The Hollard Insurance Company Pty Ltd

ABN 78 090 584 473

Annual Financial Report

For the year ended

30 June 2022

Contents

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2022

Directors

The directors present their report together with the financial report of The Hollard Insurance Company Pty Ltd (the Company) for the year ended 30 June 2022 and the auditor's report thereon.

The Hollard Insurance Company Pty Ltd is incorporated in Australia.

The directors of the Company during or since the end of the financial year are:

Katrina Barry	Non-executive Director & Interim Chair, Appointed: 24 September 2021
Richard Enthoven	Executive Director
Karl Armstrong	Non-executive Director
Ellen Comerford	Executive Director
Gary Dransfield	Non-executive Director, Appointed: 23 September 2021
Alexandra Thomas	Executive Director, Resigned: 23 May 2022
Jane Tongs	Non-executive Director
Duncan West	Chairman & Non-executive Director, Resigned: 23 September 2021
Noeline Woof	Non-executive Director

The above-named directors held office during the whole of the financial year and since the end of the financial year except as noted above.

The other officers of the Company during or since the end of the financial year are:

David Cantrick-Brooks	Company Secretary, Appointed: 24 September 2021
Galia Durbach	Company Secretary
Jenny O'Neill	Company Secretary
Orion Riggs	Company Secretary, Resigned: 31 August 2021

Unless otherwise notes, the above-named officers held office during the whole of the financial year and up to the reporting date.

Principal activities

The principal activities of the Company during the course of the financial year were the underwriting and sale of general insurance policies and the investment of shareholder and insurance funds in liquid assets and strategic investments in underwriting, insurance related and technology businesses. The Company is a licenced insurer in Australia regulated by the Australian Prudential Regulation Authority (APRA) and in New Zealand by the Reserve Bank of New Zealand (RBNZ).

The Company offers predominantly short tail general insurance products across Australia and New Zealand through both direct and intermediated channels. Outwards reinsurance is a key part of the Company's business strategy. Outwards reinsurance protections include proportional or quota share arrangements, catastrophe covers and other excess of loss programmes.

The Company is wholly owned by Hollard Holdings Australia Pty Ltd (incorporated in Australia) and its ultimate parent company is IVM Intersurer B.V. (incorporated in the Netherlands).

There were no significant changes in the nature of activities of the Company during the financial year.

Directors' Report
FOR THE YEAR ENDED 30 JUNE 2022

Review and results of operations

The Company and its related parties, underwrite a full range of general insurance products, including motor, home, contents, business and pet; both directly and through several key partnerships in Australia and New Zealand.

During the year the Company operated in four key areas:

Personal Lines. Personal Lines products are distributed through three main distribution channels; direct to market, through selected insurance agencies and via a broker network. The Company is the underwriter for all white label and agency arrangements and pays commission based on premium revenue. Personal Lines products include home, contents, landlord, motor, mobile phone and travel insurance. During the period, the Company disposed of its rights in Real, a direct brand, to a related party. All distribution and administration is performed by the Company, or its Partners, for the direct to market and broker channel whereas the agencies perform these functions independently.

Commercial Lines. Commercial Lines products are distributed primarily through its controlled subsidiary, Hollard Commercial Insurance Pty Ltd (HCi). HCi specialises in business insurance products designed to protect everyday risks for Small to Medium Australian businesses via insurance intermediaries. The Company is the underwriter, and the subsidiary distributes and administers the insurance business on behalf of the Company (including via the intermediaries in accordance with intermediary agreements). Intermediaries are remunerated via commission.

Pet Insurance. Pet Insurance distributes insurance products for dogs and cats to their pet owners through PetSure (Australia) Pty Ltd, via multiple distribution partners. The Company pays a commission based on premium revenue to the brand distribution partners in return for marketing and distribution services and a commission based on underwriting performance to PetSure (Australia) Pty Ltd in return for underwriting and administration. During the period, the Company disposed of an 81.8% interest in PetSure (Australia) Pty Ltd to a related party, retaining an 18.2% interest.

New Zealand. The Company underwrites general insurance products in New Zealand via a permanently established New Zealand branch of The Hollard Insurance Company Pty Ltd. The Company distributes general insurance products through New Zealand based underwriting agencies. The key New Zealand agency is Ando Insurance Group Ltd in which the Company has a 39.95% interest. The Company pays a commission based on premium revenue to the New Zealand agencies in return for marketing, distribution and administration services

During the period, the Company implemented an internal reorganisation which resulted in changes to the internal operating structure. The Company's two market facing channels are Broker & Direct and Agency & New Zealand.

Strategy

The Company's long-term strategic approach to concentrating investment in key distribution partners has continued to support business growth during the financial year with above market revenue growth and has further reinforced its position in the Australian and New Zealand markets as a top five general insurer in the segments it operates.

