NorthStandard Limited (previously the North of England Protecting and indemnity association)

New Zealand Branch

Financial Statements

20th FEBRUARY 2023

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INDEPENDENT AUDITOR'S REPORT
TO THE NORTHSTANDARD LIMITED, NEW ZEALAND BRANCH

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Northstandard Limited, New Zealand Branch ("the Branch"), which comprise the statement of financial position as at 20 February 2023 and the statement of comprehensive income, statement of changes in head office account and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Branch as at 20 February 2023 and its financial performance and its cash flows for the year then ended in accordance with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ("ISAs (NZ)"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Branch in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, North Standard Limited or its' New Zealand Branch.

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 of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	*How the matter was addressed in our audit*
Valuation and cut off of technical provisions and reinsurer's share of technical provisions: The Branch's technical provisions for claims outstanding of $2.8m include within provision for claims incurred but not reported amounting to $1.02m. These are disclosed in note 10.	Our procedures included but were not limited to: • Reconciliation of the values disclosed in the financial statements to the externally produced actuarial report;

This is considered a key audit matter given the the valuation of these is highly judgmental and require management to adopt a number of assumptions, which are inherently subjective.	• Engaging an actuarial auditors expert to perform procedures on the appropriateness of the methodologies and key assumptions used in the reserving process; • Evaluation of the managements acturial expert used to ensure independence and objectivity of the branch's actuary in assessing management's reliance upon their expert valuation services; and • Reviewing the disclosure in the financial statements to ensure its compliance with NZ IFRS 4 *Insurance Contracts.*

Other Information

The directors are responsible for the other information. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. 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.

Directors' Responsibilities for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at: https://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/audit-report-2/.

This description forms part of our auditor's report.

Report on Other Legal and Regulatory Requirements

Who we Report to

This report is made solely to the Branch's members, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Branch and the Branch's members, as a body, for our audit work, for this report or for the opinions we have formed.

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

BDO

BDO Audit Pty Ltd

Sydney

Australia

7 July 2023

ANNUAL REPORT

The Board of Directors is pleased to present the financial statements of its New Zealand branch for the year ended 20th February 2023 and the auditor’s report thereon.

In the Directors’ opinion, the financial statements and notes set out on pages 2 to 21:

a) comply with New Zealand generally accepted accounting practice and give a true and fair view of the financial position of the branch as at 20 February 2023 and the results of operations of the period ended on that date.

b) have been prepared using the appropriate accounting policies, which have been consistently applied and supported by reasonable judgements and estimates.

The Directors believe that proper accounting reports have been kept which enable, with reasonable accuracy, the determination of the financial position of the branch and facilitate compliance of the financial statements with the Financial Reporting Act 2013 and the Companies Act 1993. There are reasonable grounds to believe that, as at the time this statement is made, the branch will be able to pay all debtors or claims as and when they are due.

Signed in Newcastle upon Tyne on 23 June 2023 for and on behalf of the Board of Directors:

Paul Jennings
Director

7 July, 2023

Jeremy Grose
Director

7 July, 2023

STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 20 Feb 23 $NZ	Year ended 20 Feb 22 $NZ
Income			
Gross premium written		10,513,969	11,760,316
Gross premium ceded to reinsurers		(9,025,314)	(10,754,456)
Net premium income		1,488,655	1,005,860
Change in provision for unearned premium		476,699	(231,462)
Reinsurers' share of change in unearned premium		(353,118)	468,760
Change in the net provision for unearned premium		123,581	237,298
		1,612,236	1,243,158
Reinsurance commission		2,091,652	2,288,272
Investment income	4(b)	69,203	7,641
Total operating income		3,773,091	3,539,071
Expenses			
Change in claims provision net of reinsurance	4(a),6	(275,129)	(978,742)
Underwriting expenses	4(a)	(543,844)	(536,888)
Administration expenses	4(c)	(1,926,771)	(1,341,271)
Forex loss	4(d)	(1,830,866)	(1,467,213)
Total expenses		(4,576,610)	(4,324,114)
Operating loss before tax		(803,519)	(785,043)
Income tax expense	9	3,370	(40,936)
Loss from operating activities after tax		(800,149)	(825,979)
Other comprehensive income			
OCI to be reclassified to profit or loss in subsequent periods			
Exchange gains		765,542	833,832
Total comprehensive income		**(34,607)**	**7,853**

The Statement of Comprehensive Income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 6 to 21.

