

**QUEST INSURANCE GROUP LIMITED**

**ANNUAL REPORT**

**FOR THE YEAR ENDED 31 March 2022**

**QUEST INSURANCE GROUP LIMITED**

**ANNUAL REPORT**

**FOR THE YEAR ENDED 31 March 2022**

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**QUEST INSURANCE GROUP LIMITED**

**DIRECTORS' ANNUAL REPORT**

**FOR THE YEAR ENDED 31 March 2022**

In accordance with Section 211(3) of the Companies Act 1993, the shareholder agreed not to make the disclosures set out in Section 211(1) (a) and Section 211 (1) (e) to (j) in the annual report.

The business of the Company is to issue temporary insurance contracts covering death, disablement and redundancy risk and short term motor vehicle insurance contracts covering comprehensive, third party, mechanical breakdown and guaranteed asset protection.

The nature of the Company's business has not changed during the year.

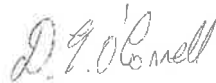
Signed on behalf of the Board on 29 July 2022



Signed by: Robin King  
Date & Time: 29 July, 2022 13:51:35 NZST

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Director



Signed by: David O'Connell  
Date & Time: 29 July, 2022 14:00:10 NZST

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Director

## INDEPENDENT AUDITOR'S REPORT

### To the Shareholders of Quest Insurance Group Limited

#### Report on the Audit of the Financial Statements

##### Opinion

We have audited the financial statements of Quest Insurance Group Limited ('the Company') on pages 5 to 27, which comprise the statement of financial position as at 31 March 2022, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 March 2022, and its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS').

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

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

Other than in our capacity as auditor and provider of other assurance services, our firm carries out other assignments for Quest Insurance Group Limited in the area of taxation compliance services. The provision of these other services has not impaired our independence.

## 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 year. 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 our audit addressed the key audit matter  |
|--|---|
| <p><b>Valuation of insurance contract liabilities</b></p> <p>As disclosed in Notes 15 and 16 of the Company's financial statements, the Company has total insurance contract liabilities of \$28.6m (outstanding claims liabilities of \$3.0m as disclosed in note 15 and unearned premium liabilities of \$25.6m disclosed in note 16). The Company's insurance contract liabilities were significant to our audit due to the size of the liabilities and the subjectivity, complexity and uncertainty inherent in estimating the impact of claims events that have occurred but for which the eventual outcome remains uncertain.</p> <p>Management has engaged an external actuarial expert to estimate the Company's insurance contract liabilities as at 31 March 2022.</p> | <p>Our audit procedures among others included:</p> <ul style="list-style-type: none"> <li>• Understanding and evaluating the Company's internal controls relevant to the accounting estimates used to determine the valuation of the Company's insurance contract liabilities.</li> <li>• Evaluating the design and operating effectiveness of the key controls over insurance contract origination, ongoing administration, claims management, integrity of the related data provided to Management's external actuarial expert used in the estimation process and Management's review of the estimates.</li> <li>• Evaluating the competence, capabilities, objectivity and expertise of Management's external actuarial expert and the appropriateness of the expert's work as audit evidence for the relevant assertions.</li> <li>• Agreeing the data provided to Management's external actuarial expert to the Company's records.</li> <li>• Engaging our own actuarial expert to assist in understanding and evaluating:             <ul style="list-style-type: none"> <li>◦ the work and findings of the Company's external actuarial expert engaged by Management; and</li> <li>◦ the Company's actuarial methods and assumptions and in challenging the appropriateness of actuarial methods and assumptions used by Management.</li> </ul> </li> <li>• Evaluating the selection of methods and assumptions with a view to identify Management bias.</li> <li>• Evaluating the appropriateness of related disclosures (including the accounting policies and accounting estimates) about insurance contract liabilities, and the risks attached to them which are included in the Company's financial statements.</li> </ul> |

## Responsibilities of the Directors for the Financial Statements

The Directors are responsible on behalf of the Company for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of 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 Company for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

**Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

<https://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/audit-report-2/>

**Matters Relating to the Electronic Presentation of the Audited Financial Statements**

This audit report relates to the financial statements of Quest Insurance Group Limited for the year ended 31 March 2022 included on Quest Insurance Group Limited's website. The Directors of Quest Insurance Group Limited are responsible for the maintenance and integrity of Quest Insurance Group Limited's website. We have not been engaged to report on the integrity of Quest Insurance Group Limited's website. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyper linked to or from these financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and related audit report dated 29 July 2022 to confirm the information included in the audited financial statements presented on this website.

Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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



**BAKER TILLY STAPLES RODWAY AUCKLAND**

**Auckland, New Zealand**

29 July 2022

**QUEST INSURANCE GROUP LIMITED**

**STATEMENT OF COMPREHENSIVE INCOME**

**FOR THE YEAR ENDED 31 MARCH 2022**

|  | <u>Note</u> | <b>2022</b><br><b>\$'000</b> | <b>2021</b><br><b>\$'000</b> |
|--|-------------|------------------------------|------------------------------|
| <b>Revenue</b>   |             |                              |                              |
| Premium revenue  |             | 30,098                       | 21,283                       |
| Other revenue  | (6)         | 340                          | 1,106                        |
|  |             | <u>30,438</u>                | <u>22,389</u>                |
| <b>Expenses</b>  |             |                              |                              |
| Claims expense   | (8)         | 11,387                       | 6,591                        |
| Commission expense   | (9)         | 6,354                        | 5,412                        |
| Reinsurance expense  |             | 493                          | 274                          |
| Sales and marketing expense  |             | 44                           | 70                           |
| Administration costs   |             | 1,257                        | 1,407                        |
| Other expenses   |             | 230                          | 250                          |
|  |             | <u>19,765</u>                | <u>14,004</u>                |
| <b>Net profit before movement in policyholder liabilities and taxation</b> |             | 10,673                       | 8,385                        |
| Increase in policyholder liabilities                                       | (16)        | (5,952)                      | (5,178)                      |
| <b>Net profit before taxation</b>  |             | 4,721                        | 3,207                        |
| Taxation expense   | (7)         | 1,042                        | 591                          |
| <b>Net profit after taxation</b>   |             | <u>3,679</u>                 | <u>2,616</u>                 |
| <b>Other comprehensive income</b>  |             |                              |                              |
| <b>Items that may be subsequently reclassified to profit or loss</b>       |             |                              |                              |
| Movement in financial assets at FVTOCI                                     | (17)        | (42)                         | (914)                        |
| <b>Other comprehensive income, net of tax</b>                              |             | <u>(42)</u>                  | <u>(914)</u>                 |
| <b>Total comprehensive income</b>  |             | <u><u>3,637</u></u>          | <u><u>1,702</u></u>          |

The attached notes form part of and are to be read in conjunction with these financial statements.

**QUEST INSURANCE GROUP LIMITED**

**STATEMENT OF CHANGES IN EQUITY**

**FOR THE YEAR ENDED 31 MARCH 2022**

|   | <b>Share<br/>Capital</b> | <b>Retained<br/>Earnings</b> | <b>FVTOCI<br/>reserve</b> | <b>Total</b>  |
|---|--------------------------|------------------------------|---------------------------|---------------|
|   | <b>\$'000</b>            | <b>\$'000</b>                | <b>\$'000</b>             | <b>\$'000</b> |
| <b>Balance at 1 April 2020</b>                          | <b>2,000</b>             | <b>9,620</b>                 | <b>965</b>                | <b>12,585</b> |
| Profit for the year                                     | -                        | 2,616                        | -                         | 2,616         |
| Other comprehensive income attributable to shareholders | -                        | -                            | (914)                     | (914)         |
| Total comprehensive income attributable to shareholders | -                        | 2,616                        | (914)                     | 1,702         |
| Dividends Paid  | -                        | (6,000)                      | -                         | (6,000)       |
| <b>Balance at 31 March 2021</b>                         | <b>2,000</b>             | <b>6,236</b>                 | <b>51</b>                 | <b>8,287</b>  |
| Profit for the year                                     | -                        | 3,678                        | -                         | 3,678         |
| Other comprehensive income attributable to shareholders | -                        | -                            | (42)                      | (42)          |
| Total comprehensive income attributable to shareholders | -                        | 3,678                        | (42)                      | 3,636         |
| Share Issue   | 6,000                    | -                            | -                         | 6,000         |
| Dividends Paid  | -                        | -                            | -                         | -             |
| <b>Balance at 31 March 2022</b>                         | <b>8,000</b>             | <b>9,914</b>                 | <b>9</b>                  | <b>17,923</b> |

The attached notes form part of and are to be read in conjunction with these financial statements.



