



**The Hollard Insurance Company Pty Ltd
(NZ Branch)**

NZBN 942 904 212 9851

Annual Financial Report

For the year ended

30 June 2021

Contents

Director's Report	1
Statement of Comprehensive Income	5
Statement of Financial Position	6
Statement of Changes in Equity	7
Statement of Cash Flows	8
Notes to the Financial Statements	9
1. General Information	9
2. Significant Accounting Policies	9
3. Application of new and revised New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS)	15
4. Critical accounting judgements and key sources of estimation uncertainty	16
5. Actuarial assumptions and methods	17
6. Risk Management	20
7. Revenue	30
8. Profit/(Loss) Before Income Tax Expense Is Arrived At After Charging The Following Items	30
9. Claims Expense	31
10. Income (Benefit)/Tax Expense	32
11. Cash and cash equivalents	32
12. Receivables	32
13. Reinsurance and other recoveries	33
14. Deferred reinsurance expense	33
15. Deferred acquisition costs	33
16. Payables	34
17. Outstanding claims	34
18. Unearned premiums	35
19. Unearned reinsurance commissions	35
20. Reconciliation of profit after income tax to net cash flow from operating activities	35
21. Note to the statement of cash flows	36
22. Capital risk management	36
23. Contributed equity	36
24. Exemption from compliance with solvency standard	36
25. Insurer financial strength rating	37
26. Liability adequacy test	37
27. Events after the reporting period	37
Independent Auditor's Report	38

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2021

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 2021 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, Resigned: 23 September 2021
Richard Enthoven	Executive Director
Karl Armstrong	Non-executive Director
Katrina Barry	Non-executive Director
Ellen Comerford	Executive Director
David Matcham	Non-executive Director, Resigned: 30 September 2020
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) Resigned: 31 August 2021
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

- Underwriting and sale of general insurance policies, and
- 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).

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2021

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.

The Branch Gross written premium (GWP) has increased by 13.5% in the current year to \$304m (2020: \$268m) driven by continued growth in the Ando portfolio.

The Branch result for the financial year is a loss of \$2,861,000 (2020: profit of \$7,209,000). This result has been driven by weather related claims in the financial year ended 30 June 2021. During the year, flood events were experienced which include Napier Floods, Northland Floods and Canterbury Floods. Further, the novel coronavirus (COVID-19) has had a downward impact on the Travel portfolio thereby impacting the performance.

State of Affairs

The economic downturn linked to the ongoing COVID-19 pandemic has had a range of impacts on the Company's business and financial performance during the year as noted earlier.

There is increased uncertainty in the estimates and judgements required in the preparation of the financial statements caused by the unprecedented and ongoing impact of the COVID-19 pandemic.

Many business interruption policies in Australia sought to exclude cover for pandemics through a reference to the Quarantine Act, however the Quarantine Act was repealed in 2015 and replaced by the Biosecurity Act. A test case on whether the Quarantine Act reference should be construed as a reference to the Biosecurity Act was heard in 2020 in the NSW Court of Appeal. The Hollard Insurance Company Pty Ltd was one of two insurers in Australia who appeared as a named party to that industry test case. In October 2020, the Court of Appeal ruled in favour of policyholders and that judgment was upheld in June 2021 when the High Court denied insurers' application for special leave to appeal. However, there are further interpretations of aspects of business interruption policies that need to be resolved to establish whether policyholders will ultimately be covered.

The Branch's business and financial performance has been impacted by COVID-19 during the year primarily in the following areas:

- Pressure on GWP particularly in the travel segment with a large reduction of premium income
- Impact on claims experience with increased costs related to travel policies offset by improved motor claims frequency.

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 New South Wales, Victoria and New Zealand. The lockdowns are characterised by 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.

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2021

A second industry test case hearing in the Federal Court of Australia, in respect of business interruption policies, concluded on 15 September 2021 with judgment reserved. The Hollard Insurance Company Pty Ltd is not a named party to the second test case but the findings of the case are relevant to the BI coverages in HIC's policies. Final legal positions on these matters are expected to be provided by the Federal Court by the end of calendar year 2021. These BI cases are relevant to Australia only and not New Zealand.

