The Hollard Insurance Company Pty Ltd (NZ Branch)

NZBN 942 904 212 9851

Annual Financial Report

For the year ended

30 June 2020

Contents

Directors' Report

FOR THE YEAR ENDED 30 June 2020

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 2020 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. HIC and the Branch are collectively referred to as "the Company".

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)
Katrina Barry (Non-executive Director)
Ellen Comerford (Executive Director)
Richard Heilig (Executive Director) - ceased 30 June 2020
David Matcham (Non-executive Director)
Alastair Richardson (Non-executive Director) - ceased 27 September 2019
Alexandra Thomas (Executive Director)
Jane Tongs (Non-executive Director)
Noeline Woof (Non-executive Director)

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)

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 (Ando), 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.

Directors' Report
FOR THE YEAR ENDED 30 JUNE 2020

The Branch Gross written premium has increased by 45% in the current year to $267.7m (2019: $185.3m) driven by continued growth in the Ando portfolio and business derived from the Branch's new partner in New Zealand to underwrite a Travel portfolio which commenced on 1 September 2019.

The Branch result for the financial year is a profit of $7,209,000 (2019: Loss of $5,817,000). This result has been driven by continued improvement in underwriting performance in the year amid a benign catastrophe claims period. Further, the application of the liability adequacy test (LAT) in respect of net premium liabilities in the Branch identified a surplus as at 30 June 2020. A write-back of $4.8m (2019: write-down of $3.0m) has been recognised through the statement of comprehensive income in relation to the transition of the Branch from a LAT deficit position in prior years to a LAT surplus as at 30 June 2020.

State of Affairs
Since the emergence of the novel coronavirus (COVID-19), the health threat across the world became increasingly severe. Global markets experienced significant challenges as international borders and commerce was forced to shut down under efforts to contain the spread of the disease. The coronavirus is a highly infectious disease which can severely attack the respiratory system in humans. The disease was first identified in 2019 in Wuhan, China and has since spread globally and classified as a pandemic. Given its severe health impact, infectivity, lack of vaccine/cure and global reach, the negative impacts are apparent in businesses across the world.

In New Zealand, a total shutdown of the economy (except for essential services) was enforced for a period of a month as government scaled up contract tracing measures. Such a stringent approach to contain COVID-19 is expected to have far reaching negative repercussions for the New Zealand economy, particularly in Tourism and Leisure industries. In response, the New Zealand government mobilised business relief efforts, including a wage subsidy for all businesses that could prove a significant drop in revenue due to the coronavirus.

The Branch's business and financial performance has been impacted by COVID-19 during the year primarily in the following areas:
- Some pressure on GWP particularly in the travel segment with large reduction of premium income from February to June noting that this product line accounted for 8.1% of total GWP (2019: 0%).
- Additional operating expense primarily related to transitioning the majority of the workforce to a work-from-home operating environment offset by a targeted reduction in operating expenses.
- Impact on claims experience with increased costs related to travel policies offset by improved motor claims frequency.

The financial, economic and social impacts of COVID-19 continue to emerge and will further develop over the coming year. The extent and tenure of these impacts are difficult to forecast and remain dependent on many factors. These include the extent to which the pandemic persists and whether and when a vaccination may be developed, the efficacy of government and central bank responses (both locally and globally) including control restrictions and incentive programs, and the impact that extended uncertainty and volatility has on consumer and business sentiment.

In response to the impacts of COVID-19 and the increased economic uncertainty the Company has implemented a range of actions to ensure that the implications arising from future uncertainty are properly considered including increased risk analysis, monitoring and reporting on key factors including liquidity, capital, reinsurance, claims, business continuity, workforce operating model, cyber, compliance and customer service.

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2020

Events Subsequent to Balance Date

Details of matters subsequent to the end of the financial are set out below.

The directors note that subsequent to the reporting period there has been ongoing business and economic uncertainty caused by COVID-19 developments across Australia and New Zealand with further lockdowns in Victoria and Auckland including, for the former, the declaration of a State of disaster with effect from 2 August, the enforcement of interstate border controls by a number of Australian states, re-tightening of social distancing rules, and announcements with regard to Government support packages. While the related business impact of this uncertainty remains highly unpredictable, the Company has considered the impact of these developments on its estimates and judgements.

On 30 July 2020 the Insurance Council of Australia (ICA) and the Australian Financial Complaints Authority (AFCA) issued a joint media release, announcing they had agreed to file a test case to seek a court opinion on a threshold issue concerning business interruption insurance pandemic exclusions. Many insurers globally are affected by similar coverage issues, and other countries are also using the courts to assist in providing a clear way forward. On 13 August 2020, the test case proceedings were commenced in the Supreme Court of NSW. The Company is one of two insurers in Australia that is a named party to the industry test case. Whilst the Company remains of the clear view that business interruption policies have never covered pandemics, the Company believes the process of legal review is valuable to the Company, the insurance industry and customers. By choosing to associate as a party in the industry test case, the Company is of the view that it can play a valuable role to assist the whole insurance industry in reaching a better understanding of how local infectious disease exclusions respond to the unique circumstances of this pandemic.

