TOKIO MARINE & NICHIDO FIRE INSURANCE CO., LTD

NEW ZEALAND BRANCH

ANNUAL REPORT
FOR THE YEAR ENDED 31 MARCH 2022

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TOKIO MARINE & NICHIDO FIRE INSURANCE CO., LTD

NEW ZEALAND BRANCH

DIRECTORY

Head Office:

2 - 1 Marunouchi
1 - Chome, Chiyoda-ku
Tokyo 100-8050, Japan

Principal Office for New Zealand:

PwC Towers
Level 26, 188 Quay Street
Auckland 1010, New Zealand

Auditors:

PricewaterhouseCoopers
One International Towers Sydney
Barangaroo, NSW, 2000, Australia

DIRECTORS:
Current Directors of the Company:

	Name	Date Appointed
ENDO	Yoshinari	1-Apr-20
HANDA	Tadashi	1-Apr-20
HARADA	Susumu	1-Apr-19
HARASHIMA	Akira	20-Jun-19
HIROSE	Shinichi	1-Apr-19
ITO	Naoya	1-Apr-20
KAWAGUCHI	Shingo	1-Apr-18
KITAZAWA	Toshifumi	19-Jun-14
KITAZAWA	Kenichi	1-Apr-20
KOMIYA	Satoru	1-Apr-18
KUNIHIRO	Tadashi	21-Jun-07
KUROYANAGI	Nobuo	23-Jun-11
OKADA	Kenji	20-Jun-19
ONO	Hirohito	1-Apr-20
WADA	Kiyoshi	1-Apr-22
YOSHIDA	Masako	1-Apr-22
YOSHINORI	Ishii	1-Apr-22

TOKIO MARINE & NICHIDO FIRE INSURANCE CO., LTD

NEW ZEALAND BRANCH

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2022

	NOTE	2022	2021
		$	$
Gross premium written	4a	1,964,661	5,380,900
Outward reinsurance premium	4a	(1,710,134)	(3,513,070)
Change in net unearned premium		505,123	(37,783)
Net premium earned		759,650	1,830,047
Net claims incurred	4b	(527,642)	546,463
Gross commission		(138,165)	(165,434)
Reinsurance commission		1,230,604	840,669
Underwriting and other expenses	4c	(708,422)	(229,107)
Net underwriting result		616,025	2,822,638
Investment income		21,841	31,766
Profit /(loss)before tax		637,866	2,854,404
Income tax expense	4d	(178,603)	(799,233)
Profit/(Loss) after tax		459,263	2,055,171
Other comprehensive income for the year		-	-
Total comprehensive income for the year after tax		459,263	2,055,171

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.
For and on behalf of the Board who authorize the issue of these Financial Statements on 28 July 2022.

DIRECTOR
Akira Harashima
Tokio

DIRECTOR
Kenji Okanda
Tokio

TOKIO MARINE & NICHIDO FIRE INSURANCE CO., LTD

NEW ZEALAND BRANCH

STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2022

	NOTE	2022	2021
Current assets		$	$
Cash and cash equivalents	5a	3,849,115	5,000,818
Premium receivable		475,484	4,229,566
Deferred reinsurance expense	5b	483,999	2,684,299
Deferred acquisition costs	5c	83,869	95,723
Other debtors		80,617	52,044
Current tax asset	5d	128,122	-
Total current assets		5,101,206	12,062,450
Non-current assets			
Deferred tax asset	5e	91,587	49,267
Total assets		5,192,793	12,111,717
Current liabilities			
Trade and other payables	5f	186,096	604,384
Payables to related parties	5g	185,155	1,988,158
Unearned premium	5h	685,318	3,390,741
Deferred reinsurance commission	5i	130,223	893,011
Outstanding claims	5k	1,301,355	1,127,149
Current tax liability	5d	-	498,636
Total current liabilities		2,488,147	8,502,079
Non-current liabilities			
Outstanding claims	5k	247,259	281,514
Total liabilities		2,735,406	8,783,593
Head Office account			
Total Head Office account		2,457,387	3,328,124
Total liabilities and Head Office account		5,192,793	12,111,717

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

TOKIO MARINE & NICHIDO FIRE INSURANCE CO., LTD

NEW ZEALAND BRANCH

STATEMENT OF CHANGES IN HEAD OFFICE ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2022

	2022 $	2021 $
Head Office Account at the start of the period	3,328,124	1,272,953
Profit /(loss)after tax	459,263	2,055,171
Other comprehensive income	-	-
Total comprehensive income	3,787,387	3,328,124
Funds remitted to HO Japan	(1,330,000)	-
Head Office account at the end of the period	2,457,387	3,328,124

The above Statement of Changes in Head Office account should be read in conjunction with the accompanying notes.

Tokio Marine and Nichido Fire Insurance Co., Limited - New Zealand Branch (TMNFNZ or the Branch) holds an exemption to the Reserve Bank of New Zealand *Solvency Standard for Non-Life Insurance Business (2014*), requiring solvency capital to be held in Tokio Marine and Nichido Fire Insurance Co., Limited (TMNFJ) and not in the local NZ Branch.

The Branch repatriated $1,330,000 funds to Head Office Japan in the current year.

