The Hollard Insurance Company Pty Ltd (NZ Branch)

NZBN 942 904 212 9851

Annual Financial Report

For the year ended

30 June 2019

Contents

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2019

Directors

The directors present their report together with the financial report of The Hollard Insurance Company Pty Ltd (NZ Branch) ("the Branch") for the year ended 30 June 2019 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 directors of HIC ("the Board") during or since the end of the financial year are:
Duncan West (Chairman & Non-executive Director)
Richard Enthoven (Group CEO & Executive Director)
Karl Armstrong (Non-executive Director) - Appointed 11 June 2019
Katrina Barry (Non-executive Director)
Ellen Comerford (Executive Director)
Richard Heilig (Executive Director)
David Matcham (Non-executive Director)
Alastair Richardson (Non-executive Director)
Alexandra Thomas (Executive Director)
Jane Tongs (Non-executive Director) - Appointed 17 November 2018
Noeline Woof (Non-executive Director) - Appointed 1 July 2018
The above named directors held office during the whole of the financial year and since the end of the financial year except as noted above.

The other officers of HIC during or since the end of the financial year are:
Jenny O'Neill (Company Secretary)
Orion Riggs (Company Secretary)
Galia Durbach (Company Secretary) - Appointed 27 June 2019
Rebecca Murphy (Company Secretary) - Appointed 24 September 2018. Resigned 11 March 2019
The above named officers held office during the whole of the financial year and since the end of the financial year.

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 financial year was the underwriting and sale of general insurance policies and the investment of shareholder and insurance funds.

HIC is a licensed insurer regulated by Australian Prudential Regulation Authority ("APRA"), while the Branch is regulated by the Reserve Bank of New Zealand ("RBNZ").

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, which is the key New Zealand agency. The Branch is the underwriter and the agency distributes and administers the business on behalf of the Branch.

The Branch result for the financial year is a loss of $5,817,000 (2018: Loss $2,864,000).

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2019

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 year under review.

Events Subsequent to Balance Date

With effect from 1 September 2019, the Branch entered into a Claims and underwriting agreement with a distribution partner in New Zealand to underwrite a Travel portfolio. This may impact financial results and operations in future periods.

Apart from the above, no events have arisen in the interval between the end of the financial year 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.

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 26
188 Quay Street
Auckland 1010
New Zealand

Indemnification of officers and auditors

During the financial year 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 year, 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.

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2019

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
Director

Duncan West
Chairman

Dated at Sydney 26 September 2019

Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2019

	Note	2019 $'000	2018 $'000
Gross written premium	**7**	185,301	102,003
Gross premium revenue	**7**	142,468	64,160
Reinsurance premium expense	**14**	(123,639)	(58,245)
Net premium revenue		18,829	5,915
Gross claims expense	**9**	(106,301)	(47,702)
Reinsurance and other recoveries revenue	**7, 9**	92,093	43,025
Net claims incurred		(14,208)	(4,677)
Acquisition expense	**8**	(48,320)	(21,030)
Reinsurance commissions revenue	**7**	41,912	19,724
Net acquisition expense		(6,408)	(1,306)
Administration and other expenses	**8**	(4,030)	(2,796)
Total Administration and other expenses		(4,030)	(2,796)
Underwriting result		(5,817)	(2,864)
Profit/(Loss) before income tax		**(5,817)**	**(2,864)**
Tax benefit/(expense)	**10**	-	-
Profit/(Loss) for the year		**(5,817)**	**(2,864)**
Total comprehensive income for the year		**(5,817)**	**(2,864)**

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

Statement of Financial Position

FOR THE YEAR ENDED 30 JUNE 2019

	Note	2019 $'000	2018 $'000
Assets			
Cash assets	**11**	470	2,933
Receivables	**12**	110,882	72,252
Reinsurance and other recoveries	**13**	37,576	20,525
Deferred reinsurance expense	**14**	93,780	58,496
Deferred acquisition costs	**15**	29,452	18,160
TOTAL ASSETS		**272,160**	**172,366**
Liabilities			
Payables	**16**	78,202	52,900
Outstanding claims	**17**	43,731	22,608
Unearned premiums	**18**	106,255	63,422
Unearned reinsurance commissions	**19**	28,980	18,638
TOTAL LIABILITIES		**257,168**	**157,568**
NET ASSETS		**14,992**	**14,798**
Equity			
Head office funds		27,611	21,600
Retained income		(12,619)	(6,802)
TOTAL EQUITY		**14,992**	**14,798**

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

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2019

	Head office funds $'000	Retained Income $'000	Total $'000
Balance at 30 June 2018	21,600	(6,802)	14,798
Total comprehensive income for the period			
Profit for the year	-	(5,817)	(5,817)
Other comprehensive income	-	-	-
Total comprehensive income	-	(5,817)	(5,817)
Transactions with head office			
Funds from head office	6,011	-	6,011
Total transactions with head office	6,011	-	6,011
Balance at 30 June 2019	**27,611**	**(12,619)**	**14,992**
Balance at 30 June 2017	15,401	(3,938)	11,463
Total comprehensive income for the period			
Profit for the year	-	(2,864)	(2,864)
Other comprehensive income	-	-	-
Total comprehensive income	-	(2,864)	(2,864)
Transactions with head office			
Funds from head office	6,199	-	6,199
Total transactions with head office	6,199	-	6,199
Balance at 30 June 2018	**21,600**	**(6,802)**	**14,798**