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.

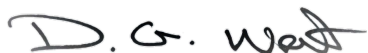
Directors' Report

FOR THE YEAR ENDED 30 JUNE 2021

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:



Duncan West
Chairman & Non-executive Director



Richard Enthoven
Executive Director

Dated at Sydney 23 September 2021

Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2021

	Notes	2021 \$000	2020 \$000
Gross written premium	7	303,779	267,710
Gross earned premium revenue	7	283,559	230,396
Reinsurance premium expense	14	(233,269)	(198,378)
Net premium revenue		50,290	32,018
Gross claims expense	9	(180,255)	(136,061)
Reinsurance and other recoveries revenue	7, 9	142,541	115,698
Net Claims Incurred		(37,714)	(20,363)
Acquisition expenses	8	(83,216)	(69,868)
Reinsurance commissions revenue	7	74,203	67,956
Net acquisition expense		(9,013)	(1,912)
Administration and other expenses		(6,143)	(6,060)
Total Administration and other expenses	8	(6,143)	(6,060)
Underwriting result		(2,580)	3,683
Interest on policyholders' funds	7	27	17
Interest on shareholders' funds	7	(12)	(9)
(Loss)/profit before income tax		(2,565)	3,691
Tax (expense)/benefit	10	(296)	3,518
(Loss)/profit for the year		(2,861)	7,209
Total comprehensive (loss)/income for the year		(2,861)	7,209

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

Statement of Financial Position

AS AT 30 JUNE 2021

	Notes	2021 \$000	2020 \$000
Assets			
Cash And Cash Equivalents	11	49,292	31,303
Receivables	12	210,767	174,070
Reinsurance and other recoveries	13	65,252	51,666
Deferred Reinsurance Expense	14	135,491	134,171
Deferred Acquisition Costs	15	45,374	45,430
Deferred tax assets	10	3,196	3,518
TOTAL ASSETS		509,372	440,158
Liabilities			
Loans and borrowings	6.4	1,006	1,004
Payables	16	203,271	170,436
Outstanding Claims	17	82,667	59,836
Unearned Premiums	18	163,789	143,569
Unearned reinsurance commissions	19	39,299	43,112
TOTAL LIABILITIES		490,032	417,957
NET ASSETS		19,340	22,201
Equity			
Head office funds		27,611	27,611
Retained income		(8,271)	(5,410)
TOTAL EQUITY		19,340	22,201

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

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2021

	Head office funds \$000	Retained Income/ (Loss) \$000	Total \$000
Balance at 1 July 2020	27,611	(5,410)	22,201
Total comprehensive income for the period			
Profit/ (Loss) for the year	-	(2,861)	(2,861)
Total comprehensive income	-	(2,861)	(2,861)
Transactions with head office			
Total transactions with head office	-	-	-
Balance at 30 June 2021	27,611	(8,271)	19,340
Balance at 1 July 2019	27,611	(12,619)	14,992
Total comprehensive income for the period			
Profit/ (Loss) for the year	-	7,209	7,209
Total comprehensive income	-	7,209	7,209
Transactions with head office			
Total transactions with head office	-	-	-
Balance at 30 June 2020	27,611	(5,410)	22,201

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

Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2021

	Notes	2021 \$000	2020 \$000
CASHFLOWS FROM OPERATING ACTIVITIES			
Premiums received		267,138	204,376
Reinsurance and other recoveries received		117,685	96,004
Reinsurance commission received		61,056	52,961
Reinsurance paid		(196,084)	(142,531)
Claims paid		(157,424)	(119,951)
Acquisition costs paid		(73,486)	(68,568)
Levies, charges, administration and other expenses received/(paid)		(903)	7,538
Income tax received from / (paid to) Inland Revenue New Zealand		7	-
Net cash flows from operating activities	20	17,989	29,829
CASHFLOWS FROM FINANCING ACTIVITIES			
Interest bearing loans		-	1,004
Net cash flows from financing activities		-	1,004
Net increase in cash and cash equivalents		17,989	30,833
Cash and cash equivalents at the beginning of the financial year		31,303	470
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR	21	49,292	31,303

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

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

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 of the Group 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 .