TOKIO MARINE & NICHIDO FIRE INSURANCE CO., LTD

NEW ZEALAND BRANCH

STATEMENT OF CASH FLOWS

	NOTE	2022 $	2021 $
Cash flows from operating activities			
Premium received (inclusive of FSL and GST)		6,706,310	5,209,542
Outward reinsurance premium paid		(3,026,399)	(1,570,559)
Claims paid		(445,040)	(1,463,396)
Interest received		10,646	40,750
FSL paid		(928,646)	(826,147)
Administration expenses paid		(34,915)	(34,824)
GST paid		(826,255)	(502,615)
Management fees paid		(75,674)	(85,091)
Refund received /(Income tax paid)		(737,856)	142,807
Reimbursement to related parties		(463,875)	(125,263)
Net cash inflows from operating activities	6m	**178,296**	**785,204**
Cash flows from investing activities		-	-
Cash flows from financing activities			
Repatriation of funds to Head Office Japan		(1,330,000)	-
Net cash outflows from financing activities		-	
Net increase in cash and cash equivalents		**(1,151,704)**	**785,204**
Cash and cash equivalents at the beginning of the financial year		5,000,818	4,215,614
Total cash and cash equivalents at end of year		**3,849,114**	**5,000,818**

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

1. Summary of Significant Accounting Policies

TMNFNZ is a Branch of TMNFJ, an overseas company, domiciled in Japan.
These financial statements have been approved for issue by the Board of Directors on 28 July 2022.
The directors of the Branch have the power to amend the financial statements after issue.

The Branch is domiciled in New Zealand and registered under the New Zealand Companies Act 1993. The address of its registered office is Level 26, PwC Towers, 88 Quay Street, Auckland New Zealand. This financial report is for the current reporting period ending 31 March 2022.

The Branch is designated as a profit-oriented entity for financial reporting purposes.

The principal operations of TMNFNZ comprise the underwriting of various classes of direct insurance contracts. These contracts transfer significant risk by agreeing to compensate the insured on the occurrence of a specified insured event. These contracts are defined as general insurance.

(a) Basis of preparation

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZIFRS), and other applicable financial reporting standards as appropriate for profit-oriented entities. The financial statements are prepared in accordance with the requirements of Part 7 of the *Financial Markets Conduct Act 2013.*

The Branch is an FMC Reporting Entity under Part 7 of the *Financial Markets Conduct Act 2013* and it is a Licensed Insurer under the *Insurance (Prudential Supervision) Act 2010.*

This financial report also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standard Board.

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. The presentation currency used for the preparation of this financial report is measured using the currency of the primary economic environment in which the entity operates ('the functional currency'), which is New Zealand Dollars.

(b) Historical cost convention

The financial statements have been prepared on the basis of historical cost principles, as modified by certain exceptions noted in the financial report, with the principal exceptions being the measurement of all investments at fair value and the measurement of the outstanding claims liability and related reinsurance and other recoveries at present value.

(c) New standards and interpretations for application in the future periods

Tittle of standard	Description	Effective date of the standard		Application date
NZ IFRS 17 Insurance Contracts	NZ IFRS 17 Insurance Contract is a new type of accounting standard for all types of Insurance contract. NZ IFRS 17 is to be implemented for Tokio Marine & Nichido Fire Insurance New Zealand for statutory accounts on and after 1 January 2023. The new standard requires the application of new measurement models & introduces significant changes to presentation and disclosure of insurance contracts. NZ IFRS 17 introduces a general model that measures insurance contracts based on fulfilment of cashflow (present value of future cash flow with a provision for risk)and the contractual service margin(the unearned profit will be recognised over the coverage period). Based on the current insurance business Tokio Marine & Nichido Fire Insurance New Zealand is to be eligible to use the premium allocation approach for all its general insurance contracts.	Jan-23		1-Apr-23

NZ IFRS 17 *Insurance Contracts* will be adopted by the Branch from 1 January 2023. While there is nil impact to Branch in the current reporting period, the new rules are expected to affect the financial statements and key performance indicators of the Branch when they are being adopted.

(d) Gross premium earned

Direct premium comprises amounts charged to the policyholders or other insurers, (excludes levies and charges collected on behalf of third parties). The earned portion of premiums received and receivable, including unclosed business, is recognised as revenue. Premium is recognised as earned from the date of the attachment of risk over the period of the related insurance contract in accordance with the pattern of the incidence of risk expected under the contracts.

The pattern of the recognition of income over the policy or indemnity periods is based on time which closely approximates the pattern of incidence of risks under contract. Premium for unclosed business (business written close to the reporting date where the attachment of risk is prior to the reporting date and there is insufficient information to identify the business accurately) is brought to account based on previous experience with due allowance for any changes in the pattern of new business and renewals. The proportion of premiums received and receivable not earned in the Statement of Comprehensive Income at the reporting date is recognised in the Statement of Financial Position as an unearned premium liability. The unearned portion of commissions and other acquisitions costs are also deferred and shown as deferred acquisition costs in the Statement of Financial Position.

(e) Outward reinsurance premium

Amounts paid to reinsurers under reinsurance contracts held by the Branch are recorded as outward reinsurance premium and are recognised in the Statement of Comprehensive Income from the attachment date over the period of indemnity of the reinsurance contract in accordance with the expected pattern of incidence of the risk ceded.

(f) Net claims incurred

Claims expense represents payment for claims and claims related expenses and movement of outstanding claims liabilities during the period, inclusive of IBNR movement.

(g) Acquisition costs

Costs associated with obtaining and recording general insurance contracts are referred to as acquisition costs. These costs include advertising expenses, commissions or brokerage paid to agents or brokers (gross commission), premium collection costs, risk assessments cost and other administrative cost (underwriting expenses). Profit costs received from third parties are also included in acquisition costs (reinsurance commission). Such costs are capitalised where they relate to acquisition of new business or renewal of existing business and are presented as deferred acquisition costs and are amortised on the same basis as the earning pattern of the premium over the period of the related insurance contracts. The balance of the deferred acquisition costs at the reporting date represents the capitalised acquisition cost relating to unearned premium.

(h) Interest income

Interest income is recognised on an accruals basis in accordance with the principal and terms of the underlying investment and includes interest earned but not received as at 31 March 2022.

