

Pacific International Insurance Pty Limited New Zealand Branch
Annual Financial Statements
for the year ended 30 June 2020

Prepared by: Lizzy Smit CA(SA)

Pacific International Insurance Pty Limited New Zealand Branch

Annual Financial Statements for the year ended 30 June 2020

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Pacific International Insurance Pty Limited New Zealand Branch

Annual Financial Statements for the year ended 30 June 2020

Directors' Report

The Directors present their report on Pacific International Insurance Pty Limited New Zealand Branch ("Branch") for the financial year ended 30 June 2020.

The Directors are responsible for the presentation, in accordance with the Branch's constitution and the generally accepted accounting practice, of financial statements which fairly present the financial position of the Branch as at 30 June 2020 and the results of the operations for the year ended 30 June 2020.

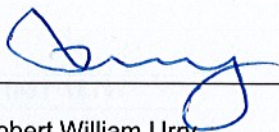
The Directors consider that the financial statements of the Branch have been prepared using the accounting policies appropriate to the Branch, consistently applied and supported by reasonable and prudent judgements and estimates, and that all applicable International Financial Reporting Standards and NZ IFRS have been followed.

The Directors have responsibility for ensuring that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Branch and enable them to ensure that the financial statements comply with the relevant accounting standards.

The Directors have responsibility for the maintenance of a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting. The Directors consider that adequate steps have been taken to safeguard the assets of the Branch and to prevent and detect fraud and other irregularities.

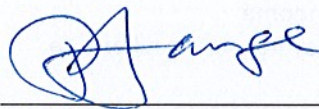
Signed in accordance with a resolution of the Board of Directors:

Director:



Mr Robert William Urry
(Independent Director -
Chairman)

Director:



Mr Roland Covac Lange
(Executive Director - CEO)

Dated: 29 September 2020

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Statement of Profit or Loss and Other Comprehensive Income

	Notes	2020 \$	2019 \$
Gross written premium	8	192 378	178 223
Net written premiums		192 378	178 223
Change in provision for unearned premiums	22	(10 761)	-
Net earned premiums		181 617	178 223
Interest income		55 444	27
Other income	9	196 159	151 171
Net income		433 220	329 421
Net claims incurred	10	(43 844)	(106 192)
Acquisition costs	11	(9 563)	-
Administration expenses	12	(580 035)	(353 215)
Finance costs		(186)	(251)
Loss before tax		(200 408)	(130 237)
Income tax			
Income tax credit	14	63 284	36 737
Loss for the year		(137 124)	(93 500)
Other Comprehensive Income			
Unrealised foreign currency translation difference		-	21 905
Total Comprehensive (Loss) / Profit		(137 124)	(71 595)

Pacific International Insurance Pty Limited New Zealand Branch

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Statement of Financial Position

		2020	2019
	Notes	\$	\$
Assets			
Cash and cash equivalents	15	743 700	942 496
Trade and other receivables	16	66 443	64 887
Investments	17	2 050 000	2 050 000
Loan to group company		-	201 830
Current tax receivable	14	9 303	-
Deferred acquisition cost	18	8 407	5 142
Equipment and leasehold improvements	19	4 513	6 011
Deferred tax assets	20	167 249	103 965
Total Assets		3 049 615	3 374 331
Equity and Liabilities			
Liabilities			
Trade and other payables	21	4 163	147 838
Insurance liabilities	22	159 306	145 091
Deferred income		133 400	201 749
Employee benefits		19 822	9 605
Total Liabilities		316 691	504 283
Equity			
Head Office Account	23	3 213 710	3 213 710
Accumulated loss		(514 032)	(376 908)
Reserves		33 246	33 246
Total equity		2 732 924	2 870 048
Total Equity and Liabilities		3 049 615	3 374 331

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Statement of Changes in Equity

	Head Office Account	Foreign currency translation reserve	Accumulated loss	Total
	\$	\$	\$	\$
Balance at 1 July 2018	1 437 163	-	(283 408)	1 153 755
Changes in equity				
Loss for the year	-	-	(93 500)	(93 500)
Transferred during the year	1 776 547	-	-	1 776 547
Transfer to reserve	-	11 679	-	11 679
Foreign translation movement	-	21 421	-	21 421
Foreign exchange gain	-	146	-	146
Balance at 30 June 2019	3 213 710	33 246	(376 908)	2 870 048
Balance at 1 July 2019	3 213 710	33 246	(376 908)	2 870 048
Changes in equity				
Loss for the year	-	-	(137 124)	(137 124)
Balance at 30 June 2020	3 213 710	33 246	(514 032)	2 732 924
Notes	23			

Pacific International Insurance Pty Limited New Zealand Branch

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Statement of Cash Flows

	Notes	2020 \$	2019 \$
Cash flows (used in) / from operations			
Cash receipts from customers		325 116	513 072
Claims payments and related expenses		(40 391)	(48 957)
Commissions		-	64 546
Payments to suppliers and employees		(731 671)	(355 061)
Interest received		55 444	25
Net cash flows from operating activities	28	(391 502)	173 625
Taxation paid		(9 303)	-
Net cash flows from operating activities		(400 805)	173 625
Cash flows from investing activities			
Purchase of PPE & intangible assets		(684)	(310)
Purchase of other financial assets		-	(2 050 000)
Proceeds from disposal of PPE		861	-
Cash flows from investing activities		177	(2 050 310)
Cash flows from financing activities			
Proceeds from issuing shares		-	2 114 721
Repayment of loans from related parties		201 830	633 985
Cash flows from financing activities		201 830	2 748 706
Net increase / (decrease) in cash and cash equivalents before effect of exchange rate changes		(198 796)	872 021
Effect of restatement of accounts AUD bank account into NZD		-	17 484
		(198 796)	889 505
Cash and cash equivalents at beginning of the year		942 496	52 992
Cash and cash equivalents at end of the year	15	743 700	942 497

Pacific International Insurance Pty Limited New Zealand Branch

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

Pacific International Insurance Pty Limited (the Company) is a for-profit proprietary Company, incorporated and domiciled in Australia. The Company operates a New Zealand Branch office (the Branch). On 1 August 2014 the Company migrated its New Zealand business to the Branch.

The Company is a wholly owned subsidiary of Badger Australia Holdings Pty Limited which itself is a wholly owned subsidiary of Badger International (NZ) LP.