**QUEST INSURANCE GROUP LIMITED**

**STATEMENT OF FINANCIAL POSITION**

**AS AT 31 MARCH 2022**

|   | <u>Note</u> | <b>2022</b><br><b>\$'000</b> | <b>2021</b><br><b>\$'000</b> |
|---|-------------|------------------------------|------------------------------|
| <b>Assets</b>                                     |             |                              |                              |
| Cash and cash equivalents                         | (19)        | 24,858                       | 15,827                       |
| Receivables                                       | (14)        | 11,213                       | 8,695                        |
| Other assets                                      |             | 106                          | 142                          |
| Financial assets at FVTOCI                        | (11)        | 33                           | 203                          |
| Related party balances                            | (10)        | 8,554                        | 1,465                        |
| Deferred insurance contract acquisition costs     | (16)        | 5,847                        | 5,226                        |
| Plant and equipment                               | (12)        | 60                           | 78                           |
| Intangible assets                                 | (13)        | 42                           | 87                           |
| <b>Total assets</b>                               |             | <b>50,713</b>                | <b>31,723</b>                |
| <b>Liabilities</b>                                |             |                              |                              |
| Accounts payable and accruals                     | (20)        | 2,614                        | 2,179                        |
| Deferred tax liabilities                          | (7)         | 1,634                        | 591                          |
| Outstanding claims liabilities                    | (15)        | 2,962                        | 1,658                        |
| Unearned premium liabilities                      | (16)        | 25,580                       | 19,008                       |
| <b>Total liabilities</b>                          |             | <b>32,790</b>                | <b>23,436</b>                |
| <b>Shareholder's equity</b>                       |             |                              |                              |
| Share capital                                     | (17)        | 8,000                        | 2,000                        |
| Retained earnings                                 |             | 9,914                        | 6,236                        |
| Financial assets at FVTOCI reserve                | (17)        | 9                            | 51                           |
| <b>Total shareholder's equity</b>                 |             | <b>17,923</b>                | <b>8,287</b>                 |
| <b>Total shareholder's equity and liabilities</b> |             | <b>50,713</b>                | <b>31,723</b>                |

For and on behalf of the Board of Directors dated 29 July 2022



Signed by: Robin King  
Date & Time: 29 July, 2022 13:51:41 NZST

Director



Signed by: David O'Connell  
Date & Time: 29 July, 2022 14:00:14 NZST

Director

The attached notes form part of and are to be read in conjunction with these financial statements.

**QUEST INSURANCE GROUP LIMITED**

**STATEMENT OF CASH FLOWS**

**FOR THE YEAR ENDED 31 MARCH 2022**

|   | <u>Note</u> | <b>2022</b><br><b>\$'000</b> | <b>2021</b><br><b>\$'000</b> |
|---|-------------|------------------------------|------------------------------|
| <b>Cash flows from operating activities</b>                   |             |                              |                              |
| Cash was provided from:                                       |             |                              |                              |
| Premiums received   |             | 30,098                       | 21,284                       |
| Interest received   |             | 228                          | 173                          |
| Dividends   |             | 112                          | 0                            |
| Third party recoveries  |             | <u>2,083</u>                 | <u>999</u>                   |
|   |             | 32,521                       | 22,456                       |
| Cash was applied to:  |             |                              |                              |
| Claims paid   |             | 13,470                       | 7,589                        |
| Other expenses  |             | <u>9,090</u>                 | <u>9,559</u>                 |
|   |             | 22,560                       | 17,148                       |
| <b>Net cash inflow from operating activities</b>              | (22)        | <b>9,961</b>                 | <b>5,308</b>                 |
| <b>Cash flows from investing activities</b>                   |             |                              |                              |
| Cash was provided from:                                       |             |                              |                              |
| AMPL Investment Distributions                                 | (21)        | <u>170</u>                   | <u>-</u>                     |
|   |             | 170                          | -                            |
| Cash was applied to:  |             |                              |                              |
| Purchase of plant and equipment                               |             | 4                            | 1                            |
| Purchase of intangible assets                                 |             | <u>5</u>                     | <u>6</u>                     |
|   |             | 9                            | 7                            |
| <b>Net cash inflow / (outflow) from investment activities</b> |             | <b>161</b>                   | <b>(7)</b>                   |
| <b>Cash flows from financing activities</b>                   |             |                              |                              |
| Cash was provided from:                                       |             |                              |                              |
| Other borrowing advances                                      |             | <u>-</u>                     | <u>4,455</u>                 |
|   |             | -                            | 4,455                        |
| Cash was applied to:  |             |                              |                              |
| Dividends paid  |             | <u>-</u>                     | <u>6,000</u>                 |
|   |             | -                            | 6,000                        |
| <b>Net cash inflow / (outflow) from financing activities</b>  |             | <b>-</b>                     | <b>(1,545)</b>               |
| Net movement in cash and cash equivalents                     |             | 9,031                        | 7,255                        |
| Add opening cash and cash equivalents                         |             | <u>15,827</u>                | <u>8,572</u>                 |
| <b>Closing cash and cash equivalents</b>                      |             | <b><u>24,858</u></b>         | <b><u>15,827</u></b>         |
| Represented by:   |             |                              |                              |
| Bank balances   |             | <u>24,858</u>                | <u>15,827</u>                |
| <b>Closing cash and cash equivalents</b>                      |             | <b><u>24,858</u></b>         | <b><u>15,827</u></b>         |

The attached notes form part of and are to be read in conjunction with these financial statements.

## QUEST INSURANCE GROUP LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

#### 1. Reporting entity

Quest Insurance Group Limited (the 'Company') is a company incorporated and domiciled in New Zealand and registered under the Companies Act 1993.

The Company is an FMC Reporting Entity for the purpose of the Financial Markets Conduct Act 2013.

The Company is a wholly owned subsidiary of Geneva Finance Limited, its parent company.

The financial statements of the Company have been prepared in accordance with the requirements of the Companies Act 1993, the Financial Markets Conduct Act 2013, the Financial Reporting Act 2013 and the Insurance (Prudential Supervision) Act 2010.

The Company is a for profit entity.

The principal activity of the Company is that of an insurer. The Company is a licensed insurer under the Insurance (Prudential Supervision) Act 2010.

The Financial Statements were authorised for issue by the Board of Directors on 29 July 2022.

#### 2. Basis of preparation

##### 2.1 New Zealand Equivalents of International Financial Reporting Standards (NZ IFRS)

The reporting date is 31 March. These financial statements have been prepared for the year ended 31 March 2022. The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP") and applicable legislation. They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS"), and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The Financial Statements also comply with International Financial Reporting Standards ("IFRS").

##### 2.2 Basis of measurement

The accounting principles for the measurement and reporting of results and financial position on a historical cost basis have been adopted in the preparation of these financial statements except as modified by the revaluation of certain assets and liabilities as identified in specific accounting policies below.

##### 2.3 Functional and Presentation Currency and Rounding

These financial statements are presented in New Zealand Dollars (\$), which is the Company's functional currency. The financial information presented in New Zealand Dollars has been rounded to the nearest thousand, except when otherwise indicated.

##### 2.4 Use of estimates and judgements

The preparation of the financial statements in conformity with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future period affected. Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in note 4.

##### a) New Standards and Interpretations

- i) *New standards and amendments and interpretations to existing standards that came into effect during the current accounting period:*

All mandatory new standards and amendments and interpretations to existing standards that came into effect during the current accounting period have been adopted in the current year. None of these have had a material impact on the Company.

- ii) *New standards and amendments and interpretations to existing standards that are not yet effective for the current accounting period:*

The Company has not early adopted any new standards, amendments and interpretations that have been issued but are not yet effective. There are a number of new standards and amendments to standards and interpretations that are not yet effective for the year beginning 1 April 2021.

The new standards, amendments and interpretations that will have an impact on the Company are discussed below and the Company intends to adopt these new standards, amendments and interpretations when they become mandatory.

## QUEST INSURANCE GROUP LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

#### 3. Significant accounting policies (continued)

##### NZ IFRS 17 'Insurance Contracts'

NZ IFRS 17, 'Insurance Contracts', will replace NZ IFRS 4, 'Insurance Contracts'. Under the NZ IFRS 17, insurance contract liabilities will be calculated at the present value of future insurance cash flows with a provision for risk. The discount rate applied will reflect current interest rates. If the present value of future cash flows would produce a gain at the time an insurance contract is issued, the model would also require a "contractual service margin" to offset the day 1 gain. The contractual service margin would be amortized over the life of the insurance contract. There would also be a new income statement presentation for insurance contracts, including a revised definition of revenue and additional disclosure requirements. NZ IFRS 17 will also have accommodations for certain specific types of insurance contracts. Short-duration insurance contracts will be permitted to use a simplified unearned premium liability model until a claim is incurred. For some contracts, in which the cash flows are linked to underlying items, the liability value will reflect that linkage.

The effective date is annual reporting periods beginning on or after 1 January 2023. The Company intends to adopt NZ IFRS 17 no later than the financial year beginning 1 April 2023.