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

Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2019

	Note	2019 $'000	2018 $'000
CASHFLOWS FROM OPERATING ACTIVITIES			
Premiums received		146,879	67,022
Reinsurance and other recoveries received		58,132	27,233
Reinsurance commission received		42,282	19,345
Reinsurance paid		(131,079)	(55,318)
Claims paid		(85,178)	(39,714)
Acquisition costs paid		(45,264)	(21,639)
Levies, charges, administration and other expenses received/(paid)		5,751	(1,163)
Income tax received from / (paid to) Inland Revenue New Zealand		3	-
Net cashflow from operating activities	**20**	**(8,474)**	**(4,234)**
CASHFLOWS FROM FINANCING ACTIVITIES			
Additional Head Office Funding		6,011	6,199
Net cash provided by/(used in) financing activities		**6,011**	**6,199**
Net (decrease)/increase in cash held		(2,463)	1,965
Cash and cash equivalents at the beginning of the financial year		2,933	968
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR	**21**	**470**	**2,933**

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

Notes to the Financial Statements
FOR THE YEAR ENDED 30 JUNE 2019

1. GENERAL INFORMATION
The Hollard Insurance Company Pty Ltd (NZ Branch) ("the Branch") is a for-profit entity and registered under the Companies Act 1993. The Hollard Insurance Company Pty Ltd ("HIC"), of which the Branch is a part, is domiciled 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 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 year 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 the ultimate parent company is 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.

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

The financial report was authorised for issue by the directors on 26 September 2019.

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 a Financial Markets Conduct ("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. 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. Comparative information has been restated to align with changes to presentations made in the current year, where applicable.

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 IFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in NZ IFRS 2 or value in use in NZ IFRS 36.

2.3. 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.

2.4. Revenue

2.4.1. Premium Revenue

Premium revenue from general insurance business relates to amounts charged to policyholders for the provision of insurance cover. Premium revenue excludes fire and emergency service levies, earthquake commissions, 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 recognisable lifetime credit losses where there have been significant increases in credit risk since initial recognition considering all reasonable and supportable information. Premium receivable is presented net of any provision for impairment.

2.4.2. 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.

2.4.3. 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.

2.5. 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.

2.6. 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.

2.7. 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.

2.8. 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.

2.9. 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:

2.9.1. Financial Instruments at Fair Value through Profit or loss

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.

2.9.2. 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.

2.10. Levies and other charges

A liability for levies and other charges is recognised on business written to the balance date, where the Branch is compelled to collect from Insureds. Levies and charges payable, where the Branch is not compelled to collect from Insureds, 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.

2.11. 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 assessed for impairment by recognising lifetime credit losses for all financial instruments for which there have been significant increases in credit risk since initial recognition considering all reasonable and supportable information. An impairment gain or loss is recognised in the profit or loss where the amount of expected credit losses (or reversal) that is required to adjust the loss allowance to the amount that is required to be recognised in accordance with NZ IFRS 9.

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 is recognised in profit or loss.

2.12. Income tax

Income tax on the profit or loss for the year 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 year, 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.

2.13. Goods and services tax

Revenue and expenses 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.

2.14. 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 year and which are unpaid at that date. The amounts are unsecured and are normally settled within 30 days of the due date.

Under quota share reinsurance treaty agreements the Branch has a right of offset, and settles on a net basis. Accordingly, the reinsurance payable balance represents the net position on such reinsurance treaty agreements, with the offset being applied to reinsurance recoveries receivable and reinsurance commission income receivable, on a treaty basis. The relevant cash flows pertaining to Quota Share reinsurance agreements have been presented on a gross basis within the cash flow statement.

2.15. 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.

2.16. 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)

All mandatory Standards, Amendments and Interpretations have been adopted in the current year. None had a material impact on these financial statements.

The following standards are effective in the current year and have been applied by the Branch.

Standard/Interpretation	**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 9 Financial Instruments became effective for periods beginning on or after 1 July 2018, replacing the existing accounting standard for financial instruments under NZ IAS 39 Financial Instruments: Recognition and Measurement. NZ IFRS 9 introduces a principles-based approach to the classification and measurement of financial instruments and replaces the 'incurred loss' impairment model with a new 'expected loss' model when recognising expected credit losses on financial assets. The Company has applied NZ IFRS 9 retrospectively, with no material change to the carrying amount or classification of it’s financial instruments under the requirements of NZ IFRS 9 as summarised in the table below. An analysis has been performed of the expected credit losses associated with the Company's in-scope financial assets and note that the provisions raised under NZ IAS 39 are sufficient when considering the lifetime expected credit losses associated with these assets. NZ IFRS 9 specifically excludes from its scope the rights and obligations arising from insurance contracts, as defined under NZ IFRS 4 Insurance Contracts.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2019

Asset/liability	Measurement Basis under NZ IAS39	Measurement Basis under NZ IFRS9	Carrying amount of asset/(liability) under NZ IFRS9 and NZ IAS39 $'000 NZ IAS 39	NZ IFRS9
Cash and cash equivalents	Amortised Cost	Amortised Cost	470	470
Trade and other receivables[1]	Amortised Cost	Amortised Cost	11	11
Trade and other payables[2]	Amortised Cost	Amortised Cost	17,659	17,659

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. 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 16 ‘Leases’	30 June 2020
NZ IFRS 17 ‘Insurance Contracts’	30 June 2022

The Branch currently plans to adopt the standards and amendments detailed above in the reporting periods beginning after their respective operative dates. An initial assessment of the financial impact of the standards and amendments have been undertaken and they are not expected to have a material impact on the Branch's financial statements, except where noted below.

