SOUTHERN CROSS PET INSURANCE LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED

30 June 2024

CONTENTS

ANNUAL REPORT DISCLOSURES

For the year ended 30 June 2024

The Directors present their annual report including the financial statements of Southern Cross Pet Insurance Limited (the "Company") for the year ended 30 June 2024.

Dividend

The Company did not pay any dividend during the year (30 June 2023: $800,000).

Nature of business

The Company is in the business of providing pet insurance in the New Zealand market.

Results

The Company recorded a net loss from operations of $587,000 (30 June 2023: $828,000).

Register of Directors

N J Astwick
M J Gardiner
M L James
C J Black

Use of company information

The Board received no notices during the year to 30 June 2024 from Directors requesting to use Company information received in their capacity as Directors which would not have been otherwise available to them.

Share dealings

No Director acquired or disposed of any interest in shares in the Company during the year.

Directors' remuneration

The Directors who were entitled to remuneration from the Company received $108,750 during the year (30 June 2023: $81,250).

Indemnity and insurance

Southern Cross Medical Care Society (the "Society") has insured the Company's Directors and Officers for liabilities to other parties that may arise from their positions as Directors and Officers of the Company.

Auditor

KPMG.

Authorised on behalf of the Board of Directors on 11 September 2024.

M L James
Director

M J Gardiner
Director

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 June 2024

	Note	2024 $000	2023 Restated $000
Insurance revenue	4	41,337	36,435
Insurance service expenses	4,6	(42,044)	(36,598)
Insurance service result		**(707)**	**(163)**
Interest income		719	523
Other operating expenses	6	(820)	(1,514)
Loss before taxation		**(808)**	**(1,154)**
Taxation credit	11	221	326
Loss after taxation		**(587)**	**(828)**
Other comprehensive income / (loss)		-	-
Total comprehensive loss		**(587)**	**(828)**

The above statement of comprehensive income should be read in conjunction with the accompanying notes.
The comparative information has been restated due to the application of NZ IFRS 17 (Insurance Contracts). Please refer to note 1.

STATEMENT OF FINANCIAL POSITION
as at 30 June 2024

	Note	2024	2023 Restated	1 July 2022 Restated
		$000	$000	$000
Assets				
Cash and cash equivalents	7	4,034	4,209	6,776
Receivables	8	68	23	19
Investments	9	7,408	8,988	6,021
Right-of-use assets		50	-	-
Intangible assets	12	6,663	6,171	4,794
Deferred tax assets	11	571	350	24
Total assets		**18,794**	**19,741**	**17,634**
Liabilities				
Payables and other liabilities	10	2,186	2,161	1,811
Provisions	13	-	196	-
Lease liabilities		50	-	-
Insurance contract liabilities	4	4,353	4,592	3,903
Total liabilities		**6,589**	**6,949**	**5,714**
Net assets		**12,205**	**12,792**	**11,920**
Equity				
Share capital	15	15,000	15,000	12,500
Retained earnings		(2,795)	(2,208)	(580)
Total equity		**12,205**	**12,792**	**11,920**

Authorised on behalf of the Board of Directors on 11 September 2024.

M L James
Director

M J Gardiner
Director

The above statement of financial position should be read in conjunction with the accompanying notes.
The comparative information has been restated due to the application of NZ IFRS 17 (Insurance Contracts). Please refer to note 1.

STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2024

	Note	Share Capital	Retained earnings	Total equity
		$000	$000	$000
Restated balance as at 1 July 2023		15,000	(2,208)	12,792
Total comprehensive loss		-	(587)	(587)
As at 30 June 2024		**15,000**	**(2,795)**	**12,205**

	Note	Share Capital	Retained earnings	Total equity
		$000	$000	$000
As at 1 July 2022, as previously reported		12,500	2,599	15,099
Impact of initial NZ IFRS 17 application, net of tax	1	-	(3,179)	(3,179)
Restated balance as at 1 July 2022		**12,500**	**(580)**	**11,920**
Total comprehensive loss (restated)		-	(828)	(828)
Share issue	15	2,500		2,500
Dividend paid	15	-	(800)	(800)
Restated balance as at 30 June 2023		**15,000**	**(2,208)**	**12,792**

The above statement of changes in equity should be read in conjunction with the accompanying notes.
The comparative information has been restated due to the application of NZ IFRS 17 (Insurance Contracts). Please refer to note 1.

STATEMENT OF CASH FLOWS

For the year ended 30 June 2024

	Note	2024 $000	2023 $000
Cash flows to / (from) operating activities			
Premium revenue received	4	41,346	36,479
Payment of claims		(27,595)	(24,114)
Discount remediation payments	13	(89)	(377)
Payments to suppliers		(15,029)	(12,309)
Net cash flows to / (from) operating activities		**(1,367)**	**(321)**
Cash flows from / (to) investing activities			
Payments for intangible assets	12	(1,085)	(1,485)
Net sale / (purchase) of investments		1,600	(2,900)
Interest received		699	457
Net cash flows from / (to) investing activities		**1,214**	**(3,928)**
Cash flows (to) / from financing activities			
Repayment of lease liabilities		(19)	(15)
Interest paid		(3)	(3)
Share issue	15	-	2,500
Dividends paid	15	-	(800)
Net cash flows (to) / from financing activities		**(22)**	**1,682**
Net decrease in cash and cash equivalents		**(175)**	**(2,567)**
Opening cash and cash equivalents		4,209	6,776
Closing cash and cash equivalents		**4,034**	**4,209**

RECONCILIATION OF LOSS AFTER TAXATION TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	Note	2024 $000	2023 $000
Loss after taxation		(587)	(828)
Adjustments for non-cash and non-operating items included in loss after taxation:			
Amortisation	12	593	108
Depreciation		19	16
Interest expense		3	3
Interest income		(719)	(523)
Gain on disposal of assets		-	(2)
Changes in assets and liabilities			
Receivables		(45)	(4)
Payables and other liabilities		25	350
Net deferred taxation	11	(221)	(326)
Provisions	13	(196)	196
Insurance contract liabilities		(239)	689
Net cash flows to operating activities		**(1,367)**	**(321)**

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2024

1 BASIS OF ACCOUNTING

INTRODUCTION

The notes to the financial statements contain detailed financial information and the accounting policies that are considered relevant and material to the understanding of the financial performance and financial position.

Additional signposting has been used throughout the notes to the financial statements to assist readers in understanding the key information in the financial statements.

Signpost
Basis of preparation
Accounting policy
Management judgements and estimates

REPORTING ENTITY

Southern Cross Pet Insurance Limited (the "Company") is a limited liability company domiciled and incorporated in New Zealand. It is a wholly owned subsidiary of The Southern Cross Medical Care Society (the "Society"). The Company's registered office is Level 1, Te Kupenga, 155 Fanshawe Street, Auckland, 1010. The Company's primary activity is the provision of pet insurance.

The Company is a licenced insurer under the Insurance (Prudential Supervision) Act 2010 ("IPSA") since 30 January 2020. It is deemed to be a financial markets conduct reporting entity under Part 7 of the Financial Markets Conduct Act 2013 and therefore a Tier 1 reporting entity for financial reporting purposes.

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

BASIS OF PREPARATION

The Company is a for-profit entity for financial reporting purposes.