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 2020

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	Duncan West
Director	Chairman

Dated at Sydney 17 September 2020

Statement of Comprehensive Income

FOR THE YEAR ENDED 30 June 2020

	Note	2020 $'000	2019 $'000
Gross written premium	**7**	267,710	185,301
Gross premium revenue	**7**	230,396	142,468
Reinsurance premium expense	**14**	(198,378)	(123,639)
Net premium revenue		32,018	18,829
Gross claims expense	**9**	(136,061)	(106,301)
Reinsurance and other recoveries revenue	**7, 9**	115,698	92,093
Net claims incurred		(20,363)	(14,208)
Acquisition expense	**8**	(69,868)	(48,320)
Reinsurance commissions revenue	**7**	67,956	41,912
Net acquisition expense		(1,912)	(6,408)
Administration and other expenses	**8**	(6,060)	(4,030)
Total Administration and other expenses		(6,060)	(4,030)
Underwriting result		3,683	(5,817)
Investment revenue on policyholders' funds	**7**	17	-
Investment expense on shareholders' funds	**7**	(9)	-
Profit/(Loss) before income tax		**3,691**	**(5,817)**
Tax benefit/(expense)	**10**	3,518	-
Profit/(Loss) for the year		**7,209**	**(5,817)**
Total comprehensive income for the year		**7,209**	**(5,817)**

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

Statement of Financial Position

FOR THE YEAR ENDED 30 June 2020

	Note	2020 $'000	2019 $'000
Assets			
Cash and cash equivalents	**11**	31,303	470
Receivables	**12**	174,070	110,882
Reinsurance and other recoveries	**13**	51,666	37,576
Deferred reinsurance expense	**14**	134,171	93,780
Deferred acquisition costs	**15**	45,430	29,452
Deferred tax assets	**10**	3,518	-
TOTAL ASSETS		**440,158**	**272,160**
Liabilities			
Payables	**16**	170,436	78,202
Outstanding claims	**17**	59,836	43,731
Loans and borrowings	**6.4**	1,004	-
Unearned premiums	**18**	143,569	106,255
Unearned reinsurance commissions	**19**	43,112	28,980
TOTAL LIABILITIES		**417,957**	**257,168**
NET ASSETS		**22,201**	**14,992**
Equity			
Head office funds		27,611	27,611
Retained income		(5,410)	(12,619)
TOTAL EQUITY		**22,201**	**14,992**

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

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2020

	Head office funds $'000	Retained Income $'000	Total $'000
Balance at 30 June 2019	27,611	(12,619)	14,992
Total comprehensive income for the period			
Profit for the year	-	7,209	7,209
Other comprehensive income	-	-	-
Total comprehensive income	-	7,209	7,209
Transactions with head office			
Funds from head office	-	-	-
Total transactions with head office	-	-	-
Balance at 30 June 2020	**27,611**	**(5,410)**	**22,201**
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**

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

Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2020

	Note	2020 $'000	2019 $'000
CASHFLOWS FROM OPERATING ACTIVITIES			
Premiums received		204,376	146,879
Reinsurance and other recoveries received		96,004	58,132
Reinsurance commission received		52,961	42,282
Reinsurance paid		(142,531)	(131,079)
Claims paid		(119,951)	(85,178)
Acquisition costs paid		(68,568)	(45,264)
Levies, charges, administration and other expenses received/(paid)		7,538	5,751
Income tax received from / (paid to) Inland Revenue New Zealand		-	3
Net cashflow from operating activities	**20**	**29,829**	**(8,474)**
CASHFLOWS FROM FINANCING ACTIVITIES			
Interest bearing loans		1,004	-
Additional Head Office Funding		-	6,011
Net cash provided by financing activities		**1,004**	**6,011**
Net increase/(decrease) in cash held		30,833	(2,463)
Cash and cash equivalents at the beginning of the financial year		470	2,933
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR	**21**	**31,303**	**470**

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

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2020

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 17 September 2020.

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 for the period ended 30 June 2020 has been prepared on the going concern basis that contemplates the continuity of normal business activities and the realisation of assets and extinguishment of liabilities in the ordinary course of business. For the year ended 30 June 2020, the Company recorded a net profit after tax of $7.209 million (2019: net loss after tax $5.817 million). The Company has sufficient cash and other assets to meet day to day obligations as they fall due.

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 *Share-based payments*, leasing transactions that are within the scope of NZ IFRS 16 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in NZ IFRS 2 *Share-based payments* or value in use in NZ IFRS 36 *Impairment of Assets*.

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. Gross written premium
Gross written premium (GWP) revenue from general insurance business relates to amounts charged to policyholders for the provision of insurance cover. GWP revenue excludes fire and emergency service levies, earthquake commissions, goods and services tax (GST) and other amounts collected on behalf of third parties. GWP is disclosed net of premium refunds and discounts.

