claims expense		(19,817)	(16,181)
Less: reinsurance recoveries		21	26
Net claims expense	4	(19,796)	(16,155)
Underwriting surplus		**11,421**	**8,558**
Operating expenses	7	(10,220)	(5,956)
Operating profit		**1,201**	**2,602**
Interest income		132	48
Profit before taxation		**1,333**	**2,650**
Taxation expense	12	(5)	(172)
Profit after taxation		**1,328**	**2,478**
Other comprehensive income		-	-
Total comprehensive profit after taxation		**1,328**	**2,478**

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 2022

	Note	2022 $000	2021 $000
Share capital			
Opening balance		15,000	15,000
Share cancellation	15	(2,500)	-
Share capital closing balance		**12,500**	**15,000**
Retained earnings			
Opening balance		2,021	(457)
Total comprehensive profit after taxation		1,328	2,478
Dividend paid	15	(750)	-
Retained profit closing balance		**2,599**	**2,021**
Total equity		**15,099**	**17,021**

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

KPMG

STATEMENT OF FINANCIAL POSITION
as at 30 June 2022

	Note	2022 $000	2021 $000
Assets			
Cash and cash equivalents	8	6,776	8,557
Premium and other receivables	9	19,301	15,980
Recoveries	3	4	8
Investments	10	6,021	6,006
Intangible assets	13	7,203	7,076
Total assets		**39,305**	**37,627**
Liabilities			
Payables and other liabilities	11	1,810	1,168
Deferred tax liabilities	12	1,213	1,208
Insurance contract liabilities	3	21,183	18,230
Total liabilities		**24,206**	**20,606**
Net assets		**15,099**	**17,021**
Equity			
Share capital	15	12,500	15,000
Retained earnings		2,599	2,021
Total equity		**15,099**	**17,021**

Authorised on behalf of the Board of Directors on 23 August 2022

M L James
Director

M J Gardiner
Director

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

STATEMENT OF CASH FLOWS
for the year ended 30 June 2022

	Note	2022 $000	2021 $000
Cash flows from operating activities			
Premium revenue received		31,310	24,892
Interest received		116	42
Payment of claims		(19,792)	(15,960)
Payments to suppliers		(9,546)	(6,454)
Net cash flows from operating activities		**2,088**	**2,520**
Cash flows to investing activities			
Payments for intangible assets	13	(619)	-
Net purchases of investments		-	(6,000)
Net cash flows to investing activities		**(619)**	**(6,000)**
Cash flows to financing activities			
Share capital cancellation	15	(2,500)	-
Dividends paid	15	(750)	-
Net cash flows to financing activities		**(3,250)**	**-**
Net decrease in cash and cash equivalents		**(1,781)**	**(3,480)**
Opening cash and cash equivalents		8,557	12,037
Closing cash and cash equivalents		**6,776**	**8,557**

RECONCILIATION OF TOTAL COMPREHENSIVE PROFIT AFTER TAXATION TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	Note	2022 $000	2021 $000
Total comprehensive profit after taxation		1,328	2,478
Adjustments for non-cash items included in comprehensive profit after taxation:			
Amortisation	13	492	1,119
Changes in assets and liabilities			
Premium and other receivables		77	179
Payables and other liabilities	11	642	(75)
Deferred acquisition costs	9	(460)	(1,547)
Deferred tax liabilities	12	5	172
Insurance contract liabilities		4	194
Net cash flows from operating activities		**2,088**	**2,520**

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

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

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 7, Aon Centre, 29 Customs Street West, Auckland 1010. The Company's primary activity is the provision of pet insurance.

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. Net cash flows in the cash flow statement are shown exclusive of GST.
- prepared using historical cost as the measurement basis except for insurance contract liabilities and investments, 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

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

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. The Company has a parental support resolution in place from the Society to support a lean business model so that any surplus capital is returned to the parent. 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. Refer to share capital note (note 15) for details on dividend paid.

