The Hollard Insurance Company Pty Ltd (NZ)
NZBN 942 904 212 9851

Annual Financial Report

For the period ended 30 June 2016

The Hollard Insurance Company Pty Ltd (NZ)

NZBN 942 904 212 9851

Directors' Report

Directors

The directors present their report together with the financial report of The Hollard Insurance Company Pty Ltd (NZ) ("the Branch") for the period ended 30 June 2016 and the auditor's report thereon.

The Hollard Insurance Company Pty Ltd ("HIC") is an overseas company incorporated in Australia. Its operations in New Zealand ("the Branch") are registered as an ASIC overseas company with the New Zealand Companies Office.

The names of the directors of HIC during or since the end of the financial period are:

DG West
RHK Enthoven
AE Richardson
DM Matcham
KA Barry *(appointed 15/09/2015)*
AJ Kearnan
EF Comerford *(appointed 07/03/2016)*
TB Williams *(resigned 23/01/2016)*

The above named directors held office during the whole of the financial period and since the end of the financial period except as noted above.

The names of other officers of HIC during or since the end of the financial period are:

J O'Neill (Company secretary)
O Riggs (Company secretary)

The above named officers held office during the whole of the financial period and since the end of the financial period.

Principal activities

The Hollard Insurance Company Pty Ltd is wholly owned by Hollard Holdings Australia Pty Ltd (incorporated in Australia) and its ultimate parent is IVM Intersurer B.V. (incorporated in the Netherlands).

The principal activity of the Branch during the course of the financial period was the underwriting and sale of general insurance policies and the investment of shareholder and insurance funds.

The Branch was registered on 24 December 2015 and commenced operations in New Zealand in February 2016.

Review and results of operations

The Branch distributes all of its business through wholesale arrangements.

The Branch has a partnership agreement with a full service insurance underwriting agency, ANDO Insurance Group Ltd. The Branch is the underwriter and the agency distributes and administers the business on behalf of the Branch.

The Branch result for the financial period is a profit of $38,000.

The Hollard Insurance Company Pty Ltd (NZ)

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Directors' Report

State of Affairs

In the opinion of the directors, there were no significant changes in the state of affairs of the Branch that occurred during the financial period under review.

Events Subsequent to Balance Date

There has not arisen any other events in the interval between the end of the financial period and the date of this report any item, transaction or event of a material and unusual nature, likely, in the opinion of the directors of HIC, to affect significantly the operations of the Branch, the results of those operations, or the state of affairs of the Branch in future financial periods.

Likely Developments

Information about likely developments in the operations of the Branch and the expected results of those operations in future financial periods has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Branch.

Corporate Address

The registered address and principal place of business of the Branch is:
Level 12
465 Victoria Avenue
Chatswood NSW 2067
Australia

Tel: (02) 9253 6600
Fax: (02) 9253 6699

www.hollard.com.au

Principal Place of Business in New Zealand
Level 5
62 Victoria St West
Auckland 1010

The Hollard Insurance Company Pty Ltd (NZ)

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Directors' Report

Indemnification of officers and auditors

During the financial period HIC paid premiums in respect of a contract insuring the directors and other officers of HIC (as named in this report) and all executive officers of HIC and of any related body corporate against a liability insured as such a director, officer or executive officer to the extent permitted by the Companies Act 1993. Such insurance relates to any costs, including legal expenses incurred by directors or officers of HIC and of any related body corporate, in defending proceedings, whether civil or criminal, and other liabilities that may arise from their positions, with the exception of conduct involving any dishonest or fraudulent act, a wilful breach of duty or improper use of information or position to gain a personal advantage. The directors have not included details of the amount of the premiums paid in respect of the directors' and officers' liability insurance, or details of the premium paid in respect of former directors or individual officers of HIC, as such disclosure is prohibited under the terms of the contract.

HIC has not otherwise, during or since the end of the financial period, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of HIC or of any related body corporate against a liability incurred as such an officer or auditor.

Basis of Preparation and Rounding

The financial report is presented in New Zealand dollars and all values are rounded to the nearest thousand dollars ($'000) unless otherwise stated

Signed in accordance with a resolution of the directors made pursuant to the Financial Markets Conduct Act 2013:

Richard Enthoven
Managing Director

Duncan West
Chairman

Dated at Sydney 14 September 2016

The Hollard Insurance Company Pty Ltd
NZBN 942 904 212 9851

Statement of comprehensive income

For the period 1 February to 30 June 2016

	Note	**2016 $'000**
Gross written premium	7	11,718
Gross premium revenue	7	1,507
Reinsurance premium expense	14	(1,369)
Net premium revenue		138
Gross claims expense	9	(1,183)
Reinsurance and other recoveries revenue	7, 9	1,066
Net claims incurred		(117)
Acquisition costs	8	(459)
Reinsurance commissions revenue	7	488
Net acquisition costs		29
Administration and other expenses	8	(4)
Other expenses		(4)
Underwriting result		46
Profit before income tax		**46**
Tax benefit/(expense)	10	(8)
Profit for the period		**38**
Total comprehensive income for the period		**38**