The Company is currently working through the process of preparing its transitional position as at 31st March 2022, which will form the starting point of the prior period comparisons reported at 31st March 2024. Opening equity will be re-stated as at 1 April 2022 for transition purposes, but the re-statement is not expected to be material (a reduction in equity of the order of \$400,000). Reported earnings under NZ IFRS 17 are not expected to be materially different from those reported under NZ IFRS 4.

##### b) Foreign Currency Transactions

Foreign currency transactions are translated to New Zealand currency at the exchange rate ruling at the date of the transaction. All foreign currency monetary assets and liabilities are translated at the exchange rates ruling as at balance date.

##### c) Insurance contracts

###### - Premium revenue from insurance contracts

Premium revenue comprises amounts charged to policyholders and excludes taxes and duties collected on behalf of statutory parties.

The earned portion of premium received, and receivable is recognised as revenue. Premium revenue is recognised as earned from the date of attachment of risk, over the period related to the insurance contract in accordance with the pattern of the risk expected under the contract.

The unearned portion of premiums not earned at the reporting date is recognised in the Statement of Financial Position as unearned premium liabilities.

###### - Reinsurance recoveries relating to reinsurance contracts and other recoveries related to insurance contracts

Reinsurance and other recoveries receivable on paid claims and reported claims not yet paid are recognised as revenue. Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims. Recoveries receivable are measured at the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims. Reinsurance does not relieve the originating insurer of its liabilities to policyholders.

##### d) Other revenue and income

###### - Dividend income

Dividends from investments in equity instruments are recognised in profit or loss when the right to receive payment is established. In this case, the dividend is recognised in other comprehensive income (OCI) if it relates to an investment measured at fair value through other comprehensive income (FVTOCI).

###### - Other revenue and income

All other revenue and income is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured and the right to receive the revenue has been established.

##### e) Reinsurance expense for reinsurance contracts

Outwards reinsurance expense comprises premium ceded to reinsurers.

The incurred portion of outwards reinsurance premium paid or payable is recognised as an expense. Outwards reinsurance expense is recognised as incurred from the date of attachment of risk, over the period related to the reinsurance contract in accordance with the pattern of the risk expected under the contract.

The unearned portion of outwards reinsurance premium not incurred at the reporting date is recognised in the Statement of Financial Position as deferred reinsurance premiums.

## QUEST INSURANCE GROUP LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

#### 3. Significant accounting policies (continued)

##### f) Claims expense from insurance contracts

Claims expense represents claim payments adjusted for movement in the outstanding claims liability.

General Insurance claims expenses are recognised when claims are notified with the exception of claims incurred but not reported for which a provision is estimated.

##### g) Costs relating to insurance contracts

Commission and operating expenses are recognised in the Statement of Comprehensive Income on an accruals basis, unless otherwise stated.

Expenses are categorised into acquisition and maintenance on the basis of a detailed functional analysis of activities carried out by the Company.

Expenses are further categorised into general insurance based on new business volumes (acquisition costs) and in-force volumes (maintenance costs).

##### - Acquisition costs

Policy acquisition costs comprise the costs of acquiring new business, including commission, advertising, policy issue and underwriting costs, agency expenses and other sales costs.

Where the overall product profitability of new insurance business written during the year is expected to support the recovery of acquisition costs incurred in that year, these costs are deferred as an element of life insurance contract assets and amortised over the life of the policies written.

Unamortised acquisition costs are a component of insurance assets. Amortisation of acquisition costs is recognised in profit or loss as a component of net change in insurance contract assets at the same time as policy margins are released.

Commission that varies with and is directly related to securing new life investment contracts is capitalised as a deferred acquisition cost asset along with an administration and marketing allowance.

All other acquisition costs are recognised as expenses in the Statement of Comprehensive Income when incurred.

The deferred acquisition cost asset is subsequently amortised over the life of the contracts and is recognised in the Statement of Comprehensive Income as part of net change in life investment contract assets.

##### - Maintenance costs

Maintenance costs are the fixed and variable costs of administering policies subsequent to sale. These include general growth and development costs.

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.

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 subsequent reporting periods.

Deferred insurance contract acquisition costs are subject to a loss recognition test as to their recoverability.

##### h) Other Expenses

All other expenses are recognised as incurred in profit and loss on an accruals basis.

##### i) GST

The provision of Life Insurance contracts is an exempt transaction for GST purposes. Consequently not all the premiums earned on insurance contracts that have a life provision in their coverage will attract GST. The Company has utilised the apportionment method in identifying the part of the premium attributable to the life benefit. This has been calculated by applying the life rates as applied on an individual basis against the overall premium component. The GST is then calculated on the non-life portion of the premium.

## QUEST INSURANCE GROUP LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

#### 3. Significant accounting policies (continued)

##### j) Taxation

Income tax on net profit for the reporting period comprises current and deferred tax. Income tax is recognised in profit or loss except when it relates to items recognised outside profit or loss (equity or other comprehensive income), in which case it is also recognised outside profit or loss.

Current income tax is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax base of assets and liabilities and their carrying amounts in the financial statements.

Deferred income tax assets are recognised for all deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Deferred income tax liabilities are recognised when tax deductions have exceeded accounting expenditure for temporary differences and depreciation.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at reporting date.

##### k) Financial instruments

Financial assets and financial liabilities are recognised in the Statement of Financial Position when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

##### Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

##### Classification of financial assets

- Financial assets that meet the following conditions are measured subsequently at amortised cost:
  - the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
  - the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- Financial assets that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):
  - the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
  - the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the Company may make the following irrevocable election/designation at initial recognition of a financial asset:

- The Company may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met (see (ii) below); and
- The Company may irrevocably designate a financial asset that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (see (iii) below).

The Company has no financial assets classified at FVTPL.

## QUEST INSURANCE GROUP LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

#### 3. Significant accounting policies (continued)

##### i) Amortised cost and effective interest method

At initial recognition financial assets are measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Financial assets measured at amortised cost include: premium receivables, other receivables and related party receivables.

##### ii) Financial assets at FVTOCI

On initial recognition, the Company may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognised by an acquirer in a business combination.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument)

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the financial assets at FVTOCI reserve. The cumulative gain or loss is not be reclassified to profit or loss on disposal of the equity investments, instead, it is transferred to reserves.

Dividends on these investments in equity instruments are recognised in profit or loss in accordance with IFRS 9. Dividends are included in the 'other income' line item (note c) in profit or loss.

The Company's financial assets measured at FVTOCI include an equity investment in an unlisted property investment company.

#### Impairment of financial assets

The Company recognises a loss allowance for expected credit losses (ECL) on financial assets that are measured at amortised cost. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial assets.

The Company recognises lifetime ECL for premium and other receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial assets, the Company recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial assets has not increased significantly since initial recognition, the Company measures the loss allowance for that financial assets at an amount equal to 12-month ECL. The Company considers that default has occurred when a financial asset is more than 90 days past due unless the Company has reasonable and supportable information to demonstrate that another default criteria is more appropriate.

The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of on evidence of a financial asset being credit impaired at the reporting date or an actual default occurring.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial asset. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial asset that are possible within 12 months after the reporting date.

#### Derecognition of financial assets

The Company derecognises a financial asset only 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 entity. If The Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If The Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

## QUEST INSURANCE GROUP LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

#### 3. Significant accounting policies (continued)

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

##### Financial liabilities

###### Classification of financial liabilities

Financial liabilities are classified into one of the following measurement categories:

- those to be measured subsequently at fair value through profit or loss ('FVTPL'); and
- those to be measured at amortised cost.

However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies are measured in accordance with the specific accounting policies set out below.

##### i) Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination, (ii) held for trading or (iii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the Companying is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on changes in fair value recognised in profit or loss to the extent that they are not part of a designated hedging relationship.

However, for financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognised in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

The Company has not classified any financial liabilities in this category.

##### ii) Financial liabilities at amortised cost

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held-for-trading, or (iii) designated as at FVTPL, are measured subsequently at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Financial liabilities measured at amortised cost include trade and other payables.

###### Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.



## QUEST INSURANCE GROUP LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

#### 3. Significant accounting policies (continued)

When the Company exchanges with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Company accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 percent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification should be recognised in profit or loss as the modification gain or loss within other gains and losses.

##### l) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held on call with banks and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

##### m) Insurance business

###### - Principle of insurance business

An insurance contract is defined as a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

The insurance activities of the Company consist of all transactions arising from writing general and life insurance contracts.

The Company issues the following insurance contracts:

- Temporary life insurance contracts covering death disablement, disability and redundancy risks.
- Short term motor vehicle contracts covering comprehensive, third party and mechanical breakdown risks.
- Short term motor vehicle contracts provides financial protection from certain types of loss that are not covered by standard automobile insurance.