The Company complied with RBNZ imposed capital requirements as at 30 June 2022 (30 June 2021: In compliance).

	2022	2021
	$000	$000
Disclosures of solvency required by the Solvency Standard as issued by the RBNZ		
Solvency capital	7,896	9,944
Minimum solvency capital	3,825	3,310
Solvency margin	4,071	6,634

	2022	2021
Solvency ratio	2.06	3.00

On 19 January 2022, Standard & Poor's reaffirmed the Company's Insurer Financial Strength Rating at A (Strong) (20 January 2021: 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 2022 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 23 August 2022. 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.

	2022	2021
	$000	$000
Insurance contract liabilities		
Provision for outstanding claims	2,948	2,991
Provision for unearned premium	18,110	15,157
Assessed claims payable	121	74
Total insurance contract liabilities net of recoveries	21,179	18,222
Recoveries*	4	8
Total insurance contract liabilities per the Statement of financial position	21,183	18,230

*Relates to a separate disclosure for reinsurance recoveries on insurance contract liabilities. This presentational change has also been applied to comparatives.

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 2021: 8.5%) of the central estimate was established as at 30 June 2022. 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 0.5% risk allowance (30 June 2021: 1.5%) to reflect the additional uncertainty in estimating the outstanding liability due to the continuing impacts of COVID-19 on New Zealand. Refer to Note 16c.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2022

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. There is no explicit allowance for claims inflation. Instead, there is an implicit assumption that future inflation will be in line with recent inflation which is appropriate given the short tail nature of the liabilities.

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 9% (30 June 2021: 7%) of the underlying claims amounts based on an analysis of administration expenses.

The average weighted term from 30 June 2022 to the expected settlement date for claims included in the liability for outstanding claims is 3.5 months (30 June 2021: 3.2 months). Accordingly, expected future claims payments are not discounted due to the short tail nature of the liabilities.

	Note	2022	2021
		$000	**$000**
Provision for outstanding claims			
Central estimate of outstanding claims liability		2,496	2,586
Claims handling costs		225	180
Risk margin		231	233
Total		2,952	2,999
Reinsurance recoveries on outstanding claims			
Central estimate of reinsurance recoveries on outstanding claims liability		(4)	(8)
Total		(4)	(8)
Total net provision for outstanding claims		2,948	2,991

Reconciliation of movement in provision for outstanding claims net of reinsurance recoveries		
Opening balance	2,991	2,820
Amounts utilised during the year	(2,423)	(2,511)
(Reversal of unused provision)/Additional provision	(33)	222
Amounts provided during the year	2,370	2,471
Movement in claims handling costs	45	12
Movement in risk margin	(2)	(23)
Total	2,948	2,991

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.

	2022	2021
	$000	**$000**
	Impact on provision for outstanding claims	
Claims payment per pet ("PPP")		
Increase by 10%	295	297
Decrease by 10%	(295)	(297)
Claims handling costs		
Increase by 2.5%	68	70
Decrease by 2.5%	(68)	(70)

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 2022

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 2022. As at 30 June 2022, the liability adequacy test identified a surplus (30 June 2021: 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 2022 (30 June 2021: 12.5%), including an additional 0.5% (30 June 2021: 2.5%) 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.
ii. Expense assumptions based on both the business plan for 2022/2023 and expense cost analysis undertaken by the Company.

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	2022 $000	2021 $000
Provision for unearned premium			
Opening balance		15,157	11,762
Premiums written during the year		34,207	28,148
Premiums earned during the year		(31,254)	(24,753)
Total		18,110	15,157

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

	Note	2022 $000	2021 $000
Liability adequacy test			
Unearned premium liability		18,110	15,157
Deferred acquisition costs	9	(2,007)	(1,547)
Present value of expected future cash flows for claims and expenses		(14,427)	(12,245)
Risk margin of the present value of expected future cash flows		(1,577)	(1,294)
Liability adequacy test surplus		99	71

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 the statement of financial position.