Key achievements during the year include:

- In June 2021, the Parent Company announced that it was successful in a bid to secure a significant distribution partnership opportunity with Commonwealth Bank of Australia (CBA). On completion, this process will see the Parent Company enter into an exclusive, long term integrated partnership with CBA which includes the Parent Company acquiring CBA's general Insurance arm, Commonwealth Insurance Limited (CIL) (premium revenue of $843m FY22). Significant separation and integration work has been undertaken during the year with completion date now expected to be 30 September 2022.
- PetSure (Australia) Pty Ltd, an underwriting agency, (PetSure) disposal was completed on 31 March 2022. The Company received $156m cash proceeds for 81.8% of its shareholding resulting in a gain on sale of $86m. The Company will continue to underwrite pet insurance business via PetSure.
- The pet insurance business continued to deliver strong financial performance with demonstrated resilience reflective of pet ownership increasing during the pandemic.
- The New Zealand business is progressively moving from its growth phase to focus on insurance margin.
- The business is making good progress towards consolidating key partners onto a single policy and claims platform which will enhance customer outcomes and improve operational efficiency.

Environmental, Social and Governance Risks

Environmental, Social and Governance (ESG) risks (and the inherent strategic opportunities they afford when actioned) are considered and controlled through multiple frameworks, policies and processes across the business.

Environmental risks, such as those relating to the impact of climate change, are controlled via dedicated pricing for risks from environmental triggers. The Company has a presence on the Insurance Council of Australia, where it informs industry discussions on environmental issues and through which it is a signatory on the United Nations Principles for Sustainable Insurance. The Company has also committed to its Environmental Policy Statement and is in active discussion with its staff superannuation provider on issues such as the Company's intent not to support or invest in fossil fuel projects or investments.

Social risks are controlled primarily through the Company's Diversity & Inclusion policies, as well as Leadership Gender Balance Strategy, Gender Equality Pledge, Flex Both Ways Policy, and Modern Slavery Statement which is embedded through a risk assessment for strategic investments and suppliers. The Company addresses protection of labour standards and human rights via its Work Health and Safety policies and frameworks. The Company is a proud signatory to the 'Pride Framework' by which its shareholders ensure it operates as a 'Positive Business' (seeking to do well by doing good in the world). The Company also participate in industry leading conversations on topics such as gender equality, domestic family violence and the redress of workplace sexual harassment by virtue of its founding membership in the Champions of Change Coalition - Insurance Chapter. The Company promotes intersectionality of lived experience in our customers and our people by virtue of the work undertaken within the six realms of diversity and inclusion: accessibility and disability, culture, DFV and workplace sexual harassment, gender equality, LGBTQI+ inclusion and mental health.

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2022

Governance at the Company speaks to our internal policies and procedures created to make effective decisions for the wider good of the company. FY22 saw the Company appoint a new (interim) Chair and (acting) Company Secretary who together with the CEO and leadership team implemented an ongoing uplift in Board reporting. Governance risks, including management structure, Board diversity, employee relations, conflicts of interest, whistleblower, data security, and tax compliance are controlled by various Board-approved and management policies and related frameworks and response plans. Ongoing steps are being taken to ensure competent control over how our business and staff operate across every function and provide assurance that the business has procedures and controls in place to address issues. Key examples included a focus on executive remuneration and the need to formalise compliance with Prudential Standard CPS 511 (Remuneration) and the Financial Accountability Regime (FAR). Considerable work was also undertaken toward reimagining the Company's purpose and branding (with a codification of values and behaviours to follow) demonstrating our ongoing company-wide commitment to operating in an ethical and consistent way. The Company also progressed our second Modern Slavery Statement to meaningfully describe the risks of modern slavery in our operations and supply chain together with actions taken to address those risks.

Sustainability

As of 2022, the Company has a dedicated resource in place whose expertise will be leveraged to establish a sustainability strategy, position and targets. The Company is currently conducting a materiality assessment which will bring into focus key sustainability issues. Along with establishing a baseline by reviewing ESG metrics from the past four years, the materiality assessment will lay the groundwork for the overall ESG strategy. Once established, targets and metrics as well as reporting streams and sustainability-specific policies will be updated or developed and implemented throughout the organisation.

Further, the Company aims to embed sustainability considerations into its risk management approach and to put into place community initiatives. By the end of FY23, The Company intend to release Board-approved external communication in the form of its first sustainability report. While this will be aligned with global reporting frameworks, the sustainability-related activities conducted throughout the year will inform its structure by supporting the development of a reporting strategy. The Company has become a signatory to the Insurance Council of Australia's Climate Change Roadmap which will provide guidelines for climate related targets on an industry level and allow the Company to inform industry discussions on environmental issues.

