YOUI NZ PTY LTD

Annual Report

For the year ended 30 June 2020

Youi NZ Pty Ltd
Annual report
30 June 2020

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These financial statements are the financial statements of Youi NZ Pty Ltd as an individual entity. The financial statements are presented in New Zealand currency.

A description of the nature of the Company's operations and its principal activities is included in the Directors' report on page 2, which is not part of these financial statements.

The financial statements were authorised for issue by the Directors on 20 August 2020 .The Directors have the power to amend and reissue the financial statements.

Youi NZ Pty Ltd
Directors' report
30 June 2020

Directors

The following persons were Directors of Youi NZ Pty Ltd ("the Company") during the whole of the financial year and up to the date of this report:

MG Goldfinch *(Chairman)*

CE Corfe

H Schreuder

MC Visser

MG Goldfinch was appointed as the Chairman with effect from 23 April 2020.
CE Corfe resigned as the Chairman with effect from 23 April 2020 and continues on the Board as a Director.
M Jackson was appointed as an Executive Director with effect from 23 April 2020.
M Le Long resigned as an Executive Director with effect from 22 November 2019.
J Hughes resigned as a Director with effect from 23 April 2020.

Principal activities

During the year the principal activities of the Company consisted of the general insurance business in New Zealand and providing insurance call centre services to the Australian insurance business.

On the 31st of December 2019 the New Zealand insurance portfolio business was sold to Tower Insurance Limited.

The Company will continue to provide insurance call centre services to the Australian insurance business in the future.

Review of operations and results

The sale of the New Zealand Insurance Portfolio on 31 December 2019 resulted in a $10.9m gain to the Company. As a result of the sale, all of the associated balances have been disclosed as a discontinued operation in the annual financial statements.

Following the sale, the Company cancelled the New Zealand general insurance licence on 1 February 2020, and undertook a capital repatriation of $56m to Youi Holdings Pty Ltd on 26 May 2020.

The call centre business contributed $1.2m profit to the Company.

The impact of Covid19 has not had a significant impact on the results of the Company, with the call centre business continuing to provide services to the Australian insurance business.

Matters subsequent to the end of the financial year

No further matters or circumstance has arisen since the end of the financial year that has significantly affected, or may significantly affect the Company's operations, the results of those operations, or the Company's state of affairs in future financial years.

Auditor

PricewaterhouseCoopers continues in office in accordance with section 207 of the *Companies Act 1993*.

This report is made in accordance with a resolution of Directors on 20 August 2020.

MG Goldfinch
Chairman
20 August 2020

H Schreuder
Executive Director
20 August 2020

Independent auditor's report

To the shareholders of Youi NZ Pty Ltd

We have audited the financial statements, which comprise:

- the statement of financial position as at 30 June 2020;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the accompanying financial statements of Youi NZ Pty Ltd (the Company), present fairly, in all material respects, the financial position of the Company as at 30 June 2020, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

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

We are independent of the Company in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), 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 Company.

Responsibilities of the Directors for the financial statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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 and ISAs 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.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-8/

This description forms part of our auditor's report.

Who we report to

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

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
20 August 2020

Sydney

I, Renae Cooper, am currently a member of Chartered Accountants Australia New Zealand and my membership number is 51036.

PricewaterhouseCoopers was the audit firm appointed to undertake the audit of Youi NZ Pty Ltd for the year ended 30 June 2020. I was responsible for the execution of the audit and delivery of our firm's auditor's report. The audit work was completed on 20 August 2020 and an unqualified opinion was issued.

R Cooper

Renae Cooper

Youi NZ Pty Ltd
Statement of comprehensive income
For the year ended 30 June 2020

	Notes	2020 $'000	2019 Restated* $'000
Management fee income	**6**	**7,259**	**8,407**
Investment income	5	**1,000**	1,310
Other operating income		**3**	(1)
Total income		**8,262**	9,716
Administration expenses		**(7,004)**	(7,992)
Finance costs		**(46)**	-
Operating expenses		**(7,050)**	**(7,992)**
Profit before income tax		**1,212**	1,724
Income tax expense	10	**-**	-
Profit from continuing operations		**1,212**	1,724
Discontinued operation			
Gain on sale of insurance portfolio after income tax	9	**10,858**	-
Profit from discontinued insurance portfolio after tax	9	**334**	651
Profit from discontinued operations		**11,192**	**651**
Profit for the year		**12,404**	**2,375**
Total comprehensive income for the year is attributable to:			
Owners of Youi NZ Pty Ltd		**12,404**	2,375
Total comprehensive income for the year attributable to owners of Youi NZ Pty Ltd arises from:			
Continuing operations		**1,212**	1,724
Discontinued operations		**11,192**	651
		12,404	**2,375**

- See note 9 for details regarding the restatement as a result of the discontinued operations.

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

Youi NZ Pty Ltd
Statement of financial position
As at 30 June 2020

	Notes	**2020 $'000**	2019 $'000
ASSETS			
Current assets			
Cash and cash equivalents	11	**2,237**	3,016
Term deposits	12	**328**	48,228
Trade and other receivables	13	**717**	11,318
Deferred reinsurance expense	15	**-**	5,885
Reinsurance and other recoveries receivable	14	**-**	3,226
Deferred acquisition costs	15	**-**	752
Total current assets		**3,282**	72,425
Non-current assets			
Reinsurance and other recoveries receivable	14	**-**	329
Property, plant and equipment	16	**93**	234
Intangible assets	17	**1**	8
Right of use assets	18	**777**	-
Total non-current assets		**871**	571
Total assets		**4,153**	72,996
LIABILITIES			
Current liabilities			
Trade and other payables	19	**660**	9,311
Provisions	20	**338**	380
Lease liabilities	18	**561**	-
Unearned premium liabilities	21	**-**	12,863
Outstanding claims liabilities	22	**-**	4,242
Total current liabilities		**1,559**	26,796
Non-current liabilities			
Provisions	20	**14**	158
Lease liabilities	18	**345**	-
Outstanding claims liabilities	22	**-**	210
Total non-current liabilities		**359**	368
Total liabilities		**1,918**	27,164
Net assets		**2,235**	45,832
EQUITY			
Contributed equity	23	**7,141**	63,157
Retained earnings		**(4,906)**	(17,325)
Total equity		**2,235**	45,832

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

Youi NZ Pty Ltd
Statement of changes in equity
For the year ended 30 June 2020

	Contributed equity $'000	Retained profit / (loss) $'000	Total equity $'000
Balance at 1 July 2018	**63,138**	**(19,700)**	**43,438**
Profit for the year	-	2,375	2,375
Other comprehensive income	-	-	-
Total comprehensive income for the year	**-**	**2,375**	**2,375**
Contributions by parent for employee share option expenses	19	-	19
Transactions with owners in their capacity as owners:	**19**	**-**	**19**
Balance at 30 June 2019	**63,157**	**(17,325)**	**45,832**
Profit for the year	-	12,404	12,404
Other comprehensive income	-	-	-
Total comprehensive income for the year	**-**	**12,404**	**12,404**
Contributions by parent for employee share option expenses	(16)	14	(2)
Return of capital	(56,000)	-	(56,000)
Transactions with owners in their capacity as owners	**(56,016)**	**14**	**(56,002)**
Balance at 30 June 2020	**7,141**	**(4,906)**	**2,235**

