# NORTHSTANDARD LIMITED

# NEW ZEALAND BRANCH

## FINANCIAL STATEMENTS

## 20TH FEBRUARY 2024

Tel: +61 2 9251 4100
Fax: +61 2 9240 9821
www.bdo.com.au

Level 11, 1 Margaret Street
Sydney NSW 2000
Australia

**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 2024 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 2024 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 Insurance and Reinsurance Contract Liabilities/Assets for incurred claims:**<br>The branch's estimate for Incurred claims liability for Insurance contracts is $NZ 3.9m and the corresponding reinsurance contract asset is $NZ | Our procedures included but were not limited to:<br>• Reconciliation of the values disclosed in the financial statements to the externally produced actuarial report; |

| | |
|---|---|
| 3.6m. These are disclosed in Note 5. The branch also adopted NZ IFRS 17 Insurance Contracts during the period.<br><br>This is considered a key audit matter given the valuation of these is highly judgmental and require management to adopt a number of assumptions, which are inherently subjective. | • Engaging an actuarial auditors specialist to perform procedures on the appropriateness of the methodologies and key assumptions used in the reserving process;<br>• Evaluation of the managements actuarial expert used to ensure independence and objectivity of the branch's actuary in assessing management's reliance upon their expert valuation services; and<br>• Reviewing the disclosure in the financial statements to ensure its compliance with NZ IFRS 17 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
19 July 2024

**ANNUAL REPORT**

The Board of Directors is pleased to present the financial statements of its New Zealand branch for the year ended 20th February 2024 and the auditor's report thereon.

In the Directors' opinion, the financial statements and notes set out on pages 2 to 31:

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 2024 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 19 July 2024 for and on behalf of the Board of Directors:

Paul Jennings
Director

19 July, 2024

Jeremy Grose
Director

19 July, 2024

**STATEMENT OF COMPREHENSIVE INCOME**

| | Note | Year ended 20 Feb 24 $NZ | Year ended 20 Feb 23 Restated $NZ |
|---|---|---|---|
| Insurance revenue | 5 | 11,292,934 | 10,990,667 |
| Insurance service expense | 5 | (6,701,626) | (28,007) |
| **Insurance service result** | | **4,591,308** | **10,962,660** |
| Allocation of reinsurance premiums | 5 | (7,172,759) | (7,286,781) |
| Amounts recoverable from reinsurers for incurred claims | 5 | 5,499,538 | (788,965) |
| **Net expense from reinsurance contracts held** | | **(1,673,221)** | **(8,075,746)** |
| **Insurance service result** | | **2,918,087** | **2,886,914** |
| Interest revenue | | 433,843 | 69,203 |
| **Net investment income** | | **433,843** | **69,203** |
| Finance expenses from insurance contracts issued | | (38,000) | (76,000) |
| Finance income from reinsurance contracts held | | 36,000 | 74,000 |
| **Net insurance financial result** | | **(2,000)** | **(2,000)** |
| Other expenses | | (2,735,074) | (3,757,636) |
| **Total other expenses** | | **(2,735,074)** | **(3,757,636)** |
| Net insurance service result | | 2,918,087 | 2,886,914 |
| Net investment income | | 433,843 | 69,203 |
| Net insurance financial result | | (2,000) | (2,000) |
| Total other expenses | | (2,735,074) | (3,757,636) |
| **Profit / (loss) before tax** | | **614,856** | **(803,519)** |
| Income tax (expense) / benefit | 8 | (208,163) | 3,370 |
| **Profit / (loss) after tax** | | **406,693** | **(800,149)** |
| **Other comprehensive income** | | | |
| *OCI to be reclassified to profit or loss in subsequent periods* | | | |
| Exchange gains | | 63,915 | 765,542 |
| **Total comprehensive income** | | **470,608** | **(34,607)** |

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 31.

## STATEMENT OF CHANGES IN HEAD OFFICE ACCOUNT

| | Note | Year ended 20 Feb 24<br><br>$NZ | Year ended 20 Feb 23 Restated<br>$NZ |
|---|---|---|---|
| **HEAD OFFICE ACCOUNT** | | | |
| **Head office account at the beginning of the year (as previously reported)** | | **12,138,666** | **12,173,273** |
| Impact of initial application of NZ IFRS 17 | 2 | - | - |
| **Head office account at the beginning of the year (restated)** | | **12,138,666** | **12,173,273** |
| Total comprehensive income / (loss) | | 470,608 | (34,607) |
| **Head office account at the end of the year** | | 12,609,274 | 12,138,666 |

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 2024 is $1,663,289 (2023: $1,599,374). 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 31.