The financial statements are:

- prepared in accordance with the statutory requirements of the Financial Markets Conduct Act 2013, the Companies Act 1993, the Financial Reporting Act 2013 and the IPSA.
- prepared in accordance with New Zealand generally accepted accounting practice ("NZ GAAP").
- compliant with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and International Financial Reporting Standards ("IFRS").
- presented in New Zealand dollars ("NZD"), which is the Company's functional currency. All financial information has been rounded to the nearest thousand ($000), unless otherwise stated.
- stated net of Goods and Services Tax ("GST"), with the exception of receivables and payables, which are stated inclusive of GST where applicable. Net cash flows in the cash flow statement are shown exclusive of GST.
- prepared using historical cost as the measurement basis except for investments at fair value, and the measurement of insurance contracts based on the fulfilment cashflows.

Certain comparative amounts have been restated due to the application of NZ IFRS 17 (Insurance Contracts) ("NZ IFRS 17").

ACCOUNTING POLICIES AND STANDARDS

The Company has initially applied NZ IFRS 17 (Insurance Contracts), including any consequential amendments to other standards, on 1 July 2023. This standard has brought significant changes to the accounting for insurance contracts and is applied retrospectively. As a result, the Company has restated certain comparative amounts and presented a third statement of financial position as at 1 July 2022.

The Company has also adopted the amendment to NZ IAS 1 on Disclosure of Accounting Policies (Material accounting policies). The adoption of this new amendment did not significantly impact the Company's financial statements.

Except for the changes noted, the Company has consistently applied the accounting policies as were followed for the audited annual financial statements for the year ended 30 June 2023.

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

a. Recognition, measurement and presentation of insurance contracts

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

- If at any time during the coverage period, facts and circumstances indicate that a group of contracts is onerous, then the Company recognises a loss in profit or loss and increases the liability for remaining coverage ("LFRC") to the extent that the current estimates of the fulfilment cash flows that relate to remaining coverage exceed the carrying amount of the LFRC (i.e. the loss component).
- Measurement of insurance contracts now includes an explicit risk adjustment for non-financial risk which replaces the risk margin under NZ IFRS 4.
- Adoption of the option to not defer acquisition cash flows.
- Derecognition of the customer base asset that was recognised under NZ IFRS 4 following its acquisition of a portfolio of insurance contracts. Management judgement was applied to determine this asset was an insurance acquisition cash flow asset and that this asset should be de-recognised after taking the option to expense insurance acquisition cash flows as incurred.

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

b. Transition

The Company has applied NZ IFRS 17 to its Pet insurance portfolio, as if it always existed, under the full retrospective approach. Under the full retrospective approach, the Company, at 1 July 2022:

- identified, recognised and measured each group of insurance as if NZ IFRS 17 had always been applied;
- derecognised previously reported balances that would not have existed if NZ IFRS 17 had always been applied.
- recognised any resulting net difference in equity. The carrying amount of goodwill from previous business combinations was not adjusted.

The initial application of NZ IFRS 17 has reduced the Company's equity by $3,179k (net of tax) at 1 July 2022.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2024

1 BASIS OF ACCOUNTING (continued)

USE OF ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised.

Information about areas of estimation, uncertainty and critical judgements in applying accounting policies that have material impact on the amounts recognised in the financial statements are described as follows:

Assets / liabilities	Notes	Judgments	Notes	Assumptions and estimation uncertainties
Insurance contracts	3(a) and 3(b)	Classification of insurance contracts: assessing whether the contract transfers significant insurance risk.	4	Changes in the following key assumptions will change the fulfilment cashflows materially and impact the onerous contracts assessment: (i) Cash flows relating to expected premiums. (ii) Claims development. (iii) Cash flows relating to expenses. (iv) Risk adjustment for non-financial risk.
	3(c)	Level of aggregation of insurance contracts: identifying portfolios of contracts and determining groups of contracts that are onerous on initial recognition and those that have no significant possibility of becoming onerous subsequently.		
	3(e), 4	Measurement of insurance contracts: determining the techniques for estimating risk adjustments for non-financial risk.		
Intangible assets	12	Determination of the level to which the intangible asset belongs to, based on identifiable cash flows for impairment testing.	12	Impairment of intangible assets, including goodwill. Key assumptions underlying recoverable amounts such as projected cash flows and discount rates.
Provisions	13	Determining whether a present obligation exists as a result of a past event and the probability of a outflow of resources to settle the obligation.	13	Measurement of estimated costs associated with the provisions.
Taxation		-	11	Recognition of deferred tax assets: availability of future taxable profit against which deductible temporary differences and tax losses carried forward can be used.

2 SOLVENCY

As a licensed insurer, the IPSA requires the Company to retain a positive solvency margin in accordance with the Interim Solvency Standard Amendment Standard 2023 ("the Interim Solvency Standard") issued by the Reserve Bank of New Zealand ("RBNZ"), meaning that solvency capital position exceeds the prescribed capital requirement under the Interim Solvency Standard.

The Company's Capital Management policy for managing capital is to have a capital base to provide security for policyholders. The Company has a parental support resolution in place. The Company has embedded in its capital management policy the necessary tests to ensure continuous and full compliance with the Interim Solvency Standard.

The Company complied with RBNZ imposed capital requirements as at 30 June 2024 (30 June 2023: In compliance).

	2024 $000
Disclosures of solvency required by the Interim Solvency Standard as issued by the RBNZ	
Solvency capital	12,762
Adjusted prescribed capital requirement	8,025
Adjusted solvency margin	4,737

	2024
Adjusted solvency ratio	1.59

Under the Solvency Standard in-force as at 30 June 2023, the Company reported solvency capital of $7,574k and minimum solvency capital of $4,455k. This resulted in a solvency margin of $3,119k and a solvency ratio of 1.70.

On 20 December 2023, Standard & Poor's reaffirmed the Company's Insurer Financial Strength Rating at A (Strong) (6 December 2022: A (Strong)), under its global insurance industry rating methodology.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 30 June 2024

3 INSURANCE CONTRACTS - MATERIAL ACCOUNTING POLICIES

The material accounting policies adopted for insurance contracts are summarised below.

a. Insurance contracts classification

The Company issues insurance contracts in the normal course of business, under which it accepts significant insurance risk from its policyholders. The Company determines whether it has significant insurance risk, by assessing the additional benefits payable after an insured event. Insurance contracts also expose the Company to financial risk.

The Company issues pet insurance contracts to individuals. Pet insurance plans cover sickness and accidental injury of policyholders' pets.

b. Separating components from insurance contracts

The Company assesses its pet insurance products to determine whether they contain distinct components which must be accounted for under another NZ IFRS instead of under NZ IFRS 17. These insurance products in the Company do not include any distinct components that require separation.

c. Level of aggregation

The Company only offers pet insurance contracts. All pet insurance contracts are subject to similar risks and managed together, which form the Company's single portfolio of contracts.

The portfolio is further disaggregated into groups based on expected profitability, assessed by actuarial valuation models that take into consideration existing and new business, expected loss ratios, expense ratios and risk adjustments.

An insurance contract issued by the Company is recognised from the earliest of (i) its anniversary date (i.e. the beginning of its coverage period), (ii) the date when the first payment from a policyholder becomes due or (iii) when facts and circumstances indicate that the contract is onerous.

The Pet insurance portfolio consists of (a) a group of contracts that are onerous on initial recognition and (b) a group of contracts with no significant chance of being onerous. The onerous contracts relate to individual policies where "free cover" for veterinary care is offered to puppies and kittens between the ages of 6 and 26 weeks, for a period of 6 weeks.

d. Contract boundary

The measurement of a group of contracts includes all of the future cash flows within the boundary of each contract in the group. Cash flows are within the contract boundary if they arise from substantive rights and obligations that exist during the reporting period in which the Company can compel the policyholder to pay premiums or has a substantive obligation to provide insurance services. A substantive obligation to provide services ends when the Company has the practical ability to reassess the risks of the portfolio that contains the contract and re-price accordingly.

