SOUTHERN CROSS PET INSURANCE LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED

30 June 2023

CONTENTS

ANNUAL REPORT DISCLOSURES
For the year ended 30 June 2023

The Directors present their annual report including the financial statements of Southern Cross Pet Insurance Limited (the "Company") for the year ended 30 June 2023.

Dividend
The Company paid a dividend of $800,000 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 loss from operations of $1,045,000.

Register of Directors
N J Astwick
M J Gardiner
M L James
C J Black (appointed 1 September 2022)
J M Raue (resigned 31 August 2022)

Use of company information
The Board received no notices during the year to 30 June 2023 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 $81,250 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 12 September 2023.

M L James
Director

M J Gardiner
Director

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 June 2023

	Note	2023 $000	2022 $000
Premium revenue		35,974	31,254
Less: outward reinsurance expense		(35)	(37)
Net premium revenue	6	35,939	31,217
Claims expense		(24,761)	(19,817)
Less: reinsurance recoveries		31	21
Net claims expense	4	(24,730)	(19,796)
Underwriting surplus		**11,209**	**11,421**
Operating expenses	7	(13,152)	(10,220)
Operating (loss) / profit		**(1,943)**	**1,201**
Interest income		523	132
Interest expense		(36)	-
		487	132
(Loss) / Profit before taxation		**(1,456)**	**1,333**
Taxation benefit / (expense)	12	411	(5)
(Loss) / Profit before taxation		**(1,045)**	**1,328**
Other comprehensive income		-	-
Total comprehensive (loss) / profit after taxation		**(1,045)**	**1,328**

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

STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2023

	Note	2023 $000	2022 $000
Share capital			
Opening balance		12,500	15,000
Share issue / (cancellation)		2,500	(2,500)
Share capital closing balance		**15,000**	**12,500**
Retained earnings			
Opening balance		2,599	2,021
Total comprehensive (loss) / profit after taxation		(1,045)	1,328
Dividend paid	17	(800)	(750)
Retained profit closing balance		**754**	**2,599**
Total equity		**15,754**	**15,099**

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

STATEMENT OF FINANCIAL POSITION
as at 30 June 2023

	Note	2023 $000	2022 $000
Assets			
Cash and cash equivalents	8	4,209	6,776
Premium and other receivables	9	22,160	19,301
Reinsurance and other recoveries	3	5	4
Investments	10	8,988	6,021
Right-of-use assets	15	-	-
Intangible assets	13	8,180	7,203
Total assets		**43,542**	**39,305**
Liabilities			
Payables and other liabilities	11	2,161	1,810
Provisions	14	196	-
Lease liabilities	15	-	-
Deferred tax liabilities	12	802	1,213
Insurance contract liabilities	3	24,629	21,183
Total liabilities		**27,788**	**24,206**
Net assets		**15,754**	**15,099**
Equity			
Share capital	17	15,000	12,500
Retained earnings		754	2,599
Total equity		**15,754**	**15,099**

Authorised on behalf of the Board of Directors on 12 September 2023.

M L James
Director

M J Gardiner
Director

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

KPMG

STATEMENT OF CASH FLOWS

For the year ended 30 June 2023

	Note	2023 $000	2022 $000
Cash flows from operating activities			
Premium revenue received		36,096	31,310
Interest on remediation paid		(33)	-
Payment of claims		(24,084)	(19,792)
Payments to suppliers		(12,300)	(9,546)
Net cash flows from operating activities		**(321)**	**1,972**
Cash flows to investing activities			
Payments for intangible assets	13	(1,485)	(619)
Net purchases of investments		(2,900)	-
Interest received		457	116
Net cash flows to investing activities		**(3,928)**	**(503)**
Cash flows to financing activities			
Repayment of lease liabilities	15	(15)	-
Interest paid	15	(3)	-
Share issue / (cancellation)		2,500	(2,500)
Dividends paid	17	(800)	(750)
Net cash flows from / (to) financing activities		**1,682**	**(3,250)**
Net decrease in cash and cash equivalents		**(2,567)**	**(1,781)**
Opening cash and cash equivalents		6,776	8,557
Closing cash and cash equivalents		**4,209**	**6,776**