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

Youi NZ Pty Ltd
Statement of cash flows
For the year ended 30 June 2020

	Notes	2020 $'000	2019 $'000
Cash flows from operating activities			
Cash generated from operations	11(b)	**(1,922)**	15,692
Interest received		**1,706**	1,284
Interest paid		**(46)**	-
Net cash (outflow) inflow from operating activities		**(262)**	16,976
Cash flows from investing activities			
Net proceeds from sale of NZ insurance business		**8,212**	-
Proceeds on disposal of financial assets		**48,228**	31,282
Payments for financial assets		**(328)**	(48,228)
Payments for property, plant and equipment	16	**(7)**	(68)
Proceeds on disposal of property, plant and equipment		**11**	6
Net cash inflow (outflow) from investing activities		**56,116**	(17,008)
Cash flows from financing activities			
Capital repatriation of equity to Youi Holdings		**(56,000)**	-
Share based payment expense		**15**	-
Principal elements of finance lease payments		**(632)**	-
Share option contribution cost		**(16)**	-
Net cash (outflow) from financing activities		**(56,633)**	-
Net (decrease) in cash and cash equivalents		**(779)**	(32)
Cash and cash equivalents at the beginning of the financial year		**3,016**	3,048
Cash and cash equivalents at end of year	11	**2,237**	3,016

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

1. General information

These financial statements are for Youi NZ Pty Limited ("the Company"). During the year the principal activities of the Company consisted of general insurance business in New Zealand and providing insurance call centre services to the Australian insurance business.

The Company is a limited liability company incorporated in New Zealand. The address of its registered office is:
660 Great South Rd
Ellerslie, Auckland 1051
New Zealand

2. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

These financial statements have been prepared in accordance with Generally Accepted Accounting Practice ("GAAP"). They comply with New Zealand Equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable Financial Reporting Standards, as appropriate for for-profit entities.

(i) Compliance with NZ IFRS

The financial statements also comply with International Financial Reporting Standards ("IFRS") and IFRS Interpretations Committee ('IFRIC") interpretations.

(ii) Statutory base

Youi NZ Pty Ltd is a company registered under the Companies Act 1993. The financial statements of the Company have been prepared in accordance with the requirements of the Companies Act 1993 and Part 7 of the Financial Markets Conduct Act 2013.

(iii) New and amended standards adopted by the Company

NZ IFRS16 Leases has been applied from 1 July 2019 and the option not to restate prior period financial statements was elected. Refer to note 2(y).

(iv) Historical cost convention

These financial statements have been prepared under the historical cost convention, except for certain financial assets and financial liabilities initially measured at fair value and subsequently measured at amortised cost.

(v) Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

(vi) Changes to comparatives

Where necessary, comparatives have been restated to conform to changes in presentation in the current year.

(b) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in New Zealand dollars, which is the Company's functional and presentation currency.

2. Summary of significant accounting policies (continued)

(b) Foreign currency translation (continued)

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses are presented in the statement of comprehensive income on a net basis within other income or other expenses.

(c) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed are net of refunds and amounts collected on behalf of third parties.

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

(i) Premium revenue

Premium revenue comprises amounts charged to policy holders, including applicable levies and charges such as emergency service levies, but excluding taxes and duties collected on behalf of third parties.

Premium revenue is recognised in the statement of comprehensive income when it has been earned, therefore, from the date of attachment of the risk over the period of the insurance policy, which is usually one year. Over the period of the insurance policy, the premium collected is earned in accordance with the pattern of the underlying exposure to risk expected under the insurance contract, which is closely approximated by the daily pro rata method.

Any proportion of premium revenue received and receivable but not earned in the statement of comprehensive income by the reporting date is recognised in the statement of financial position as an unearned premium liability. The unearned premium liability represents premium revenue which will be earned in subsequent reporting periods.

(ii) Reinsurance and other recoveries

Reinsurance and other recoveries receivable on claims paid, claims reported but not yet paid, claims incurred but not reported and claims incurred but not enough reported are recognised as revenue.

Recoveries are measured as the present value of the expected future receipts, calculated on the same basis as the provision for outstanding claims.

(iii) Commission income

Reinsurance commission revenue is recognised in the statement of comprehensive income when the amount can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Company and the contractual conditions for the rendering of the service have been met.

(iv) Interest income

Interest income is recognised on a time proportion basis using the effective interest method.

(v) Management fee income

Management fee income is recognised in the statement of comprehensive income when the amount can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Company and the contractual conditions for the rendering of the service have been met.

2. Summary of significant accounting policies (continued)

(d) Outward reinsurance expense

Premium ceded to reinsurers is recognised as an expense in the statement of comprehensive income from the attachment date over the period of indemnity of the reinsurance contract in accordance with the expected pattern of the incidence of risk.

Accordingly, a portion of the outward reinsurance premium is treated as a prepayment on the statement of financial position during the period of indemnity.

(e) Insurance claims expenses

Insurance claims expenses consist of claims paid together with the movement in outstanding claims liabilities. Claims are recognised in the statement of comprehensive income as the event giving rise to a loss occurs under the terms of the policy.

Outstanding claims liabilities are measured as the central estimate of the present value of expected future payments at the reporting date under general insurance contracts issued. Expected future payments include payments relating to claims reported but not yet paid, claims incurred but not reported and claims incurred but not enough reported together with estimated direct claims handling costs to be incurred in settling such claims.

The expected future payments are discounted to present value using a risk-free rate where appropriate.

A risk margin is applied to the central estimate to reflect the inherent uncertainty in the central estimate.

(f) Acquisition costs

Acquisition costs include advertising and other selling and underwriting costs incurred in generating insurance premium revenue. Direct acquisition costs are deferred to the extent that they relate to unearned premium revenue and represent a future economic benefit to be obtained.

Deferred acquisition costs are amortised systemically in accordance with the expected pattern of the incidence of risk under the insurance policies to which they relate.

(g) Employee benefits

(i) Short-term obligations

Liabilities for salaries, including non-monetary benefits, annual leave and accumulating personal leave expected to be settled within twelve months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. Related on-costs such as superannuation, workers compensation and payroll tax are also included in the liability. The liability for annual leave and accumulating personal leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as accrued expenses in Trade and Other Payables.

(ii) Other long-term employee benefit obligations

The liability for long service leave and annual leave which is not expected to be settled within twelve months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future salary levels, experience of employee departures and periods of service.

Expected future payments are discounted where appropriate using market yields at the end of the reporting period on high quality corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows. Related on-costs such as superannuation, workers compensation and payroll tax are also included in the liability.

The obligations are presented as current liabilities in the statement of financial position if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

2. Summary of significant accounting policies (continued)

(g) Employee benefits (continued)

(iii) Retirement benefit obligations

Contributions are made to the superannuation fund of each employee's choice. Contributions made to these funds are recognised as an expense as they become payable.

The Company does not provide any benefits relating to a defined benefit retirement plan.

(h) Leases

Leases are recognised as a right-of-use asset with a corresponding lease liability at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to statement of profit or loss over the lease period so as to produce a constant periodic rate of interest (the incremental borrowing rate) on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Periods covered by an option to extend the lease is included if the Company is reasonably certain to exercise that option taking into account, among others, the remaining term of the original lease, refurbishments, changing technology and cost-saving initiatives. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Assets and liabilities arising from a lease are initially measured on a present value basis discounted using the lessee's incremental borrowing rate.