The assessment of the contract boundary, which defines which future cash flows are included in the measurement of a contract, requires judgement and consideration of the Company's substantive rights and obligations under the contract:

- For the PetCare and AcciPet products, the Company has the right to reprice on the renewal date of a policy, but not during the policy period. For these products, the contract boundary ends on the renewal date resulting in a coverage period of 12 months.
- For the FreeCover product, the contract boundary is 6 weeks as the cover automatically terminates after 6 weeks of cover and there is no option to renew.

e. Measurement approach: Premium Allocation Approach ("PAA")

The Company uses the PAA to simplify the measurement of its groups of contracts. Subject to specified criteria, the PAA can be adopted as a simplified approach to the NZ IFRS 17 general model. The coverage period of contracts in the Pet insurance portfolio is one year or less and qualifies automatically for the PAA.

The following elections have been made given the adoption of the PAA:

- The Company has elected that insurance acquisition cash flows are expensed as incurred.
- The Company elects to make no adjustment for financial risk or the time value of money when determining the liability for remaining coverage ("LFRC") as all premiums in the Company's portfolio are due within one year.
- The Company elects to make no adjustment for financial risk or the time value of money when determining the liability for incurred claims ("LIC") as all incurred claims arising from the Company's portfolio are expected to be paid out in less than one year.

i. Initial measurement

On initial recognition, the LFRC is measured as the premiums received (if any) minus any insurance acquisition cash flows allocated to the group at that date (where applicable), and adjusted for any amount arising from the derecognition of any assets or liabilities previously recognised.

For contracts that are onerous on initial recognition, the LFRC is measured as the net outflow of fulfilment cash flows for the group of onerous contracts over the coverage period with the corresponding entry recorded as a loss in the profit or loss. This establishes a loss component for the LFRC that depicts the day 1 losses recognised.

The Company has recognised a loss component for the LFRC relating to its FreeCover product.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 30 June 2024

3 INSURANCE CONTRACTS - MATERIAL ACCOUNTING POLICIES (continued)

ii. Subsequent measurement

Subsequently, the carrying amount of the LFRC is:

- increased by premiums received
- decreased by the amount recognised as insurance revenue for services provided

The Company allocates the expected premium to each period based on the passage of time or the expected timing of incurred insurance service expenses, if the expected pattern of release of risk during the coverage period differs significantly from the passage of time.

Where, during the coverage period, facts and circumstances indicate that a group of insurance contracts is onerous, the Company recognises a loss in profit or loss for the net outflow over the remainder of the coverage period, resulting in the carrying amount of the liability for the group being equal to the fulfilment cash flows for the remainder of the coverage period. The loss component is released to the profit or loss on a systematic basis over the coverage period, based on an allocation that reflects the expected pattern of release of risk.

The Company recognises the LIC of a group of insurance contracts at the amount of the fulfilment cash flows relating to incurred claims plus an explicit risk adjustment for non-financial risk.

iii. Derecognition and contract modification

The Company derecognises a contract when it is extinguished – i.e. when the specified obligations in the contract expire or are discharged or cancelled.

The Company also derecognises a contract if its terms are modified in a way that would have changed the accounting for the contract significantly had the new terms always existed, in which case a new contract based on the modified terms is recognised. If a contract modification does not result in derecognition, then the Company treats the changes in cash flows caused by the modification as changes in estimates of fulfilment cash flows.

f. Presentation

The Company categorises amounts recognised in the statement of comprehensive income as an insurance service result, comprising insurance revenue and insurance service expenses. Disclosure of insurance finance income and expense is not applicable to the Company as no allowance is made for the discounting of either the LFRC or the LIC.

- Insurance revenue: the insurance revenue for each period is the amount of expected premium receipts for providing services in the period.
- Insurance service expenses: insurance service expenses include incurred claims and directly attributable expenses such as overheads, policy administration and claims handling costs etc. It also includes losses on onerous contracts and reversals of such losses.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 30 June 2024

4 INSURANCE CONTRACTS

See material accounting policies relating to insurance contracts in Note 3.

For the Pet insurance portfolio, the insurance contracts are of a short duration and the carrying amounts are expected to be settled within 12 months after the reporting date.

	2024	2023 Restated
	$000	$000
Insurance contracts		
Insurance contract liabilities	4,353	4,592
Total	4,353	4,592

	2024	2023 Restated
	$000	$000
Insurance revenue	41,337	36,435
Insurance service expenses	(42,044)	(36,598)
Insurance service result	(707)	(163)

At 30 June 2024, the exposure to credit risk from insurance contracts is $1,841k (30 June 2023: $1,697k), which relates to premiums receivable (a component of the LFRC) for services that the Company has already provided.

Fulfilment cash flows

The fulfilment cash flows on initial recognition are used to determine if a group of insurance contracts are onerous and the related LFRC loss component. Fulfilment cash flows comprise:

- estimates of future cash flows; and
- a risk adjustment for non-financial risk.

The following have been incorporated in the estimation of future cash flows:

- Cash flows relating to expected premiums are determined based on the annual premium income over the coverage period. These cash flows are adjusted with an assumption relating to expected lapses.
- Cash flows relating to expected claims are based on expected loss ratios. These loss ratios are updated annually based on a combination of historical data about claims, other experience and the Company's current expectations of future events that might affect these cash flows.
- Cash flows relating to expenses are allocated to groups of contracts based on an expense allocation model, where cash flows that relate directly to the fulfilment of the contract are included as a function of annual premium income (i.e. the applied percentage). The attributable cash flows are determined based on their nature and the activities they are incurred for. Attributable cash flows include outflows such as claims handling, policy administration and maintenance costs and an allocation for fixed and variable overheads.
- The valuation of the LFRC loss component is based on the unexpired portion of the coverage period of the groups that are onerous at the reporting date.

Risk adjustment

Risk adjustment for non-financial risk reflects the compensation that the Company may require for bearing the uncertainty about the amount and timing of cash flows that arise from non-financial risk. The risk adjustment has been determined at portfolio level.

The risk adjustment relating to the LFRC loss component was determined using a confidence level technique. The Company estimates the probability distribution of the expected present value of future cash flows at the reporting date and calculates the risk adjustment for non-financial risk as the excess of the value at risk at the 75th percentile (the target confidence level) over the expected present value of the future cash flows of claims cash flows.

Risk adjustment relating to LFRC loss component	**2024**	**2023**
Pet insurance - FreeCover product	10.0%	10.0%

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 30 June 2024

4 INSURANCE CONTRACTS (continued)

Liability for incurred claims (LIC)

The Company estimates the liability for incurred claims as the central estimate of the present value of expected future payments for claims incurred but not settled at the balance date.

The following key assumptions have been applied in determining the LIC of the Company

	2024	2023
Weighted average term to settlement (months)	6.5	5.8
Claims handling expense ratio	6.0%	7.0%
Risk adjustment	8.5%	8.5%

Weighted average term to settlement
The average weighted term to settlement is based on historic settlement patterns.
Future patterns of claims development will be similar to historical patterns. No explicit adjustment for discounting and future inflation has been made to expected claim payments. This is appropriate given the short tail nature of the liabilities.

Claim handling expenses
Claims handling expenses include internal and external costs incurred in connection with the settlement of claims. Internal costs include all direct expenses of the claims department and any part of the general administrative costs directly attributable to the claims function. Claims handling expense allowance is based on an analysis of administration expenses.