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

	Note	2023 $000	2022 $000
Total comprehensive (loss) / profit after taxation		(1,045)	1,328
Adjustments for non-cash and non-operating items included in comprehensive (loss) / profit after taxation:			
Amortisation	13	508	492
Depreciation	15	16	-
Interest expense	15	3	-
Provisions	14	196	-
Loss on disposal of leases		19	-
Interest income		(523)	(132)
Changes in assets and liabilities			
Premium and other receivables		40	93
Payables and other liabilities	11	331	642
Deferred acquisition costs	9	(100)	(460)
Net deferred taxation	12	(411)	5
Insurance contract liabilities		645	4
Net cash flows from operating activities		**(321)**	**1,972**

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

KPMG

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2023

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 1, Te Kupenga, 155 Fanshawe Street, 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.

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

BASIS OF PREPARATION

The Company is a for-profit 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").
- Compliant 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 14: Provisions
- Note 18: Contingencies and subsequent events

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").

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2023

1 BASIS OF ACCOUNTING (continued)

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. The Company has not early adopted NZ IFRS 17 in preparing these financial statements.

a. Transition

On transition date 1 July 2022, the Company will apply NZ IFRS 17 to its pet insurance portfolio, as if it always existed, under the full retrospective approach. Under the full retrospective approach, the Company:

(a) Identified, recognised and measured each group of insurance as if NZ IFRS 17 had always been applied;
(b) Identified, recognised and measured any assets for insurance acquisition cash flows as if NZ IFRS 17 had always been applied, except that the recoverability assessment was not applied before 1 July 2022;
(c) Derecognised previously reported balances that would not have existed if NZ IFRS 17 had always been applied;
(d) Recognised any resulting net difference in equity. The carrying amounts of goodwill from previous business combinations were not adjusted.

The initial application of NZ IFRS 17 on transition date is expected to reduce the Company's equity by $3.0m to $3.2m.

The reduction in the Company's equity is largely driven by the de-recognition of assets for insurance acquisition cashflows as the Company has adopted the option to not defer insurance acquisition cashflows under NZ IFRS 17.

Measurement of insurance contract liabilities includes a risk adjustment which is determined using a cost of capital approach. The approach takes into account the Company's target capital position and weighted average cost of capital. The risk adjustment included in the estimated financial impact corresponds to an equivalent probability of adequacy range of between 62% to 75%.

The nature and effects of the key changes in the Company's accounting policies resulting from its impending adoption of NZ IFRS 17 are summarised below.

b. Recognition, measurement and presentation of insurance contracts

Measurement

As permitted under NZ IFRS 17, all of the contracts in the pet insurance portfolio are eligible to be measured by applying the Premium Allocation Approach (“PAA”). This simplifies the recognition and measurement of non-onerous insurance contracts in the Company. The measurement principles of the PAA differs from the "earned premium approach" used by the Company under NZ IFRS 4 in the following areas:

- Measurement of insurance contract liabilities includes a risk adjustment which replaces the risk margin under NZ IFRS 4.
- Adoption of the option to not defer insurance acquisition cashflows.
- Derecognition of the customer base asset that was recognised under NZ IFRS 4 following its acquisition of a portfolio of insurance contracts. Management judgement was applied to determine this asset was an insurance acquisition cash flow asset and that this asset should be de-recognised after taking the option to expense insurance acquisition cash flows as incurred.

The Company recognises insurance acquisition cashflows as expenses as incurred, where permitted to do so under NZ IFRS 17, in applying the PAA for contracts with a coverage period of no more than one year.

Presentation

Under NZ IFRS 17:

- In the statement of financial position, insurance-related receivables are now part of insurance contract liabilities and are no longer presented separately.
- In the statement of comprehensive income, the insurance service result consists of insurance revenue and insurance service expenses.