(i) Income tax

Income tax expense for a reporting period comprises current and deferred tax. Income tax is recognised in the Statement of Comprehensive Income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using current company tax rate of 28%, and any adjustment to tax payable in respect of previous financial periods. Deferred tax expense is the change in deferred tax assets and liabilities between the reporting periods.

Deferred tax assets and liabilities are recognised using the balance sheet method for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying balance of assets and liabilities, using tax rates enacted or substantively enacted at reporting date. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

(j) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the New Zealand Inland Revenue Department. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the New Zealand Inland Revenue Department is included as a current asset or current liability in the Statement of Financial Position.

(k) Foreign currency translation

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss component of the Statement of Comprehensive Income.

(l) Financial assets

The entity classifies its financial assets into the following categories: Financial assets at fair value through profit or loss; financial assets at fair value through equity; and loans and receivables which are financial assets carried at amortised cost. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition

The entity applies the principles of NZ IFRS 9 to assess and record impairment of its financial assets. NZ IFRS 9 requires recognition of expected credit losses and provides the option for entities to use practical expedients for trade receivables. The entity recognises expected credit losses through a provision, and these are based on historical credit loss experience.

Financial assets at fair value through profit or loss

Purchases and sales of investments are recognised on trade date - the date on which the entity commits to purchase or sell the asset. Financial assets are initially recognised at cost. These assets are subsequently measured at fair value. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the Statement of Comprehensive Income in the period in which they arise.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the entity establishes fair value by using valuation techniques. These include reference to the fair values of recent arm's length transactions, involving the same instruments or other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances. Financial assets are derecognised when the right to receive cash flows from the financial assets have expired or have been transferred and the entity has transferred substantially all the risks and rewards of ownership.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the entity provides money, goods or services directly to a debtor with no intention of selling the receivable. Loans and receivables are included in receivables in the balance sheets.

Receivables are carried at amortised cost in line with the business model assessment in NZ IFRS 9, which is approximate fair value, as they are usually settled within twelve months and subsequently subject to impairment testing.

(m) Cash and cash equivalents

Cash and cash equivalents include cash at bank and on hand, and deposits at call which are readily convertible to cash on hand and which are used in the cash management function on a day to day basis.

(n) Deferred insurance expense

The fixed and variable costs of acquiring new business, "the acquisition costs", include commission, advertising, policy issue and underwriting costs, agency expenses and other sales costs.

A portion of acquisition costs relating to unearned premium revenue is deferred and recognised as an asset, where it can be reliably measured and where it is probable that it will give rise to premium revenue that will be recognised in the Statement of Comprehensive Income in future periods. Deferred acquisition costs are measured at the lower of cost and recoverable amount and are amortised in accordance with the earning pattern of the corresponding premium revenue.

Deferred reinsurance expense is 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. Deferred reinsurance cost is recognised as an asset to the extent that the related unearned premium exceeds the sum of the deferred acquisition costs and the present value of both future expected claims and settlement costs. Where there is a shortfall, the deferred acquisition cost asset is written down and if insufficient, an expired risk liability is recognised. Refer note 5(b).

(o) Unearned premium

Premium revenue is recognised over the policy or indemnity period based on time, which is considered to closely approximate the expected incidence of risk. Unearned premium is determined for Direct and Inwards business using the 365th's method. Changes in unearned premium are recognised and reported in the Statement of Comprehensive Income. The unearned portion of premium is recognised as an unearned premium liability in the Statement of Financial Position.

(p) Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year, otherwise they are presented as non-current liabilities.

(q) Functional and presentation currency

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

(r) Liability adequacy test

The liability adequacy test is an assessment of the carrying amount of the unearned premium liability. If current estimates of the present value of the expected future cash flows relating to future claims arising from the rights and obligations under current general insurance contracts, including an additional risk margin to reflect the inherent uncertainty in the central estimate exceed the unearned premium liability (net of reinsurance) less related deferred acquisition costs, then the unearned premium liability is deemed to be deficient. Any deficiency arising from the test is recognised in profit or loss with the corresponding impact on the statement of financial position recognised first through the write down of deferred acquisition costs for the relevant portfolio of contracts, with any remaining balance being recognised in the Statement of Financial Position as unexpired risk liability.

(s) Outstanding claims

The outstanding claims liability is measured as the central estimate of the present value 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. Liability is measured based on the advice of valuations performed by, or under the direction of, the Appointed Actuary. The expected future payments include those in relation to claims reported but not yet paid or not yet paid in full, claims incurred but not enough reported (IBNER), claims incurred but not reported (IBNR) and the anticipated direct and indirect claims handling costs. The liability is discounted to present value using a risk-free rate.

The estimation of the outstanding claims liability involves a few key assumptions and is the most critical accounting estimate. All reasonable steps are taken to ensure that the information used regarding claims exposures is appropriate.

However, given the uncertainty in establishing the liability, it is likely that the outcome will be different from the original liability established. Changes in claims estimates are recognised in profit or loss in the reporting period in which the estimates are changed.

(t) Comparative information

Certain comparatives have been re-presented to be consistent with the current year's presentation.

2. Critical accounting judgements, estimates and restatement

The Branch has made assumptions in respect of key insurance assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including the expectations of future events that are believed to be reasonable under the circumstances. The key areas in which critical estimates are applied are for are unclosed premium, provisions for incurred but not reported claims, risk margins on outstanding claims liabilities and discounting to present value of these claims.

The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

It has been determined that no other critical accounting judgements have been made this year.

The ultimate liability arising from claims made under insurance contracts

Provision is made at the year-end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the Branch.

The estimated cost of claims includes direct expenses to be incurred in settling claims, gross of the expected value of salvage and other recoveries. The Branch takes all reasonable steps to ensure that it has appropriate information regarding its claim's exposures, however, given the uncertainty in establishing claims provisions, it is likely that the outcome will prove to be different from the original liability established.