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 2021 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 2021, the Company recorded a net loss after tax of \$2.9 million (2020: profit of \$7.2 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.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

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

a) 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.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

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 continued to incorporate estimates, assumptions and judgements specific to the ongoing impact of the COVID-19 pandemic. 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.

b) 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.

c) 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.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

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:

a) 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.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

b) Receivables

Amounts due from policyholders and intermediaries are initially recognised at 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.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

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

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

2.13 Goods and services tax

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

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

2.14 Payables

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.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

3. APPLICATION OF NEW AND REVISED NEW ZEALAND EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (NZ IFRS)

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
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

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
Extension of the Temporary Exemption from applying NZ IFRS 9	30 June 2022
Interest Rate Benchmark Reform - Phase 2	30 June 2022
Annual Improvements to NZ IFRS 2018-2020	30 June 2023
Onerous Contracts-Cost of Fulfilling a Contract	30 June 2023
Property, Plant and Equipment Proceeds before Intended Use	30 June 2023
Reference to the Conceptual Framework	30 June 2024
Classification of Liabilities as Current or Non-current	30 June 2024

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, NZ IFRS 4 *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 Company supported by a formal project plan and dedicated resources. An NZ IFRS 17 sub ledger and calculation engine has been selected and configuration and implementation activities have commenced. An additional project to uplift finance data infrastructure, including the implementation of new systems, has also commenced to facilitate NZ IFRS 17 data and reporting requirements.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

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 NZ IFRS 17 the impact of the standard on the Branch's financial statements is still being determined.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

4.1 Key sources of estimation uncertainty

a) 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.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

b) 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.

c) COVID-19 Impact on use of Judgements and Estimates

There is increased judgement and estimation uncertainty in the preparation of the financial statements and related note caused by the unprecedented and ongoing impact of COVID-19. 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 2021, 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 2021 is Leigh Boeckstein (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.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

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 judgement on a probability-weighted basis on a range of variables and relates to potential claims made on business package and landlords' insurance policies.

Many business interruption policies in Australia sought to exclude cover for pandemics through a reference to the Quarantine Act, however the Quarantine Act was repealed in 2015 and replaced by the Biosecurity Act. A test case on whether the Quarantine Act reference should be construed as a reference to the Biosecurity Act was heard in 2020 in the NSW Court of Appeal. The Company was one of two insurers in Australia who appeared as a named party to that industry test case. In October 2020, the Court of Appeal ruled in favour of policyholders and that judgment was upheld in June 2021 when the High Court denied insurers' application for special leave to appeal. However, there are further interpretations of aspects of business interruption policies that need to be resolved to establish whether policyholders will ultimately be covered. A second industry test case hearing in the Federal Court of Australia, in respect of business interruption policies, concluded on 15 September 2021 with judgment reserved. The Company is not a named party to the second test case but the findings of the case are relevant to the BI coverages in the Company's policies. Final legal positions on these matters are expected to be provided by the Federal Court by the end of 2021.

In particular, 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), the impact of government grants and subsidies, 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:

	2021	2020
Discounted mean term of claims (years)	0.55	0.57
Expense rate (% of gross claims)	0.40%	0.40%
Discount rate	0.44%	0.28%
Inflation rate	2.50%	3.54%

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

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 2.50%.

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.	(95)
	Decrease by 1.0% p.a.	96
Discounted mean term	Increase by 0.5 years	180
	Decrease by 0.5 years	(178)
Expense rate	Increase by 1.0%	838
	Decrease by 1.0%	(838)
Inflation rate	Increase by 1.0%	93
	Decrease by 1.0%	(94)

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

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) Summary Statement
- Recovery Plan
- Business Continuity and Crisis Management Plan

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

There are four formal Board committees with delegated responsibilities that assist with risk management monitoring including the Board Risk Committee, Board Audit Committee, Board Remuneration 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 Company'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. A variety of changes were made to the RAS in the year ended 30 June 2021, including introducing new risk sub-categories (e.g. Models and Financial Processes) in the Operational Risk material risk category, refinement of risk category definitions across most material risk categories (particularly financial risk categories) and adjustment to appetite levels across a number of sub-categories.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

ReMS

The Board's annually approved ReMS outlines the Company's management of reinsurance risk. The Company participates in both proportional (quota share) and non-proportional (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.