During 2017, the International Accounting Standards Board (IASB) issued IFRS 17, a new accounting standard for insurance contracts. The New Zealand equivalent, NZ IFRS 17, will be effective for reporting periods beginning on or after 1 January 2021 and will be applicable to general, life and health insurance business. Given the broad scope, complexity and ongoing discussion around interpretation of some key areas of the standard, the impact of NZ IFRS 17 on the Branch's financial statements is still being determined; however significant disclosure changes and some impact on profit and loss are expected. In particular, NZ IFRS 17 introduces a new general model for measuring and accounting for insurance contracts but permits application of a simplified measurement model if the liability for the remaining coverage under the simplified model would not materially differ from the general model. The Branch has initiated a project to assess the impact of this change on both the financial statements and the broader business, with a view to achieving full compliance for the first applicable reporting date, being the financial year ending 30 June 2022 (or one year later as currently under consideration by the IASB).

NZ IFRS 16 “Leases” applies for reporting periods beginning on or after 1 January 2019 and replaces NZ IAS 17 “Leases”. The most notable aspect of NZ IFRS 16 compared to its predecessor standard, is the removal of the different accounting models for finance leases compared to operating leases.

The Branch will elect to take recognition exemptions for short term leases and leases of low-value items. Leases that fall within the Branch’s defined parameters for these exemptions will be excluded from NZ IFRS 16 lease accounting requirements and be expensed on a straight-line basis over the life of the lease.

[1] This excludes receivables arising from insurance contracts as these are out of the scope of NZ IFRS9.
[2] This excludes payables arising from insurance contracts as these are out of the scope of NZ IFRS9.

As at 30 June 2019, the Branch had no leases in place. Subsequent to 30 June 2019, the Branch entered into a short-term lease for the Auckland, New Zealand office which the Branch will apply the exemption from NZ IFRS 16. Therefore, the Branch expects no impact to its recognition and measurement of lease costs under NZ IFRS 16.

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. The recoverability of these assets is assessed, and provision is made for expected credit loss based on past default experience as well as other economic factors. Analysis of reinsurance recoveries is provided in note 13.

5. ACTUARIAL ASSUMPTIONS AND METHODS

As at 30 June 2019, 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 2019 is Leigh Boekestein (Fellow of the New Zealand Society of Actuaries) of The Hollard Insurance Company Pty Ltd.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2019

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:

	2019	2018
Discounted mean term of claims (years)	0.53	0.62
Expense rate (% of gross claims)	0.40%	0.25%
Discount rate	1.27%	1.81%
Inflation rate	3.52%	3.52%

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 outstanding 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 3.52%.

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.	(32)
	Decrease by 1.0% p.a.	32
Discounted mean term	Increase by 0.5 years	69
	Decrease by 0.5 years	(68)
Expense rate	Increase by 1.0%	452
	Decrease by 1.0%	(452)
Inflation rate	Increase by 1.0%	32
	Decrease by 1.0%	(32)

6. RISK MANAGEMENT

The Board and management recognise that effective risk management is a critical component of sound business practice and integral to achieving the business objectives of HIC and the Branch (Collectively referred to as "the Company").

In accordance with the APRA's prudential standard CPS 220 Risk Management, GPS 230 Reinsurance Management and GPS 110 Capital Adequacy, the Board and senior management have developed, implemented and monitor the ongoing maintenance and effectiveness of a Group Risk Management Framework (RMF). Key documents within the RMF are:

- Group Risk Management Strategy (RMS)
- Group Risk Appetite Statement (RAS)
- Reinsurance Management Strategy (ReMS)
- Internal Capital Adequacy Assessment Process (ICAAP)

Ultimately the Board is responsible for the establishment and maintenance of an effective RMF. The responsibility is formally delegated to a number of Board Committees and the Group CEO to manage day to day via Board Committee Charters and delegated authorities and limits. In addition, the Board approves frameworks, policies and limits relating to the key categories of risk faced and managed by the Company.

There are five formal Board committees with delegated responsibilities that assist with risk management monitoring including the Board Risk Committee, Board Audit Committee, Board Remuneration Committee, Board Investment Committee and Board Reinsurance Committee. Cross membership on committees allows effective communication between committees ensuring that all risk related matters are appropriately considered.

The Board annually submits a Risk Management Declaration to APRA.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2019

RMF/RMS

The RMF/RMS is reviewed and approved by the Board annually and consists of complementary elements that are embedded throughout the business management cycle and culture. Key aspects include:

- A documented risk management strategy including a defined risk appetite statement (RAS) that links to strategic business (business plan) and capital plans (as documented in the annual ICAAP Report);
- Risk Management Processes including policies, procedures, risk assessments, controls, management information systems, modelling and stress testing, monitoring and reporting;
- Accountabilities and governance arrangements for the management of risk across the organisation.