## STATEMENT OF FINANCIAL POSITION

| | Note | As at 20 Feb 24 $NZ | As at 20 Feb 23 Restated $NZ |
|---|---|---|---|
| **Investment Assets** | | | |
| Cash and deposits with registered banks | 6 | 19,750,085 | 15,371,808 |
| **Total investment Assets** | | **19,750,085** | **15,371,808** |
| **Other Assets** | | | |
| Other fixed assets | 7 | 38,087 | 54,255 |
| Current tax asset | 8 | 4,640 | 42,599 |
| Other assets | 9 | 15,767,595 | 15,554,691 |
| **Total other assets** | | **15,810,322** | **15,651,545** |
| **Total assets** | | **35,560,407** | **31,023,353** |
| **Liabilities** | | | |
| Other liabilities | 10 | 8,903,995 | 6,096,065 |
| Reinsurance contract liabilities | 5 | 6,626,064 | 6,684,037 |
| Insurance contract liabilities | 5 | 7,421,074 | 6,104,585 |
| **Total liabilities** | | **22,951,133** | **18,884,687** |
| **Equity** | | | |
| Head office account | | 12,609,274 | 12,138,666 |
| **Total equity and liabilities** | | **35,560,407** | **31,023,353** |

The Statement of Financial Position is to be read in conjunction with the notes to the financial statements set out on pages 6 to 31.

**STATEMENT OF CASHFLOWS**

| | Year ended 20 Feb 24 $NZ | Year ended 20 Feb 23 Restated $NZ |
|---|---|---|
| **Cash flows provided by operating activities:** | | |
| Operating profit / (loss) before taxation | 678,771 | (37,977) |
| Adjustments for | | |
| Interest revenue | (433,843) | (69,203) |
| Tax (payments) / refunds | (14,875) | 26,115 |
| Resident Withholding Tax | (155,329) | - |
| Interest received | 416,046 | 69,203 |
| **Changes in non-cash operating accounts:** | | |
| (Decrease) / increase in reinsurance contract liabilities | (57,973) | 8,375,495 |
| Increase / (decrease) in insurance contract liabilities | 1,316,489 | (7,555,911) |
| Increase in other assets | (195,107) | (2,229,033) |
| Increase in other liabilities | 2,807,930 | 2,350,014 |
| Depreciation expense | 16,168 | 16,093 |
| | **4,378,277** | **944,796** |
| **Cash flow from investing activities:** | | |
| Purchase of fixed assets | - | (5,895) |
| **Increase in cash and cash equivalents** | **4,378,277** | **938,901** |
| Cash and cash equivalents, beginning of the period | 15,371,808 | 14,432,907 |
| Cash and cash equivalents, end of the period (Note 6) | 19,750,085 | 15,371,808 |
| Cash and cash equivalents consist of: | | |
| Short term bank deposits | 9,953,061 | 9,786,955 |
| Cash on hand | 9,797,024 | 5,584,853 |
| **Total Cash and cash equivalents (Note 6)** | **19,750,085** | **15,371,808** |

The Statement of Cashflows is to be read in conjunction with the notes to the financial statements set out on pages 6 to 31.

**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 19 July 2024.

**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 parent company of the branch is NorthStandard Limited, incorporated in England.

The company is registered under the Financial Markets Conduct Act 2013 and the financial statements comply with this 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 31 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.

**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. 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. They also comply with International Financial Reporting Standards (IFRS).

**c) Basis of preparation**

The financial statements of the branch have been prepared in accordance with applicable New Zealand accounting standards and are expressed in New Zealand Dollars, rounded to the nearest dollar.

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.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**1) Summary of significant accounting policies (continued)**

**d) Financial assets**

Financial assets are recognised on the date when they are originated. Financial assets are originally measured at fair value and then are subsequently measured at amortised cost using the effective interest method. The assets are held at amortised cost as the objective of the business model is to hold financial assets in order to collect contractual cash flows and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The branch derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it ceases to have rights to receive contractual cash flows.

**e) Impairment of assets**

All assets other than those which are set outside the scope of NZ IAS 36 Impairment of Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

Any impairment losses are included within the Statement of Comprehensive Income. If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. The amount of the reversal is recognised in the Statement of Comprehensive Income.

**f) Cash and deposits with registered banks**

Cash and deposits with registered banks 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 deposits with registered banks includes cash at bank and short-term deposits.

**g) 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 NZ 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.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**1) Summary of significant accounting policies (continued)**

**h) 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 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.

**i) Goods and services tax**

Revenues and expenses are stated net of goods and services tax (GST).

**j) Foreign currency**

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 is 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.

The adoption of NZ IFRS 17 Insurance Contracts in the year has necessitated the adoption of new accounting policies for insurance and reinsurance contracts, including Insurance revenue, Insurance service expense, Allocation of reinsurance premiums, Amounts recoverable from reinsurers for incurred claims, Finance expenses from insurance contracts issued, Finance income from reinsurance contracts held, Insurance contract liabilities and Reinsurance contract liabilities. Details of these accounting policies are included in Note 2.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

## 2) Newly adopted standards and amendments, and standards and amendments issued but not yet effective

### a) Newly adopted standards and amendments

During the current year the Branch adopted all the new International Financial Reporting Standards (IFRS), and all amendments to existing NZ IFRS, that are relevant to its operations and are effective for accounting periods beginning on or after 20 February 2023. This adoption did not have a significant impact on the financial statements except for the adoption of NZ IFRS 17 Insurance Contracts. Included in this adoption was the adoption of NZ IFRS 9, which replaces IAS 39 Financial Instruments. NZ IFRS 9 was for effective for annual reporting periods beginning on or after 1 January 2018, however the Branch elected, under the amendments to NZ IFRS 4, to apply the temporary exemption from NZ IFRS 9 and therefore defer the initial application date of NZ IFRS 9 to align with the initial application of NZ IFRS 17. Due to the nature of the financial assets and liabilities held by the Branch the application of NZ IFRS 9 did not have a material impact on the financial statements on transition or subsequently.