Recovery Plan

The Board's approved Recovery Plan covers the Company's approach to, and processes around capital management that are designed to restore capital. The Recovery plan is intended to be used in severe 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 the year ended 30 June 2021, the Company has initiated a revision to its risk management framework to accommodate the three lines of defence model in the new operating model that the business will transition to in the year ending 30 June 2022. This model, and the associated roles and responsibilities, have been formally described in the RMS and, going into the year ending 30 June 2022, the RMS will be updated to reflect the new operating model. Under the 3 lines of defence 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). Additionally, in the year ended 30 June 2021 a comprehensive triennial review was undertaken by an independent external firm, as is required by CPS220.

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 general observations on the management of risk by the Company. The FCR is submitted to APRA and to the RBNZ.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

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

- **Strategic Risk** - The risk of not meeting financial and other objectives arising from poor strategic decisions, underperforming strategic investments, failed implementation of strategic projects, risks from the impacts of competitors, emerging strategic risks and other fundamental strategic issues that impact the Company or the insurance industry in Australia and NZ.
- **Insurance Risk** - The risk associated with the variable outcome of writing insurance business being the financial consequences of failures in core insurance processes of underwriting, pricing, product design, claims management, reinsurance programs and catastrophic claims events and includes the adequacy of insurance liability provisions.
- **Credit Risk** - The risk that a person or institution with whom the Company has entered a financial contract, who is a counterparty to the contract, will partially or fully default on the obligation, or be subject to a downgrade in their assessed credit quality. This excludes exposures to strategic debt such as loans which are included in strategic investments.
- **Market Risk** - The risk of lower than expected return on investments (excl. strategic investments), or losses from asset liability mismatches, due to adverse movements in interest rates, inflation, equity markets, currencies and other economic factors. This category includes other market risks impacting the balance sheet and capital adequacy, including liquidity, treasury management and access to capital.
- **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 has adopted an environmental policy statement and will in future revisit the RAS in light of impending regulatory guidance around the management of claim risks.

COVID-19 Impact

Financial, economic and social impacts of COVID-19 have been ongoing during the year and will continue to manifest and evolve 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 including the effect of ongoing outbreaks, the pace of the vaccination programme, the efficacy of continuing 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.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

The impacts on the Company during the year have varied significantly by class of business, e.g. reductions in premium income (Travel Insurance which in the year ended 30 June 2021 accounted for 5% (FY20 8%) of total Branch GWP), cessation of tenant default cover (Landlord Insurance), 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) in the form of two industry 'Test Cases'. The first test case found in favour of insureds, creating certainty around exclusions that referred to outdated legislation. This resulted in an increase in provisions held by most insurers, including the Company. The second test case is ongoing. As the pandemic and economic impact evolved during the year ended 30 June 2021, response strategies were implemented and continue to be refined to respond to emerging issues. The associated risks also continue to evolve and remain 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 its strategic objectives continues to be heightened beyond the usual level of uncertainty 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, potential supply chain impacts, ongoing responses to customer financial hardships, and the impacts of stronger product governance (such as remediating inconsistencies between reinsurance treaty wordings and underlying covers).

Credit Risk

As a result of COVID 19 we have continued with close monitoring of credit exposures, including strategic investment loans and reinsurer and other counterparty credit ratings.

Market Risk (including Capital)

At 30 June 2021, the Company had a Common Equity Tier 1 (CET1) multiple of 1.61 (2020: 1.25) and a regulatory capital adequacy multiple of 1.61 (2020: 1.54). COVID-19 has given rise to increased levels of market volatility. Business performance and impact on capital levels are monitored regularly. The Company has maintained a conservative and liquid investment strategy throughout the period but will also be revisiting the investment strategy in light of sustained low interest rates.