	2022 $000	2021 $000
Net claims expense		
Claims incurred relating to risks borne in current financial year	19,812	15,973
Reinsurance recoveries relating to risks borne in current financial year	(27)	(29)
Claims incurred relating to risks borne in previous financial years	(37)	219
Reinsurance recoveries relating to risks borne in previous financial years	5	3
Movement in provision for claims handling costs	45	12
Movement in risk margin	(2)	(23)
Total	19,796	16,155

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

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.
- The Company has moved 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 leverages policies set by Society (its parent) 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 significant concentrations of credit risk other than the $6.0m with ASB Bank (2021: $6.0m). The credit risk is minimal as the credit quality of the investment counter-party (ASB Bank) is rated AA-.

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

	2022 $000	2021 $000
Money market		
AA-	6,021	6,006
Total	6,021	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.

	2022 $000	2021 $000
Contractual maturities of investments		
0-6 months	6,021	6,006
Total	6,021	6,006

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NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2022

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 $000	Level 2 $000	Level 3 $000	Total $000
30 June 2022				
Investments	-	6,021	-	6,021
Total	-	6,021	-	6,021
30 June 2021				
Investments	-	6,006	-	6,006
Total	-	6,006	-	6,006

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.

Operational Risks are categorised into Health, Safety and Wellbeing; Information Security; Compliance; Fraud; Claims Leakage and Undesirable Billing; Conduct; Strategic Delivery; Operational Reliability; Reputation and Brand; Customer Value Proposition and Partner Relationships.

Evolving governance over all risks is driven through regular management reporting of risks, issues, incidents, treatment strategies, and risk outcomes, which are reviewed at executive governance forums, Audit and Risk Committee and Board meetings. Regular assessment and reporting on improving levels of risk maturity, are supplemented by internal audit review in accordance with the approved annual audit plans.

Appropriate external insurance policy coverage is maintained to safeguard our key stakeholders from relevant and plausible insurable threats; policy coverage is refreshed annually.

The Company values open, transparent and positive relationships with key regulators (Financial Markets Authority and RBNZ). It aims to positively influence the markets, industries and communities within which it operates, and actively contribute to the improving standards of conduct, transparency, customer value, health and wellbeing experienced by all New Zealanders and pet owners.

Topical shifts in operational risk in Pet Insurance over the past year have included:

- Vet community changes – increased pet ownership rates, heightened demand for vet services, scarcity of skilled labour across the industry, inflationary pressure lifting operating costs, all generating increased health and wellbeing pressures across the animal welfare sector.
- Competitive environment – growing number of pet insurers and pet wellbeing providers, balancing product innovation, benefits, pricing and affordability, competing for customer affinity and discretionary spend, in a tightening economic environment.
- Workforce and workplace dynamics – adapting to virtualisation of workplaces, changed operating models, shifts in customer calling and claiming behaviour, challenges finding and retaining top talent, and supporting employee health, safety and wellbeing under prolonged pace and complexity.
- Information security and cyber-resilience – recognising and responding to increasingly digitised customer experience, internal reliance on systems, data and automation, and the material uplift in threat complexity posed globally by potential cyber intrusion, hacking, data theft and intrusion.
- Regulatory momentum – responding to significant uplift in the pace, volume and breadth of regulatory and legal change, generating heightened expectation and scrutiny across solvency; operational resilience; privacy and confidentiality; customer-centricity, culture and conduct; consumer and insurance law; financial services advice law; environment, sustainability and governance; and financial accounting and reporting standards.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2022

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.

	2022	2021
	$000	$000
Net premium revenue		
Premium income	31,254	24,753
Reinsurers' share of premium	(37)	(40)
Total	31,217	24,713

7 OPERATING EXPENSES

	Note	2022	2021
		$000	$000
Operating expenses consist of:			
Policy acquisition		3,042	1,114
Policy administration		3,537	1,895
Claims administration		2,075	1,133
Other operating expenses		1,566	1,814
Total		10,220	5,956

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	2022	2021
Included within operating expenses are the following specific items:			
Auditor’s remuneration:			
• audit of annual financial statements		70	85
• audit of annual financial statements - prior years		-	20
• audit of annual insurer solvency return		25	35
Purchase of services	14a	8,894	5,585
Amortisation	13	492	1,119
Deferred acquisition cost credit		(460)	(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.