NZ IFRS 17 replaces NZ IFRS 4 Insurance Contracts and is effective for annual periods beginning on or after 1 January 2023.

NZ IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance and reinsurance contracts. As a result, it has brought significant changes to the accounting for insurance and reinsurance contracts and has had a material impact on the Branch's financial statements during this period of initial application. The Branch has restated comparative information for the year ended 20 February 2023.

The nature of the changes can be summarised as follows.

**Changes in recognition and measurement of insurance contracts issued and reinsurance contracts held**

Under NZ IFRS 17, the Branch recognises and measures insurance contracts issued and reinsurance contracts held in groups based on line of business, the year of issue or purchase of the contract (annual cohort), and the expected profitability level.

The Branch issues and purchases only short-term insurance and reinsurance contracts and hence applies the Premium Allocation Approach (PAA) to the measurement of all groups of insurance contracts issued and reinsurance contracts held.

As a result of using the PAA, the measurement of the liability for remaining coverage, and any asset for remaining coverage for reinsurance contracts held, gives the same overall result as under NZ IFRS 4, and therefore the adoption of NZ IFRS 17 in this respect has not significantly impacted the results or position of the Branch.

For the liability for incurred claims, NZ IFRS 17 requires that it is measured based on the fulfilment cash flows related to incurred claims. The fulfilment cash flows include the estimated future claim cash flows which are discounted to reflect the time value of money and financial risks and a risk adjustment for non-financial risk that was not explicitly measured under NZ IFRS 4. The Branch has elected to set the risk adjustment equal to the RBNZ interim solvency standard risk margin at the 75% probability of sufficiency. The RBNZ interim solvency standard also requires discounting using a risk-free rate, the branch has elected to use a risk-free rate based on the market yield curve of New Zealand Government Bonds. This results in a measurement that is consistent with the measurement adopted under NZ IFRS 4.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**2) Newly adopted standards and amendments, and standards and amendments issued but not yet effective (continued)**

**a) Newly adopted standards and amendments (continued)**

**Changes to presentation and disclosure**

NZ IFRS 17 requires a wholesale change to how items are presented in the Statement of Financial Position and Statement of Comprehensive Income.

In the Statement of Financial Position, the Branch presents separately the carrying amount of:
- Portfolios of insurance contracts issued that are assets;
- Portfolios of insurance contracts issued that are liabilities;
- Portfolios of reinsurance contracts held that are assets; and
- Portfolios of reinsurance contracts held that are liabilities.

This presentation incorporates amounts previously presented as the Provision for unearned reinsurance premium, Recoveries outstanding, Deferred acquisition costs, Debtors due from policyholders, Debtors due from reinsurers, Provision for unearned premium, Claims outstanding, Provision for unearned reinsurance commission, and Reinsurance payables.

In the Statement of Comprehensive Income, the Branch presents:
- Insurance revenue;
- Insurance service expense;
- Allocation of reinsurance premiums;
- Amounts recoverable from reinsurers for incurred claims;
- Finance income or expenses from insurance contracts issued; and
- Finance income or expenses from reinsurance contracts held.

This presentation incorporates amounts previously presented as Gross premium written, Gross premium ceded to reinsurers, Change in provision for unearned premium, Reinsurers' share of change in unearned premium, Reinsurance commission, Change in claims provision net of reinsurance, and Underwriting expenses.

**Transition**

On transition to NZ IFRS 17, the Branch has applied the full retrospective approach to all insurance contracts issued and reinsurance contracts held.

The Branch concluded that reasonable and supportable information that was necessary to apply the full retrospective approach was available. Applying the full retrospective approach, the Branch:
- identified, recognised and measured each group of insurance contracts as if NZ IFRS 17 had always applied;
- derecognised previously reported balances that would not have existed if NZ IFRS 17 had always been applied. These included amongst others Debtors due from policyholders and Reinsurance payables. Under NZ IFRS 17, these balances are included in the measurement of the insurance and reinsurance contracts;
- and recognised any resulting net difference in equity.