The incremental borrowing rate utilised by Youi NZ Pty Ltd is a risk free rate with a market risk premium/ spread added to it.

(i) Finance costs

Finance costs are expensed as they are incurred and include interest expense calculated using the effective interest rate method.

(j) Income tax

The income tax expense or revenue for the year is the tax payable on the current year's taxable income based on the applicable income tax rate for the jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

2. Summary of significant accounting policies (continued)

(k) Discontinued operations

A discontinued operation is a component of the entity that has been disposed of and that represents a separate major line of business operations. The results of discontinued operations are presented separately in the statement of comprehensive income. In the current year this relates to the New Zealand insurance portfolio.

(l) Impairment of non-financial assets

Intangible assets are initially recorded at cost at the date of acquisition, being the fair value of the consideration. The Company amortises intangible assets with a limited useful life using the straight-line method over the period in which the related economic benefits are expected to be realised. Intangible assets are tested annually for impairment, or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Other assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of the reporting period.

(m) Cash and cash equivalents

For Statement of Cash Flow presentation purpose, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to cash.

(n) Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. The Company holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them at amortised cost using the effective interest method. Details about the Company’s impairment policies and the calculation of the loss allowance are provided in note 3(c)(ii).

Further Information about the impairment of trade receivables and the Company's exposure to credit risk, foreign exchange risk, and interest rate risk is disclosed in note 3(c).

2. Summary of significant accounting policies (continued)

(o) Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the reporting year in which they are incurred.

Depreciation on assets is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

- Leasehold improvements	over the period of the lease
- Computer equipment	up to 3 years
- Furniture, fittings and equipment	up to 6 years

The assets' residual lives and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting year.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2(l)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

(p) Intangible assets

(i) Computer software

Costs incurred in acquiring software and licenses that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software. Amortisation is calculated at a rate applicable to the expected useful life of the asset, over periods of up to 6 years.

(q) Deferred acquisition costs

Direct acquisition costs are deferred to the extent that they relate to unearned premium revenue and represent a future economic benefit to be obtained.

Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the insurance policies to which they relate.

Deferred acquisition costs are recognised as an asset, limited to the amount by which the related unearned premiums exceed the present value of future expected claims plus settlement and policy maintenance costs relating to the policies in force at the reporting date, plus an appropriate risk margin. Where a shortfall exists, the deferred acquisition cost asset is written down and any remaining excess is recognised as unexpired risk liabilities in the statement of financial position.

(r) Trade and other payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. The carrying value of trade and other payables are considered to be the same as fair value, due to their short term nature.

(s) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

2. Summary of significant accounting policies (continued)

(s) Provisions (continued)

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability.

(t) Unearned premium liabilities

Any proportion of premium revenue received and receivable but not earned in profit or loss by the end of the reporting period is recognised in the statement of financial position as an unearned premium liability. The unearned premium liability represents premium revenue which will be earned in subsequent reporting periods.

(u) Unexpired risk liabilities

At the end of the reporting period, the adequacy of the unearned premium liabilities, net of reinsurance, is assessed against the present value of the expected future cash flows resulting from potential future claims relating to unexpired periods of insurance contracts in force at the end of the reporting period, plus an additional risk margin to reflect the inherent uncertainty of the central estimate (liability adequacy test). If the net unearned premium liabilities, less related intangible assets and deferred acquisition costs, are deficient, then the resulting deficiency is recognised immediately in profit or loss.

The deficiency is recognised first by writing off any unrelated intangible assets and deferred acquisition costs, thereafter any excess is recognised as unexpired risk liabilities in the statement of financial position.

(v) Outstanding claims liabilities

Outstanding claims liabilities are measured as the central estimate of the present value of expected future payments at the end of the financial period under general insurance contracts issued. Expected future payments include payments relating to claims reported but not yet paid, claims incurred but not reported and claims incurred but not enough reported together with estimated claims handling costs to be incurred in settling such claims.

The expected future payments are discounted to present value using a risk-free rate where appropriate.

A risk margin is applied to the central estimate, net of reinsurance and other recoveries, to reflect the inherent uncertainty in the central estimate.

Recoveries from third parties 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. Reinsurance and other recoveries receivable are recognised separately as an asset.

(w) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(x) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

2. Summary of significant accounting policies (continued)

(y) New and amended standards adopted by the company

The Company has applied the following standards and amendments for the first time for their annual reporting period commencing 1 July 2019.

NZ IFRS 16, Leases, which replaced NZ IAS17, Leases, and related interpretations, was applied effective from 1 July 2019.

The NZ IFRS 16 classification, measurement, presentation and disclosure requirements are applied using the modified retrospective approach. Therefore, the cumulative effect of adopting NZ IFRS 16 was recognised as an adjustment to the opening balances of the statement of financial position, with no restatement of comparatives.

The Company leases various offices, motor vehicles and office equipment. Until the 2019 financial year, leases of property and equipment were classified as operating leases under the principles of NZ IAS 17. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

For leases which had previously been classified as operating leases under NZ IAS 17, the lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 July 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 July 2019 ranged from 3.7% to 4.00%. The Company previously had no finance leases under NZ IAS 17.

The incremental borrowing rate utilised by Youi NZ Pty Ltd is a risk free rate with a market risk premium / spread added to it.

Right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position as at 30 June 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The Company has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Company relied on its assessment made applying NZ IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

In applying NZ IFRS 16 for the first time, the Company has used the following permitted practical expedients:

- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

On date of initial application, 1 July 2019, the lease liability of the Company was as follows, with any reclassifications noted:

2. Summary of significant accounting policies (continued)

(y) New and amended standards adopted by the company (continued)

	2020 $'000
Operating lease commitments disclosed as at 30 June 2019	1,908
Add: Contracts reassessed under NZ IFRS 16	225
Discounted using the lessee's incremental borrowing rate on 1 July 2019	(59)
Lease liability recognised as at 1 July 2019	2,074
Of which are:	
Current lease liabilities	1,014
Non-current lease liabilities	1,060
	2,074

Right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position as at 30 June 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following types of assets:

	2020 $'000
Right-of-use assets	
Offices	1,879
Motor vehicles	195
	2,074

Regarding the statement of cash flows, where all cash payments of operating leases were previously included in cash generated from operations under cash flows from operating activities, the cash repayment of the principal portion of the lease liabilities will be included in payment of principal element of lease liabilities in cash flows from financing activities and the cash payment of the interest portion will be presented in interest paid under cash flows from operating activities. The total cash outflow for leases to June 2020 was $696,000 for the Company.

(z) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2020 reporting period and have not been early adopted by the Company. There is no impact on the Company based on an assessment of these new standards and interpretations.

3. Risk management

The Company has developed an enterprise-wide risk management framework to provide reasonable assurance that the risks faced by the business are prudently and soundly managed. The risk management framework is documented in a comprehensive Risk Management Strategy (RMS) and a Reinsurance Management Strategy (REMS) which are approved annually by the Board of directors.

Risk and governance oversight is provided by the Company's Board of directors, the Group's Board Audit Committee and Board Risk Committee. Oversight is also provided by OUTsurance Holdings Limited Board of directors, Board Audit Committee and Board Risk Committee.