STATEMENT OF CHANGES IN HEAD OFFICE ACCOUNT

	Note	Year ended 20 Feb 23 $NZ	Year ended 20 Feb 22 $NZ
HEAD OFFICE ACCOUNT			
Head office account at the beginning of the year		12,173,273	12,165,420
Total comprehensive (loss) / income		(34,607)	7,853
Head office account at the end of the year		12,138,666	12,173,273

Movements in the head office account in the period reflect the results of the branch for the year.

Included within the Head office account is the Foreign Currency translation reserve, which at 20 February 2023 is $1,599,374 (2022: $833,832). The Statement of Changes in Head Office Account is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 6 to 21.

STATEMENT OF FINANCIAL POSITION

	Note	As at 20 Feb 23 $NZ	As at 20 Feb 22 $NZ
Non-current assets			
Property, plant and equipment	8	54,255	64,453
Total non-current assets		54,255	64,453
Current assets			
Provision for unearned reinsurance premium		5,432,594	5,789,529
Recoveries outstanding		2,561,000	9,339,000
Deferred acquisition costs		295,516	256,098
Debtors due from policyholders		2,498,960	2,326,165
Debtors due from reinsurers		89,591	75,819
Other debtors	14	15,554,690	13,325,658
Direct tax debtor	9	42,599	65,344
Short term bank deposits		9,786,955	1,751,135
Cash on hand		5,584,853	12,681,772
Total current assets		41,846,758	45,610,520
Total assets		**41,901,013**	**45,674,973**
Current liabilities			
Provision for unearned premium		6,052,060	6,528,759
Claims outstanding	10	2,847,000	9,714,000
Provision for unearned reinsurance commission		1,217,979	1,268,150
Reinsurance payables		13,549,243	12,244,740
Current tax payable	9	-	-
Trade and other payables	14	6,096,065	3,746,052
Total current liabilities		29,762,347	33,501,700
Total liabilities		29,762,347	33,501,700
Head office account		12,138,666	12,173,273
Total liabilities and head office account		**41,901,013**	**45,674,973**

The Statement of Financial Position is to be read in conjunction with the notes to the financial statements set out on pages 6 to 21.

STATEMENT OF CASHFLOWS

	Year ended 20 Feb 23 $NZ	Year ended 20 Feb 22 $NZ
Cash flows provided by operating activities:		
Operating (loss) / profit before taxation	(37,977)	48,789
Tax paid	-	(543,666)
Tax refunds	26,115	14,076
Resident Withholding Tax	-	(3,218)
Changes in non-cash operating accounts:		
Provision for unearned reinsurance premium	356,935	(212,891)
Recoveries outstanding	6,778,000	(7,972,644)
Deferred acquisition costs	(39,418)	12,364
Debtors due from policyholders	(172,795)	57,699
Debtors due from reinsurers	(13,772)	7,122,998
Other debtors	(2,229,032)	(673)
Provision for unearned premium	(476,699)	184,002
Claims outstanding	(6,867,000)	8,143,136
Provision for unearned reinsurance commission	(50,171)	(15,510)
Reinsurance payables	1,304,503	(3,108,702)
Depreciation expense	16,093	15,262
Trade and other payables	2,350,014	(4,735,077)
	944,796	**(994,055)**
Cash flow from in investing activities:		
Purchase of fixed assets	(5,895)	-
Cash flows provided by financing activities:		
From Head Office	-	-
Increase / (decrease) in cash and cash equivalents	938,901	(994,055)
Cash and cash equivalents, beginning of the period	14,432,907	15,426,962
Cash and cash equivalents, end of the period	15,371,808	14,432,907
Cash and cash equivalents consist of:		
Short term bank deposits	9,786,955	1,751,135
Cash on hand	5,584,853	12,681,772
Total Cash and cash equivalents	**15,371,808**	**14,432,907**

The Statement of Cashflows is to be read in conjunction with the notes to the financial statements set out on pages 6 to 21.

NOTES TO THE FINANCIAL STATEMENTS

1) Summary of significant accounting policies

NorthStandard Limited - New Zealand branch ("the branch") is registered to carry on inward insurance business in New Zealand for a foreign company. The branch's principal activity is general insurance.

The financial statements were authorised for issue by the directors on 23 June 2023.

a) Reporting entity

The branch is a company registered under the Companies Act 1993. These are the financial statements of the branch. The financial statements of the branch have been prepared in accordance with New Zealand International Financial Reporting Standards (NZ IFRS).

The company is registered under the Financial Markets Conduct Act 2013 and the financial statements comply with this Act. The branch is a reporting entity for the purposes of the Financial Reporting Act 2013 ("the Act") and its financial statements comply with that Act.