On the date of transition, 20 February 2022, the net effect from application of NZ IFRS 17 resulted in no change in the Branch's total equity, as can be seen in the table below.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

## 2) Newly adopted standards and amendments, and standards and amendments issued but not yet effective (continued)

### a) Newly adopted standards and amendments (continued)

| As reported | Restated | As at 20 Feb 22 $NZ As reported under NZ IFRS 4 | Impact of NZ IFRS 17 $NZ Presentation Changes | As at 20 Feb 22 $NZ Restated under NZ IFRS 17 |
|---|---|---|---|---|
| Property, plant and equipment | Other fixed assets | 64,453 | - | 64,453 |
| Provision for unearned reinsurance premium | - | 5,789,529 | (5,789,529) | - |
| Recoveries outstanding | - | 9,339,000 | (9,339,000) | - |
| Deferred acquisition costs | - | 256,098 | (256,098) | - |
| Debtors due from policyholders | - | 2,326,165 | (2,326,165) | - |
| Debtors due from reinsurers | - | 75,819 | (75,819) | - |
| - | Reinsurance contract assets | - | 1,691,458 | 1,691,458 |
| Other debtors | Other assets | 13,325,658 | - | 13,325,658 |
| Direct tax debtor | Current tax asset | 65,344 | - | 65,344 |
| Short term bank deposits | | 1,751,135 | (1,751,135) | - |
| Cash on hand | | 12,681,772 | (12,681,772) | - |
| - | Cash and deposits with registered banks | - | 14,432,907 | 14,432,907 |
| **Total assets** | | **45,674,973** | **16,095,153** | **29,579,820** |
| Provision for unearned premium | - | 6,528,759 | (6,528,759) | - |
| Claims outstanding | - | 9,714,000 | (9,714,000) | - |
| Provision for unearned reinsurance commission | - | 1,268,150 | (1,268,150) | - |
| Reinsurance payables | - | 12,244,740 | (12,244,740) | - |
| - | Insurance contract liabilities | - | 13,660,496 | 13,660,496 |
| Trade and other payables | Other liabilities | 3,746,051 | - | 3,746,051 |
| **Total liabilities** | | **33,501,700** | **(16,095,153)** | **17,406,547** |
| Head office account | | 12,173,273 | - | 12,173,273 |
| **Total liabilities and head office account** | | **45,674,973** | **(16,075,153)** | **29,579,820** |

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 2) Newly adopted standards and amendments, and standards and amendments issued but not yet effective (continued)

#### a) Newly adopted standards and amendments (continued)

**Newly adopted accounting policies on adoption of NZ IFRS 17**

***Insurance Revenue***

Applying the PAA, the insurance revenue for the period is the amount of expected premium receipts including premium experience adjustments allocated to the period. The allocation is done on the basis of the passage of time unless the expected pattern of release from risk differs significantly from the passage of time, in which case it is recognised on the expected timing of incurred claims and benefits. For the periods presented, revenue for all contracts has been recognised on the basis of the passage of time.

***Allocation of reinsurance premiums***

Outward reinsurance premiums are the amount of expected premiums payable including premium experience adjustments allocated to the period. The allocation is done on the basis of the passage of time, unless the expected pattern of release of the risk mitigation provided differs significantly from the passage of time. For the periods presented, premium for all reinsurance contracts has been recognised on the basis of passage of time.

Ceding commissions that are not contingent on the claims of the underlying contracts are presented as a reduction in the premiums to be paid to the reinsurer which is then allocated on the above basis.

***Amounts recoverable from reinsurers for incurred claims***

The Branch presents reinsurance cash flows that are contingent on claims on the underlying contracts as part of the claims that are expected to be reimbursed under the reinsurance contracts held. The amounts recognised relating to recovery of losses are presented as amounts recovered from the reinsurer.

***Insurance finance income and expense***

Insurance finance income or expense comprises the change in the carrying amount of the group of insurance and reinsurance contracts arising from:
- The effect of the time value of money and changes in the time value of money; and
- The effect of financial risk and changes in financial risk.

The Branch has an accounting policy choice as to whether to disaggregate insurance finance income or expenses for the period between profit or loss and other comprehensive income. This choice is made for each portfolio of insurance contracts issued or reinsurance contracts held. The Branch does not disaggregate insurance finance income or expense between the profit or loss and other comprehensive income and instead presents it entirely in profit or loss.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**2) Newly adopted standards and amendments, and standards and amendments issued but not yet effective (continued)**

**a) Newly adopted standards and amendments (continued)**

***Liability for remaining coverage (insurance contracts issued)***

The Branch applies the PAA to all the insurance contracts that it issues if at the inception of the group:
- The coverage period of each insurance contract in the group is one year or less; or
- For groups of insurance contracts including contracts with a coverage period extending beyond one year, the Company reasonably expects that applying the PAA would produce a measurement of the liability for remaining coverage for the group that would not differ materially from the one that would be produced applying the requirements of the general measurement model.

The Branch does not have any groups of contracts where, at inception, it expects significant variability in the fulfilment cash flows that would affect the measurement of the liability for remaining coverage during the period before a claim is incurred. Variability in the fulfilment cash flows increases with, for example, the length of the coverage period of the group of contracts.

Due to the short-term nature of the policies issued by the Branch, the Branch meets the criteria for the adoption of the PAA for all insurance contracts.

Under the PAA, on initial recognition of each group of insurance contracts, the carrying amount of the liability for remaining coverage is measured as:
- the premiums received on initial recognition
- plus or minus any amount arising from the de-recognition at that date of any asset or liability previously recognised for cash flows related to the group of contracts that the Company pays or receives before the group of insurance contracts is recognised.