###### - Assets backing insurance contract liabilities

The Company has determined that all assets are assets backing policy liabilities and are managed and reported in accordance with a mandate approved by the Company's Board of Directors.

Financial assets are held to back the insurance liabilities on the basis that these assets are valued at fair value in the Statement of Financial Position.

Financial assets backing insurance liabilities consist of liquid and high-quality investments such as cash and cash equivalents and fixed interest securities held by the Company.

Financial assets backing insurance liabilities are invested to reflect the nature of the insurance liabilities.

The financial assets that provide backing for the insurance liabilities are closely monitored to ensure that investments are appropriate given the expected pattern of future cash flows arising from insurance liabilities.

Financial assets backing insurance liabilities are managed on a fair value basis and are reported to the Board on this basis, they have been measured at fair value through profit or loss wherever the applicable standard allows.

Fair value is determined as follows:

- cash assets are carried at face value at reporting date, which approximates fair value;
- fixed interest securities are valued at their fair value at the quoted bid price of the instrument at reporting date;
- investments in equity instruments are valued at their fair value at reporting date.

###### - Insurance contract liabilities

The liability for insurance contracts has been determined in accordance with Appendix C of NZ IFRS 4 Insurance Contracts, and the valuation of any general insurance claims is performed in accordance with PS 30 Valuations of General Insurance Claims issued by the New Zealand Society of Actuaries ('NZSA'), and the valuation of any life insurance policy liabilities is performed in accordance with PS 20 Determination of Life Insurance Policy Liabilities issued by the NZSA.

## QUEST INSURANCE GROUP LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

#### 3. Significant accounting policies (continued)

In terms of these standards, insurance contract liabilities are determined:

- For short term general insurance contracts - using the 'Margin or Services' principle. Under Margin of Services profits emerge evenly over the life of the contract as services are provided in a manner that reflects the pattern of risk accepted from the policyholder 'the service'.

General insurance contract liabilities include outstanding claims liability and the provision for unearned premium.

The outstanding claims liability is measured as the central estimate of expected future payments relating to claims incurred at the reporting date 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 in full, i.e. incurred but not reported ('IBNR'), and incurred but not enough reported ('IBNER'). Delays can be experienced in the notification and settlement of claims, therefore the ultimate cost of these cannot be known at reporting date and are estimated based on past experience. The expected future payments are discounted to present value using a risk-free rate.

- For shorter-term life and longer-term life contracts written on yearly renewable premiums - using the accumulation method. Under the accumulation method for risk policies the policy liability is the sum of the unearned premiums, outstanding claims plus an allowance for claims incurred but not yet reported. For investment policies, the policy liability is determined as the policy account balance including accrued interest to the balance date, plus investment fluctuation reserves subject to a minimum of the current surrender value.

The estimation of the outstanding claims liability involves a number of key assumptions and is the most critical accounting estimate. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing the liability, it is likely that the final outcome will be different from the original liability established. Changes in claims estimates impact profit and loss in the year in which the estimates are changed.

#### - Liability adequacy test

The liability adequacy test is an assessment of whether the carrying amount of the insurance liabilities net of deferred acquisition costs is adequate and is conducted at each reporting date. If current estimates of the expected insurance contracts, plus an additional risk margin to reflect the inherent uncertainty in the central estimate, exceed the unearned premium liability then the unearned premium liability is deemed to be deficient. The test is performed at the level of a portfolio of contracts that are subject to broadly similar risks and that are managed together as a single portfolio. Any deficiency arising from the test is recognised in profit or loss, with the corresponding impact on the Statement of Financial Position.

No deficiency was identified in the current or comparative reporting periods.

The Directors are confident that the assets held by the Company are sufficient to meet the estimated outstanding liabilities as at the reporting date.

#### n) Actuarial policies and methods

An actuarial review of Liability for Outstanding Claims at reporting date was undertaken by the Company's appointed Actuary, Mr Peter Davies B.Bus.Sc., FIA, FNZSA, AIAA, ASA ('the Actuary'). The liability for outstanding claims (note 15) has been determined in accordance with NZ IFRS 4 Insurance Contracts issued by the New Zealand External Reporting Board, and Professional Standard No. 4.1 of the New Zealand Society of Actuaries (Inc).

For the purposes of the Actuarial Report issued as at reporting date the Actuary is satisfied as to the nature, sufficiency and accuracy of the data used to determine the Liability for Outstanding Claims.

At the reporting date, there are no qualifications contained in the Actuarial Report and the Actuary regarded the data used in determining the Liability for Outstanding Claims as sufficiently accurate for the purpose of the valuation.

The Unearned Premium Liabilities, in the Actuary's view, meets the liability adequacy test prescribed by NZ IFRS 4.

The Company's solvency capital exceeds the minimum capital requirement of the Reserve Bank of New Zealand solvency standard by a satisfactory margin.

Policies have been valued on an accumulation basis, with the policy liability equalling the unearned premium net of acquisition costs, calculated on a straight line basis.

Where the unearned premium net of acquisition costs is less than the best estimate liability of a policy, the policy liability equals the best estimate liability. The best estimate liability in this instance is calculated using best estimate assumptions regarding mortality, disability frequency, disability continuance, redundancy frequency, redundancy continuance and future management expenses.

## QUEST INSURANCE GROUP LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

#### 3. Significant accounting policies (continued)

##### n) Actuarial policies and methods (continued)

The provision for notified claims on the statement of financial position is \$6,140 more than the actuary's assessment (2021: \$20,706 higher), and with the IBNR being comparative (2021: comparative), there is a net margin of approximately \$6,140 in the current provisions (2021: \$20,706). As this is a close match, the actuary recommends that the current provisions remain unchanged. This position can be reviewed in September 2022.

#### 4. Significant judgements and estimates

Notwithstanding the existence of relevant accounting standards, there are a number of critical accounting treatments which include complex or subjective judgements and estimates that may affect the reported amounts of assets and liabilities in the financial statements. Estimates and judgements are continually reviewed and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

An explanation of the judgements and estimates made by the Company in the process of applying its accounting policies, that have the most significant effect on the amounts recognised in the financial statements are set out below:

##### a) COVID-19

The current global pandemic of the novel coronavirus disease 2019 ('COVID-19') is still an evolving situation, along with the cessation of most COVID-related government support, rising interest rates, rapidly rising inflation, skills shortages, and challenging international conditions, global supply chain disruptions, and the flow on effects from the conflict between Ukraine and Russia and European geopolitical uncertainty, which is having a significant impact on energy prices, as well as financial markets across the globe. The ongoing COVID-19 pandemic, current adverse macro and micro economic conditions and adverse global events mentioned have lowered overall economic activity and confidence is resulting in significant volatility and instability in financial markets and economic uncertainty. Consequently, there has been an increase in the level of inherent uncertainty in the critical accounting estimates and judgements applied by Management in the preparation of these financial statements.

It is not possible to estimate the full impact of the COVID-19 pandemic's short and long-term effects. As at the date of the signing of these financial statements, all reasonably known and available information with respect to the COVID-19 pandemic, current adverse macro and micro economic conditions and adverse global events has been taken into consideration in the critical accounting estimates and judgements applied by Management, and all reasonably determinable adjustments have been made in preparing these financial statements. The Company continues to monitor developments and initiate plans to mitigate adverse impacts and maximise opportunities.

##### b) Liabilities arising from claims under insurance contracts

Liabilities arising from claims under insurance contracts are estimated based on the terms of the cover provided under the insurance contract.

The estimation of the ultimate liability arising from claims made under insurance contracts is based on a number of actuarial techniques that analyse experience, trends and other relevant factors. The actuarial methodologies used are noted below.

The liability for insurance contracts has been determined by the Company's consulting Actuary, Peter Davies, ('the Actuary'), B.Bus.Sc., FIA, a Fellow of the New Zealand Society of Actuaries in accordance with NZ IFRS 4 'Insurance Contracts' issued by the External Reporting Board, and Professional Standard no. 20 of the New Zealand Society of Actuaries – Valuation of Life Insurance Policy Liabilities and no. 30 Valuation of General Insurance Claims. The liability equals the initial single premium, net of acquisition costs, written down on a straight line basis over the life of the policy.

The actuary is satisfied as to the nature and extent of the data used for the valuation.