The financial statements comprise the following: Statement of Comprehensive Income, Statement of Changes in Head Office Account, Statement of Financial Position and Statement of Cash Flows as well as the notes to the financial statements contained on pages 6 to 21 of this annual report. The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand and on the basis of historical cost. The Company has taken exemption under S211(3) of the Companies Act 1993 to not present annual report disclosures required by the Companies Act 1993 S211 and S208(1)c.

b) Statement of compliance

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards as appropriate to profit generating entities. The branch is a profit-oriented entity. They also comply with International Financial Reporting Standards (IFRS).

c) Basis of preparation

The financial statements of the branch have been prepared in New Zealand Dollars. The functional currency of the branch is US Dollars. The foreign currency translation difference arising on the translation of functional to presentational currency is shown through other comprehensive income and is recorded through the Head Office Account.

The branch year end is 20 February, which is the year end of the Parent company and is common to the P&I Club market in which Northstandard operates.

The financial statements have been prepared under the historical cost convention unless otherwise stated below.

The accounting policies set out below have been applied consistently by the branch to all periods presented in the financial statements.

d) Premium income

Premiums written are accounted for in the year in which the risk commences. Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned premiums are calculated on a daily pro rata basis. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1) Summary of significant accounting policies (continued)

e) Financial instruments

Financial assets and financial liabilities are recognised when the Branch becomes a party to the contractual provisions of the financial instrument.
A financial asset or financial liability is initially measured at fair value plus transaction costs that are directly attributable to its acquisition or issue, for an item not at fair value through surplus or deficit. At initial recognition, short-term receivables and payables are measured at the original invoice amount where the effect of discounting is immaterial.

The Branch derecognises a financial asset or, where applicable, part of a financial asset or part of a group of similar financial assets, when the rights to receive cash flows from the asset have expired, or are waived, or the Branch has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full, without material delay, to a third party; and either:
- the Branch has transferred substantially all the risks and rewards of the asset; or
- the Branch has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

(i) Financial assets

On initial recognition, a financial asset is classified as measured at:

• Amortised cost;
• Fair value through income or expense (FVIE) – debt investment and equity investment; or
• Fair value through other comprehensive income (FVOCI)

Financial assets are not reclassified subsequent to their initial recognition unless the Branch changes its management model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the management model. A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVOCI:

• it is held within a management model whose objective is to hold assets to collect contractual cash flows; and
• its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The categorisation determines subsequent measurement and whether any resulting revenue and expense is recognised in the surplus or deficit, or in other comprehensive revenue and expense. The Branch's financial assets include cash and cash equivalents, and receivables from exchange transactions.

All financial assets, except for those at fair value through surplus or deficit, are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset, or group of financial assets, is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

Financial assets at amortised cost

Financial assets at amortised cost arise principally from exchange transactions (receivables from exchange transactions) but also incorporate other types of financial assets where the objective is to hold these assets in order to collect contractual cash flows and the contractual cash flows are solely payments of principal and interest (including cash and cash equivalents). They are initially recognised at fair value and are subsequently carried at amortised cost using the effective interest rate method, less any provision for impairment.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1) Summary of significant accounting policies (continued)

Impairment provisions for receivables from exchange transactions are recognised , using a provision matrix in the determination of the lifetime expected credit losses.

During this process the probability of the non-payment of the receivables is assessed. This probability is then multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss for the trade receivables.

For receivables, which are reported net, such provisions are recorded in a separate provision account with the loss being recognised in surplus or deficit. On confirmation that the receivable will not be collectable, the gross carrying value of the asset is written-off against the associated provision.

(ii) Financial liabilities

The Branch's financial liabilities include trade and other creditors.
All financial liabilities are initially recognised at fair value (plus transaction cost for financial liabilities not at fair value through profit or loss) and are measured subsequently at amortised cost using the effective interest method except for financial liabilities at fair value through surplus or deficit.

h) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held on call with banks, other short-term highly liquid investments with original maturities of three months or less, and, for the purposes of the cash flow statement only, bank overdrafts. For the purposes of reporting cash flows, cash and cash equivalents includes cash at bank and short-term deposits.

i) Leases

The branch assesses whether contracts entered into constitute a lease. A contract is, or contains a lease, if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the company used the definition of a lease in IFRS16 Leases.
The branch recognises a right-of-use asset and a lease liability at the commencement of the lease. The right-of-use asset is initially measured at cost and subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, and subsequently at amortised cost using the effective interest method.