On 10 May 2018, Badger International (NZ) LP acquired all issued shares of Gramar Family Holdings Pty Limited and as such is now the ultimate parent of the Company.

During the 2019 year the Company instituted a corporate restructure to remove extraneous entities that arrived with the acquisition of Gramar, and unlock certain efficiencies. Accordingly the Company (and the Branch) is a wholly owned subsidiary of Badger Australia Holdings Pty Limited.

The Company was issued with an insurance license by the Reserve Bank of New Zealand with effect from 1 August 2014. The Branch provides indemnity and liability insurance to the pest, weed and carpet cleaning industries in New Zealand. During the course of this year, the branch also commenced issuing pet insurance cover to retail customers. Additionally, the Branch provides New Zealand Qualifications Authority accredited training courses to these particular industries.

The financial statements have been prepared on a going concern basis, the validity of which depends on the continued support of the Company. The assets of the Branch are legally available for the satisfaction of debts of the entire company, not solely those appearing on the accompanying Statement of Financial Position and its debts may result in claims against assets not appearing thereon. The Company has confirmed that its policy is to ensure that the Branch is in a position to meet its obligations as and when those obligations fall due.

The financial statements of the Branch for the year ended 30 June 2020 and were authorised for issue by the Directors on 24 September 2020.

1. Basis of preparation

These financial statements have been prepared in accordance with and comply with Generally Accepted Accounting Practice in New Zealand and for the purpose of complying with GAAP, the company is a 'for-profit-entity'. They comply with International Financial Reporting Standards and New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable financial reporting standards appropriate for Tier 1 profit oriented entities. The Branch has prepared its financial statements for the year ended 30 June 2020 on the basis of full disclosure under NZ IFRS. The financial statements have been prepared in accordance with the requirements of the External Reporting Board, the Financial Markets Conduct Act 2013 and the Insurance (Prudential Supervision) Act 2010.

The financial statements have been prepared on the historical cost basis, except as stated below.

These financial statements are presented in New Zealand dollars rounded to the nearest dollar. The Branch functional currency is New Zealand dollars, even though the Branch is financed and managed in Australia, the primary economic environment it operates in is New Zealand where it has offices situated in Auckland.

These financial statements comply with International Financial Reporting Standards ("IFRS").

Pacific International Insurance Pty Limited New Zealand Branch

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

2. Changes in Accounting Policies

Adoption of new and revised accounting standards

The Branch has adopted all of the new or amended Accounting Standards and Interpretations issued by the International Accounting Standards Board. The following Accounting Standards and Interpretations are most relevant to the Branch:

	New Standards, amendments and interpretations	Operative date
NZ IFRS 9	Financial Instruments	1 January 2018
NZ IFRS 15	Revenue from Contracts with Customers	1 January 2018
NZ IFRS 16	Leases	1 January 2019

NZ IFRS 9 Financial Instruments

The Branch has adopted NZ IFRS 9 from 1 July 2018. The standard introduced new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows which arise on specified dates and that are solely principal and interest. A debt investment shall be measured at fair value through other comprehensive income if it is held within a business model whose objective is to both hold assets in order to collect contractual cash flows which arise on specified dates that are solely principal and interest as well as selling the asset on the basis of its fair value.

All other financial assets are classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for trading or contingent consideration recognised in a business combination) in other comprehensive income. Despite these requirements, a financial asset may be irrevocably designated as measured at fair value through profit or loss to reduce the effect of, or eliminate, an accounting mismatch. For financial liabilities designated at fair value through profit or loss, the standard requires a portion of the change in fair value that relates to the entity's own credit risk to be presented in other comprehensive income (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements use an 'expected credit loss' model to recognise an allowance. Impairment is measured using a 12-month expected credit loss method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime expected credit loss method is adopted. For receivables, a simplified approach to measuring expected credit losses using a lifetime expected loss allowance is available.

NZ IFRS 15 Revenue from Contracts with Customers

The Branch has adopted NZ IFRS 15 from 1 July 2018. The standard provides a single comprehensive model for revenue recognition. The core principle of the standard is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for goods or services. The standard introduced a new contract-based revenue recognition model with a measurement approach that is based on an allocation of the transition price. This is described further in the accounting policies below. Credit risk is presented separately as an expense rather than adjusted against revenue. Contracts with customers are presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Customer acquisition costs and costs to fulfil a contract can, subject to certain criteria, be capitalised as an asset and amortised over the contract period.

NZ IFRS 15 is only applicable to the Branch's training income stream as revenue from insurance premiums fall under NZ IFRS 17 Insurance Contracts. NZ IFRS 16 does not affect the Branch as it only have short term leases at this time.

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Accounting Policies

Impact of adoption

NZ IFRS 9, 15 and 16 were adopted and the impact is immaterial to the accounts.

3. Summary of Significant Accounting Policies

(a) Revenue

Revenue is measured at the fair value of the consideration received or receivable. The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Company and specific criteria have been met for each of the Company's activities as described below.

Premium revenue

Direct premium revenue comprises amounts charged to policyholders. The earned portion of premiums, including unclosed business, is recognised as income. Premium is earned from the date of attachment of the risk, over the contract period based on the pattern of the risks underwritten.

Other income

Other income arises from revenue generated through the training division in the New Zealand Branch. Training is provided to students over a three year period and quarterly assessments are performed by an external assessor for competency appraisal. Revenue is recognised as the performance obligation is fulfilled, which is over the contract period on a monthly straight line basis.

Training Enrolment Income

Training enrolment income consists of revenue generated through the training division. Training is provided to students over a three year period and quarterly assessments are performed by an external assessor for competency appraisal. Revenue is recognised on a monthly straight line basis (over time) with a possible quarterly adjustment once the assessments are performed.

(b) Reinsurance

The Branch is covered by the Reinsurance policies taken out by the Australian corporate entity. There has been no apportionment of the reinsurance expense taken out by the Australian corporate entity because of the expected immateriality of the charge.

(c) Expenses

Claims expense

Claims expense represents payments made on claims and the movement in the outstanding claims liability as described in note 3(l). Current year claims relate to loss events that occurred during the current financial year. Prior year claims represent the movement on estimates held for claims that occurred in all previous financial periods.

Operating lease payments

Payments made under operating leases, including any lease incentives, are recognised in the profit or loss on a straight line basis over the term of the lease.