The estimation of claims incurred but not reported ('IBNR') is generally subject to more uncertainty than the estimation of the cost of settling claims already notified to the Branch, where more information about the claim event is generally available. IBNR claims may often not be apparent to the insured until many years after the events giving rise to the claims have happened. The product liability class of business will typically display greater variations between initial estimates and final outcomes because there is more difficulty in estimating IBNR reserve. For the Fire & Industrial Special Risk class, claims are typically reported soon after the claim event, and hence tend to display lower levels of volatility. In calculating the estimated cost of unpaid claims, the Branch uses a variety of estimation techniques, generally based upon statistical analyses of historical experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics, or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- changes in Branch processes which might accelerate or slow down the development and recording of paid or incurred claims, compared with the statistics from previous period
- changes in the legal environment
- the effects of inflation
- changes in the mix of business
- the impact of large losses
- movement in industry benchmark
- medical and technological developments.

A component of the estimation techniques is usually the estimation of the cost of notified but unpaid claims. In estimating the cost of these the Branch has regard to the claim circumstances as reported, any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods.

Large claims impacting each relevant business class are generally assessed separately, being measured on a case by case basis or projected separately to allow for the possible distortive effect of the development and incidence of these large claims.

Estimation of unclosed business

The estimation of premiums bound but not processed at balance date, referred to as unclosed business, is calculated by the Branch Appointed Actuary based on the historical booking pattern. The estimation of the unclosed business is processed to the accounts annually.

Where possible the Branch adopts multiple techniques to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The projections given by the various methodologies also assist in settling the range of possible outcomes.

The most appropriate estimation technique is selected considering the characteristics of the business class and the extent of the development of each accident year.

The estimates for both the ultimate liability arising from claims made under insurance contracts and the estimation of unclosed business are calculated by the Appointed Actuary using generally accepted actuarial methods and changes to these estimates that may have an effect in the current period are impracticable to estimate. These provisions are calculated gross of any reinsurance recoveries.

Actuarial assumptions and methods

The Branch writes both short-tailed and long-tailed business. The process for determining the value of outstanding claims liabilities including the cost of claims handling is described below.

The method used to establish the ultimate cost of claims includes the following:

- Projecting ultimate number of claims and multiplying by projected ultimate average cost
- Projecting ultimate claim payments
- Projecting ultimate incurred claim amounts
- Applying plan or forecast loss ratios to earned premium.

Claims inflation is incorporated into the resulting projected payments, to allow for general economic inflation (generally future wage inflation). Future wage inflation is based on rates published by the New Zealand Treasury that are used by government entities submitting reports to the Treasury valuing insurance claims liabilities under NZ IFRS 4. No future superimposed inflation has been included in the projected payments.

Projected payments are discounted to allow for the time value of money, based on risk free discount rates also published by the New Zealand Treasury for valuing insurance claims liabilities under NZ IFRS 4.

All these methods rely on future development being consistent with historical development and are thus subject to uncertainty surrounding changes to these patterns from whatever cause.

In addition, there is uncertainty arising from the underlying assumption for future wage inflation.

For these reasons, a risk margin is added to the central estimate established above.

(a) Selected key variables

The following indicators reflect the key variables that have been used in determining the outstanding claims liabilities.

	2022	2022	2021	2021
	Long tail	Short Tail	Long tail	Short Tail
Average weighted term to settlement	2.5 years	0.8 years	2.7 years	0.8 years
Discount rate	2.32%	1.88%	0.45%	0.25%
Wage inflation	2.32%	2.49%	1.78%	1.61%
Superimposed inflation	0.00%	0.00%	0.00%	0.00%

(b) Sensitivity analysis - insurance contracts

The Branch conducts sensitivity analysis to quantify the exposure to risk of changes in the key underlying variables. The valuation included in the reported results are calculated using certain assumptions about these variables as disclosed above. The movements in any key variable will impact the performance and net assets/liabilities of the Branch.

The table below presents the sensitivity of the Branch's profit/(loss) and net assets/(liabilities) to changes in these assumptions net of reinsurance.

Impact of changes in key variables

	Movement in Variables	2022 $	2021 $
Long Tail			
Average weighted term to settlement-years	0.5	11	-5,909
	-0.5	-12	6,017
Discount rate	0.01	21,464	24,198
	-0.01	-22,463	-25,420
Wage & Superimposed inflation rates	0.01	-22,241	-24,829
	-0.01	21,672	24,120
Financial Assets			
Shift in yield curve	0.01	-50,737	-49,856
	-0.01	51,243	50,353

3. Financial risk management policies and procedures

The Branch has internal controls to manage material business risks in key areas of exposure. The Branch's activities expose it to a variety of financial risks, including market risk, capital risk, credit risk and liquidity risk.

The Branch has not made an explicit allowance for additional costs that may arise from the coronavirus pandemic (COVID-19) in the current year, nil last year. We do not expect the event to materially affect the loss experience for the classes underwritten by TMNFNZ as to date nil claims have been reported. We note there is no infectious disease coverage provided in TMNFNZ's business interruption covers. The COVID-19 pandemic did not have a material impact on the Branch business and financial performance, however there are still some uncertainties with regards to any future restrictions by the New Zealand authorities.

(a) Market risk

Market risk is the risk of adverse financial impact due to changes in the value of cash flows of financial instruments from fluctuations in foreign currency exchange rates, interest rates and equity prices.

The market risk to which the Branch is exposed is cash flow interest rate risk on its term deposits of $1,835,457 as at 31 March 2022 (2021: $1,824,812). The impact of expected potential movements in interest rate on this balance is not considered material to the financial statements.