Implementation progress and status

The NZ IFRS 17 project activities for the Company are in the final phase, ready for the implementation date of 1 July 2023 – key milestones delivered are:

- Technical accounting papers in support of NZ IFRS 17 accounting policies were completed.
- Key accounting policies, areas of judgements and key actuarial assumptions have been considered by the Board.
- NZ IFRS 17 tools, calculations and models to ensure compliance with the measurement, presentation and disclosure requirements of NZ IFRS 17 have been operationalised.
- Comparative numbers on a parallel basis to NZ IFRS 4 from 1 July 2022 have been produced to: (a) understand the implications and outcomes associated with NZ IFRS 17 accounting policy choices (b) test methodology decisions that underpin the key areas of measurement, and (c) validate accuracy of data extracts that are being used in the measurement of insurance contract liabilities.

The requirements of NZ IFRS 17 are complex and the actual financial impact is subject to the finalisation of key assumptions, in particular risk adjustment. Therefore, the expected financial impact on transition date has been presented as a range as opposed to a point estimate and the impact to net assets at 30 June 2023 is still to be finalised.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 30 June 2023

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 17) for details on dividend paid.

The Company complied with RBNZ imposed capital requirements as at 30 June 2023 (June 2022: In compliance).

	2023	2022
	$000	$000
Disclosures of solvency required by the Solvency Standard as issued by the RBNZ		
Solvency capital	7,574	7,896
Minimum solvency capital	4,455	3,825
Solvency margin	3,119	4,071

	2023	2022
Solvency ratio	1.70	2.06

The RBNZ has issued an Interim Solvency Standard which applies to the Company from 1 July 2023.

On 6 December 2022, Standard & Poor's reaffirmed the Company's Insurer Financial Strength Rating at A (Strong) (19 January 2022: 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 2023 have been determined by the Company's Appointed Actuary, Anagha Pasche, a Fellow of the New Zealand Society of Actuaries. These were presented to the Directors of the Company in a report dated 12 September 2023. 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.

	2023	2022
	$000	$000
Insurance contract liabilities		
Provision for outstanding claims	3,595	2,948
Provision for unearned premium	20,909	18,110
Assessed claims payable	120	121
Total insurance contract liabilities net of recoveries	24,624	21,179
Recoveries	5	4
Total insurance contract liabilities per the Statement of financial position	24,629	21,183

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 2022: 8.5%) of the central estimate was established as at 30 June 2023. The risk margin was determined with the objective of achieving at least 75% probability of sufficiency of the provision for outstanding claims and the explicit allowance for the impacts of COVID-19 has been removed (30 June 2022: 0.5%).

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 7% (30 June 2022: 9%) of the underlying claims amounts based on an analysis of administration expenses.

The average weighted term from 30 June 2023 to the expected settlement date for claims included in the liability for outstanding claims is 5.8 months (30 June 2022: 3.5 months). Accordingly, expected future claims payments are not discounted due to the short tail nature of the liabilities.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 30 June 2023

3 INSURANCE CONTRACT LIABILITIES (continued)

Provision for outstanding claims (continued)

	Note	2023 $000	2022 $000
Provision for outstanding claims			
Central estimate of outstanding claims liability		3,101	2,496
Claims handling costs		217	225
Risk margin		282	231
Total		3,600	2,952
Reinsurance recoveries on outstanding claims			
Central estimate of reinsurance recoveries on outstanding claims liability		(5)	(4)
Total		(5)	(4)
Total net provision for outstanding claims		3,595	2,948

Reconciliation of movement in provision for outstanding claims net of reinsurance recoveries

	2023	2022
Opening balance	2,948	2,991
Amounts utilised during the year	(2,388)	(2,423)
Additional provision/(Reversal of unused provision)	306	(33)
Amounts provided during the year	2,686	2,370
Movement in claims handling costs	(8)	45
Movement in risk margin	51	(2)
Total	3,595	2,948

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.

	2023 $000	2022 $000
	Impact on provision for outstanding claims	
Claims payment per pet ("PPP")		
Increase by 10%	359	295
Decrease by 10%	(359)	(295)
Claims handling costs		
Increase by 2.5%	84	68
Decrease by 2.5%	(84)	(68)

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. This deficiency is immediately recognised in profit and loss. In recognising the deficiency, the Company will first write down any related deferred acquisition costs before recognising an unexpired risk provision.