On behalf of the Board, Board Risk Committee (comprising solely independent non-executive directors), monitors the adequacy of effectiveness of the RMF including strategies and processes for managing financial and non-financial risk.

ReMS

The Board's annually approved ReMS outlines the Company's management of reinsurance risk. The Company participates in both proportional (quota share) and excess of loss reinsurance treaties to limit its exposure to large risks (both individual and event) as well as a means for providing capital support.
On behalf of the Board, the Board Reinsurance Committee (comprising a majority of independent non-executive directors), monitors the adequacy and effectiveness of the ReMS ensuring the reinsurance programs are adequate to protect policyholder's interest within Board approved risk tolerance levels as defined in the RAS.

ICAAP

The Board's annually approved ICAAP covers the Company's approach to, and processes around capital management including principles aimed at having robust processes in place to ensure that sufficient capital is available to meet current and future policyholder obligations.

On behalf of the Board, the Board Risk Committee monitors the adequacy and effectiveness of the ICAAP. During 2019, the Company has continued to evolve the transition of its risk management framework to a decentralised three lines of defence RMF model. Under this model the key divisions and business wide service groups are accountable for managing risk and compliance within risk appetite, and according to frameworks and policies (first line of defence). Monitoring, review and challenge is undertaken by a dedicated risk and compliance team (second line of defence). The CRO and group risk function provide regular reports to the Board Risk Committee. Independent assurance is conducted by the internal and external audit team (third line of defence). The Internal Audit team reports to the Board Audit Committee.

The material risks addressed by the RMF/RMS are defined below:

- Strategic Risk – the risk of losses arising from poor strategic business decisions and other fundamental issues that impact the business or the general insurance industry.
- Insurance Risk – the risk associated with the variable outcome of writing insurance business.
- Counterparty Risk (including credit risk) – the risk that a person or an institution with whom the Company has entered a financial contract, who is a party to a financial contract will default on the obligation and fail to fulfil that side of the contractual agreement and the risk that an investment (Strategic or non-strategic) fails leading to financial loss.
- Market Risk – the risk of a decrease or lower than expected return on investments due to market movements (interest rate or foreign currency), asset/liability mismatch and liquidity risks and the risk of insufficient capital to meet current and future policyholder obligations.
- Operational Risk - The risk of an incident occurring which leads or could lead to the actual outcome of a business process (excluding strategic or discretionary) to differ from expected outcomes due to inadequate or failed process, people, systems or external factors.

- Customer and Community Expectations Risk –the risk of delivering unfair outcomes to customers or not meeting community expectations.
- Compliance Risk –the risk of loss arising from either the current (or future) regulatory framework under which the Company operates including risks associated with breaching the law, taxation obligations and requirements of a general insurer in the Australian and New Zealand markets.

Annually, the Board receives a Financial Condition Report (FCR) completed by the Appointed Actuary as required under APRA’s prudential standard CPS 320 Actuarial and Related Matters. The FCR reports on a number of areas including the management of risk by the Company. The FCR is submitted to APRA and to the RBNZ.

Further discussions on the application of the Company’s risk management practices are presented in the following sections.

6.1. Strategic Risk

The Company seeks to manage Strategic risk as part of its annual strategic planning process. Business Plan development includes consideration of the internal and external environment by senior management, identifying material risks with overall review and challenge by the Group risk function to form an aggregate view of the Company’s exposure to strategic risk. The Business Plan is a requirement of the RMS and is reviewed and approved by the Board annually. Subsequent regular monitoring of these risks is undertaken by the Board Risk Committee.

6.2. Insurance Risk

Insurance risk is inherent in the operation of the Company and relates to product design, pricing, underwriting, exposure concentration, reserving, and claims and reinsurance management.
The Company has an objective to manage insurance risk to reduce the volatility of operating profits. Insurance risk is managed through the operation of the RMF/RMS via the Risk Appetite Statement and identified risk management strategies and processes.
Key controls established to mitigate insurance risk include:

- The maintenance and use of management information systems which provide data on insurance policies and claims and aggregate exposures;
- Actuarial models, using information from the management information systems, which are used to calculate premiums and monitor claims patterns;
- Documented procedures which are followed for underwriting and accepting insurance risks, including risk retention limits;
- Diversification as a result of underwriting a mix of general insurance business.

Key controls established to mitigate risks from the Company’s use and reliance on reinsurance are:

- The security of the reinsurer is set at a minimum level using rating information from the public domain or sourced from other investigations; and
- Concentration limits are in place to limit excess exposure to any single reinsurer or group of related insurers.

Terms and Conditions of insurance contracts

The majority of direct insurance contracts are entered into on a standard form basis with specific terms for each product written and are generally annual. At the time of entering into the contract all terms and conditions are negotiable or, in the case of renewals, renegotiable. Non-standard policies may only be written if expressly approved by a relevant delegated authority. There are no special terms and conditions in any non-standard contracts that would have a material impact on the financial statements.

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 geographical accumulation exposure. Catastrophe reinsurance is purchased to provide protection from accumulation of losses from a single geographic area.

6.3. Counterparty Risk

Counterparty risk (or credit risk) is the risk of financial loss to the Company if a counterparty, distribution intermediary, or customer fails to meet its contractual obligations. The Company's counterparty risk arises predominantly from investment in financial instruments, receivables from distribution partners or customers, and receivables for claims payments on reinsurance contracts.