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The maximum exposure to credit risk as at the reporting date is the carrying amount of the receivables on the balance sheet. The Branch's material exposures to credit risks are to short term deposits and on-call accounts with the Bank of New Zealand. Standard and Poors' (S&P) rating for the Bank of New Zealand is AA- rated (stable). Exposure to credit risk also includes premium receivable. Most the premium receivable balance relate to policies which are expected to be paid within credit terms. It is important to note that management does conduct monthly review of premium receivables to ensure premiums are paid when due. For any default in payments, direct contact is made with the policyholders.

(c) Liquidity risk

Liquidity risk is the risk of there being insufficient cash resources to meet payment obligations without affecting the daily operations or the financial condition of the entity. Liquidity facilitates the ability to meet expected and unexpected requirement for cash. The liquid position is derived from operating cash flows & investment portfolios. The Branch has fully addressed liquidity risk, since liquid assets are held to cover all liabilities. All liabilities are due within twelve months or less except for outstanding claims. Outstanding claims are split between current and non-current liabilities as calculated by our Appointed Actuary.

(d) Capital risk Management

The Branch monitors its capital requirements on a regular basis. Its objectives are to maintain enough capital to meet regulatory requirements, to provide security for policyholders and an acceptable return to shareholders.

Under the requirements of the Financial Reporting Act 2013 the Branch must disclose its parent entity, Tokio Marine and Nichido Fire Insurance Co., Limited's most recent Japanese equivalent of the solvency margin as required by the Solvency Standard for Non-Life Business under the Reserve Bank of New Zealand Prudential guidelines.

The Branch's parent entity has reported its solvency margin ratio on a consolidated basis which was calculated in accordance with Article 86 paragraph 2 and Article 88 of the Enforcement Regulation of the Insurance Business Act and with Ordinance No.23 issued by the Japan Ministry of Finance in 2011. The ratio is one of indicators used for the Japanese regulatory authorities to supervise corporate groups headed by an insurance holding company where a ratio exceeding 200% indicates adequate ability to meet payments of insurance claims.

Parent Entity Solvency Calculations in millions as at:

	March 2022 $'M	March 2021 $'M
Actual Solvency Capital	58,240	61,482
Minimum Solvency Capital	16,255	16,130
Solvency Margin	41,985	45,352
Solvency Ratio	716.40%	762.32%

(e) Insurance risk Management

A key risk from operating in the general insurance industry is the exposure to insurance risk arising from underwriting general insurance contracts. The insurance contracts transfer risk to the insurer by indemnifying the policyholders against adverse effects arising from the occurrence of specified uncertain future events. There is a risk that the actual number of claims to be paid in relation to contracts will be different to the amount estimated at the time a product was designed and priced. The entity 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 Branch has established the following protocols to manage its insurance risk across the underwriting, claims and actuarial disciplines.

(f) Underwriting risks

i) Selection and pricing of risks

Underwriting authority is delegated to experienced underwriters for the forthcoming year following a detailed retrospective and prospective analysis of each class of business as part of the Branch's annual business planning process. Delegated authorities reflect the level of risk which the Branch is prepared to take.

The authorities include reference to some combination of:

- return on risk adjusted equity;
- gross written premium;
- premium per contract;
- sum insured per contract;
- aggregate exposures per zone;
- probable maximum loss and realistic disaster scenarios (RDS);
- levels and quality of reinsurance protection;
- geographic exposures; and/or
- classes of business and types of product that may be written.

Limits in respect of each of the above are set at a portfolio level and are included within business plans for individual classes of business. They are adjusted at a local level to reflect a risk factor in respect of the branch depending on previous underwriting results, the economic environment and other potential drivers of volatility.

Insurance and reinsurance policies are written in accordance with local management practices and regulations considering the Branch's risk appetite and tolerance and underwriting standards. Non-standard and long-term policies may only be written if expressly included in the delegated authorities. No individual long-term or non-standard policy is material to the Branch.

Pricing of risks is controlled using in-house pricing models relevant to specific portfolios and the markets in which the Branch operates. Experienced underwriters and actuaries maintain historical pricing and claims analysis for each portfolio, and this is combined with a detailed knowledge of current developments in the respective markets and classes of business.

ii) Concentration risk

The Branch's exposure to concentrations of insurance risk is mitigated by a portfolio diversified across numerous classes of businesses. Product diversification is achieved through a strategy of developing strong underwriting skills in a wide variety of classes of business. A combination of core and speciality products under the control of employees skilled in underwriting such products allows the Branch to underwrite in the market in which it operates.

iii) Assets backing general insurance liabilities

As a part of its investment strategy the Branch actively manages its investment portfolio to ensure that investments mature in accordance with the expected pattern of future cash flows arising from general insurance liabilities.

The Branch has determined that all assets are held to back the general insurance liabilities. All these assets are managed on a fair value basis, and investment revenue is brought to account on an accrual basis.

(g) Claims management and claims estimation risks

The Branch's approach to determining the outstanding claims provision and the related sensitivities are set out in Note 2. The Branch seeks to ensure the adequacy of its outstanding claims provision by reference to the following controls:

- experienced claims managers work with underwriters on range of coverage issues and operate within the levels of authority delegated to them in respect of the settlement of claims;
- processes exist to ensure that all claims advices are captured and updated on a timely basis and with a realistic assessment of the ultimate claims cost;
- initial IBNR estimates are set by experienced external or appointed actuaries in conjunction with the management for each class of business. The valuation of the central estimate is primarily performed by actuaries who are not involved in the pricing function and who therefore provide an independent assessment;
- the determination of the risk margin is performed by the external actuary with input from senior management;
- the aggregate outstanding claims provision for the Branch is assessed in a series of quarterly internal claims review by senior management and
- the Branch's central estimate is reviewed by external actuaries, Taylor Fry Actuarial Services.

Despite the rigour involved in the establishment and review of the outstanding claims provision, the provision is subject to significant uncertainty for the reasons set out in Note 2.