Operational risk

The ongoing approach of the majority of the Company's employees having moved from an office-based work environment to working from home has successfully continued but some risks remain heightened, including workplace health and safety. 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 a hybrid environment 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.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

Customer and Community Risk

The Company understands the difficulties many of its partners and customers are facing 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 shorter policy renewal terms for small business customers;
- access to a dedicated financial hardship team for personal customers;
- opportunity to delay monthly payments for up to 60 days for personal customers;
- easing certain policy coverage clauses in support of small business customers;
- financial hardship packages for pet insurance customers;
- flexibility regarding application of excess amounts for all customers; and
- opportunity to shift to lower coverage product where appropriate e.g. from Comprehensive Motor to availability of “Pay as you Drive”.

While some of 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 ongoing response to COVID-19. Sector-wide regulatory engagement remains heightened, 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 was deferred or reduced by regulators for much of the year ended 30 June 2021, activity has resumed, including preparation for impending regulatory change.

Further discussions on the application of the Company’s general risk management practices are presented in the following sections, while details, policies and frameworks are more fully described in the RMS.

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.

6.2 Insurance Risk

Insurance risk is inherent in the operation of the Company and relates to product design, pricing, underwriting, claims, reinsurance and catastrophe management processes.

The Company has an objective to manage insurance risk volatility to within its medium appetite levels through a conservative underwriting strategy and a series of predefined risk limits for each sub-category to achieve the appropriate management of risks in each these processes.

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.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

6.3 Credit Risk

Credit risk (or counterparty risk) is the risk that a person or institution with whom the Company has entered a financial contract, who is a counterparty to the contract, will partially or fully default on the obligation, or be subject to a downgrade in their assessed credit quality.

The Company's credit/counterparty risk arises predominantly from investment in financial instruments, receivables from distribution partners or customers, and receivables for claims payments on reinsurance contracts. The Company provides loans as part of its strategic investment portfolio. It has credit risk exposure indicated by the carrying amounts of these loans.

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 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. Exceptions to the policy can be approved by the Board Reinsurance Committee. In addition, reinsurance contracts include a requirement for collateralisation where the associated recoveries are outstanding at the second balance date from the recovery being recognised.

Credit exposure

The table below provides information regarding the credit risk exposure of the Company by classifying major classes of investment 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 2021	AA \$000	A \$000	BBB \$000	Not Rated \$000	Total \$000
Financial assets					
Reinsurance and other recoveries	31,321	33,931	-	-	65,252
Receivables	-	-	-	210,767	210,767
Cash and term deposits	49,292	-	-	-	49,292
Total risk exposure	80,613	33,931	-	210,767	325,311

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

Year ended 30 June 2020	AA \$000	A \$000	BBB \$000	Not Rated \$000	Total \$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

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

Year ended 30 June 2021	Not past due \$000	Past due 0 to 30 days \$000	Past due 31 to 120 days \$000	Impairment \$000	Total \$000
Financial assets					
Reinsurance and other recoveries	65,252	-	-	-	65,252
Receivables	210,767	-	-	-	210,767
Cash and term deposits	49,292	-	-	-	49,292
Total risk exposure	325,311	-	-	-	325,311

Year ended 30 June 2020	Not past due \$000	Past due 0 to 30 days \$000	Past due 31 to 120 days \$000	Impairment \$000	Total \$000
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

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.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

6.4 Market Risk

Market Risk is the risk of lower than expected return on investments (excl. strategic investments), or losses from asset liability mismatches, due to adverse movements in interest rates, inflation, equity markets, currencies and other economic factors. This category includes other market risks impacting the balance sheet and capital adequacy, including liquidity, treasury management and access to capital. 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 monitor 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, and the Company manages interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments. The Board approved Investment and Liquidity 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 2021 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 2021	Change in interest rate	Impact on profit	
		before tax \$'000	Total \$'000
Bank balances related to New Zealand	+1%	493	493
	-1%	(493)	(493)

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)

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

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 Risk Committee comprising mandated liquidity limits including asset/liability duration.
- Management and reporting on Premium receivables from intermediaries and customers
- Advanced 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 Company's financial liabilities. Other than insurance contracts, the maturity profile is based on the remaining undiscounted contractual obligations. For insurance contracts, the 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 2021	Up to a year \$000	1-3 years \$000	3 + years \$000	Total \$000
Financial liabilities				
Payables	203,271	-	-	203,271
Outstanding claims	65,021	17,646	-	82,667
Loans and Borrowings*	-	1,006	-	1,006
Total	268,292	18,652	-	286,944

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

* 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 on 31 August 2022. 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.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

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 operational processes, technology, IT security, business continuity, suppliers and outsourcing, fraud, people, financial processes and reporting and models.