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Accounting Policies

Finance income and expenses

Finance income comprises interest income. Interest income is recognised as it is accrued, using the effective interest rate method. Finance expenses comprise interest income on bank borrowings, unwinding of the discount on provisions.

(d) Income tax and deferred tax

The income tax expense or benefit for the year is the taxation payable on the current year's taxable income adjusted for any non-deductible items on assessable taxable income. The income tax expense or benefit also includes changes in deferred tax assets or liabilities.

Deferred income tax is provided in full and is recognised on temporary differences between the tax bases of assets and liabilities and their carrying values in the financial statements.

Deferred tax assets are recognised where it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted by reporting date, and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

(e) Goods and services tax (GST)

All balances are presented net of goods and services tax (GST), except for receivables and payable which are presented inclusive of GST.

Cash flows in the statement of cash flows are included on a gross basis and the GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

(f) Cash and cash equivalents

Cash comprises cash in bank and on hand. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, which are subject to an insignificant risk of changes in value.

(g) Property, plant and equipment

Owned assets

Property, plant and equipment is stated at cost, less accumulated depreciation and impairment losses.

Where material parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

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Accounting Policies

Subsequent cost

Subsequent costs are added to the carrying amount of an item of property, plant and equipment when that cost is incurred if it is probable that the future economic benefits embodied in the item will flow to the Branch and the cost of the item can be measured reliably. All other costs are recognised as an expense in the statement of profit or loss and other comprehensive income in the period the cost has been incurred.

Depreciation

Depreciation is charged over the estimated useful lives of the plant, property and equipment in the Statement of Profit or Loss and Other Comprehensive Income.

The depreciation rates used for each class of depreciable asset are shown below:

Fixed asset class	Measurement base	Depreciation rate
Furniture, Fixtures and Fittings	Diminishing value basis	11% - 67%
Motor vehicles	Diminishing value basis	30% - 36%
Computers	Diminishing value basis	48% - 60%

At the end of each annual reporting period, the depreciation method, useful life and residual value of each asset is reviewed. Any revisions are accounted for prospectively as a change in estimate.

(h) Financial instruments

Financial assets and financial liabilities are recognised when the Branch becomes a part to the contractual provisions to the instrument. For financial assets, this is the equivalent to the date that the Branch commits itself to either purchase or sale of the asset (i.e. trade date accounting is adopted). Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified 'at fair value through profit or loss', in which case transaction costs are expensed to profit or loss immediately.

Classification and Subsequent Measurement

Financial Liabilities

Financial liabilities are subsequently measured at amortised cost using the effective interest rate method. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest expense to the profit or loss over the relevant period. The effective interest rate is the internal rate of return of the financial asset or liability. That is, it is the rate that exactly discounts the estimated future cash flows through the expected life of the instrument to the net carrying amount at initial recognition.

A financial liability cannot be reclassified.

Financial Assets

Financial assets are subsequently measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss. Measurement is on the basis of two primary criteria being the contractual cash flow characteristics of the financial asset and the business model for managing the financial asset.

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Accounting Policies

A financial asset is subsequently measured at fair value through other comprehensive income where the contractual terms within the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding on specified dates.

A financial asset is subsequently measured at fair value through other comprehensive income where the contractual terms within the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding on specified dates and the business model for managing the financial asset comprises both contractual cash flow collections and the selling of the financial asset.

By default, all other financial assets that do not meet the measurement condition of amortised cost and fair value through other comprehensive income are subsequently measured at fair value through profit or loss.

Derecognition

Derecognition of Financial Liabilities

A liability is derecognised when it is extinguished (i.e. when the obligation in the contract is discharged, cancelled or expires). An exchange of an existing financial liability for a new one with substantially modified terms, or a substantial modification to the terms of a financial liability, is treated as an extinguishment of the existing liability and recognition of a new financial liability.

The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Derecognition of Financial Assets

A financial asset is derecognised when the holder's contractual rights to its cash flows expires, or the asset is transferred in such a way that all the risks and rewards of ownership are substantially transferred. The criteria for the derecognition of a financial asset is satisfied when the right to receive cash flows from the asset has expired or been transferred, all risks and rewards of ownership of the asset have been substantially transferred and the Branch no longer controls the asset (i.e.: has no practical ability to make a unilateral decision to sell the asset to a third party).

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

(i) Trade receivables

Trade receivables are recognised when due and measured on initial recognition at the fair value of the consideration receivable. Subsequent to initial recognition, trade receivables are measured at amortised cost less any impairment.

(j) Impairment

The carrying amounts of the Company's assets, property, plant and equipment, intangible assets and financial assets are reviewed at each balance date to determine if there is any indication of impairment. If any such impairment exists, the assets recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds the recoverable amount. Impairment losses directly reduce the carrying amount of assets and are recognised in the Statement of Profit or Loss and Other Comprehensive Income.

Pacific International Insurance Pty Limited New Zealand Branch

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

(k) Payables

Trade payables and other accounts payable are recognised when the Company becomes obliged to make future payments resulting from the purchase of goods and services.

(l) Outstanding claims liability

Outstanding claims liabilities are recognised when contracts are entered into and loss events have occurred and are based on the estimated ultimate cost of the claims incurred but not settled at the year-end date, together with related claims handling costs and reduction for the expected value of salvage and reinsurance recoveries.

A central estimate is made of the present value of claims reported but not paid and incurred but not enough reported. A risk margin is added to this central estimate to allow for the inherent uncertainty in the central estimate.

Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of these claims cannot be known with certainty at the balance date. The liability is calculated at the reporting date using projection techniques based on historical data, trends and current assumptions. The liability is discounted for the time value of money, where material using the risk free government stock rate. Changes in claims that have occurred, but which have not been settled, are reflected by adjusting the liability. The liability is derecognised when the claim is discharged or withdrawn.

The Company's insurance portfolio has experienced several impacts as a result of COVID-19. There is a risk that the associated economic factors could be more severe than estimated and, as a result, the development of the claims over time could result in the ultimate cost of those claims being higher than the current outstanding claims liability established. The impact of COVID-19 on claims experience is expected to materially differ between classes of business and, for certain classes, potentially impact across more than one accident year.