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 2023. As at 30 June 2023, the liability adequacy test identified a deficit (30 June 2022: surplus) and therefore there is a deficiency of $0.2m in the unearned premium. The deferred acquisition costs were written down by $0.2m and no provision for unexpired risk was recognised.

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 10% of the present value of expected future cash flows has been applied at 30 June 2023 (30 June 2022: 12.5%). The risk margin was determined with the objective of achieving at least 75% probability of sufficiency of the provision for unexpired risk.

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 2023/2024 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 30 June 2023

3 INSURANCE CONTRACT LIABILITIES (continued)

Provision for unexpired risk and liability adequacy test (continued)

	Note	2023 $000	2022 $000
Provision for unearned premium			
Opening balance		18,110	15,157
Premiums written during the year		38,773	34,207
Premiums earned during the year		(35,974)	(31,254)
Total		20,909	18,110

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

	Note	2023 $000	2022 $000
Liability adequacy test			
Unearned premium liability		20,909	18,110
Deferred acquisition costs	9	(2,291)	(2,007)
Present value of expected future cash flows for claims and expenses		(17,283)	(14,427)
Risk margin of the present value of expected future cash flows		(1,519)	(1,577)
Liability adequacy test (deficit) / surplus		(184)	99

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.

	2023 $000	2022 $000
Net claims expense		
Claims incurred relating to risks borne in current financial year	24,412	19,812
Reinsurance recoveries relating to risks borne in current financial year	(31)	(27)
Claims incurred relating to risks borne in previous financial years	306	(37)
Reinsurance recoveries relating to risks borne in previous financial years	-	5
Movement in provision for claims handling costs	(8)	45
Movement in risk margin	51	(2)
Total	24,730	19,796

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 applies an information only model.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 30 June 2023

5 RISK MANAGEMENT (continued)

a. Insurance risk (continued)

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 counterparty exposures have been set and are monitored on an ongoing basis. The credit quality of investment counterparties is assessed based on published credit ratings issued by Standard & Poor's or equivalent ratings agencies. There are no significant concentrations of credit risk as the investments are held with various counterparties (2022: $6.0m).

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

	2023 $000	2022 $000
Money market		
AA-	8,988	6,021
Total	8,988	6,021

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 counterparties 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 within 12 months.

	2023 $000	2022 $000
Contractual maturities of investments		
0-6 months	7,887	6,021
7-12 months	1,101	-
Total	8,988	6,021

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 30 June 2023

5 RISK MANAGEMENT (continued)

c. Market risks (continued)

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 2023				
Investments	-	8,988	-	8,988
Total	-	8,988	-	8,988
30 June 2022				
Investments	-	6,021	-	6,021
Total	-	6,021	-	6,021

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, fair 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:

- Affordability – over the past 18 months we have been operating in a high inflationary environment, in conjunction with having to absorb incremental increases in regulatory compliance costs. Our customer base has been subject to similar inflationary pressures, with the increasing cost-of-living and costs of pet ownership placing pressure on discretionary incomes.
- Regulatory momentum – responding to significant uplift in the pace, volume and breadth of regulatory and legal change, generating heightened expectation and scrutiny across: financial solvency; customer-centricity, fairness and conduct; operational resilience and cyber; privacy and confidentiality; consumer and insurance law; financial services advice law; environment, sustainability and governance; and financial accounting and reporting standards.
- 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.
- Vet community changes – changing 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 30 June 2023

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.

	2023 $000	2022 $000
Net premium revenue		
Premium income	35,974	31,254
Reinsurers' share of premium	(35)	(37)
Total	35,939	31,217

7 OPERATING EXPENSES

	2023 $000	2022 $000
Operating expenses consist of:		
Policy acquisition	4,100	3,042
Policy administration	4,673	3,537
Claims administration	2,059	2,075
Other operating expenses	2,320	1,566
Total	13,152	10,220

Other operating expenses includes the purchase of services from related parties (refer to Note 16) for expenses for information technology, marketing, occupancy, governance, actuarial, and management.