4. Analysis of Income & Expenses

(a) Net premium written

	2022	2021
	$	$
Gross premium written	1,964,661	5,380,900
Outward reinsurance premium	(1,710,134)	(3,513,070)
Net premium written	**254,527**	**1,867,830**

Reinsurance outward premium of $1,710,134 in the current financial year relates to cover arranged for the Branch in relation to Excess of Loss and Catastrophe reinsurance of $29,099 and $1,681,035 for other reinsurance placements.

(b) Net claims incurred

The net claims incurred for the current financial period is $527,642 (2021: ($546,463)). Reinsurance recoveries on claims incurred in the current financial period is $430,980 (2021: $174,864).

	2022		
	Current Year	Prior Years	Total
Gross Claims Incurred (Undiscounted)	1,276,787	(191,004)	1,085,783
Reinsurance recoveries	(637,768)	206,788	(430,980)
Non-reinsurance recoveries	(36,076)	(33,398)	(69,474)
Claims Incurred- undiscounted	602,943	(17,614)	585,329
Discount Movement	10,605	47,082	57,687
Net discounted Incurred Claims	592,338	(64,696)	527,642

	2021		
	Current Year	Prior Years	Total
Gross Claims Incurred (Undiscounted)	794,472	(985,984)	(191,512)
Reinsurance recoveries	(213,678)	38,814	(174,864)
Non-reinsurance recoveries	(20,521)	(194,875)	(215,396)
Claims Incurred- undiscounted	560,273	(1,142,045)	(581,772)
Discount Movement	5,843	(41,152)	(35,309)
Net discounted Incurred Claims	554,430	(1,100,893)	(546,463)

(c) Underwriting and other expenses

	2022	2021
	$	$
Audit fees	26,296	29,744
Management fees	402,488	43,478
Consulting fees	47,092	53,706
Representative fees	58,710	60,781
Membership & Subscription	25,000	25,000
Miscellaneous Taxes	132,606	0
Other expenses	16,230	16,398
Total other expenses	**708,422**	**229,107**

Audit fees relates to remuneration of auditors, PricewaterhouseCoopers Australia, for the audit of the financial statements in accordance with regulatory requirements. There has been an increase in the management fees for New Zealand due to an increase in the recharge to New Zealand from TMMA. The increase in miscellaneous taxes is due to the penalties paid to the FENZ for the late payment of the FSL .

(d) Income tax expense

	2022	2021
	$	$
Current tax expense	220,923	740,741
Deferred tax expense	(42,320)	58,492
Prior year (overs)/unders	-	-
Income tax expense	**178,603**	**799,233**

Deferred income tax adjustment arising from temporary differences comprises:

	2022	2021
	$	$
Decrease/(increase) in deferred tax assets	42,320	58,492
Increase/(decrease) in deferred tax liability	-	-
	42,320	58,492
Reconciliation of income tax payable:		
Profit /(loss)before tax	637,867	2,854,404
Amounts which are not deductible for tax	-	-
	637,867	2,854,404
Prima facie tax expense of 28% (2021: 28%)	178,603	799,233
Prior year (overs)/unders	-	-
Income tax expense/(benefit)	**178,603**	**799,233**

5. Notes to Financial Statements

(a) Cash and cash equivalents

	2022	2021
Deposits with banks:	$	$
Current accounts	1,835,457	1,824,812
Term deposit accounts	2,013,658	3,176,006
Total cash and cash equivalents	**3,849,115**	**5,000,818**

Interest rate on term deposit is 1.19%; (2021: 1.17%). Cash and cash equivalents represent cash on hand and held with banks, deposits at call and short-term money held in investments readily convertible to cash. The carrying amount of the cash and cash equivalents presented in the statement of financial position is the same as that used for the purposes of the cash flow statement.

(b) Deferred reinsurance expense

	2022	2021
Deferred reinsurance premium expense at the	$	$
beginning of the period	2,684,299	1,640,529
Deferral of reinsurance expense	1,710,134	3,513,070
Earning of reinsurance expense	(3,910,434)	(2,469,300)
Total deferred reinsurance expense as at 31 March	**483,999**	**2,684,299**

Reinsurance cover has been arranged for the Branch as part of the extension of the excess of loss and catastrophe reinsurance treaties of Tokio Marine and Nichido Fire Insurance co. Limited -Australian Branch (TMNFA). This includes excess of loss cover for property, excess of loss covers for casualty/motor and catastrophe cover for property. The balance also includes facultative reinsurance ceded.

(c) Deferred acquisition costs

	2022	2021
	$	$
Deferred acquisition costs at the beginning of the period	95,723	89,464
Acquisition costs deferred	711,100	359,350
Amortised acquisition costs	(722,954)	(353,091)
Deferred acquisitions costs as at 31 March	**83,869**	**95,723**

(d) Current tax asset / liability

	2022	2021
	$	$
Current tax asset / (liability)	**128,122**	**(498,636)**

The provisional tax paid during the current year is $ 128,122 (2021: (498,636) via quarterly instalments and net of current year income tax.

(e) Deferred tax asset

	2022	2021
Deferred Tax Asset Composition:	$	$
Expense accruals	133,735	84,542
Premium liability deficiency	-	-
Claims handling provision	193,362	91,413
Total	327,098	175,955
Taxed at 28%	91,587	49,267
Total deferred tax asset	**91,587**	**49,267**

The gross movement on the deferred income tax account is as follows:	$	$
Expense accruals	49,192	10,832
Premium liability deficiency	-	-
Change in claims handling expenses	101,950	(219,730)
Total	151,142	(208,898)
Taxed at 28%	42,320	(58,492)
Tax losses	-	-
	42,320	**(58,492)**

(f) Trade and other payables

	2022	2021
	$	$
Accrued expenses	133,735	84,544
GST Payable	52,361	513,167
Others	0	6,673
Total Trade and other payables	**186,096**	**604,384**

(g) Payables to related entities

	2022	2021
	$	$
Reinsurance payable	159,118	1,984,487
Management fee payable to Tokio Marine Management (Australasia) Pty Ltd(TMMA)	26,037	3,671
Total payables to related entities	**185,155**	**1,988,158**

The total management fees for the current year charged by TMMA to the Branch were $402,488 (2021:$43,470). The methodology adopted for the fee calculation is based on cost apportionment.