GWP 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. GWP 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.
GWP on unclosed business is 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.

Recoverability of receivables
The recoverability of receivables from insurance, reinsurance and non-insurance contracts in the context of the economic downturn have been considered. While the methodologies applied in the base expected credit loss (ECL) calculations remained unchanged from those applied in the prior financial year, the Company has incorporated estimates, assumptions and judgements specific to the impact of the COVID-19 pandemic [and the associated customer support packages provided]. Whilst no material recoverability issues have been identified, there is a risk that the economic impacts of COVID-19 could be of greater magnitude or more prolonged than anticipated, which could result in higher credit losses than those derived by use of the model assumptions underlying the amounts included in the financial statements.

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.

Cash and cash equivalents 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 *Financial Instruments*.

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.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2020

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 16 Leases	30 June 2020

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 *Leases* 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.

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 *Leases*. Therefore, the Branch expects no impact to its recognition and measurement of lease costs under NZ IFRS 16 *Leases*.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2020

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	Operative year ending
NZ IFRS 17 'Insurance Contracts'	30 June 2024
Definition of a Business - Amendments to **NZ IFRS 3**	30 June 2021
Definition of Material - Amendments to **NZ IAS 1** and **NZ IAS 8**	30 June 2021
Interest Rate Benchmark Reform - Amendments to **NZ IFRS 9**, **NZ IAS 39, NZ IFRS 7**	30 June 2021
2019 Omnibus Amendments to NZ IFRS	30 June 2021
COVID-19-Related Rent Concessions (Amendment to **NZ IFRS 16**)	30 June 2021

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.

NZ IFRS 17 is a new accounting standard for all types of insurance contracts and replaces, as it relates to the Company, AASB 1023 *General Insurance Contracts*. NZ IFRS 17 incorporates International Financial Reporting Standard 17 (IFRS 17) Insurance Contracts including relevant amendments made up to and including May 2019 by the International Accounting Standards Board (IASB). IASB approved amendments to IFRS 17 in June 2020 addressing identified implementation issues. The effective date of IFRS 17 was revised to have an effective application date for reporting periods beginning on or after 1 January 2023.

The new standard is mandatory for the Branch's financial statements for the financial reporting period commencing from 1 July 2023.

The adoption of NZ IFRS 17 is a significant initiative for the Branch supported by a formal Company project plan and dedicated resources. After initiating the project in 2019, to assess the impact of NZ IFRS 17 on both the financial statements and the broader business, the Company has since completed a technical and operational impact assessment.

NZ IFRS 17 sets out the requirements for the recognition, measurement, presentation and disclosures of insurance contracts a company issues and reinsurance contracts it holds. NZ IFRS 17 introduces three measurement models depending on the nature of the insurance contract: the General Measurement Model, the Premium Allocation Approach and Variable Fee Approach. It is anticipated that the simplified Premium Allocation Approach (PAA), which can be applied to contracts with a duration of one year or less, will be the approach adopted by the Branch.

NZ IFRS 17 will affect how the Branch accounts for its insurance contracts and how it reports financial performance in the Statement of profit and loss, in particular the timings of earnings recognition for insurance contracts.

In accordance with the classifications under NZ IFRS 17, the face of the Branch's Statement of financial position will provide less detail as a number of insurance items will be offset against each other. It is also expected that some assets will be reclassified as liabilities under NZ IFRS 17, while some liabilities will be reclassified as assets. This in itself is not expected to have a material impact to the Branch's net asset position.

Given the complexity of AASB 17 the impact of the standard on the Company's financial statements is still being determined.

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.

4.1.3. COVID-19 Impact on use of Judgements and Estimates

There is increased judgement and estimation uncertainty in the preparation of the financial statements caused by the unprecedented and ongoing impact of COVID-19. The Company has considered the impact of COVID-19 when preparing the financial statements and related note disclosures. Accounting estimates in these financial statements have been based on projections of economic and operating conditions that reflect expectations and assumptions about future events that the Directors believe are reasonable in the circumstances and at the time of finalisation of the financial statements. In preparing these projections there is a considerable degree of judgement and the underlying assumptions are also subject to uncertainties that may be outside the control of the Company. Where actual economic and operating conditions in the future differ from those projected, accounting estimates included in these financial statements may be significantly impacted. The significant accounting estimates that are impacted by the uncertainties caused by the economic downturn and COVID-19 predominantly relate to the valuation of outstanding claim liabilities, unearned premium liabilities, potential credit losses for both insurance and non-insurance related receivables, fair valuation measurement on investments and recoverable amount assessments.

5. ACTUARIAL ASSUMPTIONS AND METHODS

As at 30 June 2020, 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 2020 is Leigh Boekestein (Fellow of the New Zealand Society of Actuaries) of The Hollard Insurance Company Pty Ltd.

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.