Included within operating expenses are the following specific items:	**Note**		
Auditor's remuneration:			
• audit of annual financial statements		77	70
• NZ IFRS 17 transition audit work		66	-
• audit of annual insurer solvency return		28	25
Purchase of services	16a	11,443	8,894
Depreciation	15	16	-
Amortisation	13	508	492
Deferred acquisition cost movement		(100)	(460)
Restructuring costs	14	79	-

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.

	2023 $000	2022 $000
Premium and other receivables		
Premium receivable	20,035	17,279
Deferred acquisition costs	2,107	2,007
Other receivables	18	15
Total	22,160	19,301
Reconciliation of movement in deferred acquisition expenses		
Opening balance	2,007	1,547
Deferred acquisition costs movement[1]	100	460
Total	2,107	2,007

[1] The deferred acquisition costs were written down by $0.2m (30 June 2022: nil) for the deficiency identified by the liability adequacy test.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 30 June 2023

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 profit or loss. The credit quality, contractual maturities, and fair value hierarchies of investments are disclosed in Note 5.

	2023 $000	2022 $000
Investments		
Bank deposits	8,988	6,021
Total	8,988	6,021

11 PAYABLES AND OTHER LIABILITIES

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

		2023 $000	2022 $000
Payables and other liabilities			
Trade creditors - related party balance	16	1,130	975
Accruals		1,031	835
Total		2,161	1,810

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	2023 $000	2022 $000
Reconciliation of income tax to (loss) / profit before taxation			
(Loss) / Profit before taxation		(1,456)	1,333
Income tax at the domestic tax rate of 28%		(408)	373
Tax effect of permanent differences		5	2
Tax effect of temporary differences		(8)	-
Tax effect of group loss offsets	16	-	(370)
Total income tax (benefit) / expense		(411)	5

b Deferred tax

The Company has accumulated tax losses carried forward of $1,045k, tax effect: $292k (30 June 2022: the Company offset $1,324k taxable profit against the accumulated tax losses of the Society's subsidiaries.)

	Note	2023 $000	2022 $000
Deferred tax comprises temporary differences attributable to:			
Intangible assets		(579)	(680)
Deferred acquisition costs		(590)	(562)
Losses available to offset against future taxable income		292	-
Payables and other liabilities		75	29
Total deferred tax liabilities		(802)	(1,213)
Expected to crystallise within 12 months		(320)	(645)
Expected to crystallise in greater than 12 months		(482)	(568)
Total deferred tax liabilities		(802)	(1,213)
Movements in deferred tax liabilities			
Opening balance		(1,213)	(1,208)
Intangible assets temporary differences recognised in the statement of comprehensive income		102	128
Deferred acquisition costs recognised in the statement of comprehensive income		(28)	(129)
Recognition of losses available for offset against future taxable income		292	-
Other temporary differences recognised in the statement of comprehensive income		45	(4)
Closing deferred tax liabilities		(802)	(1,213)

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 30 June 2023

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 2023 (30 June 2022: 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 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 2023, goodwill was tested for impairment 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 2022: 14.5%), with a terminal growth rate of 2% (30 June 2022: 2%). Adverse changes in actual performance or future rates of growth will reduce the calculated recoverable amount. A reduction of 1.2% (30 June 2022: 7.9%) 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 2023 (30 June 2022: Nil).

Computer Software

Computer software and work in progress (WIP) relate to software developed internally to automate claims processing and to automate marketing processes. The capitalised costs include salaries and ancillary costs incurred for the development which are monitored and estimated by the Product Owner. At 30 June 2023, 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% (30 June 2022: 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 2023 (30 June 2022: Nil). 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 2023