Risk adjustment:
The risk adjustment for non-financial risk is determined using a confidence level technique. The Company estimates the probability distribution of the expected present value of future outstanding claims cash flows at the reporting date and calculates the risk adjustment for non-financial risk as the excess of the value at risk at the 75th percentile (the target confidence level) over the expected present value of the future cash flows of outstanding claims cash flows.

Movements in insurance contract liabilities

30 June 2024

	Liabilities for remaining coverage (LFRC)		Liabilities for incurred claims (LIC)		
In $000	**Excluding loss component**	**Loss component**	**Estimates of present value of future cash flows**	**Risk Adjustment for non-financial risk**	**Total**
Opening insurance contract liabilities as at 1 July 2023	875	16	3,437	264	4,592
Insurance revenue	(41,337)	-	-	-	(41,337)
Insurance service expenses					
Incurred claims and other insurance service expenses	-	-	42,465	221	42,686
Changes that relate to past service - adjustments to the LIC	-	-	(417)	(228)	(645)
Losses on onerous contracts and reversal of those losses	-	3	-	-	3
Total insurance service expenses	**-**	**3**	**42,048**	**(7)**	**42,044**
Insurance service result	**(41,337)**	**3**	**42,048**	**(7)**	**707**
Cash flows					
Premiums received	41,346	-	-	-	41,346
Claims and other insurance service expenses paid	-	-	(42,292)	-	(42,292)
Total cash flows	**41,346**	**-**	**(42,292)**	**-**	**(946)**
Closing insurance contract liabilities as at 30 June 2024	**884**	**19**	**3,193**	**257**	**4,353**

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 30 June 2024

4 INSURANCE CONTRACTS (continued)

Movements in insurance contract liabilities (continued)
30 June 2023

	Liabilities for remaining coverage (LFRC)		Liabilities for incurred claims (LIC)		
In $000	**Excluding loss component**	**Loss component**	**Estimates of present value of future cash flows**	**Risk Adjustment for non-financial risk**	**Total**
Opening insurance contract liabilities as at 1 July 2022	831	18	2,842	212	3,903
Insurance revenue	(36,435)	-	-	-	(36,435)
Insurance service expenses					
Incurred claims and other insurance service expenses	-	-	36,221	229	36,450
Changes that relate to past service - adjustments to the LIC	-	-	327	(177)	150
Losses on onerous contracts and reversal of those losses	-	(2)	-	-	(2)
Total insurance service expenses	**-**	**(2)**	**36,548**	**52**	**36,598**
Insurance service result	**(36,435)**	**(2)**	**36,548**	**52**	**163**
Cash flows					
Premiums received	36,479	-	-	-	36,479
Claims and other insurance service expenses paid	-	-	(35,953)	-	(35,953)
Total cash flows	**36,479**	**-**	**(35,953)**	**-**	**526**
Closing insurance contract liabilities as at 30 June 2023	**875**	**16**	**3,437**	**264**	**4,592**

Sensitivity analysis

The LIC and LFRC loss component were recalculated using alternative assumptions to assess the sensitivity of results to those assumptions. The sensitivities do not represent an upper or lower bound of possible outcomes.

	LIC			
	Estimate 2024	**Change 2024**	**Estimate 2023 Restated**	**Change 2023 Restated**
	$000	**$000**	**$000**	**$000**
LIC sensitivity				
10% increase in Payment Per Pet factors	3,794	344	3,826	125
10% decrease in Payment Per Pet factors	3,106	(344)	3,576	(125)
2.5% increase in Claims Handling Expense	3,525	75	3,779	78
2.5% decrease in Claims Handling Expense	3,375	(75)	3,623	(78)

	LFRC loss component			
	Estimate 2024	**Change 2024**	**Estimate 2023**	**Change 2023**
LFRC loss component sensitivity	**$000**	**$000**	**$000**	**$000**
Base	19.4	-	15.8	-
Lapse rate +5%	19.4	-	15.8	-
Lapse rate -5%	19.4	-	15.8	-
Expected claims +5%	20.3	1.0	16.6	0.8
Expected claims -5%	18.4	(1.0)	15.0	(0.8)
Expense ratio +2.5%	19.9	0.5	16.2	0.4
Expense ratio -2.5%	18.9	(0.5)	15.4	(0.4)

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 30 June 2024

5 RISK MANAGEMENT

The Company is exposed to a number of risks in the normal course of business, specifically insurance risk, credit risk, liquidity risk, and operational risk. The Directors and management recognise the importance of having effective risk management and have put in place a comprehensive risk management program.

a. Insurance risk

The Company is exposed to insurance risk through its pet insurance activities. The key risk is that of claims costs varying significantly from the assumptions made in the setting of premium rates and putting pressure on the solvency and liquidity of the Company.

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

The primary objective in managing insurance risk is to reduce the magnitude and volatility of claims costs. A secondary objective is to ensure funds are available to pay claims and maintain the solvency of the organisation if there is adverse deviation in experience. Key policies and methods for mitigating insurance risk include:

- Each year, as part of the planning process, the Board and the Executive Leadership Team review the underwriting and pricing performance.
- Underwriting policies and processes which evaluate new risks and offer terms that do not endanger the portfolio.
- Policy terms and conditions which clearly specify which pet care costs are reimbursed and claims management procedures which ensure those terms and conditions are adhered to in claims administration.
- A long-term pricing strategy and guidelines adopted by the Board which supports pricing based on underlying risk.
- Regular monitoring of financial and operating results.
- Maintaining a target solvency margin in excess of the minimum required by the standard established by the RBNZ. The solvency margin ensures the Company is able to withstand a period of adverse insurance or investment experience and still maintain a satisfactory financial position (refer to Note 2).
- Cash flow projection model designed to forecast major inflow and outflow items.
- A minimum liquidity reserve buffer is maintained in excess of anticipated cash flow requirements.
- The Company continues to operate an information-only model, having ceased offering financial advice in January 2021.

ii. Sensitivity to insurance risk

The scope of insurance risk is managed by the terms and conditions of the policy. Policies are subject to benefit limitations and exclusions for maximum cover in each policy period. The main insurance benefits for the pet insurance business involves the reimbursement of medical and surgical expenses depending upon the plan product terms and conditions. The level of benefits specified in the contract is a key determinant of the amount of future claims, although the exact level of claims is uncertain.

iii. Concentration of insurance risk

Management defines concentration of risk by type of insurance business and geographic region. The pet insurance business in New Zealand represents a small and not well diversified risk base, therefore, the concentration of risk by geographic region cannot be avoided. Insurance risks are well diversified within the pet insurance portfolio with claims costs spread across many different types of medical procedures and health events, and animal demographics. There is no significant exposure to individual large claims, and policies do not cover any epidemic disease, pandemic disease, or any health condition that arises because the insured pet is not vaccinated.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 30 June 2024

5 RISK MANAGEMENT (continued)

b. Financial risks

i. Credit risk

Credit risk is the potential risk of loss arising from the failure of a debtor or counterparty to meet their contractual obligations.

In the normal course of its business the Company is exposed to credit risk from its pet insurance operations and from investment in financial assets.

The Company leverages policies set by Society (its parent) to manage the exposure to credit risk. Limits on counterparty exposures have been set and are monitored on an ongoing basis. The credit quality of investment counterparties is assessed based on published credit ratings issued by Standard & Poor's or equivalent ratings agencies. At the reporting date, there are concentrations of credit risk to the banking sector, in particular the four major Australian banks where the money market investments are primarily invested in.