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

The Hollard Insurance Company Pty Ltd

NZBN 942 904 212 9851

Statement of financial position

As at 30 June 2016

	Note	2016 $'000
Assets		
Cash assets	11	2,074
Receivables	12	14,957
Reinsurance and other recoveries	13	1,065
Deferred reinsurance expense	14	9,268
Deferred acquisition costs	15	2,776
TOTAL ASSETS		**30,140**
Liabilities		
Payables	16	14,205
Outstanding claims	17	795
Unearned premiums	18	10,211
Unearned reinsurance commissions	19	3,308
TOTAL LIABILITIES		**28,519**
NET ASSETS		**1,621**
Equity		
Head office funds		1,583
Retained income		38
TOTAL EQUITY		**1,621**

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

Statement of changes in Head office funds

For the period 1 February to 30 June 2016

	Head office funds $'000	Retained Income $'000	Total $'000
Balance at 1 February 2016	-	-	-
Total comprehensive income for the period			
Profit for the year	-	38	38
Other comprehensive income	-	-	-
Total comprehensive income	-	38	38
Transactions with Head office			
Funds from Head office	1,583	-	1,583
Total transactions with Head office	1,583	-	1,583
Balance at 30 June 2016	**1,583**	**38**	**1,621**

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

The Hollard Insurance Company Pty Ltd
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Statement of cashflows

For the period 1 February to 30 June 2016

	Note	2016 $'000
CASHFLOWS FROM OPERATING ACTIVITIES		
Premiums received		2,798
Reinsurance paid		(66)
Claims paid		(388)
Acquisition costs paid		(376)
Levies, charges, administration and other expenses paid		(1,477)
Net cashflow from operating activities	20	**491**
CASHFLOWS FROM FINANCING ACTIVITIES		
Injection of funds from head office		1,583
Net cash provided by/(used in) financing activities		**1,583**
Net (decrease)/increase in cash held		2,074
Cash and cash equivalents at the beginning of the financial year		-
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR	21	**2,074**

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

Notes to the financial statements

1. General information

The Hollard Insurance Company Pty Ltd – NZ Branch ("the Branch") is a for-profit entity, The Hollard Insurance Company Pty Ltd ("HIC"), of which the Branch is a part, domiciled in Australia, is registered under the Companies Act 1993.

The Branch is part of The Hollard Insurance Company Pty Ltd. The assets of the branch are legally available for the satisfaction of debts of the entire company, not solely those appearing on the accompanying balance sheet and its debts may result in claims against assets not appearing thereon.

The principal activity of the Branch during the course of the financial period was the underwriting and sale of general insurance policies.

HIC is a licensed insurer under the Insurance (Prudential Supervision) Act 2010.

Hollard Holdings Australia Pty Ltd is the immediate parent entity of HIC and it is ultimately owned by IVM Intersurer B.V. (incorporated in the Netherlands).

The Branch was registered on 24 December 2015 and commenced operations in New Zealand in February 2016. The financial statements are therefore for the 5 months ending 30 June 2016.

There were no significant changes in the nature of activities of the Branch during the period.

The financial report was authorised for issue by the directors on the 14 September 2016.

2. Significant accounting policies

The significant policies which have been adopted in the preparation of this financial report are:

2.1. Statement of compliance

The financial statements have been prepared in accordance with New Zealand generally accepted accounting practice (NZ GAAP). For the purposes of complying with NZ GAAP, the Branch is a for-profit entity. These financial statements comply with International Financial Reporting Standards ("IFRS") and New Zealand Equivalents to International Financial Reporting Standards ("NZ IFRS").

HIC is an FMC reporting entity under the Financial Markets Conduct Act 2013. These financial statements have been prepared in accordance with the requirements of the Financial Markets Conduct Act 2013.

2.2. First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards

These financial statements for the period ended 30 June 2016 are the first the Branch has prepared in accordance with NZ IFRS and IFRS, being the first set of financial statements prepared by the entity.

2.3. Basis of preparation

The financial report is presented in New Zealand dollars, which is the functional currency of the Branch. All values are rounded to the nearest thousand dollars ($'000) unless otherwise stated.

The financial report is prepared on the basis of historical costs except for financial assets that are stated at their fair value and outstanding claims and related reinsurance recoveries that are discounted to present value using a risk free rate.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Branch takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of NZ IFRS 2, leasing transactions that are within the scope of NZ IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in NZ IAS 2 or value in use in NZ IAS 36.

2.4. Classification of insurance contracts

Contracts under which the Branch accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified future event (the insured event) adversely affects the policyholder or other beneficiary, are classified as insurance contracts. Insurance risk is risk other than financial risk.