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.

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

		2022	2021
		$000	$000
Premium and other receivables			
Premium receivable		17,279	14,419
Deferred acquisition costs		2,007	1,547
Other receivables		15	14
Total		19,301	15,980
Reconciliation of movement in deferred acquisition expenses			
Opening balance		1,547	-
Deferred acquisition costs movement	3	460	1,547
Total		2,007	1,547

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2022

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.

	2022 $000	2021 $000
Investments		
Bank deposits	6,021	6,006
Total	6,021	6,006

11 PAYABLES AND OTHER LIABILITIES

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

	2022 $000	2021 $000
Payables and other liabilities		
Trade creditors and accruals	1,810	1,168
Total	1,810	1,168

12 TAXATION

The Company is subject to income tax, and is able to utilise tax losses of the Society's subsidiaries. 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 they 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	2022 $000	2021 $000
Reconciliation of income tax to profit before taxation			
Profit before taxation		1,333	2,650
Income tax at the domestic tax rate of 28%		373	742
Tax effect of permanent differences		2	1
Tax effect of group loss offsets	14	(370)	(571)
Total income tax expense		5	172

b Deferred tax

The Company has offset the $1,324,000 taxable profit for the year ending 30 June 2022 (30 June 2021: $2,040,000) against the accumulated tax losses of the Society's subsidiaries. After the tax loss offset, the Society group inclusive of the Company, has accumulated tax losses carried forward of $37,154,000 as at 30 June 2022 (30 June 2021: $38,998,000), of which the Company has accumulated tax losses carried forward of nil (30 June 2021: Nil).

	Note	2022 $000	2021 $000
Deferred tax comprises temporary differences attributable to:			
Intangible assets		(680)	(808)
Deferred acquisition costs	9	(562)	(433)
Payables and other liabilities		29	33
Total deferred tax liabilities		(1,213)	(1,208)
Expected to crystallise within 12 months		(645)	(533)
Expected to crystallise in greater than 12 months		(568)	(675)
Total deferred tax liabilities		(1,213)	(1,208)
Movements in deferred tax liabilities			
Opening balance		(1,208)	(1,036)
Intangible assets temporary differences recognised in the statement of comprehensive income		128	314
Deferred acquisition costs recognised in the statement of comprehensive income		(129)	(433)
Other temporary differences recognised in the statement of comprehensive income		(4)	(53)
Closing deferred tax liabilities		(1,213)	(1,208)

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

13 INTANGIBLE ASSETS

Intangible assets are measured at cost, less accumulated amortisation and impairment losses. 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. For computer software development, costs incurred in researching and evaluating a project up to the point of formal commitment to a project are treated as research costs and are expensed as incurred. Work in progress is not depreciated or amortised.

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
• Goodwill	Indefinite
• Computer Software	5 years

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 2022 (30 June 2021: 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.

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. This has been fully amortised during the year ended 30 June 2021.

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. At 30 June 2022, 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 14.5% after tax (30 June 2021: 12.8%), with a terminal growth rate of 2% (30 June 2021: 2%). Adverse changes in actual performance or future rates of growth will reduce the calculated recoverable amount. A reduction of 7.9% (30 June 2021: 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 2022 (30 June 2021: Nil).

Computer Software

Computer software and work in progress (WIP) relate to software developed internally to automate claims processing. The capitalised costs include salaries and ancillary costs incurred for the development which are monitored and estimated by the Product Owner. At 30 June 2022, for the purposes of impairment testing, WIP was tested using the value in use methodology, using projected savings over the expected life of the software. The cash flows were discounted using a nominal rate of 14.5%. The recoverable amount using the projected savings exceeds the carrying amount, and no impairment losses on WIP were recognised during the year to 30 June 2022. There are no indicators of impairment for computer software which is currently in use.