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

	2024 $000	2023 $000
Money market		
AA-	7,408	8,988
Total	7,408	8,988

The maximum exposure to credit risk at the end of the reporting period is the amount of financial assets stated in the statement of financial position. These exposures are net of any recognised provisions for expected credit losses. The cash and cash equivalents balances are held with counterparties rated AA-.

ii. Liquidity risk

The Company is exposed to ongoing operational drawdowns on its available cash resources from claims and administration expenses. Liquidity risk is the risk that payment of obligations may not be met in a timely manner at a reasonable cost. The Board sets limits on the minimum proportion of maturing funds available to meet unexpected levels of claims and expenses.

Financial liabilities are all short term. Investments can usually be liquidated at any time, under normal market conditions, to settle liabilities. Contractual maturities of investments are within 12 months.

	2024 $000	2023 $000
Contractual maturities of investments		
0-6 months	7,408	7,887
7-12 months	-	1,101
Total	7,408	8,988

c. Market risks

i. Interest rate risk

The cash flows from the Company's investment in bank deposits are susceptible to changes in interest rates.

The fair value of fixed rate investments can fluctuate depending on changes in interest rates. The Company's policy is to hold all investments until maturity. This eliminates any effects of fair value changes to the investments upon realisation, however unrealised fair value changes are recognised in the statement of comprehensive income for each period.

ii. Fair values of financial assets and financial liabilities

All financial assets and financial liabilities included in the statement of financial position are carried at amounts that approximate fair value.

The table below analyses financial assets measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 30 June 2024

5 RISK MANAGEMENT (continued)

c. Market risks (continued)

Definition of the fair value hierarchy

Level 1: Valuation based on quoted market prices (unadjusted) in an active market.

Level 2: Valuation techniques based on observable market data, either directly (as prices) or indirectly (derived from prices).

Level 3: Valuation techniques not based on observable market data.

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
30 June 2024				
Investments	-	7,408	-	7,408
Total	-	7,408	-	7,408
30 June 2023				
Investments	-	8,988	-	8,988
Total	-	8,988	-	8,988

d. Operational risk

Operational risk is defined as the risk of loss (including financial, non-financial and lost opportunities) resulting from inadequate or failed internal processes, people and systems or from external events.

Management of the Company's operational risk is a continual cyclic process. This process is documented in the Risk Management ("RMF") framework, and includes risk identification, analysis, evaluation and implementation of risk controls, which results in acceptance, mitigation, or avoidance of risk. The RMF forms part of the overall risk management programme and describes the strategies adopted to identify and manage key risks across all areas of the Company. Operational risk is managed in accordance with the risk appetite statement set by the Board and the process in the RMF.

Operational Risks are categorised into Health, Safety and Wellbeing; Talent Management, Information Security; Compliance; Internal Fraud; External Fraud; Claims Leakage and Undesirable Billing; Conduct; ESG; Strategic Delivery; Operational Resilience; Customer Value Proposition; Partner Relationships.

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

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

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

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

- Affordability – the high inflationary environment continues to drive significant uplift in claims and operating costs, in conjunction with having to absorb incremental increases in compliance costs. Our customer base faces similar cost-of-living pressures, demanding new affordability options from us. This will support customers in maintaining their pet insurance cover, in the face of the increasing cost of pet ownership and pressure on discretionary incomes.
- Vet community changes – heightened demand for vet services, an associated shift to specialist / after-hours treatment models, corporatisation of vets, scarcity of skilled labour across the industry, inflationary pressure lifting operating costs, all generating increased health and wellbeing pressures across the animal welfare sector.
- Competitive environment – the pool of pet insurers and pet wellbeing providers are balancing changes in premiums and pricing, product features and benefits, product innovation, and customer experience, while competing for customer affinity and discretionary spend in a tight economic environment.
- Regulatory momentum – responding to uplift in regulatory and legal change, generating heightened expectation and scrutiny across: financial solvency; customer-centricity, fairness and conduct; operational resilience and cyber; privacy and confidentiality; consumer and insurance law; environment, sustainability and governance; and financial accounting and reporting standards.
- Information security, operational, and cyber-resilience – recognising and responding to increasingly digitised customer experience, internal reliance on systems, data and automation, and the material uplift in threat complexity posed globally by potential cyber intrusion, hacking, data theft and intrusion.
- Workforce and workplace dynamics – adapting to virtualisation of workplaces, changed operating models, shifts in customer contact and claiming behaviour, challenges finding and retaining top talent, and supporting employee health, safety and wellbeing under prolonged pace and complexity.

e. Climate risk

The Company is not a climate-reporting entity, but its Greenhouse Gas (GHG) emissions will be reported in the Society's Climate Statements. The Company's GHG emissions will be based on employee numbers, vehicles and building usage.

The Company's FY25 target reduction has yet to be agreed. The Company is part of the Group Responsible Business working group exploring aligned improvement strategies across Southern Cross Healthcare, Society, and subsidiaries. Consideration and management of the Company's climate-related risks is incorporated within the existing Board Risk Appetite and Risk Management Framework.

Having considered recent Reserve Bank guidance, and the potential physical and transition risks to our business, the Company currently has no material climate-related risks requiring active management.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 30 June 2024

6 EXPENSES

	Note	2024	2023
			Restated
		$000	$000
Claims and benefits		27,342	24,762
Losses on onerous contracts and reversal of those losses		4	(2)
Total claims and benefits		27,346	24,760
Included within operating expenses are the following specific items:			
Auditor's remuneration:			
• audit of annual financial statements		121	77
• NZ IFRS 17 transition audit work		58	66
• assurance of annual insurer solvency return		42	28
Purchase of services	14a	13,525	11,443
Depreciation		19	16
Amortisation	12	593	108
Professional and consultancy fees		268	456
Discount remediation costs		(28)	494
Restructuring costs		106	79
Software licenses and support agreement		649	541
Other		165	44
Total operating expenses		15,518	13,352
Total expenses		**42,864**	**38,112**
Represented by:			
Insurance service expenses		42,044	36,598
Other operating expenses		820	1,514
Total expenses		42,864	38,112

Insurance service expenses include outflows such as claims, insurance acquisition, claims handling, policy administration, maintenance costs and an allocation for fixed and variable overheads.

Other operating expenses relate to costs that are not directly attributable to the fulfilment of insurance contracts.

7 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand and current account balances in bank accounts, which are readily convertible to cash, with original maturities of less than three months, and are carried at amortised cost as proxy for fair value through profit or loss as they are subject to an insignificant risk of changes in value.

8 RECEIVABLES

Receivables comprise prepayments and other receivables. Other receivables are measured at amortised cost less any allowance for expected credit losses. Other receivables are all current assets and their fair values approximate the carrying amounts.

	2024	2023
		Restated
	$000	$000
Prepayments	55	20
Other receivables	13	3
Total	**68**	**23**

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 30 June 2024

9 INVESTMENTS

Investments are recognised on the date they are originated and de-recognised on the date of maturity or sale of an investment.

The Company designates its investments as "financial assets at fair value through profit or loss" at inception because they relate to insurance contracts that are measured in a way that incorporates current information. Discounted cash flow techniques are commonly used for the valuation of debt securities.

Changes in fair value are recognised in the statement of comprehensive income. The credit quality, contractual maturities, and fair value hierarchies of investments are disclosed in Note 5. Interest income on bank deposits is recognised using the effective interest method.