2.5. Revenue

2.5.1 Premium Revenue

Premium revenue from general insurance business relates to amounts charged to policyholders for the provision of insurance cover. Premium revenue includes fire service levies but excludes stamp duties, goods and services tax ("GST") and other amounts collected on behalf of third parties. Premiums are disclosed net of premium refunds and discounts.

Premium revenue, including unclosed business (business written where attachment of risk is prior to reporting date and there is insufficient information to finalise and issue the insurance contract), is recognised in the statement of comprehensive income when it has been earned. Premium revenue is earned evenly over the period of the contract, commencing from the attachment date. The earning of premium approximates the pattern of the incidence of risk expected over the contract period.

The proportion of premium received or receivable not earned in the statement of comprehensive income at the reporting date is recognised in the statement of financial position as an unearned premium liability.

Premiums on unclosed business are brought to account using estimates based on information provided by the different intermediaries, and allowing for any changes in the pattern of new business and renewals.

Premium receivable is recognised as the amount due and is normally settled between 30 days and 12 months. The recoverability of premium receivable is assessed and provision is made for impairment based on objective evidence and having regard to past default experience. Premium receivable is presented net of any provision for impairment.

2.5.2 Reinsurance and Other Recoveries

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid, claims incurred but not reported, risk margins and unexpired risk liabilities are recognised as revenue when earned. They are earned once conditions giving rise to recoveries under reinsurance contracts and other arrangements are met.

Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims. Recoveries are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

2.5.3 Reinsurance Commissions Revenue

Reinsurance commission revenue is recognised in the statement of comprehensive income and is earned over the period of indemnity of the reinsurance contract in accordance with the pattern of the incidence of risks ceded.

2.6. Unexpired risk liability

Provision is made for unexpired risks arising from general insurance business where the expected value of claims and expenses attributed to the unexpired periods of policies in force at the reporting date exceeds the unearned premiums liability in relation to such policies after the deduction of any related deferred acquisition costs.

The provision for unexpired risk is calculated separately for each group of contracts subject to broadly similar risks and managed together as a single portfolio.

The Liability Adequacy Test assesses whether the net unearned premium liability is sufficient to cover future claims costs for in-force policies. Future claims are calculated as the present value of the expected cash flows relating to future claims, and includes a risk margin to increase the statistical probability that the estimate is adequate to 75%. The 75% basis is a recognised industry benchmark in Australia and New Zealand.

2.7. Reinsurance premium expenses

Premiums ceded to reinsurers under reinsurance contracts held by the Branch are recorded as a reinsurance premium expense and are recognised in the statement of comprehensive income from the attachment date over the period of indemnity of the reinsurance contract in accordance with the pattern of the incidence of risk ceded. Accordingly, a proportion of reinsurance premium expense is treated as prepaid and disclosed as deferred reinsurance expense in the statement of financial position.

2.8. Outstanding claims liability

The estimation of the outstanding claims liability includes a number of key assumptions. The Branch takes all reasonable steps to ensure that it has appropriate information on which to base this estimate. However, given the uncertainty involved it is likely that the final outcome will differ from the original claims liability established.

The liability for outstanding claims is measured as the central estimate of the present value of expected future payments against claims incurred at the reporting date under general insurance contracts issued by the Branch, with an additional risk margin to allow for the inherent uncertainty in the central estimate.

The expected future payments include those in relation to claims reported but not yet paid, claims incurred but not yet reported, claims incurred but not enough reported and anticipated claims handling expenses. The expected future payments are discounted to present value using a risk free rate.

A risk margin is applied to the outstanding claims liability to reflect the inherent uncertainty in the central estimate of the outstanding claims liability. The risk margin increases the probability that the net liability is adequately provided to approximately a 75% confidence level.

The gross claims expense in the statement of comprehensive income comprises claims paid and the change in the liability for outstanding claims, both reported and unreported, including the risk margin and claims handling expenses. Outstanding claims on all classes are subject to external actuarial assessment.

2.9. Acquisition costs

Acquisition costs incurred in obtaining general insurance contracts are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the statement of comprehensive income in subsequent reporting periods. Acquisition costs include commission or brokerage paid to agents or brokers for obtaining business, selling and underwriting costs such as advertising and risk assessment, the administrative costs of recording policy information and premium collection cost.

Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the general insurance contracts to which they relate. This pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue.

2.10. Assets backing general insurance liabilities

The assets backing general insurance liabilities are those assets required to cover the insurance liabilities. Insurance liabilities include outstanding claims, unearned premium liabilities, unexpired risk liability, unearned reinsurance commissions and payables associated with insurance operations. HIC has determined that all assets are held to support insurance liabilities.

As part of its investment strategy, the Branch seeks to manage its notional assets allocated to insurance activities to mature in accordance with the expected pattern of future cash flows arising from insurance liabilities. The following policies apply to assets held to back general insurance liabilities:

2.10.1 Financial Instruments

Financial assets are designated at fair value through profit and loss. Initial recognition is at fair value in the statement of financial position and subsequent measurement is at fair value with any resultant unrealised gains or losses recognised in the statement of comprehensive income.