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 2022						
Cost	3,761	-	4,192	91	528	8,572
Accumulated amortisation and impairment	(1,352)	-	-	(17)	-	(1,369)
Opening net book value	**2,409**	**-**	**4,192**	**74**	**528**	**7,203**
Additions	-	-	-	-	1,485	1,485
Transfers	-	-	-	946	(946)	-
Amortisation	(400)	-	-	(108)	-	(508)
Closing net book value	**2,009**	**-**	**4,192**	**912**	**1,067**	**8,180**
As at 30 June 2023						
Cost	3,761	-	4,192	1,037	1,067	10,057
Accumulated amortisation and impairment	(1,752)	-	-	(125)	-	(1,877)
Closing net book value	**2,009**	**-**	**4,192**	**912**	**1,067**	**8,180**
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 PROVISIONS

Reconciliation of movement in provisions	Discount remediations $000	Restructuring provision $000	Total $000
Opening balance as at 1 July 2022	-	-	-
Provision made during the period	494	79	573
Provision used during the period	(377)	-	(377)
Closing balance as at 30 June 2023	117	79	196
Current	117	79	196
Total	**117**	**79**	**196**

The Company recognises provisions when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is recognised in the statement of comprehensive income.

Provision for discount remediations has been made to reflect the estimated costs associated with refunding certain of the Company's policyholders. Management has made best estimates around the impact to the premiums charged to the affected policyholders and the time value of money. It is possible that the final cost could differ from the provision if additional facts emerge over the remediation process.

A restructuring provision of $79k relating to expected employee termination costs has been recognised.

The discount remediations and restructuring provisions are expected to be used within the next 12 months.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 30 June 2023

15 LEASES

a. Right-of-use assets	Motor vehicles $000	Total $000
As at 1 July 2022		
Cost	-	-
Accumulated depreciation	-	-
Opening net book value	**-**	**-**
Additions	71	71
Disposal - cost	(71)	(71)
Disposal - accumulated amortisation	16	16
Depreciation	(16)	(16)
Closing net book value	**-**	**-**
As at 30 June 2023		
Cost	-	-
Accumulated depreciation	-	-
Closing net book value	**-**	**-**

b. Lease liabilities	Motor vehicles	Total
As at 1 July 2022		
Opening net book value	**-**	**-**
Additions	71	71
Disposals	(56)	(56)
Interest expense	3	3
Lease payments	(18)	(18)
Closing net book value	**-**	**-**

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the fixed lease payments, less any lease incentives.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate ("IBR") is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

The Company entered into an agreement to lease 2 motor vehicles for a 45 months lease term, commencing 1 September 2022. The Company has determined the applicable IBR to be 5.3%. On 27 June 2023, the Company terminated the lease agreement early as these motor vehicles were not fit for purpose. The early termination is disclosed as disposals and a termination fee of $20k was charged to the Company.

16 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 ("Healthcare")	100% subsidiary of Trust	30 June
• Directors of Southern Cross Medical Care Society	Directors of Parent	30 June

The Company and its related parties are separate legal entities. All entities provide their normal services to other group entities on normal commercial terms. However, some goods and services are purchased by the entities 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 tax loss offsets between 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 2023 (30 June 2022: Nil).

	Note	2023 $000	2022 $000
Total amount of transactions with Society			
Purchase of services	7	11,443	8,894
Share capital cancellation	17	-	2,500
Share capital issue	17	2,500	-
Dividends paid	17	800	750
Total outstanding balances with Society			
Payables	11	1,130	975

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 30 June 2023

16 RELATED PARTIES (continued)

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
There were no tax loss offsets between the Company and the subsidiaries of Society (30 June 2022: $1,324,000).

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.

Some directors may hold pet insurance policies with the Company and/or medical insurance policies with the Society. Premiums on these policies may be discounted in line with standard discounts available to all Society personnel.

Director	Remuneration for Board and Audit & Risk Committee
Actual directors' remuneration paid by the Company for the year ended 30 June 2023 was as follows:	
N J Astwick	-
M J Gardiner	23,750
	Audit & Risk Committee Chair
M L James	37,500
	Board Chair
J M Raue[1]	2,527
C J Black[1]	17,473
Total	81,250

[1]During the year ended 30 June 2023, J M Raue retired as Director; and C J Black was appointed as Director.