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

Investments

The Investment and Liquidity Policy contains minimum requirements for counterparties for liquid investment portfolio (size of investments, concentrations, minimum ratings). The Company seeks to limit its exposure to credit risk by investing cash with counterparties that are APRA regulated authorised deposit-taking institutions.

As part of its approach to investing in strategic insurance related businesses, HIC may provide loans to investment entities (where in some cases the Company mitigates its credit exposure by securing the loans over the assets of the investment entities). The associated credit risk exposure is monitored on a regular basis via management and the Board Investment Committee.

Receivables

The credit risk in respect of customer premium receivables incurred through non-payment of premium, will only persist during the grace period specified in the insurance policy contract 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 quantum of doubtful debt risk. Receivables from intermediaries are monitored to ensure payment is made in accordance with the intermediary agreements.

Reinsurance Receivables

In accordance with the ReMS and Risk Appetite Statement, reinsurance is placed with counterparties that have a Standard and Poor's (or equivalent) credit rating of "A-" or better whilst long tail reinsurance must be placed with counterparties with a Standard and Poor's (or equivalent) credit rating of "A+". Contractual terms include a requirement for collateralisation if ratings of reinsurance counterparties are downgraded.

Credit exposure

The table below provides information regarding the credit risk exposure of the Branch by classifying major classes of assets according to Standard and Poor's short-term credit ratings of the counterparties. Where an amount relates to a long-term exposure the relevant amount has been included in the equivalent short-term rating.

Year ended 30 June 2019	**AA $'000**	**A $'000**	**BBB $'000**	**Not Rated $'000**	**Total $'000**
Financial assets					
Reinsurance and other recoveries	10,438	27,138	-	-	37,576
Receivables	-	-	-	110,882	110,882
Cash and term deposits	470	-	-	-	470
Total risk exposure	10,908	27,138	-	110,882	148,928

Year ended 30 June 2018	**AA $'000**	**A $'000**	**BBB $'000**	**Not Rated $'000**	**Total $'000**
Financial assets					
Reinsurance and other recoveries	5,701	14,824	-	-	20,525
Receivables	-	-	-	72,252	72,252
Cash and term deposits	2,933	-	-	-	2,933
Total risk exposure	8,634	14,824	-	72,252	95,710

The table below provides information regarding the ageing of assets that are past due at the reporting date:

Year ended 30 June 2019	**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	37,576	-	-	-	37,576
Receivables	110,882	-	-	-	110,882
Cash and term deposits	470	-	-	-	470
Total risk exposure	148,928	-	-	-	148,928

Year ended 30 June 2018	**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	20,525	-	-	-	20,525
Receivables	72,252	-	-	-	72,252
Cash and term deposits	2,933	-	-	-	2,933
Total risk exposure	95,710	-	-	-	95,710

For assets to be classified as 'past due', contractual payments in arrears are more than 90 days. An expected credit loss adjustment is recorded in the statement of comprehensive income for these assets. When credit exposure is adequately secured, arrears more than 90 days might be classified as 'past due', with no expected credit loss recorded. The Company operates mainly on a 'not past due basis' and sufficient collateral will be obtained for 'past due' assets. An assessment of expected credit loss will also be performed if applicable.

6.4. Market Risk

Market Risk is the risk that changes in market prices, such as interest rates, foreign exchange, and equity prices will affect the Company'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 and to ensure that the Company is appropriately capitalised to meet its current and future policyholder obligations.

The Board annually reviews risk appetite with regard to the investment strategy in relation to policyholder funds and shareholder funds with specific risk limits set in regard to liquid assets and in regard to strategic investments.

The Board Investment Committee monitors the application of the Investment and Liquidity Policy that sets out the key parameters such as liquidity limits, target duration matching and foreign exchange exposure limits, as well as reviewing application of the fair value process related to the Strategic Investment portfolio.

The Board Risk Committee monitors the application of the ICAAP in accordance with GPS110 Capital Adequacy and other related GPS capital requirements.

Cashflow 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.

Floating rate instruments expose the Company to cash flow interest risk, whereas the Company's interest risk policy requires it to manage interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments. The policy also requires it to manage the maturities of interest-bearing liabilities. Any gap between fixed and variable rate instruments and their maturities can also be managed by the Company through the use of derivative financial instruments. As at 30 June 2019 the Company did not have any such exposures to derivative financial instruments. Interest on floating rate instruments is repriced at intervals of less than one year. Interest on fixed interest rate instruments is priced at inception of the financial instrument and is fixed until maturity.

The analysis below is performed for reasonable 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 on 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 2019	Change in interest rate	Impact on profit before tax $'000	Total $'000
Bank balances related to New Zealand	+1%	5	5
	-1%	(5)	(5)

Year ended 30 June 2018	Change in interest rate	Impact on profit before tax $'000	Total $'000
Bank balances related to New Zealand	+1%	29	29
	-1%	(29)	(29)

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The key objective of the Company's liquidity management is to ensure it has sufficient available liquidity to meet current and future obligations to policy holders under both normal and stressed liquidity environments without incurring unacceptable losses or risking damage to the Company's reputation.