The Company manages this risk by employing a range of risk management processes, including documented critical processes, the identification of key risks and the design and implementation of effective controls within those processes. 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 all further support the management of these risks. Numerous operational procedures, frameworks and policies are relevant to the management of this risk, included functional operating frameworks (e.g. Finance), Business Continuity Frameworks 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

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 that avoid inappropriate or unethical behaviour, remuneration models and practices, product features, sales practices or service standards including claims management and complaints processes, that deliver unfair customer outcomes or imbalanced rewards between the insurer or its partners and the customer. The Company avoids reputational risk that generate a loss of trust in the business and in the insurance industry and financial services industry more generally. This is achieved through various means through adoption of industry codes of practice, monitoring of remuneration of incentives through the Board Remuneration Committee, managements of conflicts of interest, training, complaints monitoring and reporting, etc.

6.7 Compliance Risk

Compliance Risk subcategories include non-compliance with the law, non-compliance with internal policies and voluntary industry codes and standards, partner non-compliance with contractual requirements, taxation. The Company seeks to manage Compliance Risk through implementation and monitoring of a formal Compliance Framework and application of the principles of the framework to distribution partners/intermediaries, maintaining and reviewing an incident and breach framework, and maintaining visibility and currency on compliance obligations via obligations data reports and participation in Industry committees, forums and seminars. The Board Risk Committee monitors the performance of the Company in meeting its compliance obligations. A Board approved Tax Risk Management and Governance Framework is in place and monitored by the Board Audit Committee.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

7. REVENUE

	2021 \$000	2020 \$000
Gross written premium	303,779	267,710
Unearned premium movement	(20,220)	(37,314)
Gross premium revenue	283,559	230,396
Reinsurance and other recoveries revenue	142,541	115,698
Reinsurance commissions revenue	74,203	67,956
Total General Insurance Revenue	500,303	414,050
Interest on policyholders' funds	27	17
Interest on shareholders' funds	(12)	(9)
Interest Income	15	8
	500,318	414,058

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

	2021 \$000	2020 \$000
Acquisition costs comprise		
Commission expenses	83,216	69,868
	83,216	69,868
Administration and other expenses comprise		
Professional fees	369	380
Staff and staff related expenses	1,480	1,290
Corporate and general expenses	3,623	3,420
Specific underwriting expenses/(income)	671	970
	6,143	6,060

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

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

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

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

9. CLAIMS EXPENSE

	2021			2020		
	Current period \$000	Prior years \$000	Total \$000	Current period \$000	Prior years \$000	Total \$000
Gross claims and related expenses - undiscounted	184,065	(3,691)	180,374	143,405	(7,555)	135,850
Discount movement	(162)	43	(119)	(89)	300	211
	183,903	(3,648)	180,255	143,316	(7,255)	136,061
Reinsurance and other recoveries - undiscounted	(144,413)	1,783	(142,630)	(121,094)	5,578	(115,516)
Discount movement	147	(58)	89	81	(263)	(182)
	(144,266)	1,725	(142,541)	(121,013)	5,315	(115,698)
Net claims expense	39,637	(1,923)	37,714	22,303	(1,940)	20,363

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 2021

10. INCOME (BENEFIT)/TAX EXPENSE

	2021 \$000	2020 \$000
Current tax (benefit)/expense		
Deferred tax movement	323	(3,518)
Income Tax Movement - Prior year adjustment	(27)	-
Total income tax (benefit)/expense	296	(3,518)

Numerical reconciliation between tax expense and pre-tax accounting profit

Accounting (loss)/profit before income tax	(2,565)	3,691
Prima facie income tax calculated at 28% of profit before tax	(718)	1,033
Non-allowable expenses	-	(3)
Change in deductible temporary differences	1,014	(4,548)
	296	(3,518)