Details of fair value methodologies for the variety of financial assets are listed below:

- Cash assets and bank overdrafts are carried at the face value of the amounts deposited or drawn, which approximates their fair value;

2.10.2 Receivables

Amounts due from policyholders and intermediaries are initially recognised at amortised cost, being the actual amounts due. Subsequent measurements are estimated by taking the initially recognised amounts and reducing them for impairment as appropriate.

2.11. Fire Services Levy and other charges

A liability for fire services levy and other charges is recognised on business written to the balance date. Levies and charges payable are expensed on the same basis as the recognition of premium revenue, with the portion relating to unearned premium being recorded as a prepayment and disclosed as deferred levies and charges.

2.12. Impairment and derecognition of financial assets

Financial assets, other than those at fair value through profit and loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

The Branch derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Branch neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Branch recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Branch retains substantially all the risks and rewards of ownership of a transferred financial asset, the Branch continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

2.13. Income tax

Income tax on the profit or loss for the period comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

2.14. Goods and services tax

Revenue, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as a current asset or liability in the statement of financial position.

Cash flows relating to GST are included in the statement of cash flows on a net basis.

2.15. Payables

Trade and other payables are stated at amortised cost. These amounts represent liabilities for goods and services provided to the Branch prior to the end of the financial period and which are unpaid at that date. The amounts are unsecured and are normally settled within 30 days of the due date.

2.16. Cash and cash equivalents

Cash and cash equivalents include deposits at call which are readily convertible to cash and are subject to an insignificant risk of change in value.

2.17. Provisions

A provision is recognised in the statement of financial position when the Branch has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

3. Application of new and revised New Zealand Equivalents to International Financial Reporting Standards (NZ IFRSs)

3.1. Standards and interpretations in issue not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the Branch in the period of initial application. Assessment of the potential impacts to the Branch of these standards is not yet complete. These standards and interpretations have been issued but are not yet effective.

Standard/Interpretation	Expected to be initially applied in the financial year ending
NZ IFRS 9 'Financial Instruments'	30 June 2019
NZ IFRS 15 'Revenue from Contracts with Customers'	30 June 2019
NZ IFRS 16 'Leases'	30 June 2020

4. Critical accounting judgements and key sources of estimation uncertainty

4.1. Key sources of estimation uncertainty

4.1.1. Outstanding claims

A liability is recorded at the end of the year for the estimated cost of claims incurred but not settled at the reporting date, including the cost of claims incurred but not yet reported to the Branch.
The estimated cost of claims includes direct expenses to be incurred in settling claims net of the expected value of salvage and other recoveries. The Branch 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.

The estimation of claims incurred but not reported ("IBNR") is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Branch, where more information about the claim event is generally available. IBNR claims may often not be reported until many years after the events giving rise to the claims that have happened. 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 IBNR reserves. Short-tail claims are typically reported soon after the claim event, and hence, tend to display lower levels of volatility.

In calculating the estimated cost of unpaid claims, the Branch uses a variety of estimation techniques, generally based upon statistical analyses of historical company 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.
Details of specific actuarial techniques and assumptions used in calculating the outstanding claims liability at the reporting date are described in note 5. Analysis of outstanding claims liability is provided in note 17.

4.1.2. Assets arising from reinsurance contracts and other recoveries

Estimates of reinsurance and other recoveries are also computed using the above methods. In addition, the recoverability of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as counterparty credit risk. Impairment is recognised where there is objective evidence that the Branch may not receive amounts due and these amounts can be reliably measured. Analysis of reinsurance recoveries is provided in note 13.

5. Actuarial assumptions and methods

As at 30 June 2016, the outstanding claims liability for the Branch was assessed by the Appointed Actuary and the Appointed Actuary was satisfied as to the nature, sufficiency and accuracy of the data used to determine the outstanding claims liability. The Appointed Actuary for the Branch at 30 June 2016 is Karl Marshall (Fellow of the New Zealand Society of Actuaries) of Quantium.

5.1. Process used to determine outstanding claims liabilities

The general approach to actuarial estimation of Insurance Liabilities is to analyse all available past experience, primarily claim payments, movements in case estimates and movements in incurred claim costs. This analysis allows patterns to be identified in the past experience. Based on this, development patterns associated with the run-off of Outstanding Claims and Premium Liabilities at the reporting date can be estimated.

The determination of the outstanding claims liabilities involves two steps:

- The determination of the central estimate of Outstanding Claims at the reporting date. The central estimate of Outstanding Claims includes an allowance for claims incurred but not reported ('IBNR') and the further development of reported claims. The central estimate has no deliberate bias towards either over or under estimation. However, the estimates do not necessarily represent the mid-point of the range of possible outcomes as the potential for adverse movement generally exceeds the potential for favourable movement.
- The determination of a risk margin and claims handling expense provision to be added to the central estimates of Outstanding Claims.