COVID-19 Impact on use of Judgements and Estimates

The Company's insurance portfolio has experienced several impacts as a result of COVID-19. As a result of the current unprecedented environment, there is a risk that the associated economic factors are more or less severe than estimated and allowed for in the outstanding claim liabilities established at the balance date. As a result, the development of claims over time could result in a higher or lower than estimated ultimate claim cost.

It is expected that the impact of COVID-19 on claims experience will materially differ depending on the class of business and may impact more than one financial year. The motor portfolio has been impacted through favourable claim frequency due to restrictions introduced in March 2020 to slow the spread of COVID-19. In respect of other classes of business, where the effect of COVID-19 on insurance liabilities is quantifiable and reflected in the data, the impact has been appropriately captured within the outstanding claim liabilities. Where claim cost calculations are highly uncertain as a result of COVID-19 or the current economic downturn being experienced, the Company has recognised a separate net outstanding claim provision in relation to its Australian business. This provision has been estimated exercising significant judgment on a probability-weighted basis on a range of variables and relates to potential claims made on business package and landlords' insurance policies.

As regards business interruption coverage, while the Company is of the view that BI coverages do not cover pandemics, there are issues of interpretation of coverage terms which have been identified across the general insurance industry, including the Company, and which are being challenged by policyholders in Australia. These are industry-wide matters that are expected to be assessed through legal review and determination including via test cases. Notwithstanding the view held by the Company and the general insurance industry that business interruption coverage does not extend to pandemics, the litigation process can lead to unpredictable results.

In determining the estimate for the COVID-19 specific element of the net outstanding claims liability for business interruption coverage, significant judgement has been exercised. The key areas where judgement has been exercised include the policy exposure period, the estimation of potential economic loss, related key macroeconomic variables (including unemployment and nature and extent of impacted industries), reinsurance coverage and legal outcomes. There is a large degree of uncertainty related to the judgement areas used in the estimation and therefore the range of potential financial outcomes in relation to these matters is abnormally wide. Consequently, the associated estimated provision reflects a substantial risk margin.

5.2. Actuarial assumptions

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

	2020	**2019**
Discounted mean term of claims (years)	0.57	0.53
Expense rate (% of gross claims)	0.40%	0.40%
Discount rate	0.28%	1.27%
Inflation rate	3.54%	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 3.54%.

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.	(47)
	Decrease by 1.0% p.a.	47
Discounted mean term	Increase by 0.5 years	133
	Decrease by 0.5 years	(131)
Expense rate	Increase by 1.0%	620
	Decrease by 1.0%	(620)
Inflation rate	Increase by 1.0%	45
	Decrease by 1.0%	(46)

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)
- Recovery Plan
- Business Continuity and Crisis Management Plan

Ultimately the Board is responsible for the establishment and maintenance of an effective RMF.

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.

RMS

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

RAS

The RAS outlines the clear boundaries for the Group's material risks with clear links to risk tolerances and limits that are captured in the RMS, Business Plan and ICAAP and Recovery Plan. The RAS sets out the degree of risk the Group is prepared to accept in pursuit of its strategic objectives and business plans and is reviewed annually by the board. In FY20 the RAS has been updated to refine the definition and appetite of non-financial risks, in particular Customer and Community Expectations, Compliance, Technology and Security risks.

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 2020, the Company has continued to embed its risk management framework to a decentralised three lines of defence model. This and the associated roles and responsibilities have been formally described un the RMS. Under this model the key divisions and business wide service groups (1st line of defence) are accountable for managing risk and compliance within risk appetite, in accordance with frameworks and policies. Monitoring, review and challenge is undertaken by a dedicated risk and compliance team (2nd 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 (3rd line of defence). The Internal Audit team reports to the Board Audit Committee (comprising solely of independent non-executive directors).

Recovery Plan

The Board's approved Recovery plan covers the Company's approach to, and processes around capital management that are designed to restore operational effectiveness after a significant interruption. The Recovery plan is intended to be used in sever or extreme circumstances where the ongoing viability of a company is threatened. The Recovery Plan fits in the crisis continuum with business as usual risk management (stable environment), ICAAP (stress environment), recovery planning (recovery environment) and resolution planning. The Recovery Plan, therefore, forms an important component of the overall RMF.

Business Continuity Plan and Crisis Management (BCP)

The Board's approved Business Continuity Management plan (BCMP) is designed to restore operational effectiveness after a significant interruption and includes a crisis management component. There may be circumstances where the BCMP and Recovery Plan are activated concurrently and there is alignment between the BCMP and the Recovery Plan in communication protocol and the personnel involved in key decision making.

On behalf of the Board, the Board Risk Committee monitors the adequacy and effectiveness of the ICAAP, Recovery Plan and the BCP.

During 2020, the Company has continued to embed its risk management framework to a decentralised three lines of defence model. This model, and the associated roles and responsibilities, have been formally described in the RMS. Under this model the key divisions and business wide service groups (1st line of defence) are accountable for managing risk and compliance within risk appetite, in accordance with frameworks and policies. Monitoring, review and challenge is undertaken by a dedicated risk and compliance team (2nd 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 (3rd line of defence). The Internal Audit team reports to the Board Audit Committee (comprising solely of independent non-executive directors).