The motor portfolio has been impacted through favourable claim frequency as a result of mobility restrictions introduced in March 2020 to slow the spread of COVID-19. In respect of other classes of business, where the effect of COVID-19 on insurance liabilities is quantifiable and reflected in the data, the impact has been appropriately captured within the outstanding claims liability.

(m) Deferred acquisition costs

Acquisition costs incurred in obtaining and recording insurance contracts are deferred in recognition when they represent future benefits. Deferred acquisition costs are only recognised if they can be reliably measured and are expected to give rise to future benefits. Deferred acquisition costs are amortised over the expected pattern of the incidence of risk under the insurance contract.

(n) Unearned premium reserve and liability adequacy testing

The reserve for unearned premiums includes premiums received for risks that have not yet expired. Generally the reserve is released over the term of the contract and is recognised as premium income.

A liability adequacy test is performed to assess whether there are any deficiencies in the unearned premium reserve due to expected future claims. The amount of these expected future claims is estimated using the present value of future claims and expenses plus an additional risk margin to reflect the inherent uncertainty in those cash flows. This is compared to the unearned premium reserve and deferred acquisition costs. Any deficiency is recognised in the Statement of Profit or Loss and Other Comprehensive Income by writing down any deferred acquisition costs first with the remaining amount recognised in the Statement of Financial Position as an unexpired risk liability.

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Accounting Policies

The liability adequacy test is performed at the level of portfolio contracts that are subject to broadly similar risks and are managed together as a single portfolio. No deficiency was recognised in 2020 or 2019.

(o) Employee benefits

The Company only provides short term benefits to its employees. The short term benefit obligations are measured on an undiscounted basis and are expensed as the relative service is provided.

(p) Insurance risk and sensitivity

The Branch has insurance contracts which transfer insurance risk from the policyholder to the Branch. The insurance risk taken on by the Branch is the possibility that an insured event occurs when that event will occur and the uncertainty surrounding the amount of any resulting claim. The Branch has estimated in these financial statements the likely amounts which are expected to be paid out both with respect of claims incurred and expected future claims. The Branch is however still at risk that the carrying amounts of insurance liabilities and assets recognised in the financial statements will be exceeded by the amount of the actual claim. This could occur when there are more claims than expected or where a claim is greater than the severity expected.

The Company's objective is to minimise this insurance risk to within acceptable levels through the policies which manage its insurance risk. The Company's approach to manage this risk includes the diversification of risk. The Company has developed an underwriting strategy which diversifies the types of insurance contracts written. Within each type of insurance written the Company's policy is to ensure that there is a sufficient volume of contracts to reduce the variability in the expected outcome. The Company also cedes reinsurance which includes the Branch's insured risks. The reinsurance programme is an excess of loss arrangement whereby cover is provided on the basis of claims notified on policies issued or renewed during the period of cover.

4. Critical Accounting Estimates and Judgements

The preparation of the financial statements in conformity with NZ IFRS requires management to make judgements and estimates with respect to assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Outstanding claims liability

The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. Given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

Claims reported to the Company at balance date are estimated with due regard to the claim circumstance as reported by the insured, legal representative, assessor, loss adjuster and/or other third party and then combined, where appropriate, with historical evidence on the cost of settling similar claims. Estimates of the cost of claims reported are reviewed regularly and are updated as and when new information arises.

Long-tail classes of business will typically display greater variations between initial estimates and final outcomes because there is a greater degree of difficulty in estimating IBNER reserves. Short-tail claims are typically reported soon after the claim event, and hence, estimates are more certain.

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Accounting Policies

In calculating the estimated cost of unpaid claims, the Company uses a variety of estimation techniques, generally based upon statistical analysis of historical and industry experience that assumes that the development pattern of the current claims will be consistent with past experience and/or general industry benchmarks as appropriate. Allowance is made, however, for changes or uncertainties that may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims. The ultimate net outstanding claims provision also includes an additional risk margin to allow for the uncertainty within the estimation process.

5. Financial Risk Management policies and procedures

The Branch's operations are exposed to a number of key risks including financial and insurance risk. The Company's policies and procedures in managing these risks are set out below.

The Company's financial condition and operating activities are affected by the following core risks - strategic, balance sheet and market, interest, credit, liquidity, solvency, counterparty, insurance, concentration, operational and governance risk.

(a) Risk Management roles and responsibilities

The Board has the responsibility for setting and maintaining an appropriate risk management framework, which is included in the "Group Risk Management Strategy" and risk appetite for the Company. Management has implemented risk management policies, procedures and controls to manage the risk and regularly reports to the Board Risk Committee, Audit Committee and the Board on the current status of the risk management framework.

The key risks addressed by the risk management framework include:

Strategic risk - the risk of internal or external events impacting on the Company leading to failed business, policyholder or shareholder objectives.

Balance sheet and Market risk - the risk arises from adverse movements in; interest rates, foreign exchange rates and general market volatilities and its impact on the market value of the Company's assets and liabilities.

Interest rate risk - The risk of loss of current and future earnings and unfavourable movements in the value of interest bearing assets and liabilities from changes in interest rates.

Liquidity risk - the risk that the Company will not be able to meet its cash flow requirements in the future. Liquidity risk arises from the requirement to settle claim payments and other financial obligations in the timely manner.

Solvency Risk - the risk that the Company has insufficient capital to meet its regulatory requirements or to maintain its ongoing business operations.

Counterparty Risk - the risk that one party to a financial instrument will cause a financial loss to the Company.

Credit Risk - arises from receivables due from policy owners, the placement of reinsurance and investments in financial instruments.

Insurance risk - The risk associated with inadequate underwriting guidelines or claims processes including the risks that arise through the Company's reinsurance arrangements.

Asset / Counterparty Concentration Risk - risk of loss to the Company from large exposures to one or a few counterparties that a significant holding or commitment to the Company.

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Accounting Policies

Insurance Concentration risk - The amalgamation of insurance risks held by the Company to a particular insured, industry or potential event or events.

Concentration risk - the amalgamation of risks held by the Company to a particular counterparty, geographic region or industry.

Operational risk - the risk of loss resulting from inadequate or failed internal processes and controls, people, systems or from external events.

Governance Risks - the risk of loss to the Company from ineffective control or oversight of its operations at management and board level leading to inadequate decision making processes.

Contagion risk - The risk arising from the failure or inability of a related party to provide services as required by the Company.