(a) Insurance risk management

The principal activity of the Company prior to the sale of the insurance portfolio on 31 December 2019 comprised the assumption of possible loss arising from insurance risks to which the Company is exposed through the sale of short-term insurance contracts. Insurance risks to which the Company is exposed relate to personal lines motor vehicle, home buildings and contents, watercraft, liability and other defined perils that may result from a contract of insurance.

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of insurance contracts, this risk is random and therefore unpredictable.

The theory of probability forms the core basis of the insurance risk management model. Through the continuous sale of insurance products and subsequent growth in the pool of insured risks, the Company can diversify its portfolio of risks and therefore minimise the impact of variability of insurance losses affecting that portfolio. Physical impacts of climate change, significant weather events and natural hazards are unpredictable in nature, timing and extent, which expose the Company to the risk that the effect of future insured losses could exceed the expected value of such losses.

The Company manages its insurance risk through its underwriting and reinsurance strategies as described below.

(i) Underwriting strategy

The Company aims to diversify the pool of insured perils through writing a balanced portfolio of insurance risks across a large geographical area. Insurance products are priced using statistical regression techniques which identify risk factors through correlations identified in past loss experiences. Risk factors would typically include factors such as the age of the insured person, past loss experiences, the type and value of the asset covered, security measures taken to protect the asset, major use of the covered asset, etc. Risks are priced and accepted on an individual basis and as such there is minimal cross subsidy between risks. Insurance premiums charged for a certain pool of risks are adjusted frequently according to the normalised loss ratios experienced on that pool of risks.

Insurance risk is monitored within the Company on a daily basis to ensure that risks accepted by the Company for its own account are within the limits set by the Board. Exception reporting is used to identify areas of concentration risk to enable management to consider the levels adopted in the reinsurance program covering that pool of risk.

Risks are rated individually by the computer system based on data captured onto the system for each risk by the policyholder online or by the Company's staff. Conditions and exclusions are automatically set at an individual risk level. Individual risks are automatically accepted up to predetermined thresholds, which vary by risk type. Risk with larger exposure than the thresholds are automatically referred and underwritten individually by the actuarial department. These limits are set at a substantially lower level than the reinsurance retention limits. No risks which exceed the upper limits of the reinsurance program can be accepted without the necessary reinsurance cover being arranged.

Multi-claimants are monitored and managed by increasing the conditions of cover or ultimately cancelling cover.

3. Risk management (continued)

(a) Insurance risk management (continued)

(ii) Reinsurance strategy

The Company reinsures a portion of the risk it assumes through its reinsurance program in order to control the exposure of the Company to losses arising from insurance contracts and in order to protect the profitability and the capital of the Company. A suite of treaties is purchased in order to limit losses suffered from individual and collective insurance risks. The retention limits are modelled to optimise the balance between acceptable volatility and reinsurance cost. Acceptable volatility is defined by the limits set by the Board of directors.

The Company only enters into reinsurance agreements with reinsurers which have credit ratings from Standard & Poor or AM Best of at least A-.

(iii) Concentration risk

Risk concentrations are monitored by means of exception reporting. When large risks are underwritten individually, the impact which they could have on risk concentrations is considered before they are accepted. Marketing efforts are also coordinated to attract business from a wide geographical spread. Risks which could lead to an accumulation of claims as a result of a single event are declined. Focus is placed on attracting large numbers of relatively small independent risks which would lead to a stable and predictable claims experience.

The Company is not currently exposed to a significant concentration of insurance risk. The Company has also entered into a catastrophe excess of loss reinsurance treaty that would limit the loss of the Company to pre-determined levels following the occurrence of a localised catastrophe in any one area.

(iv) Exposure to catastrophes

Catastrophe modelling is performed to determine the impact of different types of catastrophe events (including natural disasters) in different geographical areas, at different levels of severity and at different times of the day. Catastrophe limits are set so as to render satisfactory results to these simulations. The catastrophe cover is also placed with reinsurers with a credit rating from Standard & Poor's or AM Best of at least A-. These reinsurance models are run at least twice annually to take account of changes in the portfolio and to take the latest potential loss information into account.

(v) Claims management risk

Claims management risks comprise the Company's exposure to additional or increased losses as a result of weaknesses in controls and systems surrounding the claims management process, as well as inadequate provisioning for outstanding claims liabilities.

The Company manages the risk arising from its claims management function by providing clearly defined delegations of authority and claims settlement procedures, including criteria for accepting or rejecting claims. Rejected claims are referred to the Claims Committee and any disputes are referred to the Internal Dispute Resolution Committee.

The Company's approach to determining outstanding claims liabilities and managing the uncertainties relating to this estimate is set out in note 4.

(b) Operational risk management

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

The Company relies on an effective control environment to manage the significant risks to its operations, comprising the following components: oversight by the Executive Committee, the Internal Risk Committee, the Board Risk Committee, the Board Audit Committee and the Board of directors; clearly defined management responsibilities and organisational structures; formally delegated limits of authority and mandates; clear policies and procedures; proper segregation of duties; strong management reporting systems; appropriate personnel requirements for key positions; physical and logical security over company assets; appropriate levels of insurance to transfer risks where appropriate; and independent review of the control environment by the Internal Audit function.

3. Risk management (continued)

(c) Financial risk management

The Company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Company.

(i) Market risk

- *Foreign exchange risk*

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency.

The Company transacts with its parent entity and offshore related parties and is exposed to foreign currency exchange risk arising from its intergroup currency exposures, primarily with respect to the Australian Dollar (AUD) and the South African Rand (ZAR).

The exposures are not significant and are therefore not actively managed.

The Company's exposure to foreign currency risk expressed in NZD at the reporting date was as follows:

	30 June 2020		30 June 2019	
	AUD	**ZAR**	AUD	ZAR
	$'000	**$'000**	$'000	$'000
Trade and other payables	**-**	**-**	-	6

The carrying amounts of all other financial assets and liabilities of the Company are denominated in New Zealand dollars.

The foreign exchange risk is immaterial in terms of the possible impact on profit or loss or total equity and therefore a sensitivity analysis has not been provided.

- *Price risk*

The Company is not exposed to price risk on term deposit investments as they are held to maturity.

- *Cash flow and fair value interest rate risk*

The Company's main interest rate risk arises from its investments of excess liquidity.

The Board of directors provides written guidelines for the management of the Company's investments through its Investment Management Policy and specific investment mandates. The Board is assisted in this process by the Investment Committee.

Conservative investment mandates are in place and investments have short-term maturities of up to twelve months. Hedging is not considered appropriate for such short term exposures.

3. Risk management (continued)

(c) Financial risk management (continued)

(i) Market risk (continued)

At the end of the reporting period, the Company had the following investments at short-term rates:

	30 June 2020		30 June 2019	
	Weighted average interest rate %	**Balance $'000**	Weighted average interest rate %	Balance $'000
Money at call at variable interest rates	**.05%**	**2,237**	1.29%	3,016
Term deposits at fixed interest rates	**2.65%**	**328**	3.22%	48,228

Company sensitivity
At 30 June 2020, if interest rates had changed by +/- 100 basis points from the year-end rates with all other variables held constant, profit after tax for the period and equity at the end of the period would have been $22,000 (2019: $308,000) higher/lower mainly as a result of higher/lower interest income from cash and cash equivalents and term deposits.