In calculating the present value of the lease payments in order to determine the lease liability, the branch has used the Group incremental borrowing rate at the lease commencement date, if the interest rate implicit in the lease is not readily determinable. Generally, the Group has used its incremental borrowing rate of 1.85%. Judgement has been required in order to arrive at this rate, as the Group has no external borrowings this rate has been derived with reference to yields on US Corporate Bonds.

j) Income tax

Where the different treatment of certain items for taxation and accounting purposes results in an obligation to pay more or a right to pay less tax in the future deferred tax is recognised in respect of such temporary differences that have originated but not reversed at the statement of financial position date with certain limited exceptions. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred taxation is calculated on an undiscounted

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1) Summary of significant accounting policies (continued)

basis at the tax rates that are expected to apply in the periods in which the temporary differences are expected to reverse, based on tax rates and laws enacted or substantively enacted at the statement of financial position date.

k) Goods and services tax

Revenues and expenses are stated net of goods and services tax (GST). Trade receivables and trade payables are stated inclusive of GST to the extent that GST is recoverable or payable.

l) Foreign currency

The functional currency of the branch changed in the prior year from New Zealand Dollars to United States Dollars following changes to the group structure over recent years. The Directors determined the most appropriate functional currency of the Branch to be United Stated Dollars based on the primary economic influences of the Branch. The presentational currency remains as New Zealand dollars as this currency is determined to be most useful to users of these financial statements.
The income and expenses of the branch are translated into New Zealand Dollars at the exchange rate ruling at the date of the transactions when practical or at an average rate for the period in which the transaction arose. The assets, liabilities and net assets brought forward of the branch are translated into New Zealand dollars at the rate of exchange prevailing at the reporting date and the resulting exchange differences are recognised in the income statement or other comprehensive income in line with the relevant accounting standard.

m) Claims

Claims expense and liability for outstanding claims are recognised in respect of direct business. The liability covers claims reported and outstanding, incurred but not reported claims ("IBNR") and the anticipated direct and indirect costs of settling those claims. Claims outstanding are assessed by review of individual claim files and estimating the ultimate cost of settling claims which includes IBNR claims and settlement costs using statistics based on experience and trends.

n) Acquisition costs

A portion of acquisition costs relating to unearned premium revenue is recognised as an asset in recognition that it represents a future benefit. Deferred acquisition costs are amortised over the financial years expected to benefit from the expenditure and are stated at the lower of cost and recoverable value.

o) Reinsurance premiums and recoveries and related commissions

Premiums ceded to reinsurers and related commissions are recognised as an expense in accordance with the pattern of reinsurance service received. Amounts recoverable under reinsurance agreements purchased by NorthStandard are accrued to match the relevant gross claims and associated provisions and reserves upon which North is entitled to make recoveries.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2) Summary of significant estimates and assumptions

a) Actuarial methods

Provision is made at the end of each period for the estimated gross cost of claims incurred but not settled at balance date, together with anticipated reinsurance recoveries thereon.

The resulting net reserves include estimates for claims that have been reported (IBNR), claims that have been incurred but not enough reported (IBNER) and estimate of expenses associated with processing and settling these claims.

The process of establishing reserves is subject to considerable variability as it requires the use of informed estimates and judgements. These estimates and judgements are based on numerous factors and may be revised as additional experience and other data become available or as regulations change.

The gross and net outstanding claims provision is estimated by class of business. Historical experience and other statistical information are used to estimate the ultimate claim costs. To determine the outstanding claims provision for a particular line of business, more than one method may be used to estimate ultimate losses and loss expenses and thus selecting a single point estimate. These methods may include but are not necessarily limited to; extrapolations of historical reported and paid loss data, application of industry loss development patterns to the reported or paid losses, expected loss ratios developed by management, or historical industry loss ratios. Underlying judgements and assumptions that may be incorporated into these actuarial results include, but are not necessarily limited to, adjustments to historical data used in models to exclude aberrations in claims data such as catastrophes that are typically analysed separately, adjustments to actuarial models and related data for known business changes, such as changes in claims covered under insurance contracts or a change to the reinsurance programme, and the effect of recent or pending litigation on future claims settlements.

The reserves as at 20 February 2023 were valued by Win-Li Toh FIAA who was satisfied as to the nature, sufficiency and accuracy of the data provided.

3) Newly adopted standards, and standards issued but not yet effective

At the date of authorisation of these financial statements, the following standards and amendments were in issue but have not been applied in these financial statements because they are not yet effective:

- NZ IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts
- Amendments to NZ IAS 8 Definition of accounting estimates.
- Amendments to NZ IAS 1 and NZ IFRS Practice Statement 2
- Amendments to NZ IAS 12 Deferred tax related to assets and liabilities arising from a single transaction.