Director	Remuneration for Board and Audit & Risk Committee
Actual directors' remuneration paid by the Company for the year ended 30 June 2022 was as follows:	
N J Astwick	-
M J Gardiner	17,500
	Audit & Risk Committee Chair
M L James	25,000
	Board Chair
J M Raue	15,000
Total	57,500

c. Remuneration of personnel

The Company has no direct employees. Society's 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 2023

17 SHARE CAPITAL

Share capital comprises 15,000,100 authorised, issued and fully paid $1.00 ordinary shares (30 June 2022: 12,500,100). All ordinary shares have equal voting rights, and share equally in dividends and surplus on winding up.

The Company has paid a dividend of $0.8 million on 12,500,100 ordinary shares (at 6.4 cents per share) in November 2022 (30 June 2022: $0.75 million) before an additional 2,500,000 shares were issued by the Company on 26 June 2023.

During the year ended 30 June 2022, 2,500,000 shares were cancelled by the Company.

18 CONTINGENCIES AND SUBSEQUENT EVENTS

a Contingent liabilities

The Company from time to time may incur obligations arising from contracts entered into in the normal course of business. A contingent liability is disclosed where a legal or constructive obligation is possible, but not probable, or where the obligation is probable, but the financial impact of the event is unable to be reliably estimated. If an obligation becomes probable and can be reliably estimated, a provision is recognised.

The Company has been in communication with the Financial Markets Authority (FMA) in relation to discount remediations. As at 30 June 2023 there are no known contingent liabilities (30 June 2022: nil).

b Subsequent events

There were no events subsequent to the reporting period which materially affects the financial statements (30 June 2022: nil).

Independent auditor's report

To the shareholder of Southern Cross Pet Insurance Limited

Report on the audit of the financial statements

Opinion

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

- the statement of financial position as at 30 June 2023;
- the statements of comprehensive income, changes in equity and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies.

In our opinion, the financial statements on pages 2 to 19 present fairly, in all material respects, the financial position as at 30 June 2023 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 issued by the New Zealand Accounting Standards Board.

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 $268,000 determined with reference to a benchmark of Company's net assets. We chose the benchmark because, in our view, this is a key measure of the Company's solvency and its ability to pay claims which is a primary area of focus for users of the financial statements.

KPMG

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 members 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 liabilities	

Refer to Note 3 to the financial statements.
 	
Valuation of the Company's provision for outstanding claims requires significant judgement from management and the Company's externally appointed actuarial specialists.
	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 2023, 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; and
	
	    – performing a hindsight analysis to assess actual versus expected claims experience during the year ended 30 June 2023 in relation to claims incurred pre 30 June 2022.
	
	– Performing a review on claims development post 30 June 2023 to assess adequacy of the outstanding claims provision as at 30 June 2023.
	
	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 Company's financial statements. Other information includes 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 members as a body. Our audit work has been undertaken so that we might state to the members 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 members 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 issued by the New Zealand Accounting Standards Board;
- implementing necessary internal control to enable the preparation of a set of financial statements that is 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

18 September 2023

18 September 2023

The Directors
Southern Cross Pet Insurance Limited
Auckland

Dear Directors

Review of Actuarial Information Contained in Financial Statements as at 30 June 2023

Finity Consulting Pty Limited (Finity) has been asked by Southern Cross Pet Insurance Limited (SCPI) to carry out a review of the 30 June 2023 Actuarial Information contained in the financial statements and used in their preparation and to provide an opinion as to the appropriateness of this information. Anagha Pasche 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 2023 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 2023 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

Anagha Pasche (Appointed Actuary)
Fellow of the New Zealand Society of Actuaries

John Smeed
Fellow of the New Zealand Society of Actuaries

Sam Cosgriff
Fellow of the Institute of Actuaries of Australia

Sydney Level 7, 68 Harrington Street, The Rocks, NSW 2000 T +61 2 8252 3300

Melbourne Level 23, 55 Collins Street Melbourne, VIC 3000 T +61 3 8080 0900

Auckland Level 5, 79 Queen Street, Auckland, NZ 1010 T +64 9 306 7700