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.

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 counterparty to the 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), including the mismatch in assets and liabilities and liquidity risks.
- Operational Risk - The risk of an incident occurring which leads or could lead to the actual outcome of a business process 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 financial services licence holder and general insurer in the Australian and New Zealand markets.

The Company is a supporter of the taskforce on Climate-related financial disclosure recommendations and recognises the potential risk and opportunities arising from climate changes and transition to a low-carbon economy and is progressing a review of climate change as it relates to RAS.

COVID-19 Impact

The financial, economic and social impacts of COVID-19 continue to emerge and will further develop over the coming year. The extent and tenure of these impacts are difficult to forecast and remain dependent on many factors. These include the extent to which the pandemic persists and whether and when a vaccination may be developed, the efficacy of government and central bank responses (both locally and globally) including control restrictions and incentive programs, and the impact that extended uncertainty and volatility has on consumer and business sentiment.

The immediate impacts on the Company have varied significantly by class of business, e.g. reductions in premium income (Travel Insurance which accounts for 3.2% of total GWP), cessation of tenant default cover (Landlord Insurance), variations in exposure, increases in insurance liabilities and even improved experience (e.g. lower motor claim frequency and increased prevalence of Pet owners and, consequently, pet insurance), as well as the associated uncertainties which flow from the industry litigation process (business interruption Insurance). Impacts unrelated to insurance covers include the effect on the financial position of some of our partners and customers and the adaptation in working practices amongst our employees, business partners and suppliers (including providers of outsourced services) along with associated capital management activities. As the pandemic and economic impact evolves and response strategies continue to be refined, the associated risks will also evolve and will be subject to close monitoring so that management and mitigation actions can be undertaken where possible.

Some of the key specific risks and the Company's response to them are as follows:

Strategic Risk

The level of uncertainty in the ability of Company to achieve is strategic objectives is unprecedented due to the impact of unpredictable external factors that are difficult, if not impossible, to mitigate. These risks relate directly to the pace and trajectory of any economic recovery and its impact on our customers and partners.

Insurance risk

The impacts on the Company in this category include changes in insurance liabilities across impacted classes of business, unexpected underwriting exposures and accumulations, supply chain impacts and impacts of customer leniency on claims experience, and inconsistencies between reinsurance treaty wordings and underlying covers.

Counterparty Risk
COVID-19 has caused the need for close monitoring of credit exposure with increased exposure to strategic investment loans, reinsurers being downgraded or at risk of downgrade, and other counterparties.

Market risk (including Capital)
At 30 June 2020, the Company had a Common Equity Tier 1 (CET1) multiple of 1.25 (2019: 1.50) and a regulatory capital adequacy multiple of 1.54 (2019:1.86). COVID-19 has given rise to increased levels of market volatility (both in the investment portfolio and with our customers, partners and suppliers) that has required a more active capital monitoring approach. Initiatives to achieve this include daily liquidity monitoring and more frequent assessments of capital adequacy including by way of capital stress testing against COVID-19 related risks. Capital levels will continue to be very closely monitored. The Company has maintained a conservative and liquid investment strategy throughout the period.

Operational risk
The migration of the majority of the Company's employees from an office-based work environment to working from home was successful but heightened some risks. These risks include technology and cyber-related risk as well as fraud and employee health and wellbeing. Planning for the safe and effective transition back to an office-based work environment and back (even partially) also has attendant risks. Acknowledging that heightened risk in these areas is unavoidable in these times, the Company is of the view that attendant risks are well understood with policies and protocols in place to manage and mitigate them.

Customer and Community risk
The Company understands the difficulties many of its partners and customers are facing during this time and the risks this presents to the business. Consequently, a range of support measures have been made available to our personal and small business customers who are experiencing financial stress, including:

- access to premium reductions or shorter policy renewal terms;
- extending premium payment credit terms for small business customers;
- capping renewal premium increases for personal and small business customers;
- easing certain policy coverage clauses in support of small business customers;
- financial hardship packages for pet insurance customers;
- repayment frequency adjustments;
- reduced excess amounts;
- opportunity to shift to lower coverage product where appropriate e.g. from Comprehensive Motor to availability of "Pay as you Drive"; and
- waiving of certain fees and a relaxed cancellation policy

While these support measures have been put in place for a defined period, the Company will continue to reassess as needed. Additional customer contact centre resources have also been made available to manage the increased number of customers requiring assistance.

Compliance Risk
Regulators have been kept informed of the Company's response to COVID-19. Sector-wide regulatory engagement has also increased, particularly around operational resilience, capital management, and customer impacts. The Company is engaging with its regulators as regularly as required and will continue its aligned and proactive approach to supporting customers, business resilience and continuity measures. While the regulatory agenda emanating from the Royal Commission into Financial Services has been formally deferred by regulators in some regards due to COVID-19, the Company continues to advance preparation for a significant volume of new legislation (and its operational and system impacts) likely to be introduced in the next year.