5.2. Actuarial assumptions

The key actuarial assumptions for the determination of the outstanding claims liabilities are as follows:

	Wholesale
	2016
Discounted mean term of claims (years)	0.28
Expense rate (% of net claims)	2.50%
Discount rate	1.68%
Inflation rate	3.25%

Process used to determine actuarial assumptions

A description of the processes used to determine these assumptions is provided below.

Initial Net Cost of Claims

Discounted mean term of claims

The discounted mean term of claims relates to the expected payment pattern for claims. It is calculated by class of business and is generally based on historical settlement patterns. The discounted mean term of claims, while not itself an assumption, provides a summary indication of the future cash flow pattern.

Expense rate

The adopted claims handling expense rate is a percentage of the projected gross claim payments. Historical expense rates are considered when deriving the expected expense rate.

Discount rate

The outstanding claims liability is discounted at a rate equivalent to that inherent in a portfolio of risk free fixed interest securities with coupon and redemption cash flows exactly matching the projected inflation claim cash flows.

Inflation rate

For most valuation methods an implicit allowance for future claims inflation is incorporated to the extent that it is present in the claims experience analysed. For one valuation method, which does not have a material bearing on the valuation outcomes, an explicit inflation assumption is required. For short tail valuation portfolios, the only portfolios for which this method is used, the inflation assumption is 3.25%.

5.3. Sensitivity analysis

The outstanding claims liabilities included in the reported results are calculated based on the key actuarial assumptions as disclosed above. The movement in any of the above key actuarial assumptions will impact the performance and equity of the Branch. The table below describes how a change in each of the assumptions will affect the outstanding claims liabilities.

The table below summarises the sensitivity of the net outstanding claims liabilities to changes in key variables.

Key Actuarial Assumptions	Changes	Impact on outstanding claims liabilities (NZD)
		$'000
Discount rate	Increase by 1.0% p.a.	(219)
	Decrease by 1.0% p.a.	222
Discounted mean term	Increase by 0.5 years	(624)
	Decrease by 0.5 years	310
Expense rate	Increase by 1.0%	810
	Decrease by 1.0%	(810)

Inflation rate	Increase by 1.0%	(216)
	Decrease by 1.0%	218

6. Insurance Contracts - Risk management policies and procedures

The financial condition and operation of the Branch are affected by a number of key risks including insurance risk, credit risk, liquidity risk, market risk and operational risk. Market risk includes risks related to capital management, investments and liquidity as set out in the Branch's Risk Management Strategy ("RMS"). The Branch's policies and procedures in respect of managing these risks are set out below.

6.1. Objectives in managing risks arising from insurance contracts and policies for mitigating those risks

The Branch has an objective to manage insurance risk and thereby reduce the volatility of operating profits. The Branch's Risk Management Framework is the principal means by which insurance risks, and all other material risks, are identified and managed. The Branch has developed a RMS that outlines the Risk Management Framework, and a Reinsurance Management Strategy ("REMS") that outlines the Branch's management of risk in respect to reinsurance. These policies are in accordance with APRA Prudential Standards and have been approved by the Board.

Risks arising from entering into insurance contracts are specifically addressed as part of the Branch's Risk Management Framework. Each identified risk is analysed according to an established risk management process and the Board's risk appetite as presented in its Risk Appetite Statement. Appropriate treatment strategies are adopted in order to manage the Branch's exposure to risk.

Key aspects of the process established in the Risk Management Framework to mitigate risk include:

- The maintenance and use of management information systems, which provide up to date, reliable data on the risks to which the business is exposed;
- Actuarial models, using information from the management information systems, are used to calculate premiums and monitor claims patterns. Past experience, relevant industry benchmarks and statistical methods are used as part of the process;
- Documented procedures are followed for underwriting and accepting insurance risks, including risk retention limits;
- Reinsurance (both proportional and Excess of Loss) is used to limit the Branch's exposure to claims and catastrophes. When selecting a reinsurer, the security of the reinsurer is carefully considered. In order to assess this, the Branch uses rating information from the public domain or gathered through other investigations;
- In order to limit concentrations of credit risk, in purchasing reinsurance the Branch has regard to existing reinsurance assets and seeks to limit excess exposure to any single reinsurer or Company of related reinsurers;
- The mix of assets in which the Branch invests is driven by the nature and term of the insurance liabilities and with reference to the limitations set out in the RMS and Risk Appetite Statement.

The management of assets and liabilities is closely monitored to attempt to match the maturity dates of assets with the expected pattern of claim payments; and the diversification of business over major classes of insurance and large numbers of uncorrelated individual risks seeks to reduce variability in loss experience.

Excess of loss reinsurance treaties are in operation for all classes of general insurance business. In addition, liability per risk excess of loss cover applies to the general insurance business along with catastrophe and clash of retentions cover. Quota share and surplus treaties also apply to certain underwriting classes.