	2024	2023
	$000	$000
Investments		
Bank deposits	7,408	8,988
Total	7,408	8,988

10 PAYABLES AND OTHER LIABILITIES

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

	Note	2024	2023
		$000	$000
Payables and other liabilities			
Trade creditors - related party balance	14	1,177	1,130
Accruals		1,009	1,031
Total		2,186	2,161

11 TAXATION

The Company is subject to income tax, and is able to utilise tax losses of the Society's subsidiaries. Deferred tax expense / (credit) is recognised in respect of temporary differences between the carrying amount of assets and liabilities in the financial statements and the amounts used for taxation purposes. Deferred tax assets are only recognised to the extent it is probable they will be utilised.

a Income tax

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

	2024	2023
		Restated
	$000	$000
Reconciliation of income tax to loss before taxation		
Loss before taxation	(808)	(1,154)
Income tax at the domestic tax rate of 28%	(226)	(323)
Tax effect of non-deductible expenditure	5	5
Tax effect of temporary differences	-	(8)
Total income tax credit	(221)	(326)

b Deferred tax

The Company has accumulated tax losses carried forward of $2,400k, tax effect: $672k (30 June 2023: tax losses of $1,045k, tax effect $292k.)

	2024	2023
		Restated
	$000	$000
Deferred tax comprises temporary differences attributable to:		
Intangible assets	(121)	(16)
Losses available to offset against future taxable income	672	292
Payables and other liabilities	15	75
LFRC loss component	5	4
LIC adjustment	-	(5)
Total deferred tax assets	571	350
Movements in deferred tax liabilities		
Opening balance as at 1 July 2022 (under NZ IFRS 4)	-	(1,213)
Restatement:		
Derecognition of the Customer Base intangible asset	-	675
Release of insurance acquisition cash flows	-	562
Establishment of LFRC loss component	-	5
LIC movement	-	(5)
Restated opening balance	350	24
Intangible assets temporary differences recognised in the statement of comprehensive income	(105)	(11)
Recognition of losses available for offset against future taxable income	380	292
Other temporary differences recognised in the statement of comprehensive income	(54)	45
Closing deferred tax assets	571	350

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 30 June 2024

12 INTANGIBLE ASSETS

Intangible assets are measured at cost, less accumulated amortisation and impairment losses. Capital expenditure on all projects is initially recorded as work in progress. On completion of the project the asset is transferred to the appropriate asset category when the project will generate future economic benefits. For computer software development, costs incurred in researching and evaluating a project up to the point of formal commitment to a project are treated as research costs and are expensed as incurred. Work in progress is not depreciated or amortised.

Amortisation is recognised to allocate the assets' costs, net of any residual amounts, over their estimated useful lives. The assets' useful lives are reviewed and adjusted if appropriate at each balance date. An asset's carrying amount is written down to its recoverable amount if it is considered that the carrying amount is greater than its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Assets	Estimated useful lives
• Goodwill	Indefinite
• Computer Software	5 years

Goodwill

Goodwill relates to the pet insurance business acquired on 31 January 2020. The cost of an acquisition is measured as the fair value of the total identifiable net assets acquired. On acquisition of a business, the excess of purchase consideration over the fair value of identifiable net assets acquired is recognised as goodwill. Following initial recognition, goodwill is not amortised as it has an indefinite useful life, but is tested for impairment annually and assessed at each reporting date for indicators of impairment. For the purposes of impairment testing, goodwill is allocated to the CGU, being the Company. At 30 June 2024, goodwill was tested for impairment using the value in use methodology, using projected cash flows for the next five years in the current Board approved business plan. Key assumptions include underwriting result growth and cost-to-income ratio. Underwriting result growth is calculated by forecasting pet lives growth based on expected marketing investment less lapses, premium increases and loss ratios based on past experience as well as management actions to curb claims costs. Cost-to-income ratio is calculated based on expected operational spend and premium increases. The cash flows were discounted using a nominal rate of 14.5% after tax (30 June 2023: 14.5%), with a terminal growth rate of 2% of the CGU (30 June 2023: 2%). Adverse changes in actual performance or future rates of growth will reduce the calculated recoverable amount. A reduction of 2.4% (30 June 2023: 1.2%) in the projected average five year underwriting result growth would result in impairment of the carrying value. The recoverable amount using the five year projection exceeds the carrying amount, and no impairment losses on goodwill were recognised during the year to 30 June 2024 (30 June 2023: Nil).

Computer Software

Computer software and work in progress (WIP) relate to software developed for internal use. The capitalised costs include salaries and ancillary costs incurred for the development which are monitored and estimated by the Company. At 30 June 2024, for the purposes of impairment testing, computer software and WIP are allocated to the CGU, being the Company and were tested using the value in use methodology. The same projected cash flows and discount rates as the goodwill impairment testing were used. The recoverable amount using the five year projection exceeds the carrying amount of the CGU, and no impairment losses on computer software and WIP were recognised during the year to 30 June 2024 (30 June 2023: Nil).

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 30 June 2024

12 INTANGIBLE ASSETS (continued)

Intangible assets	Goodwill $000	Computer software $000	Work in progress $000	Total $000
Cost	4,192	1,037	1,067	6,296
Accumulated amortisation and impairment	-	(125)	-	(125)
Opening net book value as at 1 July 2023 (restated)	**4,192**	**912**	**1,067**	**6,171**
Additions	-	-	1,085	1,085
Transfers	-	1,959	(1,959)	-
Amortisation	-	(593)	-	(593)
Closing net book value as at 30 June 2024	**4,192**	**2,278**	**193**	**6,663**
Cost	4,192	2,996	193	7,381
Accumulated amortisation and impairment	-	(718)	-	(718)
Closing net book value as at 30 June 2024	**4,192**	**2,278**	**193**	**6,663**
Cost	4,192	91	528	4,811
Accumulated amortisation and impairment	-	(17)	-	(17)
Opening net book value as at 1 July 2022 (restated)	**4,192**	**74**	**528**	**4,794**
Additions	-	-	1,485	1,485
Transfers	-	946	(946)	-
Amortisation	-	(108)	-	(108)
Closing net book value as at 30 June 2023 (restated)	**4,192**	**912**	**1,067**	**6,171**
Cost	4,192	1,037	1,067	6,296
Accumulated amortisation and impairment	-	(125)	-	(125)
Closing net book value as at 30 June 2023 (restated)	**4,192**	**912**	**1,067**	**6,171**

The Customer Base intangible asset was derecognised as part of the transition to NZ IFRS 17 (refer to Note 1). A closing balance of $2,009k was reported for this intangible asset as at 30 June 2023 under NZ IFRS 4.

13 PROVISIONS

	Discount remediations $000	Restructuring provision $000	Total $000
Reconciliation of movement in provisions			
Opening balance as at 1 July 2023	117	79	196
Provision made during the period	23	-	23
Provision reversed during the period	(51)	-	(51)
Provision used during the period	(89)	(79)	(168)
Closing balance as at 30 June 2024	-	-	-
Current	-	-	-
Total	**-**	**-**	**-**

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

The Company has completed its discount and claims-related remediation during the financial year.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 30 June 2024

14 RELATED PARTIES

a Identity of related parties:	**Relationship**	**Balance Date**
• The Southern Cross Medical Care Society ("Society")	Parent	30 June
• Southern Cross Health Services Limited ("SCHSL")	100% subsidiary of Society	30 June
• Southern Cross Insurance Services Limited ("SCISL")	100% subsidiary of Society	30 June
• Southern Cross Ventures Limited ("SCVL")	100% subsidiary of Society	30 June
• Southern Cross Benefits Limited ("SCBL")	100% subsidiary of Society	30 June
• CareHQ Limited Partnership	Joint venture of SCVL	30 June
• CareHQ (General Partner) Limited	Joint venture of SCVL	30 June
• Southern Cross Health Trust ("Trust")	Related party of Society	30 June
• Southern Cross Healthcare Limited ("Healthcare")	100% subsidiary of Trust	30 June
• Directors of Southern Cross Medical Care Society	Directors of Parent	-
• Directors of Southern Cross Pet Insurance Limited	Directors of the Company	-

The Company and its related parties are separate legal entities. All entities provide their normal services to other group entities on normal commercial terms. However, some goods and services are purchased by the entities on a combined basis, and are on-charged to other related parties at cost.