The objectives for managing insurance risk

The Company's policies and procedures, processes and controls are designed to manage risk. These systems address all material risks, financial and non-financial likely to be faced by the Company. The Board, aided by the Board Risk Committee and the Board Audit Committee, directs and monitors implementation, practice and performance throughout the organisation. The Company pursues alignment with ISO 31000:2009 Standard - Risk Management, together with all APRA - issued standards, including but not limited to CPS220 - Risk Management, CPS510 - Governance, and incoming CPS511 - Remuneration.

The process involves establishing the context of the risk and risk assessment through:

- Risk identification
- Risk analysis
- Risk evaluation
- Risk treatment
- Monitoring and review
- Communication and consultation

Key processes and controls used to mitigate any identified risks are:

- Established policies, procedures and controls around the acceptance, underwriting and pricing of insurance risks;
- Maintenance and use of computer systems to provide up to date and reliable information on the risks that the Branch is exposed to;
- Use of reinsurance to preserve the Company's capital by reducing the Branch's exposure to the costs of large claims;
- Processes around the development and approval of new product proposal with approval required from the Board of Directors;
- Investment that ensures that the Company's funds are invested with secure financial institutions;
- Use of an independent internal auditor, reporting to the Board Audit Committee to review compliance with Board approved policies; and
- Board appointed external actuarial involved on both the pricing of new products and the establishment of claims reserves.

Pacific International Insurance Pty Limited New Zealand Branch

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

Terms and conditions of insurance policies

The terms and conditions attaching to insurance policies affect the level of risk accepted by the Company. There are no special terms and conditions in any non standard contracts that have a material impact on the financial statements.

Concentration of risk

The Company's exposure to concentrations of insurance risk is mitigated by diverse geographical locations of the risks underwritten. The reinsurance policies purchased minimise the exposure of the Company to large claims losses.

Credit risk

Credit risk is the risk that one party to a financial instrument or contract will cause financial loss to the other party by failing to discharge an obligation.

The key sources of credit risk are premiums receivable and investments in financial instruments.

6. Financial Instruments

The Company has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

Credit risk

The Company's credit risk arises predominantly from investment activities, reinsurance activities, premium debtors and dealings with other intermediaries. The significant concentrations of credit risk are outlined below.

	2020	2019
Financial Assets		
Cash and cash equivalents	743 700	942 496
Investments	2 050 000	2 050 000
	2 793 700	2 992 496
Loans and receivables:		
Trade and other receivables	66 443	64 887
Related party receivables	-	201 830
	66 443	266 717
Total financial assets	2 860 143	3 259 213
Financial liabilities		
Trade and other payables	4 163	147 838
Total financial liabilities	4 163	147 838

Credit quality of financial assets listed are neither past due nor impaired.

Pacific International Insurance Pty Limited New Zealand Branch

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

The Company received a financial strength rating of B++ (Good) with a stable outlook from AM Best on 20 January 2020. The credit rating is an indication of the Company's current and future claims paying ability (Refer to Note 22 - Liability Adequacy Test).

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if applicable) or to historical information about counterparty default rates:

	2020	2019
Credit exposure by credit rating		
AA to A-	2 793 700	2 992 496
Unrated	66 443	266 717
Total	2 860 143	3 259 213

Liquidity risk

The maturity table, based on the expected cash flows is presented below for the purposes of disclosing the cash flows that are actually expected to occur over the life of the Company's financial assets and liabilities.

	At call		1 year or less		Total	
	2020	2019	2020	2019	2020	2019
	\$	\$	\$	\$	\$	\$
At fair value through profit or loss:						
Cash and cash equivalents	743 700	942 496	-	-	743 700	942 496
Investments	-	-	2 050 000	2 050 000	2 050 000	2 050 000
	743 700	942 496	2 050 000	2 050 000	2 793 700	2 992 496

Loans and receivables

Trade and other assets	-	-	66 443	64 887	66 443	64 887
Related party receivable	-	-	-	201 830	-	201 830
	-	-	66 443	266 717	66 443	266 717
	743 700	942 496	2 116 443	2 316 717	2 860 143	3 259 213

	At call		1 year or less		Total	
	2020	2019	2020	2019	2020	2019
	\$	\$	\$	\$	\$	\$
Financial liabilities						
Trade and other payables	-	-	4 163	147 838	4 163	147 838
	-	-	4 163	147 838	4 163	147 838

Interest rate risk and sensitivity analysis on foreign exchange and interest.

Cash, related party loans and interest bearing liabilities are held at fair value through profit or loss and subject to fixed interest rates. Related party receivables and payables are non-interest bearing. Other trade receivables and payables are also non-interest bearing.

Pacific International Insurance Pty Limited New Zealand Branch

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

7. Changes in accounting policies and disclosures

New standards and interpretations not yet adopted

None of these standards have been early adopted and applied in the current reporting year.

Standard Name	Effective date for entity	Impact
NZ IFRS 17 Insurance Contracts	1 January 2023	Material

In accordance with NZ IAS 8 para 31 the impact is not known or reasonably estimable at this stage.

The standards, amendments and interpretations to existing standards which are listed above are not mandatory for the Branch until the financial year when they are expected to be applied.

Pacific International Insurance Pty Limited New Zealand Branch

Annual Financial Statements for the year ended 30 June 2020

Notes to the Financial Statements

	2020	2019
8. Gross written premium		
Professional Indemnity	148 002	140 092
Liability and Warranty	36 604	38 131
Pet Insurance	7 772	-
	192 378	178 223
9. Other income		
Insurance licence fee	435	-
Other income	1 234	17 315
Training income - New Zealand Branch	194 490	133 856
	196 159	151 171
10. Claims expense		
Claims Paid	40 391	48 956
Claims estimate (decrease)/increase	(215)	43 764
IBNER movement	3 668	13 472
	43 844	106 192
11. Acquisition costs		
Commission	9 563	-
	9 563	-
12. Administration expenses		
Administration fees - Related parties	-	13 869
Auditors remuneration	(240)	19 907
Bank charges	33 916	27 847
Broker fees	9	7 347
Consulting and legal fees	82 207	6 088
Depreciation	1 326	2 031
Employee cost (including directors)	299 289	92 654
Insurance	4	1 303
Marketing	2 756	28 358
Other expenses	11 867	47 161
Printing and stationery	3 372	1 496
Rental of premises	91 834	37 590
Repairs and maintenance	228	547
Telephone and internet	1 420	6 414
Training fees	47 956	46 762
Travel costs	4 091	13 841
	580 035	353 215
13. Auditors' Remuneration		
Audit services - KPMG *	(240)	19 907