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

13 INTANGIBLE ASSETS (continued)

Intangible assets	Customer base $000	Portfolio-in-force $000	Goodwill $000	Computer software $000	Work in progress $000	Total $000
As at 30 June 2021						
Cost	3,761	1,548	4,192	-	-	9,501
Accumulated amortisation and impairment	(877)	(1,548)	-	-	-	(2,425)
Opening net book value	**2,884**	**-**	**4,192**	**-**	**-**	**7,076**
Additions					619	619
Transfers	-	-	-	91	(91)	-
Disposal - cost	-	(1,548)	-	-	-	(1,548)
Disposal - accumulated amortisation	-	1,548	-	-	-	1,548
Amortisation	(475)	-	-	(17)	-	(492)
Closing net book value	**2,409**	**-**	**4,192**	**74**	**528**	**7,203**
As at 30 June 2022						
Cost	3,761	-	4,192	91	528	8,572
Accumulated amortisation and impairment	(1,352)	-	-	(17)	-	(1,369)
Closing net book value	**2,409**	**-**	**4,192**	**74**	**528**	**7,203**

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
• Southern Cross Benefits Limited (“SCBL”)	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 Healthcare Limited (“Hospitals”)	100% subsidiary of Trust	30 June
• Directors of Southern Cross Medical Care Society	Directors of Parent	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, tax transfers between the subsidiaries of Society and the use of Society’s trademark. No related party balances have been written off or forgiven during the year ended 30 June 2022 (30 June 2021: Nil).

	Note	2022 $000	2021 $000
Total amount of transactions with Society			
Purchase of services	7	8,894	5,585
Share capital cancellation	15	2,500	-
Dividends paid	15	750	-
Total outstanding balances with Society			
Payables		975	527

Trademark

The Company’s trademark (Southern Cross Pet Insurance) is owned by its parent, the Society. The Company does not pay any royalties to the Society for the use of the trademark.

Tax loss offsets with other related parties

The Company has offset $1,324,000 (30 June 2021: $2,040,000) of tax profits with the unrecognised tax losses of Southern Cross Health Services Limited, with no subvention payments.

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

14 RELATED PARTIES (continued)

b Remuneration of 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 2022 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

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

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.

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

15 SHARE CAPITAL

Share capital comprises 12,500,100 authorised, issued and fully paid $1.00 ordinary shares (30 June 2021: 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. On 18 October 2021, 2,500,000 shares were repurchased and cancelled by the Company.

The Company has paid a dividend of $0.75 million on the remaining 12,500,100 ordinary shares (at 6 cents per share) in October 2021.

16 CONTINGENCIES AND SUBSEQUENT EVENTS

a Contingent liabilities

The Company had no contingent liabilities at 30 June 2022 (30 June 2021: Nil).

b Subsequent events

There were no events subsequent to the reporting period which materially affects the financial statements (30 June 2021: nil).

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 other developments in the environment (such as inflation), the Company has reassessed at 30 June 2022 certain key inputs that underpin insurance contract liabilities.

At 30 June 2022, uncertainty in the current environment arises from the flow on impacts on claims from New Zealand’s response to managing the COVID-19 pandemic, including disruption faced by veterinary providers as a result of staff sickness, as well as higher inflation in the New Zealand economy. A risk margin of 8.5% (30 June 2021: 8.5%) of the outstanding claims liability and associated expenses have been established. An unexpired risk liability risk margin of 12.5% (30 June 2021: 12.5%) of the expected future claims and associated expenses has also been established. While the overall risk margins have not deviated from prior year, the explicit COVID-19 allowances have reduced in the current financial year, offset by an increase in other components of the risk margin. The risk margins have been established with the objective of achieving at least a 75% probability of sufficiency.

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

17 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 most significant of these is NZ IFRS 17 Insurance Contracts ("NZ IFRS 17").

NZ IFRS 17 Insurance Contracts
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.