All related party balances are payable on normal trading terms and unsecured, except for tax loss offsets between subsidiaries of Society and the use of Society's trademark. No related party balances have been written off or forgiven during the year ended 30 June 2024 (30 June 2023: Nil).

	Note	2024 $000	2023 $000
Total amount of transactions with Society			
Purchase of services	6	13,525	11,443
Share capital issue	15	-	2,500
Dividends paid	15	-	800
Total outstanding balances with Society			
Payables	10	1,177	1,130

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

b Remuneration of directors

The Company has provided its directors and officers with directors' and officers' liability insurance cover, for liabilities to other parties that may arise from their positions as director. The Company does not provide loans or advances to directors or officers.

Directors of the Company may hold pet insurance policies with the Company, health insurance policies with the Society and/or travel insurance policies with SCBL. Premiums on these policies may be discounted in line with standard discounts available to all Society personnel.

Director	**Remuneration for Board and Audit & Risk Committee**
Actual directors' remuneration paid by the Company for the year ended 30 June 2024 was as follows:	
N J Astwick	-
M J Gardiner	31,875
	Audit & Risk Committee Chair
M L James	51,250
	Board Chair
C J Black	25,625
Total	108,750

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

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

c. Remuneration of personnel

The Company has no direct employees. Society's employees manage the operations of the pet insurance business under a management services agreement. Management services costs are recorded as purchase of services in the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 30 June 2024

15 SHARE CAPITAL

Share capital comprises 15,000,100 authorised, issued and fully paid $1.00 ordinary shares (30 June 2023: 15,000,100). All ordinary shares have equal voting rights, and share equally in dividends and surplus on winding up. No additional shares were issued during the year ended 30 June 2024 (30 June 2023: 2,500,000 additional shares were issued).

The Company did not pay any dividend in the year ended 30 June 2024 (30 June 2023: $0.8 million).

16 CONTINGENCIES AND SUBSEQUENT EVENTS

a Contingent liabilities

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

As at 30 June 2024, there are no known contingent liabilities (30 June 2023: nil).

b Subsequent events

There were no events subsequent to the reporting period which materially affects the financial statements (30 June 2023: nil).

17 CHANGES IN FINANCIAL REPORTING STANDARDS

New accounting standards not yet effective

There are a number of standards, amendments and interpretations which have been approved but are not yet effective. The Company expects to adopt these when they become due for adoption. These standards are not expected to have a material impact on the Company's financial statements in the current or future reporting periods.

Title	Description	Application Date
NZ IAS 1	Amendments to NZ IAS 1: Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants	1 July 2024
NZ IFRS 16	Amendments to NZ IFRS 16: Lease Liability in a Sale and Lease Back	1 July 2024
NZ FRS 44	Amendments to NZ FRS 44: Disclosure of Fee for Audit Firms' Services	1 July 2024
NZ IFRS 18	NZ IFRS 18: Presentation and Disclosure in Financial Statements	1 July 2027

Independent auditor's report

To the Directors of Southern Cross Pet Insurance Limited

Report on the audit of the financial statements

Opinion

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

- the statement of financial position as at 30 June 2024;
- the statements of comprehensive income, changes in equity and cash flows for the year then ended;
- notes, including material accounting policy information and other explanatory information

In our opinion, the accompanying financial statements on pages 2 to 21 present fairly in all material respects the Company's financial position as at 30 June 2024 and its financial performance and cash flows for the year ended on that date, in accordance with New Zealand Equivalents to International Financial Reporting Standards (**NZ IFRS**) issued by the New Zealand Accounting Standards Board and the International Financial Reporting Standards issued by the International Accounting Standards Board.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (**ISAs (NZ)**). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Company in accordance with Professional and Ethical Standard 1 International Code of Ethics for Assurance Practitioners (Including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (**IESBA Code**), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

Our firm has provided other services to the Company in relation to the audit of the audit of the annual solvency return. Subject to certain restrictions, partners and employees of our firm may also deal with the Company on normal terms within the ordinary course of trading activities of the business of the Company. These matters have not impaired our independence as auditor of the Company. The firm has no other relationship with, or interest in, the Company.

Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole. The materiality for the financial statements as a whole was set at $253k determined with reference to a benchmark of the Company's net assets. We chose the benchmark because, in our view, this is a key measure of the Company's performance.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the directors as a body may better understand the process by which we arrived at our audit opinion.

Our procedures were undertaken in the context of and solely for the purpose of our audit opinion on the financial statements as a whole and we do not express discrete opinions on separate elements of the financial statements.

The key audit matter	How the matter was addressed in our audit
Valuation of insurance contract liabilities ($4,353k) **Liability for Incurred Claims ($3,450k)** **Liability for Remaining Coverage ($903k)**	
Refer to Notes 3 and 4 to the financial statements. The Company's insurance contract liabilities represents a financially significant balance. Insurance contract liabilities comprise the liability for incurred claims (**LIC**) and the liability for remaining coverage (**LFRC**). Insurance contract liabilities are measured under NZ IFRS 17 *Insurance Contracts* (**NZ IFRS 17**) and the Company has applied the premium allocation approach (**PAA**) for measurement. The LIC comprises fulfilment cash flows related to past services provided under groups of insurance contracts which have not yet been paid, including claims that have been incurred but not yet reported (**IBNR**) and claims incurred but not enough reported (**IBNER**). This balance is inclusive of a risk adjustment for non-financial risk. The LIC reflects the Company's actuarial assessment of future expected outcomes. The LFRC comprises fulfilment cashflows of services to be provided under groups of insurance contracts, inclusive of a loss component where insurance contracts are onerous. The valuation of insurance contract liabilities is a key audit matter as it is highly judgemental and requires assumptions to be made with inherent estimation uncertainty.	Together with our actuarial specialists, the procedures we performed included: • developing an understanding of the control activities over the process for valuing the insurance contract liabilities. For certain control activities, this included assessing whether they were appropriately designed and testing the operating effectiveness, throughout the year ended 30 June 2024; • testing general IT controls and application controls of claims systems; • Selecting a sample of written premiums, case estimates and claim payments to check the accuracy of the data to source documentation, including the financial and non-financial attributes; • comparing the actuarial methodologies with the methodologies applied across the industry and in prior periods, and the requirements of NZ IFRS 17; evaluating the assumptions including loss ratios, claim frequencies, average claim sizes, ultimate claims costs and allowance for future claims inflation, by comparing these to our expectations based on the historical actual