Related parties of Tokio Marine and Nichido Fire Insurance Co., Limited - New Zealand Branch fall into the following categories:

(a) Ultimate holding Company (Parent entity)

The branch is controlled by Tokio Marine Holding, Inc., an entity incorporated in Japan.

(b) Other group entities

The Branch's operational responsibilities of recording policy data, managing claims, accounting and financial reporting are managed by TMMA, domiciled in Australia. The payable to Tokio Marine Insurance Singapore amounts to $96,636 (2021: $1,949,146), Tokio Marine Kiln Insurance Company Limited $30,246(2021:NIL) & Tokio Marie and Nichido Fire Insurance of $31,078 (2021: $34,069) & others $1,158 (2021: 1,272).

(h) Unearned premium liability

	2022	2021
	$	$
Unearned premium liability at the beginning of the period	3,390,741	2,309,189
Deferral of premiums on insurance contracts	1,964,661	5,380,900
Earning of premiums during the period	(4,670,084)	(4,299,348)
Unearned premium liability as at 31 March	**685,318**	**3,390,741**

(i) Deferred reinsurance commission

	2022	2021
	$	$
Deferred reinsurance commission at the beginning of the period	893,011	585,030
Deferral of current year reinsurance commission	467,816	1,148,650
Earning of reinsurance commission during the period	(1,230,604)	(840,669)
Deferred reinsurance commission as at 31 March	**130,223**	**893,011**

(j) Liability adequacy test

The liability adequacy test (LAT) has been conducted using the central estimate of the premium liabilities calculated to comply with NZ IFRS 4, together with an appropriate margin for uncertainty for each class of business, at a probability of adequacy of 75%.

The central estimate of the gross premium liability was estimated by applying, for each class of business, an assumed loss ratio to the unearned premiums. Inflation and discount factors were then applied to the estimated future claim payment cash flows, and an allowance added to provide for the associated policy administration and claims administration expenses. The test is based on prospective information and so is dependent on assumptions and judgements. The liability adequacy test at reporting date has given rise to a nil unexpired risk liability (2021: $0) and a nil write down of deferred acquisition cost for the current year (2021: $0).

	2022	2021
	$	$
Gross unearned premium	685,318	3,390,741
Deferred reinsurance expense	(483,999)	(2,684,299)
Deferred acquisition cost	(33,728)	(95,723)
Deferred reinsurance commission	80,082	893,011
Net unearned premium less deferred insurance costs	**247,673**	**1,503,730**
Adjustment UEP less deferred reinsurance costs	-	-
Premium liabilities	204,972	472,380
Premium Liabilities Deficiency	-	-

(k) Outstanding claims

	2022	2021
	$	$
Central estimate	1,058,547	1,010,408
Risk margin for central estimate	371,948	322,509
Indirect claims expenses	193,362	91,411
Undiscounted expected future claims payment	1,623,857	1,424,328
Provision of gross discount	(75,243)	(15,665)
Total Outstanding Claims	**1,548,614**	**1,408,663**

The outstanding claims liability is measured as the central estimate of the present value 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 outstanding claims liability is measured based on the advice and valuations performed by, or under the direction of, the Appointed Actuary.

The expected future payments include those in relation to claims reported but not yet paid or not yet paid in full, claims incurred but not enough reported (IBNER), claims incurred but not reported (IBNR) and the anticipated direct and indirect claims handling costs. The liability is discounted to present value using a risk-free rate.

The estimation of the outstanding claims liability involves several key assumptions and is the most critical accounting estimate. All reasonable steps are taken to ensure that the information used regarding claims exposures is appropriate.

However, given the uncertainty in establishing the liability, it is likely that the outcome will be different from the original liability established. Changes in claims estimates are recognised in profit or loss in the reporting period in which the estimates are changed (Refer to Note 5b).

The outstanding claims is $1,548,614,the current component is $1,301,355 and the non-current component is $247,259 (2021: Outstanding claims $1,408,663 , the current component $1,127,149 & non-current component $ $281,514).

(I) Risk margins

The overall risk margin was determined using the benchmark risk margins from the Tillinghast-Towers Perrin report commissioned by the Institute of Actuaries of Australia, titled "Research and Data Analysis Relevant to the Development of Standards and Guidelines on Liability Valuation for General Insurance", dated 20 November 2001. This report contains estimates of variability for different lines of business and estimates of the extent to which different lines of business are correlated. The risk margins at the 75th percentile level, adopted for the branch, have been taken from this report.

No diversification benefit has been applied given the size of the Branch's portfolio; this is in line with the recommendation in the Tillinghast-Towers Perrin report that a total net insurance liability of $30,000,000 be required before any diversification benefit is applicable.

The risk margins, as a percentage of central estimates at the 75th% to achieve a Probability of Adequacy (PoA) were derived and are set out in the table below.

Class	2022	2021
Property	30.00%	30.00%
Motor	25.00%	25.00%
Accident	30.00%	30.00%
Marine	30.00%	30.00%
Liability	30.00%	30.00%

Outstanding claims liability margins have been capped at the values selected in the Tillinghast-Towers Perrin report for smaller sized portfolios.

Premium liability margins are derived as multiples of the outstanding claim margins, by 1.75 for short-tail classes and 1.25 for long-tail classes.