Implementation progress and status

The project to manage the implementation of NZ IFRS 17 has been in place since early 2020 and is tracking well against key milestones.

- The Company completed technical accounting papers (which included issues relating to the Company) in support of its draft accounting policies under NZ IFRS 17. The draft accounting policies are subject to final approval, following a review of the results of the parallel run as described below.
- The Company implemented an IFRS 17 application to assist compliance with the measurement, presentation and disclosure requirements of NZ IFRS 17. This solution was implemented during July 2022 to produce comparative numbers on a parallel basis to NZ IFRS 4 with the planned implementation for the Company in Q1 FY23. The Society and the Company will use this parallel run to: (a) fully understand the implications and outcomes associated with its NZ IFRS 17 draft 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 which are described in more detail below; (c) validate accuracy and refine design of data extracts that are being used to populate the IFRS 17 application.
- Changes to the reporting process and integration of the IFRS 17 application with other processes and systems in the Company are planned for Q1 FY23.
- Training on the new IFRS 17 application and broader education sessions are being planned in conjunction with using the outcome of the parallel run.

Measurement of Insurance Contracts

NZ IFRS 17 permits the use of a simplified approach (which is similar to the current basis on which general insurance contracts is accounted under NZ IFRS 4). The Company will apply the Premium Allocation Approach (“PAA”) given the short-term nature of insurance policies in the Company, which will simplify the impact of this new standard in respect of recognition and measurement.

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

- When the PAA is applied, NZ IFRS 17 allows the option to not defer acquisition cashflows. The initial draft accounting policies propose the option to not defer acquisition cashflows. If approved, this will mean that the Company will no longer defer acquisition cashflows and will result in a release of the deferred acquisition cost asset on the Company’s balance sheet, which in turn will result in a decrease in the opening equity on adoption of NZ IFRS 17.
- 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. The Company is currently considering the methodology for determining the risk adjustment by reviewing evolving industry interpretations regarding this matter. The financial impact of a potential change to this assumption cannot be reasonably estimated at the balance date.

Presentation and Disclosure
Presentation and disclosure requirements under NZ IFRS 17 differ significantly from NZ IFRS 4 and the implemented NZ IFRS 17 solution supports the Company’s process to prepare these disclosures.

NZ IFRS 17 introduces new line items on the balance sheet and the statement of comprehensive income and significant additional disclosures, most notably in the form of a ‘roll-forward’ reconciliation with requirements to provide an analysis of the movement in the liability for remaining coverage (LFRC) from its opening balance to the closing balance at period end.

Financial Impact
The financial impact of adopting NZ IFRS 17 is not reasonably estimable at the date of this report given a combination of the following matters that are all in progress: (a) the draft status of the Company’s accounting policies; (b) elements of global interpretation that are still evolving most notably in relation to the risk adjustment.

KPMG

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 financial statements of Southern Cross Pet Insurance Limited (the 'Company') on pages 2 to 18:

i. 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; 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 2022;

— the statements of comprehensive income, changes in equity and cash flows for 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 $201,000 determined with reference to a benchmark of Company's net assets. We chose the benchmark because, in our view, net assets is a key indicator of the Company's solvency and it's 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 outstanding claims liability	
Refer to Note 3 to the Financial Report. 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 2022, 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 2022 in relation to claims incurred pre 30 June 2021. — Performing a review on claims development post 30 June 2022 to assess adequacy of the outstanding claims provision as at 30 June 2022. 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 Jamie Munro.

KPMG

KPMG
Auckland

25 August 2022

23 August 2022

The Directors
Southern Cross Pet Insurance Limited
Auckland

Dear Directors

Review of Actuarial Information Contained in Financial Statements as at 30 June 2022

Finity Consulting Pty Limited (Finity) has been asked by Southern Cross Pet Insurance Limited (SCPI) to carry out a review of the 30 June 2022 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 2022 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 SCPI as at 30 June 2022 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
Appointed Actuary

Samuel Cosgriff