(ii) Credit risk

Credit risk arises from
- cash and cash equivalents (deposits with banks and financial institutions),
- exposures to customers, including outstanding receivables and committed transactions, and
- amounts due by reinsurers relating to their share of insurance liabilities.

Cash and cash equivalents and term deposit investments
The Company's investment in cash and term deposits measured at amortised cost are considered to have low credit risk of default and the counterparty has a strong capacity to meet its contractual cash flow obligations in the near term.

Risk limits on investments are set and monitored by the Board and Investment Committee. For banks and financial institutions, only independently rated parties with a minimum Standard & Poor's long term rating of AA- or short-term rating of A-1+ are accepted.

Trade and other receivables
The Company applied the NZ IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. Trade receivables and contract assets are written off where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the group, and a failure to make contractual payments for a period of greater than 120 days past due.

Impairment losses on trade receivables and contract assets are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

Trade and other receivables in scope for NZ IFRS 9 are all short-term, are measured at amortised cost and are considered to have low expected credit loss rates as they have a low risk of default and the counterparty has a strong capacity to meet its contractual cash flow obligations in the near term. Impairment is not considered a material impact on the financial results.

There are no significant concentrations of credit risk, whether through exposure to individual counterparties, specific industry sectors and/or regions.

3. Risk management (continued)

(c) Financial risk management (continued)

(ii) Credit risk (continued)

Reinsurance credit exposure
Under the terms of reinsurance agreements, reinsurers agree to reimburse the ceded amount in the event that the gross claim is paid. However, the Company remains liable to its policyholders regardless of whether the reinsurer meets the obligations it has assumed. Consequently, the Company is exposed to credit risk. The Company reviews its reinsurance agreements on an annual basis and ensures the appropriate credit quality of any reinsurer prior to renewing or entering an agreement. Participants on the program are required to hold a minimum rating of A- from Standard & Poor's or AM Best.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets disclosed on the statement of financial position. Due to the low risk nature of these exposures, no collateral is held as security.

The credit quality of financial assets that are neither past due nor impaired is assessed below:

	2020 $'000	2019 $'000
Cash and cash equivalents		
Counterparties with external credit rating (Standard & Poor's)		
Short-term rating A-1+	**2,237**	3,016
Term deposits		
Counterparties with external credit rating (Standard & Poor's)		
Short-term rating A-1+	**328**	48,228
Trade and other receivables		
Counterparties with external credit rating (Standard & Poor's)		
Short-term rating A-1+	**4**	710
Counterparties without external credit rating		
All amounts	**713**	10,608
Total trade and other receivables	**717**	11,318
Reinsurance and other recoveries		
Counterparties with external credit rating (AM Best)		
Rating A+	**-**	2,921
Rating A	**-**	42
Rating A-	**-**	4
Counterparties without external credit rating		
All amounts	**-**	588
Total reinsurance and other recoveries	**-**	3,555

There are no financial assets that are past due or impaired either individually or on an aggregate basis.

(iii) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Company manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The Company maintains flexibility in funding by keeping committed credit lines available with its parent entity. Surplus funds are generally only invested in highly liquid instruments with short-term maturities.

3. Risk management (continued)

(c) Financial risk management (continued)

(iii) Liquidity risk (continued)

Maturities of financial liabilities

The table below analyses the Company's financial liabilities into relevant maturity groupings based on undiscounted contractual cash flows for the remaining period at the end of the reporting period to the contractual maturity date.

	Less than 1 year $'000	Between 2 and 5 years $'000	Total contractual cash flows $'000	Carrying amount $'000
At 30 June 2020				
Trade and other payables	660	-	660	660
Provisions	338	14	352	352
Total financial liabilities	998	14	1,012	1,012

	Less than 1 year $'000	Between 2 and 5 years $'000	Total contractual cash flows $'000	Carrying amount $'000
At 30 June 2019				
Trade and other payables	9,311	-	9,311	9,311
Provisions	380	158	538	538
Outstanding claims liabilities	4,242	210	4,452	4,452
Total financial liabilities	13,933	368	14,301	14,301

(iv) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement and for disclosure purposes. Except where disclosed otherwise, the fair value of financial assets and liabilities approximate their carrying value.

Except for inter-company balances arising as a result of the assumption of tax losses by the head entity, the fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature.

(d) Capital management

The New Zealand general insurance licence was cancelled on 1 February 2020 following the sale of the New Zealand insurance portfolio on 31 December 2019.

The Reserve Bank of New Zealand (RBNZ) imposed solvency standards on the Company when it was registered as a licensed general insurer. The Company complied with these requirements during the financial period.

The Company's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

4. Critical estimates, judgements and assumptions

(a) Critical accounting estimates and assumptions

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. The estimates and assumptions that have a higher degree of risk of judgement or complexity that could cause a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Assets arising from reinsurance contracts and other recoveries

Estimates of reinsurance and other recoveries are also calculated using the methods described above. In addition, the recoverability of these assets is assessed on a periodic basis to ensure the balance reflects the amounts that are expected to be ultimately received, taking into account such factors as counterparty credit risk.

(ii) Deferred acquisition costs

Deferred acquisition costs are recognised as an asset, limited to the amount by which the related unearned premiums exceed the present value of future expected claims plus settlement and policy maintenance costs relating to the policies in force at the reporting date, plus an appropriate risk margin. Where a shortfall exists, the deferred acquisition cost asset is written down and any remaining excess is recognised as unexpired risk liabilities in the statement of financial position.

Therefore, the recoverability of deferred acquisition costs is dependent on the estimates regarding the present value of future expected claims and settlement costs as described above.

(iii) Actuarial assumptions and methods

Valuations of the outstanding claims liabilities and related reinsurance and other recoveries receivable are performed by the Company's Appointed Actuary. These valuations are underpinned by a number of assumptions, which are described below.

The Company's business consists mostly of personal lines insurance, covering motor vehicle, home buildings and contents, watercraft, liability and other defined perils. In addition, a small portfolio of business liability is in force, covering small businesses. For the risks covered, there is not a significant time delay between the occurrence of the event giving rise to a claim and the claim being settled by the Company, therefore, projected payments are not discounted as claims are expected to be settled within 12 months after the end of the reporting period.

The cost of claims reported to the Company at the end of the reporting period is estimated with regard to the particular circumstances of the claim.

Estimates of the IBNR and the IBNER portions are calculated with reference to statistical analyses of historical claims experience that assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made for changes or uncertainties inherent in the underlying statistics which may cause the cost of unsettled claims to differ from the cost of comparable previous claims.

(iv) Appointed Actuary

Simone Collins was the Appointed Actuary for the Company until the cancellation of the general insurance licence on 1 February 2020. She is a Fellow of the Institute of Actuaries of Australia. The Appointed Actuary has no relationships (other than that of actuary) and interests in the Company (or any of the related bodies corporate).

4. Critical estimates, judgements and errors (continued)

(a) Critical accounting estimates and assumptions (continued)

(v) Deferred tax - unrecognised losses

The Company has not recognised a net deferred tax asset of $4,671,000 (2019: $4,657,000). The net deferred tax asset comprises a deferred tax asset in respect of unused tax losses and a net deferred tax asset in respect of other deductible and taxable temporary differences. The Company has not recognised the net deferred tax asset on the basis that it is too early to determine with certainty the probability that future taxable amounts will be available to utilise those deferred tax assets. Once the Company is satisfied that it is probable that future taxable amounts will be available to utilise the deferred tax asset, a deferred tax asset will be recognised and the income tax expense reduced accordingly.