Other than NZ IFRS 17 Insurance Contracts, none of the other future standards and amendments are expected to have a material effect on the branch's financial statements.

NZ IFRS 17 Insurance Contracts is effective for accounting periods beginning on or after 1 January 2023, and hence will be applied in the financial statements for the first time for the year ending 20 February 2024. The adoption of NZ IFRS 17 is expected to result in a number of significant changes to the financial statements of the branch, particularly in terms of the presentation of the effects of insurance contracts on the Statement of Comprehensive Income and Statement of Financial Position.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4) Operating results

		Year ended 20 Feb 23 $NZ	Year ended 20 Feb 22 $NZ
a)	**Underwriting result**		
	Revenue		
	Gross premium written	10,513,969	11,760,316
	Decrease / (increase) in unearned premium	476,699	(231,462)
	Gross premium earned	10,990,668	11,528,854
	Reinsurance premium incurred	(9,378,432)	(10,285,696)
	Reinsurance commission	2,091,652	2,288,272
	Net premium	**3,703,888**	**3,531,430**
	Claims expense		
	Claims paid	(6,354,268)	(3,764,576)
	Claims settlement expenses	(57,738)	(198,735)
	Decrease / (increase) in claims outstanding	6,851,842	(8,039,899)
	Reinsurance recoveries	(714,965)	11,024,468
	Total claims expense	**(275,129)**	**(978,742)**
	Underwriting expenses		
	Agency costs	(524,552)	(512,602)
	Other acquisition costs	(19,292)	(24,286)
	Total underwriting expenses	**(543,844)**	**(536,888)**
	Underwriting result	**2,884,915**	**2,015,801**
b)	**Investment income**		
	Interest	69,203	7,641
c)	**Administration costs**		
	Marketing and administration expenses	(1,926,771)	(1,341,271)
	Total Administration costs	**(1,926,771)**	**(1,341,271)**

d) Forex loss

This relates entirely to foreign exchange. The functional currency of the branch is United States Dollars and the presentational currency of the branch is New Zealand Dollars. The assets and liabilities of the branch are recorded in the currency of the contract and translated into New Zealand dollars at the rate of exchange prevailing at the reporting date and the resulting exchange differences are recognised in the income statement.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5) Auditor's remuneration

	Year ended 20 Feb 23 $NZ	Year ended 20 Feb 22 $NZ
Audit fees payable for the audit of the branch financial statements	(39,226)	(18,528)
Total Auditor's remuneration	**(39,226)**	**(18,528)**

6) a) Net claims expense

Current

Gross claims incurred	497,574	(11,804,475)
Reinsurance and other recoveries	(714,965)	11,024,468
Claims expenses	(217,391)	(780,007)
Claims settlement expenses	(57,738)	(198,735)
Net claims expense	(275,129)	(978,742)

b) Net claims expense

	Current Year $NZ	Prior Years $NZ	20 Feb 23 $NZ	20 Feb 22 $NZ
Gross claims incurred and related expenses - undiscounted	(1,594,134)	1,951,970	357,836	(12,115,210)
Reinsurance and other recoveries - undiscounted	1,029,886	(1,668,851)	(638,965)	11,132,468
Net claims incurred - undiscounted	(564,248)	283,119	(281,129)	(982,742)
Discount and discount movement				
gross claims incurred	82,000	-	82,000	112,000
reinsurance recoveries	(76,000)	-	(76,000)	(108,000)
Net discount movement	6,000	-	6,000	4,000
	(440,672)	**165,543**	**(275,129)**	**(978,742)**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7) Financial Assets

a) Fair value hierarchy

Fair value hierarchy	Level 1	Level 2	Level 3	Fair Value
At 20 February 2023				
Cash & deposits	15,371,808	-	-	15,371,808
	15,371,808	**-**	**-**	**15,371,808**
At 20 February 2022				
Cash & deposits	14,432,908	-	-	14,432,908
	14,432,908	**-**	**-**	**14,432,908**

Level 1 consists of financial assets that are valued according to published quotes in an active market. A financial asset is regarded as quoted in an active market if quoted prices are readily available from a broker, dealer, exchange, pricing service, industry group or regulatory agency. Level 2 assets are similar to level 1, but the pricing of those assets has not been determined in an active market. Level 3 financial assets are assets for which a value cannot be obtained from observable data.