The life insurance contract liabilities are subject to a loss recognition test, which has been carried out on the following basis:

|             |                    |  |
|-------------|--------------------|--|
| <b>2022</b> | <b>Mortality:</b>  | Population mortality NZ2000 – 2002.                            |
|             | Deaths:            | 16% of net unearned premium                                    |
|             | Disability:        | 16% of net unearned premium                                    |
|             | Redundancy:        | 16% of net unearned premium                                    |
|             | Expenses:          | 40% of future claims   |
|             | Interest:          | Nil  |
|             | Cancellations:     | Consumer credit contracts                                      |
|             | Future Surrenders: | Nil  |
|             | Surrender value:   | Rule of 78 less \$35 processing fee. Generally no refunds paid |

# QUEST INSURANCE GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 4. Significant judgements and estimates (continued)

#### b) Liabilities arising from claims under insurance contracts (continued)

|                        |  |
|------------------------|--|
| <b>2021</b> Mortality: | Population mortality NZ2000 – 2002.                            |
| Deaths:                | 15% of net unearned premium                                    |
| Disability:            | 15% of net unearned premium                                    |
| Redundancy:            | 15% of net unearned premium                                    |
| Expenses:              | 40% of future claims   |
| Interest:              | Nil  |
| Cancellations:         | Consumer credit contracts                                      |
| Future Surrenders:     | Nil. Surrender values are lower than unearned premiums         |
| Surrender value        | Rule of 78 less \$35 processing fee. Generally no refunds paid |

Claim provisions for notified claims have been determined using case estimates provided by the claims manager.

The provision for claims incurred but not reported (IBNR) has been determined by applying the chain ladder method to past claim reporting patterns.

Insurance contract liabilities for motor vehicle business have been calculated as the unearned premium net of deferred acquisition costs.

The basis for the loss recognition test in respect of motor insurance business is as follows:

|  |                                    |
|--|------------------------------------|
| <b>2022</b> Premium liability before risk margin and expenses: | 70% of net unearned premium        |
| Risk margin:   | 10% of future claims plus expenses |
| Expense allowance:   | 7% of future claims                |
| Future Surrenders:   | Nil                                |
| Surrender value:   | Straight line basis                |
| Earned premium:  |                                    |
| Mechanical Breakdown   |                                    |
| Business written pre-April 2021                                | 60% Rule of 78, 40% straight line  |
| * Business written April 2021+                                 | Per observed risk pattern          |
| Comprehensive Motor, GAP                                       | Straight line amortisation         |

\* The effect of the change in the earned premium recognition pattern for Mechanical Breakdown resulted in the additional recognition of \$0.5m premium income in the current year.

|  |                                    |
|--|------------------------------------|
| <b>2021</b> Premium liability before risk margin and expenses: | 69% of net unearned premium        |
| Risk margin:   | 10% of future claims plus expenses |
| Expense allowance:   | 10% of future claims               |
| Future Surrenders:   | Nil                                |
| Surrender value:   | Straight line basis                |
| Earned premium:  |                                    |
| Mechanical Breakdown   | 60% Rule of 78, 40% straight line  |
| Comprehensive Motor, GAP                                       | Straight line amortisation         |

Claim provisions for notified motor claims have been based on case estimates provided by the claim manager.

The provision for IBNR in respect of motor claims has been determined by applying the chain ladder method to past claim reporting patterns.

Under the accumulation method, insurance contract liabilities do not vary with changes in the valuation assumptions, unless a variation in the assumption would lead to the recognition of future losses. The sensitivity of changes in the valuation assumptions on the best estimate liability calculations, carried out as part of the loss recognition tests, is indicated in the following table:

QUEST INSURANCE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

4. Significant judgements and estimates (continued)

c) Sensitivity Disclosure

Policy liabilities (unearned premium liability), net of deferred acquisition costs (in dollars):

| 31 March 2022            | Payment Protection & Lifestyle |           | Motor      |             | Combined   |             |
|--------------------------|--------------------------------|-----------|------------|-------------|------------|-------------|
| Policy liability         | 4,459,769                      |           | 15,272,729 |             | 19,732,498 |             |
|                          | Best                           | Variation | Best       | Variation   | Best       | Variation   |
| Base assumptions         | 998,988                        |           | 11,439,274 |             | 12,438,262 |             |
| Discount rate +1%        | 998,988                        | -         | 11,439,274 | -           | 12,438,262 | -           |
| Discount rate -1%        | 998,988                        | -         | 11,439,274 | -           | 12,438,262 | -           |
| Claims frequencies x 1.1 | 1,070,344                      | (71,356)  | 12,508,365 | (1,069,091) | 13,578,709 | (1,140,447) |
| Claims frequencies x 0.9 | 927,632                        | 71,356    | 10,370,183 | 1,069,091   | 11,297,815 | 1,140,447   |
| Admin costs x 1.1        | 1,027,531                      | (28,543)  | 11,514,110 | (74,836)    | 12,541,641 | (103,379)   |
| Admin costs x 0.9        | 970,446                        | 28,542    | 11,364,437 | 74,837      | 12,334,883 | 103,379     |
| Cancellation rate x 1.1  | 998,988                        | -         | 11,439,274 | -           | 12,438,262 | -           |
| Cancellation rate x 0.9  | 998,988                        | -         | 11,439,274 | -           | 12,438,262 | -           |

\* Net of deferred acquisition costs

| 31 March 2021            | Payment Protection & Lifestyle |           | Motor         |           | Combined      |           |
|--------------------------|--------------------------------|-----------|---------------|-----------|---------------|-----------|
| Policy liability         | 1,987,362                      |           | 11,793,967    |           | 13,781,329    |           |
|                          | Best estimate                  | Variation | Best estimate | Variation | Best estimate | Variation |
| Base assumptions         | 417,346                        |           | 8,951,621     |           | 9,368,967     |           |
| Discount rate +1%        | 417,346                        | -         | 8,951,621     | -         | 9,368,967     | -         |
| Discount rate -1%        | 417,346                        | -         | 8,951,621     | -         | 9,368,967     | -         |
| Claims frequencies x 1.1 | 447,156                        | (29,810)  | 9,765,404     | (813,783) | 10,212,560    | (843,593) |
| Claims frequencies x 0.9 | 387,536                        | 29,810    | 8,137,837     | 813,784   | 8,525,373     | 843,594   |
| Admin costs x 1.1        | 429,270                        | (11,924)  | 9,032,999     | (81,378)  | 9,462,269     | (93,302)  |
| Admin costs x 0.9        | 405,422                        | 11,924    | 8,870,242     | 81,379    | 9,275,664     | 93,303    |
| Cancellation rate x 1.1  | 417,346                        | -         | 8,951,621     | -         | 9,368,967     | -         |
| Cancellation rate x 0.9  | 417,346                        | -         | 8,951,621     | -         | 9,368,967     | -         |

\* Net of deferred acquisition costs

The best estimate is calculated on the basis of the "best estimate" of the net future cash-flows under insurance policies and exclude future profit. These profits are released to the statement of financial performance income statement over the life of the policies and are included in the carrying amount of liabilities disclosed on the statement of financial position. The "best estimate" assumptions have been calculated using the assumptions set out above.

5. Solvency

The solvency position of the Company as at 31 March 2022 has been calculated by the Company's actuary, under the Reserve Bank of New Zealand solvency standard (Section 55 of the Insurance (Prudential Supervision) Act 2010). The actual solvency capital of the Company under this standard as at 31 March 2022, net of related party investments and unrecoverable deferred acquisition costs amounted to \$9.02m (2021:\$6.72m). Quest Insurance Group Limited is required to hold minimum solvency capital of \$5.3 million and have a solvency margin of at least \$1.

| 2022                         | Non Life<br>\$'000 | Life<br>\$'000 | Total<br>\$'000 |
|------------------------------|--------------------|----------------|-----------------|
| Actual Solvency Capital      | 6,378              | 2,642          | 9,020           |
| Minimum solvency requirement | 5,254              | 0              | 5,254           |
| Solvency Margin              | 1,124              | 2,642          | 3,766           |
| Solvency Cover Ratio         | 121%               | n/a            | 172%            |

| 2021                         | Non Life<br>\$'000 | Life<br>\$'000 | Total<br>\$'000 |
|------------------------------|--------------------|----------------|-----------------|
| Actual Solvency Capital      | 4,612              | 2,107          | 6,719           |
| Minimum solvency requirement | 3,720              | 15             | 5,000           |
| Solvency Margin              | 892                | 2,092          | 1,719           |
| Solvency Cover Ratio         | 124%               | 14359%         | 134%            |

The liabilities recorded on the Statement of Financial Position are \$33.1m (2021: 23.4m) and total assets equal \$50.7m (2021: \$31.7m).