The following key arrangements are in place to mitigate liquidity risks:

- A Board approved Investment and Liquidity Policy and monitored by the Board Investment Committee comprising mandated liquidity limits including asset/liability duration.
- Management and reporting on Premium receivables from intermediaries and customers
- Cash call and collateralisation clauses in reinsurance contracts combined with accelerated receipt of large reinsurance recoveries to manage potential shortfalls that could arise from mismatches in timing of claim payment and recoveries.
- The policy also imposes minimum levels for aggregate investment in APRA/RBNZ regulated ADIs which provides a control for managing the relatively non-liquid insurance related strategic investments.

Maturity Profiles

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

Year ended 30 June 2019	Up to a year $'000	1-3 years $'000	3+ years $'000	Total $'000
Financial liabilities				
Payables	78,202	-	-	78,202
Outstanding claims	35,489	8,242	-	43,731
Total	113,691	8,242	-	121,933

Year ended 30 June 2018	Up to a year $'000	1-3 years $'000	3+ years $'000	Total $'000
Financial liabilities				
Payables	52,900	-	-	52,900
Outstanding claims	17,724	4,884	-	22,608
Total	70,624	4,884	-	75,508

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.

Capital Risk

In accordance with APRA's GPS110 Capital Adequacy, the Company has a capital management framework in place that is annually reviewed and approved by the Board. The ICAAP Summary Statement sets out the approach to and processes around capital management. Management and the Board Risk Committee review capital performance of the Company as follows:

- Annual review against the ICAAP Summary Statement undertaken in the Board approved annual ICAAP Report which reviews capital management, targets and triggers, forecasting, capital impacts of reinsurance, and stress and scenario testing.
- Formal quarterly reporting against annual Business Plan and forecast monitored by and reported to the Board Risk Committee.

6.5. Operational Risk

Operational Risk is the risk that the Company is financially negatively impacted as a result of any inadequate or failed processes, people, or systems. The risk areas encapsulated in this category include business practices and process management, technology, security, damage to physical assets, fraud, people, and supplier risk.

The Company manages this risk by employing a range of risk management processes as applicable including: operational risk reviews and assessments, incident and breach reporting, policies, procedures and frameworks, business case due diligence, control development including segregation of duties, performance management and training, and reporting and monitoring.

6.6. Customer and Community Expectation Risk

During the financial year, the Board, in its review and approval of the RMF/RMS, separated Customer and Community Expectation risk from being a subset of Operational Risk to a category in its own right. The risk of delivering unfair outcomes to customers or not meeting community expectations comprises both conduct risk and reputational risk. The Company seeks to manage Customer and Community Expectation risk through risk management processes including adoption of the Industry Code of Practice and monitoring of its application, review of remuneration incentives through the Board Remuneration Committee, management of conflicts of interest policy and register, training, complaints monitoring and reporting.

6.7. Compliance Risk

During the financial year, the Board, in its review and approval of the RMF/RMS, separated Compliance risk from being a subset of Operational Risk to a category in its own right. Compliance Risk subcategories include prudential regulation, taxation, distribution of financial services and other statutory and legal obligations. The Company seeks to manage Compliance Risk through implementation and monitoring of a formal Compliance Framework and application of the principles of the framework to distribution partners/intermediaries, maintaining and reviewing an incident and breach framework, and maintaining visibility and currency on compliance obligations via obligations data reports and participation in Industry committees, forums and seminars. The Board Risk Committee monitors the performance of the Company in meeting its compliance obligations. A Board approved Tax Risk Management and Governance Framework is in place and monitored by the Board Audit Committee.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2019

7. REVENUE

	2019 $'000	2018 $'000
Gross written premiums	185,301	102,003
Movement in unearned premium	(42,833)	(37,843)
Gross premium revenue	142,468	64,160
Reinsurance and other recoveries revenue	92,093	43,025
Reinsurance commissions revenue	41,912	19,724
Total General Insurance Revenue	**276,473**	**126,909**

8. LOSS BEFORE INCOME TAX EXPENSE IS ARRIVED AT AFTER CHARGING THE FOLLOWING ITEMS INCOME TAX EXPENSE

	2019 $'000	2018 $'000
8.1. Acquisition costs comprise		
Commission expenses	48,320	21,030
	48,320	**21,030**
8.2. Administration and other expenses comprise		
Professional fees	152	65
Staff and staff related expenses	1,078	109
Corporate and general expenses	2,702	1,605
Foreign exchange Loss/(Gain)	-	570
Specific underwriting expenses/(income)	98	447
	4,030	**2,796**

Staff and staff related expenses associated with the Branch are paid by head office and recharged to the Branch.

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.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2019

9. CLAIMS EXPENSE

	2019 Current period $'000	 Prior years $'000	 Total $'000	2018 Current period $'000	 Prior years $'000	 Total $'000
Gross claims and related expenses - undiscounted	108,785	(2,426)	106,359	52,036	(4,227)	47,809
Discount movement	(280)	222	(58)	(218)	111	(107)
	108,505	(2,204)	106,301	51,818	(4,116)	47,702
Reinsurance and other recoveries - undiscounted	(94,004)	1,868	(92,136)	(46,748)	3,627	(43,121)
Discount movement	251	(208)	43	194	(98)	96
	(93,753)	1,660	(92,093)	(46,554)	3,529	(43,025)
Net claims incurred	**14,752**	**(544)**	**14,208**	**5,264**	**(587)**	**4,677**

Current period claims relate to risks borne in the current financial year. Prior period claims relate to a reassessment of the risks borne in all previous financial periods.