Underwriting Risk is the risk that the Branch does not charge premiums appropriate for the exposure profile it insures. The risk on any policy will vary according to many factors such as location, risk management programs and occupation etc. Underwriting risk is partially managed by the Branch issuing contracts for each policy which include the terms and conditions associated with the policy.

6.2. Terms and conditions of insurance business

The terms and conditions of direct insurance contracts written are entered into on a standard form basis. There are no specific contracts terms and conditions that are expected to have a material impact on the financial reports. The Branch develops contract terms that are specific to each product written.

6.3. Concentration of insurance risk

The Branch writes general insurance business across a number of classes and industries, ensuring that the portfolio is sufficiently diversified such that there is no undue concentration by risk class or by industry. The Branch also writes business across broad geographical regions within New Zealand. Regular reviews are undertaken to gauge the Branch's geographic accumulation exposure. Catastrophe reinsurance is purchased to ensure that any accumulation of losses from one area is protected.

6.4. Interest rate risk

None of the financial assets or liabilities arising from insurance or reinsurance contracts entered into by the Branch is directly exposed to interest rate risk. Financial asset interest rate risk is set out in Note 22.

6.5. Credit risk

Financial assets and liabilities arising from insurance and reinsurance contracts are stated in the statement of financial position at the amount that best represents the maximum credit risk exposure at balance date. There are no significant concentrations of credit risk.
In accordance with its Risk Appetite, the Branch only invests in instruments with a credit grade of at least A1 (short-term) and A+ (long term) as determined by Standard and Poor's ("S&P").

7. Revenue

	2016 $'000
Gross written premiums	11,718
Movement in unearned premium	(10,211)
Gross premium revenue	1,507
Reinsurance and other recoveries revenue	1,066
Reinsurance commissions revenue	488
Total General Insurance Revenue	**3,061**

8. Profit before income tax expense is arrived at after charging the following items:

	2016 $'000
8.1 Acquisition costs comprise	
Commission expenses	459
	459
8.2 Administration and other expenses comprise	
Professional fees	4
	4

The Branch had no employees during the period and associated costs for operations were borne by the HIC head office.

Audit fees and Directors' remuneration are borne as part of head office overheads and are not separately charged to the Branch.

The auditor of the Branch is Deloitte Touche Tohmatsu, Australia.

9. Claims expense

	2016 Current period $'000	Prior years $'000	Total $'000
Gross claims and related expenses - undiscounted	1,183		1,183
Discount movement			-
	1,183	-	1,183
Reinsurance and other recoveries - undiscounted	(1,066)		(1,066)
Discount movement	-		-
	(1,066)	-	(1,066)
Net claims incurred	117	-	117

Current period claims relate to risks borne in the current financial period.

10. Income (benefit)/tax expense

	2016 $'000
Current tax (benefit)/expense	
Current year	(9)
Total income tax (benefit)/expense	**(9)**
Numerical reconciliation between tax expense and pre-tax accounting profit	
Profit before income tax	46
Prima facie income tax calculated at 28% of profit before tax	(13)
Non-deductible expenses	5
	(8)

11. Cash assets

	2016 $'000
Cash at bank and on hand	2,055
Cash held in trust	19
	2,074

12. Receivables

	2016 $'000
Current	
Premiums receivable	11,160
Commissions receivable	3,797
	14,957

The Branch's exposure to credit risk and impairment losses related to premium and commission receivable are disclosed in note 22.

13. Reinsurance and other recoveries receivable

	2016 $'000
Expected future recoveries relating to:	
Paid claims	387
Outstanding claims discounted to present value	678
	1,065
Current	1,065
Non-current	
	1,065

	2016 $'000
Reconciliation of changes in reinsurance and other recoveries receivable	
Balance at the beginning of the financial year	-
Reinsurance and other recoveries raised in the year	1,065
Reinsurance and other recoveries received in the year	-
Balance at the end of the financial year	1,065

14. Deferred reinsurance expense

	2016 $'000
Current	9,268
Reconciliation of changes in deferred reinsurance	
Balance at the beginning of the financial year	-
Reinsurance premiums deferred in the year	10,637
Reinsurance premiums expensed during the year	(1,369)
Balance at the end of the financial year	9,268

15. Deferred acquisition costs

	2016 $'000
Current	2,776
Reconciliation of changes in acquisition costs	
Balance at the beginning of the financial year	-
Acquisition costs deferred during the year	3,235
Acquisition costs expensed during the year	(459)
Balance at the end of the financial year	2,776

16. Payables

	2016 $'000
Current tax payable	9
Trade payables - acquisition costs	2,859
Trade payables and accruals - other	766
Reinsurance premiums payable	10,571
	14,205

17. Outstanding claims

	2016 $'000
Current	795
	795
Central estimate	782
Risk margin	13
	795
Discount to present value	-
Gross outstanding claims liability	**795**

Reconciliation of changes in discounted gross outstanding claims	2016 $'000
Balance at beginning of financial year	-
Current year gross claims incurred	1,183
Claims paid	(388)
Discount movement	-
Balance at end of financial year	**795**

Risk margin

The overall risk margin is determined allowing for diversification between classes of business and the relative uncertainty of the outstanding claims estimate for each class.