(m) Reconciliation of Profit after tax for the year to Net cash flows from operating activities

	2022	2021
	$	$
Profit /(loss)after Tax	459,263	2,055,172
Decrease/(increase) in operating assets		
Premiums receivable	3,754,082	(1,659,770)
Deferred tax assets	(498,636)	498,636
Tax Provision	(128,122)	483,507
Other receivables	2,183,578	(969,656)
Increase/(decrease) in operating liabilities		
Deferred tax liability	(42,320)	58,492
Outstanding claims liability	139,951	(1,973,824)
Unearned premium liability	(3,468,210)	1,389,532
Trade and Other payables	(2,221,290)	903,115
Net cash flows from operating activities	**178,296**	**785,204**

(n) Financial reporting segments
The entity operates and underwrites general insurance contracts in New Zealand.

(o) Capital expenditure commitments
There are no capital expenditure commitments that have been entered but not provided for in these accounts (2021 Nil).

(p) Contingent liabilities
There are no contingent liabilities outstanding as at balance date (2021 Nil).

(q) Credit rating
The entity was assigned the financial rating of A+ by rating agency Standard and Poor's (Australia) Pty Ltd.

(r) Other Matters

The COVID-19 pandemic did not have a material impact on the Branch business and financial performance, however there are still some uncertainties with regards to any future restrictions by the New Zealand authorities.

The Branch has not made an explicit allowance for additional costs that may arise from the coronavirus pandemic (COVID-19) in the current year, nil last year. We do not expect the event to materially affect the loss experience for the classes underwritten by TMNFNZ as to date, nil claims have been reported . We note there is no infectious disease coverage provided in TMNFNZ's business interruption covers.

(s) Events after reporting date other than noted above

Since the end of the financial year, 31 March 2022, the directors are not aware of any matter or circumstance not otherwise dealt with in the financial statements that has any material impact or may affect the operations of the Branch or the results of those operations in subsequent financial years.

Independent auditor's report

To the shareholders of Tokio Marine & Nichido Fire Insurance Co., Ltd – New Zealand Branch

Our opinion

In our opinion, the accompanying financial statements of Tokio Marine & Nichido Fire Insurance Co., Ltd – New Zealand Branch (the Branch), present fairly, in all material respects, the financial position of the Branch as at 31 March 2022, 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).

What we have audited

The Branch's financial statements comprise:

- the statement of financial position as at 31 March 2022;
- the statement of comprehensive income for the year then ended;
- the statement of changes in head office account for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

We are independent of the Branch in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and *International Code of Ethics for Professional Accountants (including International Independence Standards)* issues by the International Ethics Standards Board for Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Other than in our capacity as auditor we have no relationship with, or interests in, the Branch.

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Our audit approach

Overview

Overall materiality: $0.1 million, which represents approximately 3% of gross earned premium.

We chose gross earned premium as the benchmark because, in our view, it is the benchmark against which the performance of the Branch is most commonly measured by users, and is a generally accepted benchmark.

We utilised a 3% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.

We have determined that there is one key audit matter:

- Valuation of outstanding claims (Note 5(k)) - $1.6m

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Branch, the accounting processes and controls, and the industry in which the Branch operates.

Key audit matters

Key audit matters are those matters that, in our professional judgment, 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. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

Key audit matter	How our audit addressed the key audit matter
Valuation of outstanding claims (Note 5(k)) - $1.6m	
The liability for outstanding claims involves estimating the expected future payments for claims incurred during the year or in prior periods. The liability for outstanding claims is estimated by the Appointed Actuary as a central estimate but, as is the case with any accounting estimate, there is a risk that the ultimate claims paid will differ from the initial estimates. A risk margin is therefore applied to reflect the uncertainty in the estimate. The valuation of the outstanding claims liability was a key audit matter due to the higher level of estimation and judgement required by the Branch in determining the appropriateness of the assumptions used in valuing the liability. *Gross discounted central estimate* Valuation of the liability involves complex and subjective judgements on a number of areas, including: • future events, internal and external to the business, for which small changes in assumptions can result in material impacts on the estimate • estimation of payments for claims incurred but not reported at the reporting date given there is generally less clarity on this information • estimation of the period over which claims are expected to settle, impacting the estimation of expected future payments. *Risk margins* A risk margin, relating to the inherent uncertainty in the estimation of the present value of expected future payments, is determined by making judgements on the variability of the book of business. The Branch will consider the Probability of Adequacy in determining the appropriate risk margin. Probability of Adequacy (PoA) is a measure of the estimated overall sufficiency of reserves including a risk margin in light of that variability.	Our audit procedures included evaluating the design effectiveness and implementation of relevant key controls and assessing whether a sample of these controls operated effectively throughout the year. Further, we tested: • key claims data reconciliations; and • a sample of case estimates and claims paid during the year to assess whether the key elements were supported by appropriate documentation. To evaluate the methodologies and assumptions utilised, together with PwC actuarial experts, we developed an understanding of the actuarial practices used to determine the gross discounted central estimate and risk margin. This included: • evaluating the work of management's expert, being the Appointed Actuary, including their professional competence, capability and objectivity • evaluating the actuarial models and methodologies used by comparing with those generally accepted and applied in the industry and by the Branch in the prior year • assessing key actuarial judgements and assumptions including selected loss ratios, recovery rates for reinsurance and expense rates, and challenging these by comparing with our expectations based on the Branch's experience, our own industry knowledge and current trends and benchmarks • testing the discount rate applied by comparing the rates applied to external market data • assessing the approach to setting the risk margin in light of the requirements of NZ IFRS and comparison to known industry practice.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

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

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

Responsibilities of the Directors for the financial statements

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

In preparing the financial statements, the Directors are responsible for assessing the Branch'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 Branch or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

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

This description forms part of our auditor's report.

Who we report to

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

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
28 July 2022

Sydney