QUEST INSURANCE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

6. Disclosure items

|   | 2022<br>\$'000 | 2021<br>\$'000 |
|---|----------------|----------------|
| <i>Expenses</i>   |                |                |
| Auditor's remuneration  |                |                |
| - Audit of the financial statements                                 | 40             | 33             |
| - Other assurance services - Audit of the Company's Solvency Return | 7              | 4              |
| - Remuneration for tax compliance services                          | 6              | 6              |
| <i>Other revenue</i>  |                |                |
| Interest received   |                |                |
| - Bank  | 149            | 146            |
| - Related party (see note 10)                                       | 79             | 29             |
| Dividends   | 112            | -              |
| FVTOCI reserve reclassified through profit or loss (21)             | -              | 932            |

7. Tax reconciliation

|   | 2022<br>\$'000 | 2021<br>\$'000 |
|---|----------------|----------------|
| Net profit before taxation  | 4,721          | 3,207          |
| Prima facie taxation @ 28%  | 1,322          | 898            |
| Non-deductable expense  | 1              | 1              |
| Non-taxable income  | (32)           | (105)          |
| Deferred tax liability on deferred insurance contract acquisition costs | -              | (315)          |
| Deferred tax asset on tax losses made available to the company          | -              | 591            |
| Movement in temporary differences                                       | -              | 65             |
| Offset against group tax losses   | (249)          | (544)          |
| Movement in deferred tax recognised                                     | 1,042          | 591            |
| Deferred tax assets   |                |                |
| Tax losses made available to the company                                | -              | 808            |
| Temporary differences   | 4              | 65             |
| Deferred tax liabilities  |                |                |
| Deferred insurance contract acquisition costs                           | (1,638)        | (1,464)        |
|   | (1,634)        | (591)          |

8. Net claims incurred

|  | Current<br>Year<br>\$'000 | Prior<br>Years<br>\$'000 | Total<br>\$'000 |
|--|---------------------------|--------------------------|-----------------|
| <b>2022</b>                                |                           |                          |                 |
| Gross claims incurred and related expenses | 5,855                     | 7,615                    | 13,470          |
| Reinsurance and other recoveries           | ( 905)                    | ( 1,178)                 | ( 2,083)        |
|  | 4,950                     | 6,437                    | 11,387          |
| <b>2021</b>                                |                           |                          |                 |
| Gross claims incurred and related expenses | 3,273                     | 4,317                    | 7,589           |
| Reinsurance and other recoveries           | (431)                     | (568)                    | (999)           |
|  | 2,842                     | 3,749                    | 6,591           |

9. Commission expense

|                             | 2022<br>\$'000 | 2021<br>\$'000 |
|-----------------------------|----------------|----------------|
| Commission expense          | 6,360          | 5,426          |
| Less: commission on rebates | (6)            | (14)           |
|                             | 6,354          | 5,412          |

# QUEST INSURANCE GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 10. Transactions with related parties

The following related party transactions are with Geneva Finance Limited which is Quest Insurance Group Limited's Parent company and Prime Asset Trust Limited which is a fellow subsidiary company of Geneva Finance Limited.

| <u>Revenue</u>  | <b>2022</b>   | <b>2021</b>   |
|---|---------------|---------------|
| <i>Interest</i>   | <b>\$'000</b> | <b>\$'000</b> |
| Geneva Finance Limited  | 79            | 29            |
|   | <u>79</u>     | <u>29</u>     |
| <u>Expenses</u>   |               |               |
| <i>Commission, marketing subsidy and management fee</i>         |               |               |
| Geneva Finance Limited  | 97            | 198           |
| Geneva Finance Limited  | (7)           | (19)          |
|   | <u>90</u>     | <u>179</u>    |
| <u>Assets</u>   |               |               |
| <i>Receivables</i>  |               |               |
| Geneva Finance Limited (9.5%, secured debenture stock, on call) | 500           | 500           |
| Geneva Finance Limited (interest free, unsecured, on call)      | 7,979         | 781           |
| <i>Current account</i>  |               |               |
| Geneva Finance Limited (non interest bearing current account)   | 75            | 184           |

### 11. Investments

|  | <b>2022</b>   | <b>2021</b>   |
|--|---------------|---------------|
|  | <b>\$'000</b> | <b>\$'000</b> |
| Financial assets at FVTOCI                   |               |               |
| Unlisted medical property investment company | 33            | 203           |

The 10.85% stake in this company is held by Quest Insurance Group Limited. The investment in the unlisted medical property company is a held for sale financial asset and is measured at fair value. This investment is denominated in NZ dollars. This equity security is not quoted in an active market. The fair value of this equity security is based on The Company's share of the entity's net assets at reporting date as reported in the entity's financial statements (valuation technique). The entity is a property investment company that is solely in the business of holding and leasing investment property under operating leases and is involved in the development of investment property.

The majority of the entity's assets and liabilities are reported in their financial statements at either their fair value or their carrying value which approximates their fair value (the significant unobservable inputs). The inter-relationship between key unobservable inputs and fair value measurement is that an increase / (decrease) in the net assets would decrease / (increase) the fair value of the investment.

During the prior current year, an underlying asset in the AMPL investment, being an investment property was sold, resulting in Quest receiving circa \$0.2m distributions from this investment in the current year. The carrying value noted above of \$33k is the fair value of Quest's share of the AMPL net assets as at 31 March 2022.

### 12. Plant and equipment

|                                  | <b>2022</b>   | <b>2021</b>   |
|----------------------------------|---------------|---------------|
|                                  | <b>\$'000</b> | <b>\$'000</b> |
| <b>Computer equipment</b>        |               |               |
| At cost                          | 10            | 8             |
| Accumulated depreciation         | (5)           | (4)           |
|                                  | <u>5</u>      | <u>4</u>      |
| <b>Motor vehicles</b>            |               |               |
| At cost                          | 101           | 101           |
| Accumulated depreciation         | (46)          | (27)          |
|                                  | <u>55</u>     | <u>74</u>     |
| <b>Total plant and equipment</b> | <u>60</u>     | <u>78</u>     |

QUEST INSURANCE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

13. Intangible assets

|                                | 2022<br>\$'000 | 2021<br>\$'000 |
|--------------------------------|----------------|----------------|
| <b>Computer software</b>       |                |                |
| At cost                        | 247            | 242            |
| Accumulated amortisation       | (205)          | (155)          |
|                                | <u>42</u>      | <u>87</u>      |
| <b>Work in Progress</b>        |                |                |
| At cost                        | -              | -              |
| Accumulated amortisation       | -              | -              |
|                                | <u>-</u>       | <u>-</u>       |
| <b>Total intangible assets</b> | <u>42</u>      | <u>87</u>      |

14. Receivables

|                     | 2022<br>\$'000 | 2021<br>\$'000 |
|---------------------|----------------|----------------|
| Premium Receivables | 11,043         | 8,533          |
| Other receivables   | 170            | 162            |
|                     | <u>11,213</u>  | <u>8,695</u>   |

15. Outstanding claims liabilities

|   | 2022<br>\$'000 | 2021<br>\$'000 |
|---|----------------|----------------|
| Gross claims undiscounted   | 2,767          | 1,352          |
| Third party recoverable   | (51)           | (38)           |
| IBNR provision  | 246            | 344            |
| Closing balance   | <u>2,962</u>   | <u>1,658</u>   |
| <i>Reconciliation of movement in outstanding claims liability</i> |                |                |
| Gross claims undiscounted   |                |                |
| Opening balance   | 1,352          | 717            |
| Movement in ultimate incurred costs                               | (9,972)        | (5,955)        |
| Payments  | 11,387         | 6,591          |
| Closing balance   | <u>2,767</u>   | <u>1,352</u>   |
| Third party recoverable   |                |                |
| Opening balance   | (38)           | (26)           |
| Movement  | (13)           | (12)           |
| Closing balance   | <u>(51)</u>    | <u>(38)</u>    |
| IBNR provision  |                |                |
| Opening balance   | 344            | 271            |
| Movement  | (98)           | 73             |
| Closing balance   | <u>246</u>     | <u>344</u>     |

As noted in note 4: Significant judgements and estimates, no discounting to net present value has been applied to the expected future payments for outstanding claims. The average weighted expected term of settlement is 0.15 years (2021: 0.14 years).

16. Policyholder liabilities

|  | 2022<br>\$'000 | 2021<br>\$'000 |
|--|----------------|----------------|
| Outstanding Policyholder Liabilities   | 25,580         | 19,008         |
| Less: Outstanding Policy Holder Assets | (5,847)        | (5,226)        |
| Closing balance                        | <u>19,733</u>  | <u>13,782</u>  |

Unearned insurance contract premium liabilities

|  | 2022<br>\$'000 | 2021<br>\$'000 |
|--|----------------|----------------|
| Opening balance  | 19,008         | 12,706         |
| Deferral of premium on contracts written during the year | 30,297         | 21,453         |
| Earnings of premiums deferred in prior year              | (23,725)       | (15,151)       |
| Closing balance  | <u>25,580</u>  | <u>19,008</u>  |



# QUEST INSURANCE GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 16. Policyholder liabilities (continued)

#### Deferred insurance contract acquisition costs

|   | 2022    | 2021    |
|---|---------|---------|
|   | \$'000  | \$'000  |
| Opening balance   | 5,226   | 4,102   |
| Deferral of insurance contract acquisition costs incurred during the year   | 6,374   | 5,582   |
| Expense of insurance contract acquisition costs incurred during prior years | (5,753) | (4,458) |
| Closing balance   | 5,847   | 5,226   |

### 17. Share capital and reserves

|   | 2022  | 2021  |
|---|-------|-------|
|   | 000   | 000   |
| Number of ordinary shares                 |       |       |
| Opening balance                           | 2,000 | 2,000 |
| Shares issued during the year             | 6,000 | -     |
| Total authorised and issued share capital | 8,000 | 2,000 |

|   | 2022   | 2021   |
|---|--------|--------|
|   | \$'000 | \$'000 |
| Dollar value of ordinary shares           |        |        |
| Opening balance                           | 2,000  | 2,000  |
| Shares issued during the year             | 6,000  | -      |
| Total authorised and issued share capital | 8,000  | 2,000  |

All issued shares are authorised and fully paid. The holders of ordinary shares rank equally amongst themselves, are entitled to receive dividends from time to time and are entitled to one vote per share and rank equally with regard to the Company's residual assets.