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. 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. Development of the Business Plan 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.

Group frameworks and documents that are particularly relevant to the management of this risk include the RAS, Business Plan, Delegated Authority Policy and Strategic Investment Framework.

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.

Underwriting risk is managed in accordance with the requirements of the RMS and further supported by Underwriting Guidelines and Delegations of Authority. Limits are placed on the net exposure from individual risks relative to the capital base and management information systems provide data relating to risks, claims and aggregate exposure which are monitored regularly.

Group Pricing and Monitoring Principles and actuarial models that combine historical and projected data (pricing, claims and market conditions) are used to calculate premiums and monitor claim patterns so as to ensure risks are appropriately priced. Effective claims management, reinsurance and capital management further mitigate the impact of this risk.

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.

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, the Company 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 indicated by the carrying amount of these loans and is monitored on a regular basis via the Management Investment Committee and the Board Investment Committee in compliance also with requirements of the Strategic Investment Framework.

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 Reinsurance Management Strategy 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 2020	**AA**	**A**	**BBB**	**Not Rated**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Financial assets					
Reinsurance and other recoveries	20,092	31,574	-	-	51,666
Receivables	-	-	-	174,070	174,070
Cash and term deposits	31,303	-	-	-	31,303
Total risk exposure	51,395	31,574	-	174,070	257,039

Year ended 30 June 2019	**AA**	**A**	**BBB**	**Not Rated**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'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

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

Year ended 30 June 2020	**Not past due**	**Past due 0 to 30 days**	**Past due 31 to 120 days**	**Impairment**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Financial assets					
Reinsurance and other recoveries	51,666	-	-	-	51,666
Receivables	174,070	-	-	-	174,070
Cash and term deposits	31,303	-	-	-	31,303
Total risk exposure	257,039	-	-	-	257,039

Year ended 30 June 2019	**Not past due**	**Past due 0 to 30 days**	**Past due 31 to 120 days**	**Impairment**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'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

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 Management Investment Committee and 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.

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 2020 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 2020	**Change in interest rate**	**Impact on profit before tax $'000**	**Total $'000**
Bank balances related to New Zealand	+1%	313	313
	-1%	(313)	(313)

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)

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 2020	**Up to a year $'000**	**1-3 years $'000**	**3+ years $'000**	**Total $'000**
Financial liabilities				
Payables	170,436	-	-	170,436
Outstanding claims	48,465	11,371	-	59,836
Loans and Borrowings*	1,004	-	-	1,004
Total	219,905	11,371	-	231,276

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

* 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. As part of this agreement, the Branch was advanced a loan of $1m as a claims deposit which is payable on termination or expiry of the agreement. Interest accrues on the loan at 1.2% per annum.

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.

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. Numerous operational procedures, frameworks and policies are relevant to the management of this risk, included functional operating frameworks (e.g. Finance), critical process risk and control assessment, Risk Control Self-Assessment methodologies, Business Continuity Framework and related crisis managements plans (such as the Crisis and Incident Management Plan and Pandemic Response Plan that were followed at the onset of COVID-19), various IT and Cybersecurity Policies, HR and other policies.

6.6. Customer and Community Expectation Risk

During the previous 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 and in the current financial year further refined the definition and appetite of this risk. 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

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.

7. REVENUE

	2020 $'000	2019 $'000
Gross written premiums	267,710	185,301
Movement in unearned premium	(37,314)	(42,833)
Gross premium revenue	230,396	142,468
Reinsurance and other recoveries revenue	115,698	92,093
Reinsurance commissions revenue	67,956	41,912
Total General Insurance Revenue	**414,050**	**276,473**
Interest on policyholders' funds	17	-
Interest on shareholders' funds	(9)	-
Interest income	8	-
	414,058	**276,473**

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2020

8. PROFIT/(LOSS) BEFORE INCOME TAX EXPENSE IS ARRIVED AT AFTER CHARGING THE FOLLOWING ITEMS

	2020 $'000	2019 $'000
8.1. Acquisition costs comprise		
Commission expenses	69,868	48,320
	69,868	**48,320**
8.2. Administration and other expenses comprise		
Professional fees	381	152
Staff and staff related expenses	1,290	1,078
Corporate and general expenses	3,420	2,702
Specific underwriting expenses/(income)	969	98
	6,060	**4,030**

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.

9. CLAIMS EXPENSE

	2020			2019		
	Current period $'000	Prior years $'000	Total $'000	Current period $'000	Prior years $'000	Total $'000
Gross claims and related expenses - undiscounted	143,405	(7,555)	135,850	108,785	(2,426)	106,359
Discount movement	(89)	300	211	(280)	222	(58)
	143,316	(7,255)	136,061	108,505	(2,204)	106,301
Reinsurance and other recoveries - undiscounted	(121,094)	5,578	(115,516)	(94,004)	1,868	(92,136)
Discount movement	81	(263)	182	251	(208)	43
	(121,013)	5,315	(115,698)	(93,753)	1,660	(92,093)
Net claims incurred	**22,303**	**(1,940)**	**20,363**	**14,752**	**(544)**	**14,208**

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.