Subsequently, the carrying amount of the liability for remaining coverage for a group of contracts that is not onerous represents the carrying amount at the start of the reporting period:
- plus any further premiums received
- minus the amount recognised as insurance revenue for the services provided in the period.

The Branch has elected to defer insurance acquisition costs and recognise them in line with the associated premiums.

As the branch is applying the PAA, it determines that no contracts are onerous at initial recognition, unless facts and circumstances indicate otherwise. If facts and circumstances indicate that some contracts are onerous, an additional assessment would be performed to identify onerous contracts from non-onerous ones. No onerous contracts were identified in the reporting period.

***Liability for incurred claims (insurance contracts issued)***

The Branch estimates the liability for incurred claims of a group of contracts at the amount of the fulfilment cash flows relating to the incurred claims. In estimating the fulfilment cash flows, the Branch incorporates, in an unbiased way, all reasonable and supportable information that are available without undue cost or effort at the reporting date.

This information includes both internal and external historical data about claims and other experience, updated to reflect current expectations of future events.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

## 2) Newly adopted standards and amendments, and standards and amendments issued but not yet effective (continued)

### a) Newly adopted standards and amendments (continued)

***Liability for incurred claims (insurance contracts issued) (continued)***

The estimates of the fulfilment cash flows reflect the Branch's view of current conditions at the reporting date, as long as the estimates of any relevant market variables are consistent with observable market prices, and include an explicit adjustment for non-financial risk (the risk adjustment).

The risk adjustment is applied to the present value of the estimated future cash flows and reflects the compensation an entity requires for bearing the uncertainty about the amount and timing of the cash flows, which arises from non-financial risk as the entity fulfils insurance contracts and it is included in the estimates of the future cash flows.

For the measurement of the liability for incurred claims the Branch adjusts the future cash flows for the time value of money, by discounting using the risk-free rate, and the effect of financial risk since the claims are not expected to be paid within one year of being incurred.

***Reinsurance contracts held***

The Branch applies the same accounting policies as for insurance contracts issued to measure a group of reinsurance contracts held, adapted where necessary to reflect features that differ from those insurance contracts.

### b) Standards and amendments issued but not yet effective

At the date of authorisation of these financial statements a number of new standards and amendments to standards and interpretations have been issued but are not yet effective and therefore have not been applied in these financial statements:

- Amendments to IAS 1 regarding classifications of liabilities as current or non-current (effective for annual reporting periods beginning on or after 1 January 2024)
- Amendments to IAS 1 regarding non-current liabilities with covenants (effective for annual reporting periods beginning on or after 1 January 2024)
- Amendments to NZ IFRS 16 to clarify how a seller-lessee subsequently measures sale and leaseback transactions (effective for annual reporting periods beginning on or after 1 January 2024)
- Amendments to IAS 21 regarding lack of exchangeability (effective for annual reporting periods beginning on or after 1 January 2025)
- Amendments to IAS 7 and NZ IFRS 7 regarding supplier finance arrangements (effective for annual reporting periods beginning on or after 1 January 2024)
- Amendment to NZ IFRS 10 and IAS 28 (effective date postponed until further notice from the IASB).
- NZ IFRS 18 (effective for annual reporting periods beginning on or after 1 January 2027).

The Branch expects that the adoption of these amended standards and interpretations in future periods will not have a material effect on the financial statements of the Branch.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 3) Summary of significant estimates and assumptions

***Actuarial methods***

The measurement of the liability for incurred claims requires an estimate of the fulfilment cash flows relating to incurred claims. These cash flows are modelled using a set of standard run-off triangle actuarial methods including the chain ladder and Bornhuetter-Ferguson methods. The estimates and assumptions necessitated by these methods are based on numerous factors and may be revised as additional experience and other data becomes available.

Historical experience and other statistical information are used to estimate the fulfilment cash flows relating to incurred claims. The methods used 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.

An allowance is added to the expected outcome of claims for the associated claims administration expenses in determining the fulfilment cash flows. Projected fulfilment cash flows relating to incurred claims are discounted to the valuation date.

The measurement of the liability for incurred claims also requires the calculation of a risk adjustment for non-financial risk, being the compensation required for bearing the uncertainty about the amount and timing of the fulfilment cash flows. The risk adjustment reflects an amount that an insurer would rationally pay to remove the uncertainty that future cash flows will exceed their expected value.

NZ IFRS 17 does not prescribe a methodology for the determination of the risk adjustment, but instead provides some guidelines on the properties that the chosen methodology should satisfy. In addition, NZ IFRS 17 requires that the entity should disclose the confidence level of the derived risk adjustment.

The Branch has elected to estimate the risk adjustment using a statistical bootstrap technique to estimate the distribution of losses. This involves simulating a large number of incurred claims datasets which have similar, yet individually different, characteristics to the incurred data. An estimate for outstanding claims liability is projected for each dataset, producing a distribution of liability results. The confidence level (probability of sufficiency) was selected at the 75th percentile to determine the risk adjustment included in the liability for incurred claims.