If the carried forward losses could be utilised against future taxable amounts, the Company would make the following adjustments relating to the current period results: decrease the income tax expense and increase the deferred tax asset by approximately $4,671,000 (2019: $4,657,000).

(b) Critical judgements in applying the entity's accounting policies

(i) Going concern

The financial statements have been prepared on the going concern basis.

5. Investment income

	2020 $'000	2019 Restated $'000
Interest income	**1,000**	1,310

6. Management fee income

	2020 $'000	2019 $'000
Management fees received from Group companies	**7,259**	8,407

7. Operating expenses

	Notes	2020 $'000	2019 Restated $'000
Profit before income tax includes the following specific expenses:			
Depreciation	16	**781**	135
Amortised software	17	**7**	7
Rental expenses relating to operating leases		**155**	1,194
Net loss on disposal of property, plant and equipment		**25**	2
Employee benefits			
Short-term employee benefits		**5,730**	7,766
KiwiSaver expense		**147**	186
Share based payments expense		**(1)**	19
		5,876	**7,971**

Share based payment expenses for the issue of shares in the holding company, Youi Holdings Pty Ltd, are borne by Youi NZ Pty Ltd as the participants are employed by Youi NZ Pty Ltd.

8. Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the Company, its related practices and non-related audit firms:

Network firms of PricewaterhouseCoopers	2020 $	2019 $
Audit of financial statements	**86,673**	98,980
Solvency return assurance services	**-**	18,000
Non-audit services - Taxation services	**13,392**	42,709
Non-audit services - Advisory	**-**	10,000
	100,065	**169,689**

Included in the above fees for Pricewaterhouse Coopers New Zealand for the audit of the financial statements are $Nil (2019: $19,000) and $Nil ([2019 $12,000) for the solvency return assurance services . All work was performed by PricewaterhouseCoopers Australia in 2020. It is the Company's policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where their expertise and experience with the Company are important and not in conflict with their audit role. These non-audit advisory services include taxation services in relation to consultation and preparation of New Zealand income tax returns for the Company and external actuarial peer review of the reasonableness of the appointed actuary's work on insurance liability valuation. Management remains responsible for all decisions arising from these services.

9. Discontinued operation

(a) Description

On the 25th of September Youi NZ Pty Ltd agreed to transfer the New Zealand insurance portfolio business to Tower Insurance Limited, New Zealand’s third largest general insurer for cash consideration of $12,662,000 NZD. Following regulatory approval by the Reserve Bank of New Zealand, the transfer was effected on the 31st of December 2019.

9. Discontinued operation (continued)

(a) Description (continued)

The insurance business was not previously classified as held-for-sale or as a discontinued operation. The comparative consolidated statement of profit or loss and other comprehensive income has been represented to show the discontinued operation separately from continuing operations.

(b) Results of discontinued operation

The financial performance and cash flow information presented are for the six months to 31 December 2019 and the year ended 30 June 2019.

	2020 $'000	2019 $'000
Premium revenue	**11,969**	24,511
Outward reinsurance revenue	**(9,395)**	(19,279)
Net premium revenue	**2,574**	5,232
Investment income	**75**	146
Commission income	**3,501**	7,563
Other operating income	**69**	154
Net income	**6,219**	13,095
Insurance claims expenses	**(7,176)**	(14,810)
Reinsurance and other recoveries	**5,729**	11,817
Net insurance claims expenses	**(1,447)**	(2,993)
Acquisition costs and other underwriting expenses	**(816)**	(3,123)
Administration expenses	**(3,602)**	(6,327)
Finance Costs	**(20)**	-
Operating expenses	**(4,438)**	(9,450)
Profit before income tax	**334**	652
Income tax expense	**-**	-
Profit after income tax of discontinued operation	**334**	652
Profit on sale of the insurance portfolio	**10,858**	**-**
Profit from discontinued operation, net of tax	**11,192**	**651**

(c) Cash flow from (used in) discontinuing operations

	2020 $'000	2019 $'000
Net cash inflow from operating activities	**186**	17,682
Net cash inflow from investing activities	**8,212**	(17,682)
Net increase from cash flows for the year	**8,398**	**-**

9. Discontinued operation (continued)

(d) Assets and liabilities of disposal group classified as held for sale

The carrying amounts of assets and liabilities as at the date of sale (31 December 2019) were:

	2020 $'000
Cash and cash equivalents	**4,450**
Trade and other receivables	**9,764**
Reinsurance and other recoveries receivables	**3,162**
Total assets	**17,376**
Trade and other payables	**1,229**
Unearned premium liabilities	**12,003**
Outstanding claims liabilities	**4,144**
Total liabilities	**17,376**
Net assets	**-**

10. Income tax expense

(a) Income tax expense

	2020 $'000	2019 $'000
Income tax expense	**-**	-

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	2020 $'000	2019 $'000
Profit before income tax	**12,404**	2,375
Tax at the New Zealand tax rate of 28%	**3,473**	665
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Entertainment	**3**	5
Share based payments expense	**-**	5
Non-assessable receipts	**(3,558)**	-
Non-deductible legal fees	**63**	-
Unrecognised deferred tax on timing differences	**4**	(413)
Unrecognised tax losses	**15**	(262)
Income tax expense	**-**	-
Unused tax losses for which no deferred tax asset has been recognised	**(4,671)**	(4,657)

11. Cash and cash equivalents

	2020 $'000	2019 $'000
Cash at bank and in hand	**2,237**	3,016

(a) Interest rate risk and credit exposure

The Company's exposure to interest rate and credit risk in relation to cash and cash equivalents is discussed in note 3(c).

(b) Cash generated from operations

	2020 $'000	2019 $'000
Profit for the year	**12,404**	2,375
Profit on sale of insurance portfolio	**(10,858)**	-
Investment income	**(1,000)**	(1,310)
Finance costs	**46**	-
Depreciation and amortisation	**788**	142
Net loss on disposal of property, plant and equipment	**25**	2
Change in operating assets and liabilities		
- Decrease / (increase) in trade and other receivables	**131**	14,033
- (Increase) / decrease in deferred reinsurance expense	**5,885**	(268)
- Decrease / (increase) in reinsurance and other recoveries - current	**64**	1,159
- Decrease in deferred acquisition costs	**33**	1,309
- (Decrease) / increase in trade and other payables	**(8,415)**	(907)
- Decrease in provisions - current liabilities	**(42)**	(24)
- Decrease in unearned premium liabilities	**(860)**	(511)
- (Decrease) / increase in outstanding claims liabilities	**(308)**	(342)
- Increase / (decrease) in provisions - non-current liabilities	**(144)**	34
- Decrease / (increase) in reinsurance and other recoveries - non-current	**329**	-
Cash generated from operations	**(1,922)**	**15,692**

12. Term deposits

Financial assets at amortised cost	2020 $'000	2019 $'000
Term deposits	**328**	48,228

(a) Interest rate risk and credit risk exposure

The Company's exposure to interest rate risk and credit risk in relation to term deposits is discussed in note 3(c).

(b) Classification of financial assets

Term deposits with an original maturity of three months or less that are readily converted to cash are presented within cash and cash equivalents. Term deposits of $328,000 (2019: $423,000) are pledged to the Company's bank as security for bank guarantees against the Company's lease liabilities in respect of its leased premises.