*In the 2020 year audit fees were paid by the Australian Corporate Entity

Pacific International Insurance Pty Limited New Zealand Branch

Annual Financial Statements for the year ended 30 June 2020

Notes to the Financial Statements

	2020	2019
14. Income Tax Expense		
(a) The major components of tax expense (income) comprise:		
Deferred tax	(63 284)	(36 737)
	<u>(63 284)</u>	<u>(36 737)</u>
(b) Reconciliation of income tax to accounting profit:		
Loss before taxation	(200 408)	(130 237)
Taxation at 28% (2019: 28%)	(56 114)	(36 466)
Less: Tax effect of:		
- Employee entitlements	(13 582)	-
- Prior year adjustments & forex adjustment	6 412	(271)
Income tax expense	<u>(63 284)</u>	<u>(36 737)</u>
(c) Tax (receivable)/payable:		
Income tax paid	(9 303)	-
Balance at the end of the year	<u>(9 303)</u>	<u>-</u>
15. Cash and cash equivalents		
Cash at bank	743 700	942 496
16. Trade and other receivables		
Trade receivables	24 410	53 918
Interest accrual	22 530	-
Other receivables	15 370	-
Prepayments	4 133	10 969
	<u>66 443</u>	<u>64 887</u>
17. Investments		
Term deposits at bank	2 050 000	2 050 000
The term deposit at bank bears interest rates at 2.6% p.a.		
18. Deferred acquisition costs		
Deferred acquisition costs at 1 July	5 142	5 142
Acquisition costs deferred	12 828	-
Amortisation charged to income	(9 563)	-
	<u>8 407</u>	<u>5 142</u>

Pacific International Insurance Pty Limited New Zealand Branch

Annual Financial Statements for the year ended 30 June 2020

Notes to the Financial Statements

19. Equipment and leasehold improvements

Balances at year end and movements for the year

	Cost	Accumulat ed depreciation	2020 Carrying value	Cost	Accumulat ed depreciation	2019 Carrying value
Motor vehicles	84	(84)	-	19 869	(19 758)	111
Office equipment	24 978	(20 795)	4 183	33 352	(27 549)	5 803
Computer equipment	11 010	(10 680)	330	10 686	(10 589)	97
Net book value	36 072	(31 559)	4 513	63 907	(57 896)	6 011

The carrying amounts of property, plant and equipment can be reconciled as follows:

2020	Carrying value at beginning of year	Additions	Disposals	Depreciation	Carrying value at end of year
Motor vehicles	110	-	(90)	(20)	-
Office equipment	5 804	324	(730)	(1 215)	4 183
Computer equipment	97	324	-	(91)	330
	6 011	648	(820)	(1 326)	4 513

20. Deferred tax assets

Deferred taxation assets are attributable to:

	2020	2019
Employee benefits	4 850	2 688
Losses carried forward	162 399	101 277
	167 249	103 965

21. Trade and other payables

Trade payables	(2 848)	130 312
GST payable	1 152	13 173
Accrued expenses	5 859	4 353
	4 163	147 838

Pacific International Insurance Pty Limited New Zealand Branch

Annual Financial Statements for the year ended 30 June 2020

Notes to the Financial Statements

22. Insurance liabilities

	2020		2019	
	Gross	Net	Gross	Net
Unearned premium(UPR)	93 655	93 655	82 893	82 893
Outstanding claims	47 500	47 500	47 715	47 715
IBNR	18 151	18 151	14 483	14 483
Total Insurance Liabilities	159 306	159 306	145 091	145 091

Outstanding claims

	2020		2019	
	Gross	Net	Gross	Net
Opening balance	47 715	47 715	3 951	3 951
Previous years claims paid	(48 956)	(48 956)	(32 180)	(32 180)
Change in previous year estimates	215	215	57 215	57 215
Current year claims incurred	93 026	93 026	67 685	67 685
Current year claims paid	(44 500)	(44 500)	(48 956)	(48 956)
Closing balance	47 500	47 500	47 715	47 715

IBNR

	2020		2019	
	Gross	Net	Gross	Net
Opening balance	14 483	14 483	1 012	1 012
Movement for the year	3 668	3 668	13 471	13 471
Closing balance	18 151	18 151	14 483	14 483

Unearned premium(UPR)

	2020		2019	
	Gross	Net	Gross	Net
Opening balance	82 893	82 893	-	-
Movement per IS for the year	10 761	10 761	82 893	82 893
Closing balance	93 655	93 655	82 893	82 893

The outstanding claims liability is based on best available information at the time the financial statements are signed. Subsequent information or actions can affect the amount ultimately settled on a claim.

Assumptions adopted in calculation of general insurance liabilities.

The actuarial report was prepared by Aaron Cutter, who is a Fellow of both the Institute of Actuaries of Australia and the New Zealand Society of Actuaries, and is employed by Finity Consulting Pty Limited.

The Actuary is satisfied as to the accuracy of the data upon which the calculation of insurance liabilities has been made and is satisfied that the accounting provisions held in respect of the insurance liabilities are adequate.

Pacific International Insurance Pty Limited New Zealand Branch

Annual Financial Statements for the year ended 30 June 2020

Notes to the Financial Statements

2020 2019

The key assumptions which have the greatest effect on the net outstanding claims liabilities are:

	2020	2019
Inflation rate implicit	Implicit	Implicit
Discount rate	0.22%	1.0%
Claims handling expense rate	10%	10.0%
Future loss ratios	36%	26% - 38%
Risk margin	13.1%	14.6%
Weighted average expected term to settlement	1.1 years	1.07 years

Sensitivity Analysis

The impact of changes in key variables on the outstanding claims provision is summarised in the table below:

	Movement in Outstanding Claims \$	Loss before taxation \$	Loss after taxation \$	Equity \$
5% Increase in loss ratios across all portfolios	66 321	266 729	184 875	3 430 491
10% additional IBNR development for Mar-20 and Jun-20	70 875	271 283	188 154	3 433 770

Note: The table highlights what the result would be in the event that the variable movement is realised.