The Branch has applied a risk-free rate to discount expected future cash flows. The risk-free rate is based on the market yield curve of New Zealand Government Bonds and are shown below:

| | **1 Year** | | **2 Years** | | **5 Years** | |
|---|---|---|---|---|---|---|
| | **20 Feb 24** | **20 Feb 23** | **20 Feb 24** | **20 Feb 23** | **20 Feb 24** | **20 Feb 23** |
| All contracts | 5.20% | 4.93% | 4.30% | 4.37% | 4.40% | 3.98% |

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

| **4)** | **Auditor’s remuneration** | **Year ended 20 Feb 24 $NZ** | **Year ended 20 Feb 23 $NZ** |
|---|---|---|---|
| | Audit fees | (44,896) | (39,226) |
| | **Total Auditor’s remuneration** | **(44,896)** | **(39,226)** |

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

## 5) Insurance and Reinsurance Contracts

| **Insurance Contracts Issued** | **Liability for Remaining Coverage** | | **Liability for Incurred Claims** | | **Total** |
|---|---|---|---|---|---|
| | **Excluding loss component** | **Loss component** | **Estimates of present value of future cash flows** | **Risk adjustment for non-financial risk** | |
| | **$NZ** | **$NZ** | **$NZ** | **$NZ** | **$NZ** |
| **Insurance contract liabilities at 20 February 2023** | **(3,257,585)** | **-** | **(2,151,778)** | **(695,222)** | **(6,104,585)** |
| **Insurance service revenue** | 11,292,934 | - | - | - | 11,292,934 |
| Incurred claims and other directly attributable expenses | - | - | (6,365,114) | 231,458 | (6,133,656) |
| Insurance acquisition expenses | (567,970) | - | - | - | (567,970) |
| **Insurance service result** | 10,724,964 | - | (6,365,114) | 231,458 | 4,591,308 |
| **Finance expenses from insurance contracts issued** | - | - | (38,000) | - | (38,000) |
| **Total amounts recognised in comprehensive income** | 10,724,964 | - | (6,403,114) | 231,458 | 4,553,308 |
| **Cash flows** | | | | | |
| Premiums received | (11,547,633) | - | - | - | (11,547,633) |
| Claims and other directly attributable expenses paid | - | - | 5,089,656 | - | 5,089,656 |
| Insurance acquisition cash flows | 588,180 | - | - | - | 588,180 |
| **Total cash flows** | (10,959,453) | - | 5,089,656 | - | (5,869,797) |
| **Insurance contract liabilities at 20 February 2024** | **(3,492,074)** | **-** | **(3,465,236)** | **(463,764)** | **(7,421,074)** |

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**5) Insurance and Reinsurance Contracts (continued)**

| **Insurance Contracts Issued** | **Liability for Remaining Coverage** | | **Liability for Incurred Claims** | | **Total** |
|---|---|---|---|---|---|
| | **Excluding loss component** | **Loss component** | **Estimates of present value of future cash flows** | **Risk adjustment for non-financial risk** | |
| | **$NZ** | **$NZ** | **$NZ** | **$NZ** | **$NZ** |
| **Insurance contract liabilities at 20 February 2022** | **(3,946,496)** | **-** | **(7,899,345)** | **(1,814,655)** | **(13,660,496)** |
| **Insurance service revenue** | 10,990,667 | - | - | - | 10,990,667 |
| Incurred claims and other directly attributable expenses | - | - | (603,597) | 1,119,433 | 515,836 |
| Insurance acquisition expenses | (543,843) | - | - | - | (543,843) |
| **Insurance service result** | 10,446,824 | - | (603,597) | 1,119,433 | 10,962,660 |
| **Finance expenses from insurance contracts issued** | - | - | (76,000) | - | (76,000) |
| **Total amounts recognised in comprehensive income** | 10,446,824 | - | (679,597) | 1,119,433 | 10,886,660 |
| **Cash flows** | | | | | |
| Premiums received | (10,337,437) | - | - | - | (10,337,437) |
| Claims and other directly attributable expenses paid | - | - | 6,427,164 | - | 6,427,164 |
| Insurance acquisition cash flows | 579,524 | - | - | - | 579,524 |
| **Total cash flows** | (9,757,913) | - | 6,427,164 | - | (3,330,749) |
| **Insurance contract liabilities at 20 February 2023** | **(3,257,585)** | **-** | **(2,151,778)** | **(695,222)** | **(6,104,585)** |

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**5) Insurance and Reinsurance Contracts (continued)**