No dividends was paid to Geneva Finance Limited in March 2022 (2020: \$6.0m). No dividend has been declared subsequent to 31 March 2022.

#### Financial assets at FVTOCI reserve

The financial assets at FVTOCI reserve relates to revaluation of the equity investment, refer to Note 11. The equity investment was reacquired from Geneva Capital Limited (formerly Pacific Rise Limited) during the year ending 31 March 2017 for a cost of \$2.7m. The financial assets at FVTOCI reserve represents the difference between the initial cost, distributions received during the year and the fair value at reporting date of \$0.03m (2021: 0.2m).

|                 | 2022  | 2021  |
|-----------------|-------|-------|
|                 | 000's | 000's |
| Opening balance | 51    | 965   |
| Movement        | (42)  | (914) |
| Closing balance | 9     | 51    |

### 18. Capital Management

The Company's capital includes share capital and retained earnings. The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of the capital on shareholders return is also recognised and the Company recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The allocation of capital between its specific business operations and activities is, to a large extent, driven by optimisation of the return on the capital allocated. The process of allocating capital to specific operations and activities is undertaken independently of those responsibilities for the operation. The Company's policies in respect of capital in respect of capital management and allocation are reviewed regularly by the Board of Directors.

It is the policy of the shareholders to ensure that equity retained provides an adequate level of solvency when measured against retained premium.

### 19. Cash and cash equivalents

|      | 2022   | 2021   |
|------|--------|--------|
|      | \$'000 | \$'000 |
| Bank | 24,858 | 15,827 |

# QUEST INSURANCE GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 20. Accounts payable and accruals

|                            | 2022<br>\$'000 | 2021<br>\$'000 |
|----------------------------|----------------|----------------|
| Other payable and accruals | 2,614          | 2,179          |

### 21. Financial Instruments

#### a) Credit Risk

Credit risk is defined as the risk that a loss will be incurred if a counter party to a transaction does not fulfil its financial obligations.

Credit risk is the potential loss arising from the non-performance of a counterparty to whom funds have been advanced, including Group companies. Financial instruments, which potentially subject the Company to credit risk principally, consist of bank balances, accounts receivable and related party balances.

The board, audit and risk committees have the responsibility to oversee all aspects of credit risk assessment and management, and delegates authority to perform advances within approved policies and guidelines.

To control the level of credit risk taken each party credit risk is individually evaluated on a case by case basis.

The Company's credit risk to cash and cash equivalents represents the potential cost to the Company if counterparties fail to fulfil their obligation. To control the level of credit risk taken, the Company only banks with registered banks.

#### b) Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty to raise funds on short notice to meet obligations from its financial liabilities.

The Company maintains sufficient funds to meet its commitments based on historical and forecasted cash flow requirements. Management actively manages the claim exposure to ensure the net exposure to liquidity risk is minimised. The exposure is reviewed on an ongoing basis from daily procedures to monthly reporting as part of the Company's liquidity management process. The management process includes:

- day to day funding, managed by monitoring future cash flows to ensure that requirements can be met.

Monitoring and reporting the form of cash flow measurement and projections, these include:

- day to day funding requirements,
- on a weekly basis, projecting the requirements for each of the next four weeks,
- on a monthly basis, projecting the requirements for each of the next 12 months,

The monthly projections are reported to the board.

The below table analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

| 2022<br>\$'000               | 0-6<br>months         | 7-12<br>months         | 13-24<br>months         | 25-60<br>months         | Over 60        | Total        |
|------------------------------|-----------------------|------------------------|-------------------------|-------------------------|----------------|--------------|
| <b>Financial liabilities</b> |                       |                        |                         |                         |                |              |
| Other payables               | 2,614                 | -                      | -                       | -                       | -              | 2,614        |
|                              | 2,614                 | -                      | -                       | -                       | -              | 2,614        |
| <b>2021<br/>\$'000</b>       | <b>0-6<br/>months</b> | <b>7-12<br/>months</b> | <b>13-24<br/>months</b> | <b>25-60<br/>months</b> | <b>Over 60</b> | <b>Total</b> |
| <b>Financial liabilities</b> |                       |                        |                         |                         |                |              |
| Other payables               | 2,179                 | -                      | -                       | -                       | -              | 2,179        |
|                              | 2,179                 | -                      | -                       | -                       | -              | 2,179        |

#### c) Market Risk

Market risk is the risk of an event in the financial markets that results in a fluctuation in earnings or a fluctuation in value. Market risk arises from the mismatch between assets and liabilities. The company is exposed to diverse financial instruments including interest rates and equity.

# QUEST INSURANCE GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 21. Financial Instruments (continued)

#### Interest rate sensitivity analysis

The following tables summarise the sensitivity of the Company's financial assets to interest rate risk. The analysis shows the annualised impact on the profit before tax and equity of a reasonably possible movement of +/- 1% movement in interest rates.

#### 31 March 2022

|                           | Carrying<br>Amount<br>\$'000 | Interest rate risk        |                           |                           |                           |
|---------------------------|------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
|                           |                              | -0.5%<br>Profit<br>\$'000 | -0.5%<br>Equity<br>\$'000 | +0.5%<br>Profit<br>\$'000 | +0.5%<br>Equity<br>\$'000 |
| Financial assets          |                              |                           |                           |                           |                           |
| Cash and cash equivalents | 24,858                       | (124)                     | (124)                     | 124                       | 124                       |

#### 31 March 2021

|                           | Carrying<br>Amount<br>\$'000 | Interest rate risk        |                           |                           |                           |
|---------------------------|------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
|                           |                              | -0.5%<br>Profit<br>\$'000 | -0.5%<br>Equity<br>\$'000 | +0.5%<br>Profit<br>\$'000 | +0.5%<br>Equity<br>\$'000 |
| Financial assets          |                              |                           |                           |                           |                           |
| Cash and cash equivalents | 15,827                       | (79)                      | (79)                      | 79                        | 79                        |

#### d) Fair value financial assets and liabilities

##### i) Fair values

The carrying value of all financial assets and liabilities not measured at fair value approximates their fair values as they are either short term in nature, rate insensitive and subject to impairment.

##### ii) Fair value hierarchy

NZ IFRS 13 specifies a hierarchy of valuation measurements based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Company's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, New Zealand Stock Exchange) and exchanges traded derivatives like futures (for example, Nasdaq, S&P 500).
- Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of over the counter derivative contracts, traded loans and issued structured debt. The sources of input parameters for yield curves or counterparty credit risk are Bloomberg or Reuters.
- Level 3 - Inputs for assets and liabilities that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Company considers relevant and observable market prices in its valuations where possible.

#### 31 March 2022

|                            | <u>Note</u> | Level 1<br>\$'000 | Level 2<br>\$'000 | Level 3<br>\$'000 | Total<br>\$'000 |
|----------------------------|-------------|-------------------|-------------------|-------------------|-----------------|
| Financial assets at FVTOCI | (11)        | -                 | -                 | 33                | 33              |
| Total Assets               |             | -                 | -                 | 33                | 33              |

#### 31 March 2021

|                            | <u>Note</u> | Level 1<br>\$'000 | Level 2<br>\$'000 | Level 3<br>\$'000 | Total<br>\$'000 |
|----------------------------|-------------|-------------------|-------------------|-------------------|-----------------|
| Financial assets at FVTOCI | (11)        | -                 | -                 | 203               | 203             |
| Total Assets               |             | -                 | -                 | 203               | 203             |

Refer to note 11 for further information regarding the fair value measurement of the equity securities available for sale.