Process for determining the risk margin

The risk margin was determined by allowing for uncertainty taking into account the following:

- (i) Independent risks, comprising variation in future claims costs due to the randomness inherent in the insurance process and random variation in the historical claims costs affecting the parameters selected for use in the actuarial models.
- (ii) External systemic risk, comprising variation in future claims costs due to risks external to the modelling process, for example, catastrophic events or changes in the legislative environment.
- (iii) Internal systemic risk which represents variation in future claims costs due to the models not being fully representative of the underlying insurance process and due to errors in the data on which the models are based.

The risk margin is intended to achieve a provision which will have 75% probability of sufficiency.

Pacific International Insurance Pty Ltd New Zealand Branch

Annual Financial Statements for the year ended 30 June 2020

Notes to the financial statements

The following table shows the development of net outstanding claims for both short and long tail classes relative to the ultimate claims costs for the eight most recent years.

Net central estimate of ultimate incurred claims	Prior (\$000s)	2014 (\$000s)	Lodged year (ended 30 June)					2020 (\$000s)	Total (\$000s)
			2015 (\$000s)	2016 (\$000s)	2017 (\$000s)	2018 (\$000s)	2019 (\$000s)		
At end of accident year				23	36	85	55	47	
one year later			20	15	11	84	101		
two years later		1	20	14	13	95			
three years later	115	1	18	14	13				
four years later	113	0	18	16					
five years later	113	0	18						
six years later	121	0							
seven years later	121								
Net central estimate of ultimate incurred claims at 30 June 2020	121	0	18	16	13	95	101	47	411
Payments to 30 June 2020	121	0	18	15	12	92	98	2	358

Pacific International Insurance Pty Limited New Zealand Branch

Annual Financial Statements for the year ended 30 June 2020

Notes to the Financial Statements

Liability adequacy test

A liability adequacy test was performed for 30 June 2020 which indicates a surplus of \$51,530 (2019: \$37,373). The tests were based on the following assumptions:

	2020	2019
Central estimate of the present value of expected future cash flows (\$)	26 927	28 405
Component of the present value of expected future cash flows related to the risk margin (\$)	6 791	5 284
The percentage risk margin adopted in determining the present value of expected future cash flows (%)	25%	19%
The probability of adequacy intended to be achieved through the adoption the risk margin (%)	75%	75%

23. Head Office Account

	2020	2019
Balance as at 1 July	3 213 710	1 437 163
Cash transferred from Head office	-	1 776 547
	<u>3 213 710</u>	<u>3 213 710</u>

The Head office account is used to provide Head Office funding to support the financial soundness of the Branch. The Head office account is repayable on demand, subject to regulatory rules in New Zealand. No interest is charged by the Company to the Branch on any outstanding balance. Foreign currency translation reserve is reflected in the Head Office account.

24. Credit Rating

The Company received a financial strength rating of B++ (Good) Financial Strength with a stable outlook from AM Best on 20 January 2020. The credit rating is an indication of the Branch's current and future claims paying ability (refer to Note 22 - Liability Adequacy Test).

Pacific International Insurance Pty Limited New Zealand Branch

Annual Financial Statements for the year ended 30 June 2020

Notes to the Financial Statements

25. Related parties

(a) Identity of related parties

Badger International NZ LP

Badger International NZ LP is a New Zealand registered limited liability partnership and the ultimate holding company for the Group. The entity does not have any trading activities and is an investment holding company.

Badger Australia Holdings Pty Ltd

Badger Australia Holdings Pty Ltd (Badger) became the 100% shareholder of Pacific International Insurance Pty Ltd as part of the group restructure. Badger is an investment holding company with almost no trading activities. Badger has injected additional share capital into Pacific International Insurance Pty Ltd to stimulate growth.

AI Insurance Holdings Pty Ltd

AI Insurance Holdings Pty Ltd (AI) is an underwriting agency that traditionally only placed business with the Hollard Insurance Company Pty Ltd. As part of the restructure AI took over the business of Rapid Solutions Pty Ltd.

PD Insurance Agency Pty Ltd

PD Insurance Agency Pty Ltd is an underwriting agency that owned the Progressive Direct (PD) brand. As part of the restructure Pacific International Insurance Pty Ltd bought 30% of the shares in the agency as well as all the underwriting rights from the Hollard Insurance Company Pty Ltd. All PD policies are transferring to Pacific International Insurance Pty Ltd from 1 July 2019 and this process will be completed by 31 July 2020.

Blue Badge Insurance Australia Pty Ltd

Blue Badge Insurance Australia Pty Ltd is an underwriting agency providing insurance for people with disability. These policies were previously underwritten by the Hollard Insurance Company Pty Ltd. From 1 July 2019 these policies started transferring to Pacific International Insurance Pty Ltd and this process will be completed by 31 July 2020.

Badger Software Pty Ltd

Badger Software Pty Ltd is the development company of the proprietary policy administration and claims system for the Badger Group. Badger Software Pty Ltd provide the full end-to-end development for all products and services that the group offer and the platform that Pacific International Insurance Pty Ltd uses for its policy administration and claims management.

Rapid Solutions Holding Pty Limited

Due to the restructure we performed in 2019 these entities were dormant for the year.

Rapid Admin Pty Limited

Due to the restructure we performed in 2019 these entities were dormant for the year.

Rapid Solutions Pty Limited

Due to the restructure we performed in 2019 these entities were dormant for the year.

Rapid Training Pty Limited

Rapid Training Pty Ltd offers accredited training to the pest control industry. Rapid Training charged Pacific International Insurance Pty Limited a risk mitigation fee for training provided in the past to its insured clients.

Pacific International Insurance Pty Limited New Zealand Branch

Annual Financial Statements for the year ended 30 June 2020

Notes to the Financial Statements

	2020	2019
(b) Transactions with related parties		
Transactions during the year:		
(c) Outstanding balances: assets/liabilities		
Related party payables		
Pacific International Insurance Limited (Australia branch)	3 465	46 365
Rapid Admin Pty Ltd	-	8 358
Rapid Training Pty Ltd	-	9 661
	<u>3 465</u>	<u>64 384</u>
(d) Outstanding balances: loans		
Loans due from related parties		
Pacific International Insurance Limited (Australia branch)	-	201 830
	<u>-</u>	<u>201 830</u>

These loans are interest free and payable on demand.