Notes to the Financial Statements
FOR THE YEAR ENDED 30 JUNE 2020

10. INCOME (BENEFIT)/TAX EXPENSE

	2020 $'000	2019 $'000
Current tax (benefit)/expense		
Current year	(3,518)	-
Total income tax (benefit)/expense	**(3,518)**	-
Numerical reconciliation between tax expense and pre-tax accounting profit		
Profit before income tax	3,691	(5,817)
Prima facie income tax calculated at 28% of profit before tax	1,033	(1,629)
Deferred tax assets not recognised	-	1,629
Non-allowable expenses	(3)	-
Change in deductible temporary differences	(4,548)	-
	(3,518)	**-**
Deferred Tax balances not recognised		
Tax losses (revenue in nature)	-	2,604
Deductible temporary differences	-	940
	-	**3,544**
Deferred Tax balances recognised		
Tax losses (revenue in nature)	(16,131)	-
Deductible temporary differences:		
Provision for doubtful debts	(44)	-
Deferred acquisition costs	12,720	-
Outstanding claims	(64)	-
	(3,518)	**-**

11. CASH AND CASH EQUIVALENTS

	2020 $'000	2019 $'000
Cash at bank	30,946	(49)
Cash held in trust	357	519
	31,303	**470**

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2020

12. RECEIVABLES

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

	2020 $'000	2019 $'000
Current		
Premiums receivable	174,001	110,667
Commissions receivable	44	204
Prepaid asset	-	11
Other receivables	25	-
	174,070	**110,882**

13. REINSURANCE AND OTHER RECOVERIES

	2020 $'000	2019 $'000
Expected future recoveries relating to:		
Paid claims	105	83
Outstanding claims discounted to present value	51,561	37,493
	51,666	**37,576**
Current	41,827	30,419
Non-current	9,839	7,157
	51,666	**37,576**

	2020 $'000	2019 $'000
Reconciliation of changes in reinsurance and other recoveries		
Balance at the beginning of the financial year	37,576	20,525
Reinsurance and other recoveries raised in the year	74,010	50,177
Reinsurance and other recoveries received in the year	(59,920)	(33,126)
Balance at the end of the financial year	**51,666**	**37,576**

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2020

14. DEFERRED REINSURANCE EXPENSE

	2020 $'000	2019 $'000
Current	132,667	93,308
Non-current	1,504	472
	134,171	**93,780**
Reconciliation of changes in deferred reinsurance		
Balance at the beginning of the financial year	93,780	58,496
Reinsurance premiums deferred in the year	238,769	158,923
Reinsurance premiums expensed during the year	(198,378)	(123,639)
Balance at the end of the financial year	**134,171**	**93,780**

15. DEFERRED ACQUISITION COSTS

	2020 $'000	2019 $'000
Current	**45,430**	**29,452**
Reconciliation of changes in acquisition costs		
Balance at the beginning of the financial year	29,452	18,160
Acquisition costs deferred during the year	85,846	59,612
Acquisition costs expensed during the year	(69,868)	(48,320)
Balance at the end of the financial year	**45,430**	**29,452**

16. PAYABLES

	2020 $'000	2019 $'000
Employee entitlements	-	71
Current tax payable	-	-
Trade payables - acquisition costs	50,482	33,203
Trade payables and accruals - other	16,300	13,870
Claims payable on Inwards reinsurance	9,935	1,896
Other related parties*	6,902	3,718
Reinsurance premiums payable	86,817	25,444
	170,436	**78,202**

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

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2020

17. OUTSTANDING CLAIMS

	2020 $'000	2019 $'000
Current	48,465	35,489
Non-current	11,371	8,242
	59,836	**43,731**
Central estimate	59,214	43,337
Risk margin	724	702
	59,938	44,039
Discount to present value	(102)	(308)
Gross outstanding claims liability	**59,836**	**43,731**
Reconciliation of changes in discounted gross outstanding claims		
Balance at beginning of financial year	43,731	22,608
Change in prior years gross claims outstanding	(7,555)	(2,426)
Current year gross claims incurred	143,405	108,785
Claims paid	(119,951)	(85,178)
Discount movement	206	(58)
Balance at end of financial year	**59,836**	**43,731**

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.