The assumptions regarding uncertainty for each class were applied to the net central estimates, and the results were aggregated, allowing for diversification in order to arrive at an overall provision, which is intended to have a 75% probability of sufficiency.

	2016 $'000
Net overall risk margin applied	9.3%

18. Unearned premiums

	2016 $'000
Current	10,211
	10,211
Balance at beginning of financial year	-
Written premium deferred in the year	11,718
Written premium earned during the year	(1,507)
Balance at end of financial year	**10,211**

19. Unearned reinsurance commissions

	2016 $'000
Current	3,308
	3,308
Balance at beginning of financial year	-
Commissions deferred during the year	3,797
Commissions earned during the year	(488)
Balance at end of financial year	**3,308**

20. Reconciliation of profit after income tax to net cash flow from operating activities

	2016 $'000
Profit from ordinary activities after income tax	38
Changes in assets and liabilities during the financial year:	
Change in receivables	(14,957)
Change in reinsurance and other recoveries	(1,065)
Change in deferred reinsurance expense	(9,268)
Change in deferred acquisition costs	(2,776)
Change in payables	14,205
Change in outstanding claims	795
Change in unearned premium liability	10,211
Change in unearned reinsurance commissions	3,308
Net cash flow from operating activities	491

21. Note to the statement of cash flows

Reconciliation of cash

For the purposes of the statement of cash flows, cash includes cash on hand and at bank and short term deposits at call, net of outstanding bank overdrafts. Cash as at the end of the financial period as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

	2016 $'000
Cash at bank and on hand	2,055
Cash held in trust	19
	2,074

22. Financial risk management

The Branch undertakes transactions in a range of financial instruments including:

- Cash assets
- Receivables
- Payables

The activities of the Branch expose it to the following financial risks:

1. Credit risk (Counterparty risk)
2. Liquidity risk
3. Market risk (cash flow and fair value interest rate risk)

The Branch has developed, implemented and maintained a Risk Management Strategy (RMS) that provides stakeholders in the Branch with a framework to understand, evaluate, analyse and manage the ongoing risk applicable to the operation.

The Branch has an Investment Committee whose role is to monitor the Branch's Investment Policy and Liquidity Policy.

The key objectives of the Branch's assets and liability management strategy are to ensure sufficient liquidity is maintained at all times to meet the Branch's obligations, including settlement of insurance liabilities and, within these parameters, to optimise investment return for shareholders.

22.1. Credit risk

Credit risk (or counterparty risk) is the risk of financial loss to the Branch if a counterparty or customer to a financial instrument fails to meet its contractual obligations. The Branch's credit risk arises predominantly from investment in financial instruments, receivables from customers and future claims on the reinsurance contracts.

The following policies and procedures are in place to mitigate the Branch's exposure to credit risk:

- Material Damage Reinsurance is placed with counterparties that have a credit rating of A- or better whilst Long-Tail Reinsurance must be placed with counterparties having an S&P (or equivalent) credit rating of A+, which accords with the Branch's Reinsurance Management Strategy and its Risk Appetite Statement.
- The credit risk in respect of customer balances, incurred in non-payment of premiums, will only persist during the grace period specified in the policy document until expiry, when the policy is either paid up or terminated. Commission paid to intermediaries is netted off against amounts receivable from them to reduce the risk of doubtful debts.
- Loans to related parties are established under arms-length terms.

22.1.1. Trade and other receivables

The credit risk exposure of the Branch is non-repayment of receivables and the amounts are indicated by the carrying amounts of the financial assets. There is no significant concentration of credit risk as the Branch transacts with a large number of individual debtors without any single one being material.

Credit exposure

The table below provides information regarding the credit risk exposure of the Branch by classifying major classes of financial assets according to S&P's credit ratings of the counterparties.

Year ended 30 June 2016

	AA $'000	A $'000	BBB $'000	Not Rated $'000	Total $'000
Financial assets					
Reinsurance and other recoveries	296	769	-	-	1,065
Receivables	-	-	-	14,957	14,957
Cash and term deposits	2,074	-	-	-	2,074
Total risk exposure	2,370	769	-	14,957	18,096

The table below provides information regarding the ageing of financial assets that are past due but not impaired at the reporting date:

Year ended 30 June 2016

	Not past due $'000	Past due 0 to 30 days $'000	Past due 31 to 120 days $'000	Impairment $'000	Total $'000
Financial assets					
Reinsurance and other recoveries	1,065	-	-	-	1,065
Receivables	14,957	-	-	-	14,957
Cash and term deposits	2,074	-	-	-	2,074
Total risk exposure	18,096	-	-	-	18,096

For assets to be classified as 'past due and impaired', contractual payments in arrears are more than 90 days. An impairment adjustment is recorded in the statement of comprehensive income for these asset write-offs. When credit exposure is adequately secured, arrears more than 90 days might still be classified as 'past due but not impaired', with no impairment adjustment recorded. The Branch operates mainly on a 'neither past due nor impaired basis' and when evidence is available, sufficient collateral will be obtained for 'past due and impaired' assets, an impairment assessment will also be performed if applicable.