The level of a financial asset or liability in the fair value hierarchy is determined at the reporting date, and any transfers between levels are deemed to have occurred at the reporting date.

b) Categories of financial assets and financial liabilities

	2023 **$**	**2022** **$**
Financial assets at fair value through profit or loss	Nil	Nil
Financial liabilities at fair value through profit or loss	Nil	Nil
Financial assets at amortised cost	18,185,840	15,792,086
Financial liabilities at amortised cost	22,492,308	25,704,792

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8) Fixed Assets

	20 Feb 23 $NZ	20 Feb 22 $NZ
Net Book Value		
At beginning of period	64,453	79,715
Additions in the year	5,895	-
Depreciation charge	(16,093)	(15,262)
At 20 February	54,255	64,453

Included in the above is a right of use asset, with remaining value of $43k (2022: $57.9k).

9) Income tax

a) Income tax expense	Year ended 20 Feb 23 $NZ	Year ended 20 Feb 22 $NZ
Income tax on taxable profit for the year	-	46,059
Total current taxes	-	46,059
Income tax expense	-	46,059

b)

Loss from operating activities before income tax	(803,519)	(785,043)
Prima facie income tax receivable (28%)	(224,985)	(219,812)
Tax effects of: -		
Non-taxable income	(59,442)	(29,551)
Non-deductible expenses	70,795	61,949
Tax losses b/fwd	-	-
Deferred tax asset not recognised	213,632	233,473
Current income tax expense	-	46,059

C) Income tax payable

Opening balance	(65,344)	428,306
Tax charge current year	-	46,059
Current year RWT on Interest Credit	-	(2,119)
Prior year RWT on Interest Credit	-	(2,876)
Credit from prior year	(3,370)	(5,494)
Interest paid on prior year	-	371
Refunds / (payments)	26,115	(529,591)
Closing balance (receivable)/payable	(42,599)	(65,344)

10) Outstanding Claims

a) Outstanding claims liability	20 Feb 23 $NZ	20 Feb 22 $NZ
Outstanding claims (gross)	(2,275,621)	(8,010,902)
Claims handling cost	(33,379)	(103,098)
Risk margin	(538,000)	(1,600,000)
Total outstanding claims liability - discounted	**(2,847,000)**	**(9,714,000)**

Outstanding claims	Current $NZ	Non-current $NZ	20 Feb 23 $NZ	20 Feb 22 $NZ
Claims outstanding	(2,323,000)	(524,000)	(2,847,000)	(9,714,000)
Recoveries outstanding	2,085,000	476,000	2,561,000	9,339,000
Net claims outstanding	(238,000)	(48,000)	(286,000)	(375,000)

b) Risk margins

Incurred but not reported claims are initially calculated on a best estimate basis, and a risk margin of 23.3% for hull, P&I and aquaculture is applied in order to achieve the probability of adequacy at a minimum confidence level of 75%. These risk margins are based on 2022/23's actuarial report. Similar risk margins were applied in the previous period.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

c) Liability adequacy test

The liability adequacy test has been conducted using the central estimate of present value of expected future cash flows and has identified a surplus.

	20 Feb 23 $NZ	20 Feb 22 $NZ
Central estimate of the present value of expected future cash flows	(1,541,929)	(1,751,282)

Liability adequacy has been reviewed at a branch level and failure in liability adequacy is not envisaged.

The principal risk the branch faces under insurance contracts is that actual claims payments or the timing thereof, differ from expectations. This is influenced by the frequency and severity of claims and the subsequent development of long-tailed claims. The objective of the branch is to ensure that sufficient technical provisions are available to cover these liabilities.

This risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is also reduced by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

11) Contingencies

The branch has no known contingent liabilities or contingent assets at the reporting date.

12) Commitments

a) Capital commitments

There have been no capital commitments contracted for at the reporting date that have not been recognised as a liability.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

b) Lease commitments

The branch is entered into a lease agreement for the office which expires on 31st May, 2026.

The branch assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The branch reassesses whether it is reasonably certain to exercise the options if there are significant changes in circumstances within its control.

i) Right-of-use assets
Right-of-use-assets related to leased assets are presented within fixed assets.