13. Trade and other receivables

	Notes	2020 $'000	2019 $'000
Premium receivable		**-**	10,608
Interest receivable		**4**	710
Refundable deposits		**8**	-
Amounts due from related companies	25	**710**	-
Other		**(5)**	-
		717	**11,318**

(a) Impairment and risk exposure

The maximum exposures to credit risk at the end of the reporting period is the carrying amount of each class of receivables mentioned above. More information regarding the risk management policy of the Company and the interest rate and credit risk exposure in relation to trade and other receivables is provided in note 3(c).

(b) Fair value

Due to the short-term nature of the receivables, their carrying amount is assumed to approximate their fair value.

14. Reinsurance and other recoveries receivable

	2020 $'000	2019 $'000
Expected future reinsurance and other recoveries		
- on claims paid	**-**	174
- on outstanding claims	**-**	3,381
Reinsurance and other recoveries receivable	**-**	**3,555**
Reinsurance and other recoveries receivable - current	**-**	3,226
Reinsurance and other recoveries receivable - non-current	**-**	329
	-	**3,555**

15. Deferred insurance assets

	2020 $'000	2019 $'000
Deferred reinsurance expense		
Deferred reinsurance at the beginning of the year	**5,885**	5,617
Net reinsurance premiums paid during the year	**9,001**	19,547
Net reinsurance premiums charged to the statement of comprehensive income	**(9,395)**	(19,279)
Adjustments on sale of discontinued insurance portfolio	**(5,491)**	-
Deferred reinsurance at the end of the year	**-**	**5,885**
Deferred acquisition costs		
Deferred acquisition costs at the beginning of the year	**752**	2,061
Acquisition costs deferred during the year	**772**	1,768
Amortisation charged to the statement of comprehensive income	**(805)**	(3,077)
Adjustments on sale of discontinued insurance portfolio	**(719)**	-
Deferred acquisition costs at the end of the year	**-**	**752**

16. Property, plant and equipment

	Notes	Leasehold improve-ments $'000	Computer equipment $'000	Furniture, fittings and equipment $'000	Total $'000
Year ended 30 June 2019					
Opening net book amount		143	9	157	309
Additions		20	45	3	68
Disposals		-	-	(8)	(8)
Depreciation charge	7	(44)	(16)	(75)	(135)
Closing net book amount		**119**	**38**	**77**	**234**
As at 30 June 2019					
Cost or fair value		301	1,012	445	1,758
Accumulated depreciation		(182)	(974)	(368)	(1,524)
Net book amount		**119**	**38**	**77**	**234**
Year ended 30 June 2020					
Opening net book amount		119	38	77	234
Additions		-	5	-	5
Disposals		(33)	-	(3)	(36)
Depreciation charge	7	(35)	(18)	(57)	(110)
Closing net book amount		**51**	**25**	**17**	**93**
As at 30 June 2020					
Cost or fair value		206	797	412	1,415
Accumulated depreciation		(155)	(772)	(395)	(1,322)
Net book amount		**51**	**25**	**17**	**93**

Depreciation and useful lives are disclosed under note 2(o).

17. Intangible assets

	Notes	**2020 $'000**	2019 $'000
Software			
Opening net book amount		**8**	15
Amortisation charge	7	**(7)**	(7)
Closing net book amount		**1**	**8**
Software			
Cost or fair value		**153**	153
Accumulated amortisation and impairment		**(152)**	(145)
Net book amount		**1**	**8**

18. Leases

(i) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	2020 $'000	2019 $'000
Right-of-use assets		
Properties	**777**	-
Equipment	**-**	-
Vehicles	**-**	-
	777	-

	2020 $'000	2019 $'000
Lease liabilities		
Properties	**906**	-
	906	-
Lease liabilities		
Current	**561**	-
Non-current	**345**	-
	906	-

(ii) Amounts recognised in the statement of profit or loss

The statement of profit or loss shows the following amounts relating to leases:

	Notes	2020 $'000	2019 $'000
Depreciation charge of right-of-use assets			
Properties		**623**	-
Vehicles		**48**	-
		671	-
Interest expense on lease liabilities			
Properties		**54**	-
Vehicles		**4**	-
		58	-

18. Leases (continued)

(iii) Lease liabilities maturity analysis

The following table summarises the contractual maturity dates for lease liabilities. The maturity analysis is presented on an undiscounted contractual cash flow basis.

	2020	2019
	$'000	$'000
Commitments for minimum lease payments:		
Within one year	**587**	703
Later than one year but not later than five years	**348**	1,205
Later than five years but not later than ten years	**-**	-
	935	**1,908**

(iv) Agreements where the counterparty retains control of the underlying asset are classified as leases

Lease liabilities

Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Right-of-use assets

Right-of-use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- lease payments made at or before commencement of the lease; and
- initial direct costs incurred
- the amount of any provision recognised where the group is contractually required to dismantle, remove or restore the leased asset

Depreciation on right-of-use asset

Subsequent to initial measurement, the right-of-use assets are depreciated on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset should this term be shorter than the lease term unless ownership of the underlying asset transfers to the Company at the end of the lease term, whereby the right-of-use assets are depreciated on a straight- line basis over the remaining economic life of the asset. This depreciation is recognised as part of general marketing and administration expenses.

18. Leases (continued)

(iv) Agreements where the counterparty retains control of the underlying asset are classified as leases (continued)

Short-term leases and low-value assets

The Company has elected not to recognise right-of-use assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less and leases of low-value assets, including IT equipment. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Derecognition

When the Company or lessor terminates or cancels a lease, the right-of-use asset and lease liability are derecognised.

On derecognition of the right-of-use asset and lease liability, any difference is recognised as a derecognition gain or loss together with termination or cancellation costs in profit or loss.

19. Trade and other payables

	Notes	**2020 $'000**	2019 $'000
Reinsurance payable		**-**	6,219
Indirect taxes, duties and levies payable		**36**	1,972
Accrued expenses		**592**	791
Trade payables		**32**	127
Amounts due to related parties	25	**-**	202
		660	**9,311**

20. Provisions

	2020			2019		
	Current $'000	**Non-current $'000**	**Total $'000**	Current $'000	Non-current $'000	Total $'000
Employee benefits	**338**	**-**	**338**	380	-	380
Employee benefits - long service leave	**-**	**14**	**14**	-	-	-
	338	**14**	**352**	**380**	**-**	**380**

(a) Employee benefits

The current provision for employee benefits includes accrued annual leave. The entire amount of the provision for annual leave is presented as current, since the Company does not have an unconditional right to defer settlement for any of these obligations.