10. INCOME (BENEFIT)/TAX EXPENSE

	2019 $'000	2018 $'000
Current tax (benefit)/expense		
Current year	-	-
Total income tax (benefit)/expense	**-**	-
Numerical reconciliation between tax expense and pre-tax accounting profit		
Profit before income tax	(5,817)	(2,864)
Prima facie income tax calculated at 28% of profit before tax	1,629	802
Deferred tax assets not recognised	(1,629)	(802)
	-	-

	2019 $'000	2018 $'000
Deferred Tax balances not recognised		
Tax losses (revenue in nature)	2,604	1,442
Deductible temporary differences	940	473
	3,544	**1,915**

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2019

11. CASH ASSETS

	2019 $'000	2018 $'000
Cash at bank	(49)	2,267
Cash held in trust	519	666
	470	**2,933**

12. RECEIVABLES

The Branch's exposure to credit risk and impairment losses related to premium and commission receivable are disclosed in note 6.

	2019 $'000	2018 $'000
Current		
Premiums receivable	110,667	72,245
Commissions receivable	204	6
Current tax receivable	-	3
Prepaid asset	11	-
Other related parties	-	(1)
	110,882	**72,252**

13. REINSURANCE AND OTHER RECOVERIES

	2019 $'000	2018 $'000
Expected future recoveries relating to:		
Paid claims	83	388
Outstanding claims discounted to present value	37,493	20,137
	37,576	**20,525**
Current	30,419	16,091
Non-current	7,157	4,434
	37,576	**20,525**

	2019 $'000	2018 $'000
Reconciliation of changes in reinsurance and other recoveries		
Balance at the beginning of the financial year	20,525	12,671
Reinsurance and other recoveries raised in the year	50,177	20,973
Reinsurance and other recoveries received in the year	(33,126)	(13,119)
Balance at the end of the financial year	**37,576**	**20,525**

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2019

14. DEFERRED REINSURANCE EXPENSE

	2019 $'000	2018 $'000
Current	93,308	58,118
Non-current	472	378
	93,780	**58,496**
Reconciliation of changes in deferred reinsurance		
Balance at the beginning of the financial year	58,496	23,934
Reinsurance premiums deferred in the year	158,923	92,807
Reinsurance premiums expensed during the year	(123,639)	(58,245)
Balance at the end of the financial year	**93,780**	**58,496**

15. DEFERRED ACQUISITION COSTS

	2019 $'000	2018 $'000
Current	**29,452**	**18,160**
Reconciliation of changes in acquisition costs		
Balance at the beginning of the financial year	18,160	6,919
Acquisition costs deferred during the year	59,612	32,271
Acquisition costs expensed during the year	(48,320)	(21,030)
Balance at the end of the financial year	**29,452**	**18,160**

16. PAYABLES

	2019 $'000	2018 $'000
Employee entitlements	71	-
Current tax payable	-	-
Trade payables - acquisition costs	33,203	18,877
Trade payables and accruals - other	13,870	9,739
Claims payable on Inwards reinsurance	1,896	-
Other related parties*	3,718	
Reinsurance premiums payable	25,444	24,284
	78,202	**52,900**

* The Branch's related party transactions are with HIC.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2019

17. OUTSTANDING CLAIMS

	2019 $'000	2018 $'000
Current	35,489	17,724
Non current	8,242	4,884
	43,731	**22,608**
Central estimate	43,337	22,464
Risk margin	702	394
	44,039	22,858
Discount to present value	(308)	(250)
Gross outstanding claims liability	**43,731**	**22,608**

Reconciliation of changes in discounted gross outstanding claims	**2019 $'000**	**2018 $'000**
Balance at beginning of financial year	22,608	14,059
Change in prior years gross claims outstanding	(2,426)	(4,227)
Current year gross claims incurred	108,785	52,036
Claims paid	(85,178)	(39,260)
Discount movement	(58)	(104)
Balance at end of financial year	**43,731**	**22,608**

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.

	2019 $'000	2018 $'000
Net overall risk margin applied	12.7%	19.0%

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2019

18. UNEARNED PREMIUMS

	2019 $'000	2018 $'000
Current	106,255	63,422
	106,255	**63,422**
Balance at beginning of financial year	63,422	25,579
Written premium deferred in the year	185,301	102,003
Written premium earned during the year	(142,468)	(64,160)
Balance at end of financial year	**106,255**	**63,422**

19. UNEARNED REINSURANCE COMMISSIONS

	2019 $'000	2018 $'000
Current	28,980	18,638
	28,980	**18,638**
Balance at beginning of financial year	18,638	8,288
Commissions deferred during the year	52,254	30,074
Commissions earned during the year	(41,912)	(19,724)
Balance at end of financial year	**28,980**	**18,638**

20. RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH FLOW FROM OPERATING ACTIVITIES

	2019 $'000	2018 $'000
Loss from ordinary activities after income tax	(5,817)	(2,864)
Changes in assets and liabilities during the financial year:		
Change in receivables	(38,630)	(41,250)
Change in reinsurance and other recoveries	(17,051)	(7,854)
Change in deferred reinsurance expense	(35,284)	(34,562)
Change in deferred acquisition costs	(11,292)	(11,241)
Change in payables	25,302	36,795
Change in outstanding claims	21,123	8,549
Change in unearned premium liability	42,833	37,843
Change in unearned reinsurance commissions	10,342	10,350
Net cash flow used in operating activities	**(8,474)**	**(4,234)**

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2019

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 year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

	2019 $'000	2018 $'000
Cash at bank and on hand	(49)	2,267
Cash held in trust	519	666
	470	**2,933**

22. 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 to meet its debts as and when they fall due.