	Land and Buildings 20 Feb 23 $NZ	**Land and Buildings 20 Feb 22 $NZ**
Balance at 21 February	63,036	78,297
Depreciation charge for year	(14,914)	(15,261)
Closing balance	**48,122**	**63,036**

ii) **Amounts to be recognised in profit or loss**

	2023 $NZ	**2022 $NZ**
Interest on lease liabilities	1,209	1,512
Depreciation charge for year	14,914	15,261
Total expense in year	**16,123**	**16,773**

iii) **Amounts recognised in statement of cash flows**

	2023 $NZ	**2022 $NZ**
Total cash outflow for leases	19,800	20,700

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12) Commitments (continued)

iv) **Maturity analysis of lease liabilities**

	Land and Buildings 20 Feb 23 $NZ
Maturity analysis – contractual undiscounted cash flows	
Less than one year	15,065
One to five years	35,149
Balance at 20 February 2023	**50,214**

13) Events occurring after the statement of financial position date

Subsequent Events are events or transactions that occur after the Statement of Financial Position date but before the financial statements were issued that provide additional evidence about conditions that existed at the date of the Statement of Financial Position. Immediately following the year end, The North of England Protecting and Indemnity Association Limited merged with The Standard Club Limited to form the NorthStandard Group. The North of England Protecting and Indemnity Association Limited changed its name to NorthStandard Limited with effect from 20 February 2023. The merger has no impact on the carrying value of assets and liabilities reported in these financial statements.

14) Related party transactions

At 20 February 2023, the ultimate controlling party of the branch was NorthStandard Limited (previously The North of England Protecting and Indemnity Association Limited) (NorthStandard).

Transactions with related parties

Transactions with related parties during the period include the branch's participation in global reinsurance programmes together with NorthStandard and subsidiaries within the Group that NorthStandard controls. The cost of participating in such programmes is re-charged to the branch. Recharges are also made by companies within the Group for services performed on behalf of the branch.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14) Related party transactions (continued)

Transactions with related parties during the year are as follows:	**Year ended 20 Feb 23 $NZ**	**Year ended 20 Feb 22 $NZ**
a) Statement of comprehensive income		
Transactions with NorthStandard:		
Reinsurance recoveries	-	(4)
Administration expenses (Recharges)	(716,866)	(681,776)
b) Statement of financial position		
Balances with NorthStandard:		
Reinsurance payables	-	41
Other debtors	15,473,851	13,304,869
Other payables	(5,473,103)	(3,254,084)

All balances are with the parent entity, are payable on demand and do not attract interest payable or receivable.

15) Credit rating

Standard and Poor's have assigned an 'A' rating to the NorthStandard Group as a whole.

16) Risk management

The branch's management of insurance risk and financial risk is a critical aspect of the business. The branch has exposure to the following risks from its use of financial instruments and its insurance contracts:

- Insurance risk
- Credit risk
- Liquidity risk
- Market risk

This note presents information about the branch's exposure to each of the above risks, the objectives and policies and processes for measuring and managing risk

a) Risk management framework

i) Governance framework

The primary objective of the risk management framework is to protect the policyholders from events that hinder the achievement of financial performance objectives. A policy framework, put in place at the Company level, sets out the risk profiled for the branch and the Board regularly approves the Company's risk management policies.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16) Risk management (continued)

ii) Regulatory framework

One of the objectives of the Company's primary regulator the Reserve Bank of New Zealand is to protect the rights of the policyholders. The regulator monitors the Company closely to ensure that it is satisfactorily managing its affairs for the policyholders' benefit. At the same time the regulator is also interested in ensuring that the Company maintains an appropriate solvency position to meet unforeseen liabilities.

The operations of the branch are also subject to regulatory requirements. Such regulations not only prescribe approval and monitoring activities but also impose certain requirements, such as capital adequacy, to minimize the risk of default and insolvency.

iii) Asset or liability management framework

The branch has limited exposure to risks arising from movements in interest rates and other prices which are exposed to general and specific market movements. The principal technique used by the branch is to ensure that there is sufficient cash flow available to meet liabilities as they fall due.

Specific risks that the branch is exposed to, and how they are managed, are explained below.

b) Insurance risk

The branch issues contracts that transfer significant insurance risk. This section outlines the specific insurance related risks the branch is exposed to and how these are managed.

i) Underwriting risk

Underwriting risk is the risk that the total cost of claims, claims adjustment expenses and premium acquisition expenses will exceed the premiums received. This can arise as a result of numerous factors, including pricing risk, reserving risk and catastrophe risk.

Pricing risk arises because actual claims experience can differ adversely from the assumptions included in pricing calculations. Reserving risk arises because actual claims can differ adversely from the assumptions included in setting reserves. Catastrophe risk is the risk that a single event or series of events, of major magnitude leads to a significant deviation in actual claims from the total expected claims.

Underwriting risk will be influenced by the frequency of claims, severity of claims, and subsequent development of long-tail claims. The objective of the branch is to ensure that sufficient insurance contract provisions are available to cover these liabilities.