| **Reinsurance Contracts Held** | **Liability for Remaining Coverage** | | **Liability for Incurred Claims** | | **Total** |
|---|---|---|---|---|---|
| | **Excluding loss component** | **Loss component** | **Estimates of present value of future cash flows** | **Risk adjustment for non-financial risk** | |
| | **$NZ** | **$NZ** | **$NZ** | **$NZ** | **$NZ** |
| **Reinsurance contract asset / (liabilities) at 20 February 2023** | **(9,245,038)** | **-** | **1,850,635** | **710,366** | **(6,684,037)** |
| Reinsurance expenses | (7,172,759) | - | - | - | (7,172,759) |
| Incurred claims recovery | - | - | 5,811,271 | (311,733) | 5,499,538 |
| **Net income / (expenses) from reinsurance contracts held** | (7,172,759) | - | 5,811,271 | (311,733) | (1,673,221) |
| **Finance income from reinsurance contracts held** | - | - | 36,000 | - | 36,000 |
| **Total amounts recognised in comprehensive income** | (7,172,759) | - | 5,847,271 | (311,733) | (1,637,221) |
| **Cash flows** | | | | | |
| Premiums paid net of ceding commissions and other directly attributable expenses paid | 6,318,733 | - | - | - | 6,318,733 |
| Recoveries from reinsurance | - | - | (4,623,539) | - | (4,623,539) |
| **Total cash flows** | 6,318,733 | - | (4,623,539) | - | 1,695,194 |
| **Reinsurance contract asset / (liabilities) at 20 February 2024** | **(10,099,064)** | **-** | **3,074,367** | **398,633** | **(6,626,064)** |

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**5) Insurance and Reinsurance Contracts (continued)**

| **Reinsurance Contracts Held** | **Liability for Remaining Coverage** | | **Liability for Incurred Claims** | | **Total** |
|---|---|---|---|---|---|
| | **Excluding loss component** | **Loss component** | **Estimates of present value of future cash flows** | **Risk adjustment for non-financial risk** | |
| | **$NZ** | **$NZ** | **$NZ** | **$NZ** | **$NZ** |
| **Reinsurance contract asset / (liabilities) at 20 February 2022** | **(7,723,361)** | **-** | **7,588,934** | **1,825,885** | **1,691,458** |
| Reinsurance expenses | (7,286,781) | - | - | - | (7,286,781) |
| Incurred claims recovery | - | - | 326,554 | (1,115,519) | (788,965) |
| **Net income / (expenses) from reinsurance contracts held** | (7,286,781) | - | 326,554 | (1,115,519) | (8,075,746) |
| **Finance income from reinsurance contracts held** | - | - | 74,000 | - | 74,000 |
| **Total amounts recognised in comprehensive income** | (7,286,781) | - | 400,554 | (1,115,519) | (8,001,746) |
| **Cash flows** | | | | | |
| Premiums paid net of ceding commissions and other directly attributable expenses paid | 5,765,104 | - | - | - | 5,765,104 |
| Recoveries from reinsurance | - | - | (6,138,853) | - | (6,138,853) |
| **Total cash flows** | 5,765,104 | - | (6,138,853) | - | (373,749) |
| **Reinsurance contract asset / (liabilities) at 20 February 2023** | **(9,245,038)** | **-** | **1,850,635** | **710,366** | **(6,684,037)** |

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**5) Insurance and Reinsurance Contracts (continued)**

The following tables show the estimates of incurred claims for the past four accident years at the reporting date together with cumulative payments to date. Information is provided on the gross and net claims development.

| **Gross claims development**<br>**Accident year** | **2024**<br>**$NZ** | **2023**<br>**$NZ** | **2022**<br>**$NZ** | **2021**<br>**$NZ** | **Total**<br>**$NZ** |
|---|---|---|---|---|---|
| Estimate of ultimate claims cost | | | | | |
| At end of financial year | 940,400 | 257,501 | 277,709 | 325,393 | |
| 1 year later | | 5,568,136 | 2,349,479 | 10,277,921 | |
| 2 years later | | | 2,605,870 | 8,503,492 | |
| 3 years later | | | | 8,593,501 | |
| Cumulative gross claims paid | 3,400 | 3,967,779 | 2,450,286 | 7,961,665 | |
| **Gross cumulative claims liabilities** | **937,000** | **1,600,357** | **155,584** | **631,836** | **3,324,777** |
| **Gross cumulative claims liabilities – prior accident years** | | | | | 21,000 |
| Effect of discounting and the risk margin adjustment | | | | | 488,223 |
| Claims handling reserve | | | | | 96,000 |
| **Liability for incurred claims** | | | | | **3,930,000** |

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**5) Insurance and Reinsurance Contracts (continued)**

| **Net claims development**<br>**Accident year** | **2024**<br>**$NZ** | **2023**<br>**$NZ** | **2022**<br>**$NZ** | **2021**<br>**$NZ** | **Total**<br>**$NZ** |
|---|---|---|---|---|---|
| Estimate of ultimate claims cost | | | | | |
| At end of financial year | 105,640 | 25,750 | 27,771 | 32,480 | |
| 1 year later | | 574,955 | 233,647 | 504,835 | |
| 2 years later | | | 333,097 | 443,590 | |
| 3 years later | | | | 450,096 | |
| Cumulative net claims paid | 340 | 404,919 | 317,539 | 443,362 | |
| **Net cumulative claims liabilities** | **105,300** | **170,036** | **15,558** | **6,734** | **297,628** |
| **Net cumulative claims liabilities – prior accident years** | | | | | 2,100 |
| Effect of discounting and the risk margin adjustment | | | | | 60,272 |
| Claims handling reserve | | | | | 96,000 |
| **Net liability for incurred claims** | | | | | **456,000** |

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

## 6) Financial assets

| | 20 Feb 24 $NZ | 20 Feb 23 $NZ |
|---|---|---|
| Cash on hand | 9,797,018 | 5,584,853 |
| Short term bank deposits | 9,953,067 | 9,786,955 |
| | **19,750,085** | **15,371,808** |

Cash and deposits with registered banks are recognised at amortised cost. The total interest revenue recognised in profit and loss is $433,843 (2023: $69,203). The effective interest rate for the year was 2.5% (2023: 0.5%)

No other gains and losses were recognised in relation to these assets. No Expected Credit Losses (ECL) have been recognised due to the credit quality of the bank the cash and deposits are held with.