# QUEST INSURANCE GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 21. Financial Instruments (continued)

#### iii) Reconciliation of level 3 items

#### 31 March 2022

|  |      | Financial<br>Assets at<br>FVTOCI | Total  |
|--|------|----------------------------------|--------|
|  |      | \$'000                           | \$'000 |
| Financial assets at FVTOCI                           |      |                                  |        |
| At 1 April 2021                                      |      | 203                              | 203    |
| Decrease in fair value in financial assets at FVTOCI | (17) | (42)                             | (42)   |
| Investment proceeds                                  |      | (170)                            | (170)  |
| FVTOCI reserve reclassified through profit or loss   | (6)  | 42                               | 42     |
| At 31 March 2022                                     |      | 33                               | 33     |

Total FVTOCI reserve reclassified through profit or loss for the period included in other revenue 42

#### 31 March 2021

|  |  | Financial<br>Assets at<br>FVTOCI | Total   |
|--|--|----------------------------------|---------|
|  |  | \$'000                           | \$'000  |
| At 1 April 2020                                      |  | 3,684                            | 3,684   |
| Decrease in fair value in financial assets at FVTOCI |  | (914)                            | (914)   |
| Investment proceeds                                  |  | (3,499)                          | (3,499) |
| FVTOCI reserve reclassified through profit or loss   |  | 932                              | 932     |
| At 31 March 2021                                     |  | 203                              | 203     |

Total FVTOCI reserve reclassified through profit or loss for the period included in other revenue 932

#### e) Insurance Risk

Insurance risk is the risk of fluctuations in the timing, frequency and severity of insured events and claims settlements, relative to the expectations at the time of underwriting. The risks inherent in any single insurance contract are the possibility of the insured event occurring and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, these risks are random and unpredictable. In relation to the pricing of individual insurance contracts and the determination of the level of outstanding claims provision in relation to a portfolio of insurance contracts, the principal risk is that the ultimate claims payment will exceed the carrying amount of the provision established.

The Company is exposed to this risk because the price for a contract must be set before the losses relating to the product are known. Hence the insurance business involves inherent uncertainty. The risk attachment periods under these products are short to mid term and usually between 12 and 36 months.

A central part of the Company's overall risk management strategy is the effective management of the risks that affect the amount, timing and certainty of cash flows arising from insurance contracts.

The risk exposure is mitigated by diversification across a large portfolio of insurance contracts, industry sectors and geographical areas. The variability of risks is also improved by strong underwriting discipline and the implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

The Company also uses the services of the appointed Actuary and insurance advisers and brokers to provide advice and assistance on managing insurance risk. In addition, the Company maintains a detailed analysis of historical claims and a detailed knowledge of the current developments in the specific market that the Company operates in.

Initial claims determination is managed by the Company's claims department with the assistance of the Company's loss adjuster and claims manager. It is the Company's policy to respond to and settle all genuine claims in a timely manner and to pay claims fairly, based on policyholders' full entitlements. Claims provisions are established using valuation models and include a risk margin for uncertainty, refer to note 4.

To further reduce the risk exposure of the Company there are strict claim review policies in place to assess all new and ongoing claims and processes to review claims handling procedures regularly. Inflation risk is mitigated by taking expected inflation into account when estimating insurance contract liabilities.

The Company assumes insurance risk through its general insurance activities. The risk is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. The risk is random and unpredictable. The key risk arises in respect of claim costs varying from what was assumed in the setting of premium rates.

## QUEST INSURANCE GROUP LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

#### 21. Financial Instruments (continued)

##### e) Insurance Risk (continued)

The primary objective in managing insurance risk is to enhance the financial performance of the Company, to reduce the magnitude and volatility of claims and to ensure funds are available to pay claims and maintain the solvency of the business if there is a negative deviation from historical performance.

Policies, processes and methods for managing insurance risk are as follows:

- Quest assesses the necessity of reinsurance based on the recommendations of an Independent Actuary;
- pricing of policy premiums to ensure alignment with the underlying risk; and
- regular monitoring of the financial results to ensure the adequacy of policies.

The financial results of the Company are primarily affected by the level of claims incurred relative to that implicit in the premiums. The assumptions used in the valuation of the outstanding claims liability and the liability adequacy test directly affect the level of estimated claims incurred.

The scope of insurance risk is managed by the terms and conditions of the policies. The level of benefits specified is the key determinant of the amount of future claims although the exact level of claims is uncertain.

#### 22. Reconciliation of net surplus after taxation to cash flows from operating activities

|  | 2022         | 2021         |
|--|--------------|--------------|
|  | \$'000       | \$'000       |
| Net profit after taxation                              | 3,679        | 2,616        |
| Add / (Less) movements in working capital              |              |              |
| Deferred insurance contract acquisition costs          | (621)        | (1,124)      |
| Increase unearned premium liability                    | 6,572        | 6,302        |
| Increase outstanding claims liability                  | 1,305        | 696          |
| Increase accounts payable                              | 434          | 700          |
| Decrease prepayments and sundry debtors                | (2,408)      | (3,541)      |
| Increase tax liability                                 | 1,042        | 591          |
| FVTOCI reserve reclassified through profit or loss (6) | (42)         | (932)        |
| <b>Net cash inflow from operating activities</b>       | <b>9,961</b> | <b>5,308</b> |

#### 23. Reinsurance program

Reinsurance is purchased to make the Company's results less volatile by reducing the effect of large individual claims. The Company's reinsurance was renewed for the period 1 October 2021 to 30 September 2022.

#### 24. Disaggregated information

There is no investment-linked business.

#### 25. Segmental information

The Company operates in the insurance industry offering temporary insurance contracts covering death, disablement and redundancy risk and short term motor vehicle insurance contracts covering comprehensive, third party and mechanical breakdown, predominantly within New Zealand.

#### 26. Commitments and Contingent liabilities

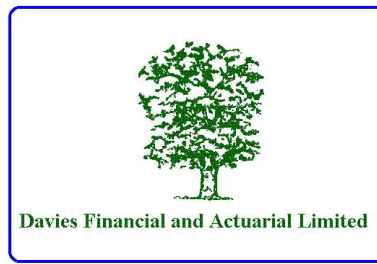
There are no material commitments and contingent liabilities at balance date (2021: Nil).

#### 27. Financial Strength Rating

Credit rating agency AM Best confirmed Quest Insurance Group Limited's on 21 May 2021 with a Financial Strength rating of B and an Issuer Credit rating of bb+. Both ratings came with a stable outlook.

#### 28. Subsequent Events

The Janssen Insurance Limited distribution agreement with Quest Insurance Group Limited was extended by a further five years from 1 April 2022.



27<sup>th</sup> July 2022

To: The Directors  
Quest Insurance Group Limited

From: Peter Davies  
Appointed Actuary

**Re: Quest Insurance Group Limited (“Quest”): Report as at 31<sup>st</sup> March 2022 under Sections 77 and 78 of the Insurance (Prudential Supervision) Act 2010**

You have asked me to prepare this report in terms of the above sections of the Act, and I would like to comment further as follows:

1. I have reviewed the actuarial information included in the audited accounts for Quest as at 31<sup>st</sup> March 2022. “Actuarial information” includes the following:
  - claim provisions and unexpired risk / unearned premium provisions;
  - solvency calculations in terms of the RBNZ Solvency Standard;
  - balance sheet and other information allowed for in the calculation of the company’s solvency position; and
  - disclosures regarding the methodology and assumptions used for calculating claim provisions, unexpired risk provisions, and other disclosures.
2. No limitations have been placed on my work.
3. I am independent with respect to Quest as defined under professional standard ISA (NZ) 620 of the External Reporting Board.
4. I have been provided with all information that I have requested in order to carry out this review.

5. In my view the actuarial information contained in the financial statements has been appropriately included, and the actuarial information used in the preparation of the financial statements has been appropriately used.
6. As at 31<sup>st</sup> March 2022, Quest's solvency position under the RBNZ Solvency Standards for Life and Non-Life Insurance Business (2014) respectively was as follows:

|  | 31st March 2022 |           |           | 31st March 2021 |           |           |
|--|-----------------|-----------|-----------|-----------------|-----------|-----------|
|  | Life            | Non-life  | Total     | Life            | Non-life  | Total     |
| Actual solvency capital                        | 2,641,727       | 6,378,224 | 9,019,951 | 2,107,290       | 4,612,438 | 6,719,729 |
| Minimum solvency requirement (not set to zero) | (513,347)       | 5,253,802 |           | 14,676          | 3,715,661 |           |
| Minimum solvency requirement                   | 0               | 5,253,802 | 5,253,802 | 14,676          | 3,715,661 | 5,000,000 |
| Solvency margin                                | 2,641,727       | 1,124,421 | 3,766,149 | 2,092,614       | 896,777   | 1,719,729 |
| Solvency coverage ratio:                       | n/a             | 121%      | 172%      | 14359%          | 124%      | 134%      |

Assuming that the Company's business plans are realised and claims occur as projected, the Company is projected to exceed the minimum RBNZ requirement at all times over the next four years.

I would be very happy to answer any queries concerning this report.

Yours sincerely



Peter Davies B.Bus.Sc., FIA, FNZSA  
Appointed Actuary