26. Capital management and solvency

The Company considers share capital, retained earnings and reserves to be capital. The Company aims to retain a sufficient level of capital to achieve a 2:1 solvency coverage ratio to maintain its claims paying ability. The minimum capital requirement imposed by the Australian Prudential Regulatory Authority (APRA) is a minimum of \$7,498,000. As at 30 June 2020 the Company had surplus capital of \$8,043,000 above the APRA requirement.

Post migration the Minimum Solvency Capital requirement for the Company is outlined below.

As at 30 June 2020 the Company solvency margin is.

	2020	2019
	000'	000'
	\$	\$
Actual Solvency Capital	15 541	9 920
Prudential / minimum capital requirement	(7 498)	(5 207)
Solvency margin	8 043	4 714
Solvency ratio	<u>207.27%</u>	<u>190.54%</u>

The methodology for determining the Solvency Margin is in accordance with the requirements of the Prudential Standards for a General Insurance business as published by the Australian Prudential Regulation Authority.

27. Contingencies

In the opinion of the Directors, the Company did not have any contingencies at 30 June 2020 (30 June 2019: None).

Pacific International Insurance Pty Limited New Zealand Branch

Annual Financial Statements for the year ended 30 June 2020

Notes to the Financial Statements

	2020	2019
28. Cash Flow Information		
(a) Reconciliation of result for the year to cashflows from operating activities		
Reconciliation of net income to net cash provided by operating activities:		
Profit/(Loss) for the year before OCI	(137 124)	(93 500)
Cash flows excluded from profit attributable to operating activities		
Non-cash flows in profit:		
- depreciation and amortisation	1 323	2 031
Changes in assets and liabilities:		
- increase/(decrease) in trade and other receivables	(1 556)	(11 379)
- (increase) in deferred tax asset	(63 284)	(36 736)
- increase/(decrease) in deferred acquisition costs	(3 265)	(4 372)
- increase/(decrease) in outstanding claims liabilities	31 457	57 235
- increase/(decrease) in unearned premium reserve	(17 247)	(6 692)
- Increase / (decrease) in provisions	10 217	429
- (decrease)/increase in payables	(143 674)	64 860
- increase/(decrease) in liabilities / deferred income	(68 349)	201 749
Cashflows from operations	<u>(391 502)</u>	<u>173 625</u>

29. Events Occurring After the Reporting Date

No other matters or circumstances have arisen since the end of the financial year which significantly affected or could significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.



Independent Auditor's Report

To the Shareholder of Pacific International Insurance Pty Limited – the New Zealand Branch

Report on the audit of the financial statements

Opinion

In our opinion, the accompanying financial statements of the New Zealand Branch of Pacific International Insurance Pty Limited ("the Branch") on pages 2 to 29:

- i. present fairly in all material respects the Branch's financial position as at 30 June 2020 and its financial performance and cash flows for the year ended on that date; and
- ii. comply with New Zealand Generally Accepted Accounting Practice, which in this instance means New Zealand Equivalents to International Financial Reporting Standards ('NZIFRS') and International Financial Reporting Standards.

We have audited the accompanying financial statements which comprise:

- the statement of financial position as at 30 June 2020;
- the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.



Basis for opinion

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

We are independent of the 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 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.

Other than in our capacity as auditor we have no relationship, or interest in, the 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 in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the shareholder as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the financial statements as a whole and we do not express discrete opinions on separate elements of the financial statements

The key audit matter

How the matter was addressed in our audit

Outstanding Claims Liability (\$47,500)

Refer to Note 3 to the Financial Report.

Outstanding claims liability is a key audit matter as a result of significant complexity relating to:

Valuation of Outstanding claims

The valuation of outstanding claims is significant to the key audit matter as:

- judgement is required by us to consider the central estimate of the outstanding claims. This is a significant estimate as the eventual outcomes of incurred but unsettled claims at the balance sheet date are inherently uncertain;
- there is limited information available and a greater level of uncertainty inherent in assessing estimations of claims which have been incurred by the balance sheet date but have not yet been reported to the Branch;
- judgment is required when considering the application of historical experience of claims development to determine current estimates, including the greater variability between the original estimation and the ultimate settlement of claims where there is a long time delay between the claim being incurred and the ultimate settlement;
- the claims estimation uses an actuarial modelling process which involves complex and subjective actuarial methodologies, judgements and assumptions about future events and developments, both within and external to the Branch. Small changes in these methodologies, judgments and assumptions can have significant implications to the quantification of outstanding claims;

Our audit procedures included :

Valuation of Outstanding claims

We assessed the selection of methods and key assumptions to consider evidence of management bias.

We challenged the actuarial methods and key assumptions by performing an assessment of the accuracy of previous estimates and comparability to the industry and with previous periods.

We interpreted and evaluated the Branch's actuarial modelling processes and methodology for determining the level of provisions for outstanding claims. We also considered the work and findings of the appointed actuary of the branch.

Our procedures around the financial records and controls included, amongst others:

- testing the design and implementation of accounting and actuarial controls such as the reconciliation of key data;
- testing the design and implementation of key controls over claims case estimates; and
- testing a sample of paid claims and claims case estimates.



The key audit matter

How the matter was addressed in our audit

- judgment is required to assess the estimation of the periods the claims are expected to be settled in; and
- the estimation of claims at year end relies on the integrity of the key underlying data.

Risk margins and probability of adequacy

The evaluation of the risk margins and probability of adequacy is significant to the key audit matter as it is complex and necessitated a significant level of judgment by us in our audit.

Outstanding claims include statistically determined risk margins developed by the Branch to make allowance for the inherent uncertainty in estimating ultimate claim settlements. The risk margins are included to achieve a specified probability of adequacy for the total outstanding claims reserves.

Risk margins and probability of adequacy

We assessed the Branch's estimation of risk margins with a view to identifying management bias. We evaluated the Branch's actuarial methodologies for consistency with those used in the industry and with prior periods.

Other information

The Directors, on behalf of the Branch, are responsible for the other information included in the entity's Financial Report. Other information includes the Directors' Report. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Use of this independent auditor's report

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



Responsibilities of the Directors for the financial statements

The Directors, on behalf of the Branch, are responsible for:

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



Auditor's responsibilities for the audit of the financial statements

Our objective is:

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

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

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

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

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

<http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/>

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



KPMG

Sydney
29 September 2020