	2020 $'000	2019 $'000
Net overall risk margin applied	9.6%	12.7%

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2020

18. UNEARNED PREMIUMS

	2020 $'000	2019 $'000
Current	143,569	106,255
	143,569	**106,255**
Balance at beginning of financial year	106,255	63,422
Written premium deferred in the year	267,710	185,301
Written premium earned during the year	(230,396)	(142,468)
Balance at end of financial year	**143,569**	**106,255**

19. UNEARNED REINSURANCE COMMISSIONS

	2020 $'000	2019 $'000
Current	43,112	28,980
	43,112	**28,980**
Balance at beginning of financial year	28,980	18,638
Commissions deferred during the year	82,087	52,254
Commissions earned during the year	(67,955)	(41,912)
Balance at end of financial year	**43,112**	**28,980**

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

	2020 $'000	2019 $'000
Profit/(Loss) from ordinary activities after income tax	7,209	(5,817)
Changes in assets and liabilities during the financial year:		
Change in receivables	(63,188)	(38,630)
Change in reinsurance and other recoveries	(14,090)	(17,051)
Change in deferred reinsurance expense	(40,391)	(35,284)
Change in deferred acquisition costs	(15,978)	(11,292)
Change in deferred tax	(3,518)	-
Change in payables	92,234	25,302
Change in outstanding claims	16,105	21,123
Change in unearned premium liability	37,314	42,833
Change in unearned reinsurance commissions	14,132	10,342
Net cash flow generated/(used in) operating activities	**29,829**	**(8,474)**

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:

	2020 $'000	2019 $'000
Cash at bank and on hand	30,946	(49)
Cash held in trust	357	519
	31,303	**470**

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.

23. CONTRIBUTED EQUITY

	2020 $'000	2019 $'000
Designated equity	27,611	27,611

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. The solvency figures as at 30 June 2020 reported to the Australian Prudential Regulation Authority are as follows:

	2020 AUD $'000	2019 AUD $'000
Actual solvency capital	210,957	207,218
Minimum solvency capital	136,989	111,433
Solvency margin	73,968	95,785
Solvency ratio	**1.54**	**1.86**

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 of The Hollard Insurance Company Pty Ltd has identified a surplus at 30 June 2020 and 30 June 2019.

The application of the liability adequacy test in respect of net premium liabilities in the Branch identified a surplus as at 30 June 2020. A write-back of $4.8m (2019: write-down of $3.0m) has been recognised through the statement of comprehensive income in relation to the transition of the Branch from a LAT deficit position in prior years to a LAT surplus as at 30 June 2020.

In addition to the element reflected in the net outstanding claim liability, any COVID-19 underwriting exposure related to unexpired risk has been incorporated within the estimation of premium liabilities and, as a result, in the calculation of the Company’s regulatory capital position.

27. EVENTS SUBSEQUENT TO REPORTING DATE

Information is included on non-adjusting events, favourable and unfavourable that occurred between the balance date and the date the financial statements are authorised for authorised for issue. Details of matters subsequent to the end of the financial are set out below.

The Company notes that subsequent to the reporting period there has been ongoing business and economic uncertainty caused by COVID-19 developments across Australia and New Zealand with further lockdowns in Victoria and Auckland including for the former the declaration of a State of disaster with effect from 2 August, the enforcement of interstate border controls and re-tightening of social distancing rules, and announcements with regard to Government support packages. While the related business impact of this uncertainty remains highly uncertain, the Company has considered the impact of these developments on its estimates and judgements.

On 30 July 2020 the Insurance Council of Australia (ICA) and the Australian Financial Complaints Authority (AFCA) issued a joint media release, announcing they had agreed to file a test case to seek a court opinion on a threshold issue concerning BI insurance pandemic exclusions. Many insurers globally are affected by similar coverage issues, and other countries are also using the courts to assist in providing a clear way forward. On 13 August 2020, the test case proceedings were commenced in the Supreme Court of NSW. The Company is one of two insurers in Australia that is a named party to the industry test case. Whilst the Company remains of the clear view that business interruption policies have never covered pandemics, the Company believes the process of legal review is valuable to the Company, the insurance industry and customers. By choosing to associate as a party in the industry test case, the Company is of the view that it can play a valuable role to assist the whole insurance industry in reaching a better understanding of how local infectious disease exclusions respond to the unique circumstances of this pandemic.

Independent Auditor's Report

FOR YEAR ENDED 30 June 2020

Deloitte.

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 2020, and the statement of 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 5 to 38.

In our opinion, the accompanying financial statements present fairly, in all material respects, the Branch's financial position as at 30 June 2020 and its financial performance and cash flows for the year 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 Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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.	In conjunction with our actuarial specialists our audit procedures included, but were not limited to: • obtaining an understanding of the key controls, including key data reconciliations and management's review of estimates;

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Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Included in the statement of financial position as at 30 June 2020 is an outstanding claims liability totalling NZ$59,836k (2019: NZ$43,731k). 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. 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, and claims that have been reported but there is uncertainty over the amount which will be settled. The outstanding claims liability also contains a risk margin that relates to the inherent uncertainty in the central estimate, including consideration of external systemic risk due to COVID-19 and the economic downturn. The risk margin, determined using actuarial techniques and methodologies, is based on past experience and industry practice to ensure realistic provisioning for outstanding claims.	• 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; • inquiring with management and assessing documentation of actuarial model integrity checks; • assessing the reasonableness of calculations, methodology and checks performed by management; • assessing the impact of COVID-19 on the outstanding claim liability and associated risk margin applied; 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 2020, 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) and 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, 17 September 2020