Deferred Tax balances recognised

Tax losses (revenue in nature)	(15,615)	(16,130)
Deductible temporary differences:		
Provision for doubtful debts	(198)	(44)
Deferred acquisition costs	12,705	12,720
Outstanding claims	(87)	(64)
	(3,195)	(3,518)

11. CASH AND CASH EQUIVALENTS

	2021 \$000	2020 \$000
Bank balances	48,929	30,946
Cash held in trust	363	357
	49,292	31,303

12. RECEIVABLES

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

	2021 \$000	2020 \$000
Current		
Premiums receivable	210,642	174,001
Other receivables	24	25
Prepayments	60	-
Commissions receivable	41	44
	210,767	174,070

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

13. REINSURANCE AND OTHER RECOVERIES

	2021 \$000	2020 \$000
Expected future recoveries relating to:		
Paid claims	1,045	105
Outstanding claims discounted to present value	64,207	51,561
	65,252	51,666
Current	50,743	41,827
Non-current	14,509	9,839
	65,252	51,666
Reconciliation of changes in reinsurance and other recoveries		
Balance at the beginning of the financial year	51,666	37,576
Reinsurance and other recoveries raised in the year	142,541	74,010
Reinsurance and other recoveries received in the year	(128,955)	(59,920)
Balance at the end of the financial year	65,252	51,666

14. DEFERRED REINSURANCE EXPENSE

	2021 \$000	2020 \$000
Current	132,920	132,667
Non-current	2,571	1,504
	135,491	134,171
Reconciliation of changes in deferred reinsurance		
Balance at the beginning of the financial year	134,171	93,780
Reinsurance premiums deferred in the year	234,589	238,769
Reinsurance premiums expensed during the year	(233,269)	(198,378)
Balance at the end of the financial year	135,491	134,171

15. DEFERRED ACQUISITION COSTS

	2021 \$000	2020 \$000
Current	45,374	45,430
Reconciliation of changes in acquisition costs		
Balance at the beginning of the financial year	45,430	29,452
Acquisition costs deferred during the year	83,160	85,846
Acquisition costs expensed during the year	(83,216)	(69,868)
Balance at the end of the financial year	45,374	45,430

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

16. PAYABLES

	2021 \$000	2020 \$000
Trade payables - acquisition costs	60,158	50,481
Other related parties*	11,635	6,903
Trade payables and accruals - other	18,059	16,300
Claims payable on Inwards reinsurance	8,707	9,935
Reinsurance premiums payable	104,712	86,817
	203,271	170,436

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

17. OUTSTANDING CLAIMS

	2021 \$000	2020 \$000
Current	65,021	48,465
Non-current	17,646	11,371
	82,667	59,836
Central estimate	81,592	59,214
Risk margin	1,279	724
	82,871	59,938
Discount to present value	(204)	(102)
Gross outstanding claims liability	82,667	59,836
Reconciliation of changes in discounted gross outstanding claims		
Balance at beginning of financial year	59,836	43,731
Change in prior years gross claims outstanding	(3,691)	(7,555)
Current year gross claims incurred	184,065	143,405
Claims paid	(157,425)	(119,951)
Discount movement	(118)	206
Balance at the end of the financial year	82,667	59,836

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.

	2021	2020
Net overall risk margin applied	7.9%	9.6%

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

18. UNEARNED PREMIUMS

	2021 \$000	2020 \$000
Current	163,789	143,569
	163,789	143,569
Balance at beginning of financial year	143,569	106,255
Written premium deferred in the year	303,779	267,710
Written premium earned during the year	(283,559)	(230,396)
Balance at the end of the financial year	163,789	143,569

19. UNEARNED REINSURANCE COMMISSIONS

	2021 \$000	2020 \$000
Current	39,299	43,112
	39,299	43,112
Balance at beginning of financial year	43,112	28,981
Commissions deferred during the year	70,390	82,087
Commissions earned during the year	(74,203)	(67,956)
Balance at the end of the financial year	39,299	43,112