## 7) Fixed Assets

| | 20 Feb 24 $NZ | 20 Feb 23 $NZ |
|---|---|---|
| **Net Book Value** | | |
| At beginning of period | 54,255 | 64,453 |
| Additions in the year | - | 5,895 |
| Depreciation charge | (16,168) | (16,093) |
| **At 20 February** | 38,087 | 54,255 |

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

## 8) Income tax

| **a) Income tax expense** | **Year ended 20 Feb 24 $NZ** | **Year ended 20 Feb 23 $NZ** |
|---|---|---|
| Income tax on taxable profit for the year | 208,163 | - |
| Total current taxes | 208,163 | - |
| | | |
| Income tax expense | 208,163 | - |

**b)**

| | | |
|---|---|---|
| Profit / (loss from operating activities before income tax) | 614,856 | (803,519) |
| Prima facie income tax receivable (28%) | 172,160 | (224,985) |
| Tax effects of: - | | |
| Non-taxable income | (53,631) | (59,442) |
| Non-deductible expenses | 89,634 | 70,795 |
| Deferred tax asset not recognised | - | 213,632 |
| Current income tax expense | 208,163 | - |

**C) Income tax payable**

| | | |
|---|---|---|
| Opening balance | (42,599) | (65,344) |
| Tax charge current year | 208,163 | - |
| Current year RWT on Interest Credit | (121,617) | - |
| Prior year RWT on Interest Credit | (33,712) | - |
| Credit from prior year | - | (3,370) |
| Interest paid on prior year | - | - |
| (Payments) / refunds | (14,875) | 26,115 |
| Closing balance receivable | (4,640) | (42,599) |

## 9) Other assets

| | **20 Feb 24 $NZ** | **20 Feb 23 $NZ** |
|---|---|---|
| Amounts due from related parties (Note 13) | 15,464,819 | 15,473,851 |
| Other debtors | 302,776 | 80,840 |
| | **15,767,595** | **15,554,691** |

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

### 10) Other liabilities

| | 20 Feb 24 $NZ | 20 Feb 23 $NZ |
|---|---|---|
| Amounts due to related parties (Note 13) | 8,027,083 | 5,473,103 |
| Other creditors | 876,912 | 622,962 |
| | **8,903,995** | **6,096,965** |

### 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.

#### 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 24 $NZ | Land and Buildings 20 Feb 23 $NZ |
|---|---|---|
| Balance at 21 February | 48,122 | 63,036 |
| Depreciation charge for year | (14,914) | (14,914) |
| Closing balance | **33,208** | **48,122** |

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

| | 2024 $NZ | 2023 $NZ |
|---|---|---|
| Interest on lease liabilities | 935 | 1,209 |
| Depreciation charge for year | 14,914 | 14,914 |
| **Total expense in year** | **15,849** | **16,123** |

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**12) Commitments (continued)**

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

| | 2024 $NZ | 2023 $NZ |
|---|---|---|
| Total cash outflow for leases | 19,800 | 19,800 |

iv) **Maturity analysis of lease liabilities**

| | Land and Buildings 20 Feb 24 $NZ |
|---|---|
| Maturity analysis – contractual undiscounted cash flows | |
| Less than one year | 15,343 |
| One to five years | 19,806 |
| Balance at 20 February 2024 | **35,149** |

**13) Related party transactions**

At 20 February 2024, 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)**

**13) Related party transactions (continued)**

| Transactions with related parties during the year are as follows: | Year ended 20 Feb 24 $NZ | Year ended 20 Feb 23 $NZ |
|---|---|---|
| **a) Statement of comprehensive income** | | |
| Transactions with NorthStandard: | | |
| Administration expenses (Recharges) | (738,176) | (716,866) |
| **b) Statement of financial position** | | |
| Balances with NorthStandard: | | |
| Other debtors (Note 9) | 15,464,819 | 15,473,851 |
| Other payables (Note 10) | (8,027,083) | (5,473,103) |

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

**14) Credit rating**

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

**15) 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 profile for the branch and the Board regularly approves the Company's risk management policies.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**15) 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)

### 15) 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 liability for incurred 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 2024 are due on demand.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**15) 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 2024 is:

| | **Year ended 2024 $NZm** | **Year ended 2023 $NZm** |
|---|---|---|
| Actual Solvency Capital | 826.8 | 516.6 |
| Minimum Solvency Capital | 373.3 | 213.4 |
| Solvency Margin | 453.5 | 303.2 |
| Solvency ratio | **222%** | **242%** |