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. Regular and robust reviews of the ICAAP are done internally and independent reviews are performed every three years.

The Branch designates 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. These head office funds are non-interest bearing, have no fixed repayment date with such repayment not expected in the foreseeable future.

	2019 $'000	2018 $'000
Designated equity	27,611	21,600
	27,611	**21,600**

23. 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. The solvency figures as at 30 June 2019 reported to the Australian Prudential Regulation Authority are as follows:

	2019 AUD $'000	2018 AUD $'000
Actual solvency capital	207,218	146,964
Minimum solvency capital	111,433	97,552
Solvency margin	95,785	49,412
Solvency ratio	**1.86**	**1.51**

24. 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.

25. LIABILITY ADEQUACY TEST

The application of the liability adequacy test ("LAT") in respect of net premium liabilities of The Hollard Insurance Company Pty Ltd has identified a surplus at 30 June 2019 and 30 June 2018.

However, the application of the liability adequacy test in respect of net premium liabilities in the Branch identified a deficit at 30 June 2019. A write-down of $3.0m (2018: $0.5m) has been recognised through the statement of comprehensive income in relation to the deficit.

26. EVENTS SUBSEQUENT TO REPORTING DATE

With effect from 1 September 2019, the Branch entered into a Claims and underwriting agreement with a distribution partner in New Zealand to underwrite a Travel portfolio. This may impact financial results and operations in future periods.

Apart from the above, no events have arisen in the interval between the end of the financial year 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.

There has not arisen in the interval between the end of the financial year 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 HIC, the results of those operations, or the state of affairs of HIC in future financial years.

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

Opinion

We have audited the financial statements of the New Zealand Branch of The Hollard Insurance Company Pty Ltd (the "Branch") which comprise the statement of financial position as at 30 June 2019, the statement of other comprehensive income, the statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies as set out on pages 4 to 32.

In our opinion, the accompanying financial statements present fairly, in all material respects, the Branch financial position as at 30 June 2019 and its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the Branch in accordance with the ethical requirements of Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board (the Code) that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with the Code.

Other than in our capacity as auditor, we have no relationship with or interests in the Branch except that partners and employees of our firm deal with the Branch on normal terms within the ordinary course of trading activities of the business of the Branch.

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

Emphasis of Matter – New Zealand Branch

The New Zealand branch is part of The Hollard Insurance Company Pty Ltd, which is incorporated in Australia. As described in note 1 of the financial statements, the assets of the branch are legally available for the satisfaction of debts of The Hollard Insurance Company Pty Ltd, 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Valuation of outstanding claims Refer to notes 4.1.1, 5, and 17 to the financial statements, which also describes the elements that make up the balance. 2019 NZ$ 43,731 *(in thousands)*	Our audit procedures included, but were not limited to: • obtaining an understanding of key controls, including key data reconciliation and management review of the estimates,

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Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
The valuation of outstanding claims involves a complex estimation process given the inherent uncertainty in estimating the expected present value of future payments for claims incurred, including making significant judgements and assumptions, and relies on the quality of underlying data. In particular, judgement arises over the estimation of payments for claims that have been incurred at the reporting date but have not yet been reported to the Branch, as there is generally less information available in relation to these claims, and claims that have been reported but there is uncertainty over the amount which will be settled. The outstanding claims liability also includes a margin that relates to the inherent uncertainty in the central estimate. The margin, determined using actuarial techniques and methodologies, is based on past experience and industry practice to ensure realistic provisioning for outstanding claims.	• obtaining an understanding of the claims process and understanding controls in relation to actuarial data; • assessing the appropriateness of valuation methodologies, processes and models with respect to actuarial standards; • comparing valuation assumptions to results of experience studies or other sources of assumptions to assess reasonableness; • assessing that appropriate technical and peer review controls have been performed and perform reasonableness checks for a sample of valuation spreadsheet calculations; • discussing with management and assessing documentation of model integrity checks and other documented data checks; • assessing calculations, methodology and checks performed by the management, and • assessing the appropriateness of the disclosures in the notes to the financial statements.

Other Information

The directors on behalf of the Branch are responsible for the other information. The other information comprises the information included in the Directors' report for the year ended 30 June 2019, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the Directors' report 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 Directors' report and, in doing so, consider whether the Directors' report is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this Directors' report, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

The Directors of the Branch are responsible on behalf of the Branch for the preparation and fair presentation of the financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), International Financial Reporting Standards (IFRS), 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.

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

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Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISAs (NZ), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Branch's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Branch's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Branch to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Max Rt Murray

Max Murray
Partner
Chartered Accountants
Sydney, Australia, 26 September 2019