22.2. Liquidity risk

Liquidity risk is the risk that the Branch will not be able to meet its financial obligations as they fall due. The Branch's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Branch's reputation.

Maturity profiles

The table below summarises the maturity profile of the financial liabilities of the Branch based on remaining undiscounted contractual obligations, except for insurance contracts, when maturity profiles are determined on the discounted estimated timing of net cash outflows. Repayments which are subject to notice are treated as if notice were to be given immediately.

Year ended 30 June 2016

	Up to a year $'000	1-3 years $'000	3+ years $'000	Total $'000
Financial liabilities				
Payables	14,205	-	-	14,205
Outstanding claims	795	-	-	795
Total	15,000	-	-	15,000

The Branch's financial liabilities are carried in the statement of financial position at amounts that approximate fair value. The carrying amounts of all financial assets and liabilities are reviewed to ensure they are not in excess of the net fair value.

22.3. Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Branch's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

22.3.1. Cash flow and fair value interest rate risk

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

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit before tax. The correlation of variables will have a significant effect in determining the ultimate impact in interest rate risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis.

Year ended 30 June 2016	Change in interest rate rate	Impact on profit before tax $'000	Total $'000
Bank balances related to New Zealand	+1%	21	21
	-1%	(21)	(21)

23. Capital risk management

The Branch manages its capital to ensure that on a legal entity level it meets regulatory solvency requirements and it will continue operating as a going concern.

The capital structure of the Branch consists of cash and cash equivalents (as disclosed in Note 11) and designated equity, comprising of head office account and Retained Income (as disclosed in the Statement of Changes in Equity).

The Branch's capital is managed through the ICAAP of HIC. The ICAAP is reviewed internally on an annual basis. Independent reviews are performed every three years.

During 2016 the Branch designated a balance of the head office funds as contributed equity. This balance forms part of the head office account and is segregated as a non-operational trade balance:

	2016 $'000
Designated equity	1,583

24. Exemption from compliance with solvency standard

The Branch is exempted from compliance with the Solvency Standard for Non-life Insurance Business 2014. The exemption was issued as part of the grant of licence under section 55 of the Insurance (Prudential Supervision) Act 2010.

The Reserve Bank of New Zealand considers it appropriate to grant the exemption because it is satisfied that The Hollard Insurance Company Pty Ltd is required under the law or regulatory requirements of the Commonwealth of Australia to comply with standards or requirements that relate to the same or similar matters that are covered by the solvency standard or part of the solvency standard to which this exemption relates, and in terms of achieving the purposes of the Act, at least as satisfactory as the solvency standard or part of the solvency standard to which this exemption relates to.

The Hollard Insurance Company Pty Ltd is currently in compliance with the regulatory standards and requirements prescribed by the Australian Prudential Regulation Authority.

25. Insurer financial strength rating

As at the date of this report the Branch has an insurer financial strength rating of A- (Excellent) from A.M. Best, with a stable outlook.

26. Liability Adequacy Test

The application of the liability adequacy test ("LAT") in respect of net premium liabilities has identified a surplus at 30 June 2016.

27. Events subsequent to reporting date

There has not arisen in the interval between the end of the financial period and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors, to affect significantly the operations of the Branch, the results of those operations, or the state of affairs of the Branch in future financial periods.

Deloitte.

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Independent Auditor's Report to the Shareholders of The Hollard Insurance Company Pty Ltd – New Zealand Branch

We have audited the accompanying financial statements of The Hollard Insurance Company Pty Ltd – New Zealand branch, which comprise the statement of financial position as at 30 June 2016, the statement of comprehensive income, the statement of cash flows and the statement of changes in head office funds for the five months ended on that date, notes comprising a summary of significant accounting policies and other explanatory information as set out on pages 5 to 29.

The Directors' Responsibility for the Financial Statements

The directors are responsible on behalf of the entity for the preparation and fair presentation of the financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards and for such internal control as the directors determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other than in our capacity as auditor we have no other relationships with, or interests in, Hollard Insurance Company Pty Ltd – New Zealand branch.

Opinion

In our opinion the financial statements present fairly, in all material respects, the financial position of Hollard Insurance Company Pty Ltd – New Zealand branch as at 30 June 2016 and its financial performance and cash flows for the five months then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

Emphasis of Matter

The New Zealand branch is part of Hollard Insurance Company Pty Ltd, which is incorporated in Australia. 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. Our opinion is not qualified in respect of this matter.

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU

Stuart Alexander
Partner
Chartered Accountants
Sydney, 14 September 2016