(b) Movement in provisions

Movements in each class of provision during the financial year are set out below:

	Employee benefits $'000	**Lease make good $'000**	**Total $'000**
Carrying amount at start of year	414	124	**538**
Charged/(credited or transferred) to profit or loss			
- amounts used during the period	(62)	(124)	**(186)**
Carrying amount at end of year	**352**	**-**	**352**

21. Unearned premium liabilities

(a) Reconciliation of movement

	Notes	2020 $'000	2019 $'000
Unearned premium liabilities at the beginning of the year		**12,863**	13,374
Premiums written during the year		**11,109**	24,000
Premiums earned during the year		**(11,969)**	(24,511)
Discontinued operations sale of insurance portfolio		**(12,003)**	-
Unearned premium liabilities at the end of the year		**-**	**12,863**

22. Outstanding claims liabilities

	2020 $'000	2019 $'000
Gross outstanding claims	**-**	3,523
Claims handling costs	**-**	135
Central estimate	**-**	3,658
Risk margin	**-**	794
Gross outstanding claims liabilities	**-**	4,452
Outstanding claims liabilities - current	**-**	4,242
Outstanding claims liabilities - non-current	**-**	210
Central estimate	**-**	4,452

(a) Movements in outstanding claims liabilities

	Gross $'000	Reinsurance & other recoveries $'000	Net $'000
Year ended 30 June 2019			
Outstanding claims liabilities at the beginning of the year	4,794	3,639	**1,155**
Claims incurred during the year - current year	15,451	12,072	**3,379**
Claims incurred during the year - change in previous year's estimate	(642)	(255)	**(387)**
Claims paid during the year	(15,151)	(12,075)	**(3,076)**
Outstanding claims liabilities at the end of the year	**4,452**	**3,381**	**1,071**

22. Outstanding claims liabilities (continued)

(a) Movements in outstanding claims liabilities (continued)

	Gross $'000	Reinsurance & other recoveries $'000	Net $'000
Year ended 30 June 2020			
Outstanding claims liabilities at the beginning of the year	4,452	3,381	**1,071**
Claims incurred during the year - current year	7,176	5,729	**1,447**
Claims paid during the year	(7,484)	(5,948)	**(1,536)**
Discontinued operations sale of insurance portfolio 31/12/19	(4,144)	(3,162)	**(982)**
Outstanding claims liabilities at the end of the year	**-**	**-**	**-**

23. Contributed equity

(a) Contributed equity

(i) Share capital

	2020 Shares	**2020 $'000**	2019 Shares	2019 $'000
Ordinary shares (no par value)				
- Issued and fully paid	**22,275,814**	**7,000**	630,000,000	63,000
Total ordinary share capital	**22,275,814**	**7,000**	630,000,000	63,000
Contribution by parent for employee share option costs	**-**	**141**	-	157
Total contributed equity	**22,275,814**	**7,141**	630,000,000	63,157

(ii) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

24. Key management personnel

(a) Directors

The following persons were directors of Youi NZ Pty Ltd during the financial period:

(i) Chairman - non-executive

M Goldfinch (appointed 23 April 2020)

(ii) Executive directors

M Le Long (resigned 22 November 2019)

H Schreuder

M Jackson (appointed 23 April 2020)

(iii) Non-executive directors

C Corfe

JF Hughes (resigned 23 April 2020)

MC Visser

(b) Other key management personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, during the financial period:

Name	*Position*	*Employer*
T Cain	Chief Financial Officer	Youi Pty Ltd
BA Bakker	Chief Operating Officer - Actuarial & Analytics	Youi Pty Ltd

(c) Key management personnel compensation

	2020 **$**	2019 $
Short-term employee benefits	**292,225**	370,625
Post-employment benefits	**72,274**	-
Termination benefits	**131,333**	-
Share based payments	**7,834**	-
	503,666	370,625

(d) Loans to key management personnel

There were no loans to or from key management personnel.

(e) Other transactions with key management personnel

Transactions with key management personnel and their related parties are conducted on arm's length commercial terms and conditions. The results of insurance policies held with the Company during the period were as follows:

	2020 **$**	2019 $
Insurance premiums received	**3,724**	4,700
Insurance claims paid	**18,710**	616

25. Related party transactions

(a) Parent entities

The holding company of Youi NZ Pty Ltd is Youi Holdings Pty Ltd, a company incorporated in Australia. Youi Holdings Pty Ltd owns 100% of the issued ordinary shares of Youi NZ Pty Ltd and has entered into an undertaking with Youi NZ Pty Ltd to provide financial support that may be reasonably required to discharge liabilities arising from the ordinary course of business. The ultimate holding company of the Group is RMI Holdings Ltd, incorporated in South Africa.

(b) Key management personnel compensation

Disclosure relating to key management personnel is set out in note 24.

(c) Transactions with other related parties

The following transactions occurred with related parties:

	2020 **$**	2019 $
Sales of goods and services		
Management fee received from group companies	**7,259,440**	8,406,885
Purchase of goods and services		
Management fee paid to group companies	**2,066,849**	2,570,680

(d) Outstanding balances arising from transactions with related parties

	2020 **$**	2019 $
Payables to group companies		
Balances payable at the beginning of the year	**201,996**	3,284
Amounts advanced	**2,149,961**	202,245
Amounts repaid	**(6,470)**	(3,533)
Balances payable at the end of the year	**2,345,487**	201,996

	2020 **$**	2019 $
Receivables with group companies		
Balances receivable at the beginning of the year	**-**	13,205,378
Amounts advanced	**7,274,808**	9,003,777
Amounts repaid	**(4,219,187)**	(22,209,155)
Balances receivable at the end of the year	**3,055,621**	-

(e) Terms and conditions

The amount due to Group companies is unsecured and non-interest bearing and is repayable on demand.

26. Commitments

The Company had no commitments that require separate disclosure as at 30 June 2020 (2019: $nil).

27. Contingencies

The Company had no known contingent assets or liabilities at 30 June 2020.

28. Events occurring after the reporting period

No further matters or circumstance has arisen since the end of the financial year that has significantly affected, or may significantly affect the Company's operations the results of those operations, or the Company's state of affairs in future financial years.

Youi NZ Pty Ltd
Section 78 Appointed Actuary's Report
As at 30 June 2020

This report has been prepared in accordance with section 78 of the Insurance Prudential Supervision Act 2010 ("Act") and details the review of the actuarial information, as defined in section 77(4), used in the preparation of the Youi NZ Pty Limited ("Youi") 30 June 2020 financial statements as required under section 77 of the Act ("review"). It states the following:

(a) The review was carried out by Simone Collins, Youi's Appointed Actuary.

(b) The Appointed Actuary reviewed the actuarial information and financial statements.

(c) The review covers actuarial information in, or used in the preparation of, financial statements. There was no limitation to the review of actuarial information carried out by the Appointed Actuary.

(d) The relationships (other than that of actuary) and interests that the actuary has in Youi (or any of the related bodies corporate) are as follows:

   (i) None

(e) All the information and explanations required by the Appointed Actuary were provided.

(f) In the opinion of the Appointed Actuary and from an actuarial perspective:

   (i) The actuarial information contained in the financial statements has been appropriately included in those statements; and

   (ii) The actuarial information used in the preparation of the financial statements has been used appropriately.

(g) In the opinion of the Appointed Actuary, Youi is maintaining the solvency margin that applies under a condition imposed under section 21 (2) (b) of the Act at 30 June 2020.

(h) Youi does not underwrite any life insurance products. As such, no opinion under section 78(h) of the Act is required.

This report is not required to be prepared in accordance with professional standard 9.2: Communication of Professional Advice of the New Zealand Society of Actuaries. All matters that are required under that standard are contained within the 30 June 2020 Insurance Liabilities Valuation Report and 30 June 2020 Financial Condition Report.

SCollins

Simone Collins
Appointed Actuary
Youi NZ Pty Limited
Fellow of the Institute of Actuaries of Australia

20 August 2020