The key audit matter	How the matter was addressed in our audit
Key elements of uncertainty and judgement include: • whilst the application of the PAA methodology does not require complex calculations, there is judgement in determining if there are facts and circumstances indicating onerous contracts exist; • the valuation of the LIC involves a high level of judgement in estimating future payments for claims incurred, including case estimates for reported claims, and claims incurred but not yet reported to the Company; • judgement is required to determine the degree to which the historical claims experience influences current estimates. This is particularly judgemental for long-tail product lines, for which variability often exists between the original estimation and the ultimate settlement of claims; • judgements in the modelling process, which involves complex and subjective actuarial methodologies, as well as judgements and assumptions about future events and developments, both within, and external to, the Company. Actuarial assumptions include loss ratios, claim frequencies and average claim sizes, and allowance for future claims inflation. Changes in methodologies, judgements and assumptions can significantly change the quantification of the LIC. It is challenging to estimate the impact of elevated inflationary pressures on the LIC, and judgement is needed to determine the extent to which recent experience influences the valuation at balance date; • judgement is required to assess the estimation of the time periods the claims are expected to be settled in; and • judgement is required to reflect the compensation an entity requires for bearing the uncertainty of the amount and timing of insurance contract cash flows that arise from non-financial risks. This complexity requires us to exercise judgement when evaluating the methodology and assumptions adopted by the Company. We involved actuarial specialists to supplement our senior audit team members in assessing this key audit matter.	experience, our industry knowledge and externally observable trends; • comparing the prior year estimate of the LIC to actual experience in the current year. We used this information to assess the actuarial assumptions applied in current year valuation; • assessing the appropriateness of case reserves at balance date, and considering if they reflected best estimates of the costs to be incurred on reported incurred claims; considering judgements to estimate the period in which the claims will be settled, by analysing historical payment patterns; • for certain classes of business, we independently estimated the LIC by applying our own actuarial assumptions. We compared our results to the Company's estimates and investigated significant differences; • evaluating the cost of capital assumptions used in the calculation of the risk adjustment for non-financial risks; • assessing management's methodology for identification of facts and circumstances indicating onerous contracts; and where onerous contracts were identified, assessing management's methodology and assumptions in calculating the loss component; and • evaluating the adequacy of the consolidated financial statement disclosures in accordance with the requirements of NZ IFRS 17, and reconciling the disclosures to underlying accounting records and supporting actuarial data.

The key audit matter

How the matter was addressed in our audit

Transition to NZ IFRS 17 and restated opening balances at 1 July 2022 and comparative balances at 30 June 2023

Refer to Note 1 to the financial statements.

NZ IFRS 17 became effective for the Company from 1 July 2023, replacing the existing accounting standard NZ IFRS 4 *Insurance Contracts* (**NZ IFRS 4**).

On transition to NZ IFRS 17, comparative financial information has been restated at both 1 July 2022 (opening balance) and 30 June 2023 (comparative period) applying the retrospective transition approach. The adoption of NZ IFRS 17 resulted in an reduction in equity of $3,179k for the Company on initial application as at 1 July 2022, as detailed in the consolidated statements of changes in reserves.

The transition to NZ IFRS 17 is a key audit matter due to the inherent complexity of adopting this standard for the first time, which required the following:

- the selection of new accounting policies, and the implementation of new processes and controls in response to the NZ IFRS 17 requirements;
- the selection of a transition approach, to be applied retrospectively to the insurance and reinsurance contracts as at 1 July 2022;
- the determination of which measurement model (General Model (**GMM**) or PAA) to apply under the standard;
- the determination of risk adjustment and onerous contract methodologies;
- judgement to determine the assumptions used in the measurement of the insurance contracts;
- changes to the measurement of liabilities and the impact on revenue recognition, at transition date;
- judgement in the application of NZ IFRS 17 to the overall financial statement presentation; and
- the preparation of new note disclosures related to the adoption of NZ IFRS 17.

We involved our senior audit team members in assessing this key audit matter, along with actuarial specialists.

Our procedures included:

- consideration of the new accounting policies against the requirements of the accounting standard and our understanding of business and industry practice;
- obtaining an understanding of the new processes used to measure insurance contract liabilities and the opening retained earnings adjustment at transition;
- testing the key controls designed and implemented by the over the transition;
- assessing the transition approach and checking the transition adjustments and restatements are accurately reflected in the financial statements;
- assessing the appropriateness of the PAA eligibility analysis for insurance contracts with coverage periods greater than one year. This included selecting a representative sample of contracts and evaluating the significant assumptions used and the scenarios applied, and testing the mathematical accuracy of models used;
- evaluating the methodology used to identify groups of onerous contracts on transition. Where onerous contracts were identified, we assessed the appropriateness of the significant assumptions and recalculated the relevant loss component;
- in collaboration with our actuarial specialist, evaluating the significant judgements to determine the relevant accounting policies, against the requirements of NZ IFRS 17. This included assessment of the judgements used to determine the measurement models adopted, risk adjustment, onerous contracts;
- assessing the adjustments made to the previously reported NZ IFRS 4 balances as at 1 July 2022 and 30 June 2023 for completeness and accuracy, and reconciling those adjustments to the outputs of the NZ IFRS 17 models to check the transition adjustments and restatement of comparative balances are accurately reflected in the consolidated financial statements; and
- assessing the disclosures in the consolidated financial statements for compliance with the requirements of NZ IFRS 17.

Other information

The directors, on behalf of the Company, are responsible for the other information. The other information comprises information included in the Appointed Actuary's report issued under section 78 of the Insurance (Prudential Supervision) Act 2010, but does not include the financial statements and our auditor's report thereon.

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

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

If, based on the work we have performed, we conclude there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Use of this independent auditor's report

This independent auditor's report is made solely to the directors. Our audit work has been undertaken so that we might state to the directors those matters we are required to state to them in the independent auditor's report and for no other purpose. To the fullest extent permitted by law, none of KPMG, any entities directly or indirectly controlled by KPMG, or any of their respective directors or employees, accept or assume any responsibility and deny all liability to anyone other than the directors for our audit work, this independent auditor's report, or any of the opinions we have formed.

Responsibilities of directors for the financial statements

The directors, on behalf of the Company, are responsible for:

- the preparation and fair presentation of the financial statements in accordance with NZ IFRS issued by the New Zealand Accounting Standards Board and the International Financial Reporting Standards issued by the International Accounting Standards Board;
- implementing the necessary internal control to enable the preparation of a set of financial statements that is free from material misstatement, whether due to fraud or error; and
- assessing the ability of the Company to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations or have no realistic alternative but to do so.

KPMG

Auditor's responsibilities for the audit of the financial statements

Our objective is:

— to obtain reasonable assurance about whether the financial statements as a whole free from material misstatement, whether due to fraud or error; and

— to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but it is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board (**XRB**) website at:

https://www.xrb.govt.nz/standards/assurance-standards/auditors-responsibilities/audit-report-2/

This description forms part of our independent auditor's report.

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

For and on behalf of:

KPMG

KPMG
Auckland
16 September 2024

12 September 2024

The Directors
Southern Cross Pet Insurance Limited
Auckland

Dear Directors

Review of Actuarial Information Contained in Financial Statements as at 30 June 2024

Finity Consulting Pty Limited (Finity) has been asked by Southern Cross Pet Insurance Limited (SCPI) to carry out a review of the 30 June 2024 Actuarial Information contained in the financial statements and used in their preparation and to provide an opinion as to the appropriateness of this information. Anagha Pasche is an employee of Finity and is the Appointed Actuary to SCPI. Finity has no relationship with SCPI apart from being a provider of actuarial services.

SCPI's policy is to seek and adopt the advice of the Appointed Actuary in respect of the Actuarial Information contained in its financial statements. We confirm that the financial statements as at 30 June 2024 have been prepared in accordance with this policy, and as such this satisfies the requirements of the Insurance (Prudential Supervision) Act 2010.

Having carried out the Actuarial Review, nothing has come to our attention that would lead us to believe that the Actuarial Information used in the financial statements or their preparation, or the determination of the solvency position for SCPI as at 30 June 2024 is inappropriate. No limitations were placed on us in performing our review and all data and information requested was provided.

In our opinion SCPI has maintained a solvency margin in excess of the minimum required as at the balance date.

This report is being provided for the sole use of SCPI for the purpose stated above. It is not intended, nor necessarily suitable, for any other purpose and should only be relied on for the purpose for which it is intended.

Yours sincerely

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

John Smeed
Fellow of the New Zealand Society of Actuaries