Strict claim review handling policies to assess all new and on-going claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the insurance risk exposure of the branch.

The branch further enforces a policy of actively managing claims in order to reduce its exposure to unpredictable future developments that can adversely impact the branch.

ii) Concentration risk

This risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is also reduced by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements. This serves to reduce the exposure to concentration risk, the risk of exposure to increased losses associated with inadequately diversified portfolios or assets and/or obligations.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16) Risk management (continued)

iii) Reinsurance risk

The branch reinsures a portion of the risks it writes in order to control its exposure to losses (including catastrophic losses) and protect capital resources. The branch buys a combination of proportional and non-proportional reinsurance to reduce the net exposure of the branch on any one risk. Amounts recoverable from reinsurers are estimated in a manner consistent with the provision for unpaid claims and are in accordance with the reinsurance contracts.

Although the branch has reinsurance arrangements, it is not relieved of its direct obligation to its policyholders and thus a credit risk exposure exists with respect to ceded insurance to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. The branch's placement of reinsurance is diversified such that it is not dependent on a single reinsurer.

c) Credit risk

Credit risk is the risk of financial loss to the branch if a customer or counterparty to a financial instrument fails to meet its contractual obligations. It arises principally from reinsurance receivables, direct insurance receivables, and investments. The following policies and procedures are in place to mitigate the branch's exposure to credit risk.

i) Reinsurance receivables

Reinsurance is only placed with counterparties that have a good credit rating. The Company ensures that all the branch's reinsurers are rated as 'A' or above by Standard & Poor's.

ii) Direct insurance receivables

The branch's exposure to credit risk from receivables arising out of direct insurance operations is influenced by the individual characteristics of each policyholder and their payment of premiums. Each policyholder is required to pay the premiums in the period specified in their respective policy agreement.

The branch manages the impact of credit risk by cancelling policies with balances outstanding after the relevant payment period has expired, subject to the terms of the individual policy agreement. If a policy is cancelled, the policyholder has ceased to be insured by the branch and the branch will no longer be liable for any claims occurring before or after the cancellation of insurance. This is in accordance with the branch's general conditions.

iii) Investments

Cash and short-term deposits are held with Westpac New Zealand Limited which holds an AA- (stable) rating with Standard & Poor's.

d) Liquidity risk

Liquidity risk is the risk that the branch will encounter difficulty in meeting its financial obligations as they fall due.

The branch's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity in meeting its liabilities when due. The branch monitors its forecast liquidity position by estimating cash outflows from its insurance contracts and placing cash on deposit with similar durations to meet those obligations. All financial liabilities at 20 February 2023 are due on demand.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16) Risk management (continued)

e) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk, and other price risk.

Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The branch transacts and holds balances in currencies other than New Zealand Dollars, including US Dollars and GB Pounds. The branch participates in NorthStandard Group's global reinsurance programmes which are predominantly denominated in US Dollars and GB Pounds. The branch pays its proportion of the costs and receives any recoveries from the global reinsurance programme in these currencies. The branch is therefore exposed to currency risk on these transactions and balances.

Interest rate risk

This is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The branch's exposure to changes in market interest rates is concentrated in its investment portfolio. However, excess cash is held on deposit so the risk is minimal.

The branch manages its investment portfolio in accordance with an investment framework. The framework is used to determine both the investment policy and to establish the investment risk appetite. In this context, the overall risk is reviewed on a regular basis and the asset allocation is adjusted as necessary.

Other price risk

This is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest risk or currency risk, issuer, or factors affecting all similar financial instruments traded in the market.

The branch is exposed to minimal other price risk as it has no exposure to debt securities or equities.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The following information is required to be disclosed in the financial statements, but it is not subject to audit.

Capital management

The required capital for NorthStandard Limited (previously North of England Protecting and Indemnity Association Limited), as measured by the UK Prudential Regulatory Authority's (PRA's) Solvency Capital Requirement (SCR) is determined by the application of a standard formula that contains variables for premium and claims, expenses and reserves.

The branch is exempted from compliance with the Solvency Standard for Non-life Insurance Business 2014 issued under section 55 of the Insurance (Prudential Supervision) Act 2010.

The solvency calculation for North of England Protecting and Indemnity Association Limited at 20 February 2023 is:

	Year ended 2023 $NZm	**Year ended 2022 $NZm**
Actual Solvency Capital	516.6	479.4
Minimum Solvency Capital	213.4	198.7
Solvency Margin	303.2	280.7
Solvency ratio	**242%**	**241%**