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

	2021 \$000	2020 \$000
Profit/(Loss) from ordinary activities after income tax	(2,861)	7,209
Changes in assets and liabilities during the financial year:		
Change in receivables	(36,697)	(63,188)
Change in reinsurance and other recoveries	(13,586)	(14,090)
Change in deferred reinsurance expense	(1,320)	(40,391)
Change in deferred acquisition costs	56	(15,978)
Change in deferred tax	322	(3,518)
Change in payables	32,837	92,234
Change in outstanding claims	22,831	16,105
Change in unearned premium liability	20,220	37,314
Change in unearned reinsurance commissions	(3,813)	14,132
Net cash flow generated/(used in) operating activities	17,989	29,829

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

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:

	2021	2020
	\$000	\$000
Bank balances	48,929	30,946
Cash held in trust	363	357
	49,292	31,303

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

	2021	2020
	\$000	\$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.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

The solvency figures as at 30 June 2021 reported to the Australian Prudential Regulation Authority are as follows:

	2021	2020
	AUD\$'000	AUD\$'000
Actual solvency capital	287,458	210,957
Minimum solvency capital	178,296	136,989
Solvency margin	109,162	73,968
Net cash flow generated/(used in) operating activities	1.61	1.54

25. INSURER FINANCIAL STRENGTH RATING

As at the date of this report the Branch has an insurer financial strength rating of A- (Excellent) from AM 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 2021 and 30 June 2020.

The application of the liability adequacy test in respect of net premium liabilities in the Branch identified a surplus as at 30 June 2021.

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 AFTER THE REPORTING PERIOD

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

The Company 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 across many cities, regions and all of NSW with an extended lockdown period across Sydney, the enforcement of interstate border controls by a number of Australian states, re-tightening of social distancing rules, and announcements with regard to State and Federal 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.

A second industry test case hearing in the Federal Court of Australia, in respect of business interruption policies, concluded on 15 September 2021 with judgment reserved. The Company is not a named party to the second test case but the findings of the case are relevant to the BI coverages in the Company's policies. Final legal positions on these matters are expected to be provided by the Federal Court by the end of calendar year 2021. These BI cases are relevant to Australia only and not New Zealand.

Independent Auditor's Report

FOR YEAR ENDED 30 JUNE 2021



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

Opinion

We have audited the financial statements of The Hollard Insurance Company Pty Ltd – New Zealand Branch (the "Branch") which comprise the statement of financial position as at 30 June 2021, 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 37.

In our opinion, the accompanying financial statements present fairly, in all material respects, the Branch's financial position as at 30 June 2021 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) (IESBA Code)*, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

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

Emphasis of Matter – New Zealand Branch

The New Zealand branch is part of The Hollard Insurance Company Pty Ltd, which is incorporated in Australia. As described in note 1 of the financial statements, the assets of the branch are legally available for the satisfaction of debts of The Hollard Insurance Company Pty Ltd, not solely those appearing on the accompanying statement of financial position and its debts may result in claims against assets not appearing thereon. Our opinion is not qualified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements 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	In conjunction with our actuarial specialists our audit procedures included, but were not limited to:

Independent Auditor's Report

FOR YEAR ENDED 30 JUNE 2021



Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
<p>Refer to notes 4.1 (a), 5, and 17 to the financial statements.</p> <p>Included in the statement of financial position as at 30 June 2021 is an outstanding claims liability totalling NZ\$82,667k (2020: NZ\$59,836k).</p> <p>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.</p> <p>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.</p> <p>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.</p>	<ul style="list-style-type: none"> obtaining an understanding of the key controls, including key data reconciliations and management's review of estimates; assessing the appropriateness of valuation methodologies, processes and models with respect to actuarial standards; comparing valuation assumptions to underlying experience 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 2021, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

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

Independent Auditor's Report

FOR YEAR ENDED 30 JUNE 2021



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.

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.

The auditor also provides those charged with governance with a statement that the auditor has complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on the auditor's independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, the auditor determines those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. The auditor describes these matters in the auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, the auditor determines that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Independent Auditor's Report

FOR YEAR ENDED 30 JUNE 2021

Deloitte.

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

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU

Max R Murray

Max Murray
Partner
Chartered Accountants
Sydney, Australia, 23 September 2021