Recognition

During the year the Company was recognised as ANZIIF’s 2021 Large General Insurance Company of the Year for the second year in a row. It also received ANZIIF’s 2021 Excellence in Workplace Diversity Award after five successive years of being nominated in the category. The Company also received a Bronze Award in Pride in Diversity’s Australian Workplace Equality Index denoting its status as an LGBTQI+ friendly employer.

Financial Performance

The Company operating result for the year is $1,807 million Gross Written Premium (GWP) (2021: $1,643 million), and a profit after tax of $82 million (2021: $18 million loss after tax).

Despite challenges imposed during the financial year by global economic uncertainty and the COVID-19 global pandemic, the Company experienced above market growth in revenue year on year of 10%. All business divisions experienced growth in GWP with PetSure achieving the highest growth of 19%.

Total assets increased by $107 million or 4% to $2,900 million mainly driven by an increase in liquid assets together with higher reinsurance and other recoveries in line with business growth and natural catastrophe events in the second half of the year. Total liabilities increased by $25 million or 1% to $2,406 million reflecting business growth offset by reduced unearned reinsurance commission from ceasing of the Whole Account Quota Share at the end of 2022. Total net assets increased by $82 million to $494 million, reflecting both the result for the year and additional equity provided by the shareholder.

Financial performance during the year reflects:

- Gross Written Premium (GWP) increased by 10% for the year to $1,807 million (2021: $1,643 million);
- improved underlying loss ratios, excluding impacts from catastrophe and weather events, in most divisions, partially offset by slightly higher PetSure loss ratio from increased pet ownership;
- no change made to the provision for potential business interruption related claims arising from the COVID-19 pandemic except for an update to the discount rate given rises in interest rates. Further legal review by the industry is ongoing with outcomes to be determined. *Refer note 4.3 to the financial statements which accompany this report*;
- the occurrence of three natural peril events (catastrophes) of severe storms and floods across the eastern states, with a total gross ultimate claims estimate of over $220m, mitigated to a large extent by a comprehensive reinsurance programme resulting in the net impact of these events of $57m. In addition there were four New Zealand events below the reinsurance programme retention including floods, cyclone and storms;
- costs incurred for separation and integration activities of $12 million in 2022;
- net investments income uplift of 126%, which includes pre-tax profit on sale of PetSure Agency of $105 million, of which $19 million arises from a fair value gain on the Company’s residual holding of 18.2%; and
- the retirement of the Long Term Incentive Scheme with an income statement impact of $5.5 million, from income on participant loans.

Impact of COVID-19 and economic and market volatility upon operations

COVID-19 was declared a world-wide pandemic by the World Health Organisation in March 2020. Immediately following the global outbreak of COVID-19, the Company enacted its Business Continuity Plan (BCP) and transitioned most of its workforce to remote working arrangements. Many of the Company's business partners, clients, suppliers and banking partners also enacted similar arrangements. These actions, coupled with the Company's prior investment in systems, processes and people has ensured that there have been minimal disruptions to the operations of any of the Company's business segments due to the ongoing COVID-19 pandemic.

The Company's risk management framework continues to be applied across operating segments and management continues to monitor the impact of COVID-19 on the Company's risk profile noting that the countries the Company operates in are now subject to only a limited number of restrictions. Non-financial risks which emerged from the global movement restrictions, periods of lockdown in certain locations, hybrid and remote working by our staff, counterparties, clients, and suppliers, were, and continue to be, identified, assessed, managed and governed through the timely application of the Company's risk management framework. The Company is aware of the ongoing physical and emotional impact on its staff and continues to implement and develop programs to help them.

Many business interruption (BI) policies in Australia sought to exclude cover for pandemics through a reference to the Quarantine Act (which had been repealed in 2015 and replaced by the Biosecurity Act). A test case (to which the Company was a party) on whether the Quarantine Act reference should be construed as a reference to the Biosecurity Act was determined by the Court of Appeal in October 2020 when the Court ruled in favour of policyholders. That judgment was upheld in June 2021 when the High Court denied insurers' application for special leave to appeal. Following that determination a second industry test case was commenced in the Federal Court of Australia to seek clarification on other specific points of interpretation on aspects of business interruption policies which were required to be resolved to establish whether policyholders will ultimately be covered. The Court's judgment on those issues was delivered in October 2021 which judgment was predominantly in favour of insurers' arguments on those issues. On appeal, the Full Federal Court delivered a judgment on 21 February 2022 that was largely consistent with the primary judge's findings on key points of construction (except with respect to the treatment of Job keeper when quantifying any covered claim). Applications for special leave to the High Court were filed in March 2022 and we continue to await confirmation as to whether the High Court will agree to grant leave to hear a final appeal on these matters.

The Company has considered the impact of the ongoing COVID-19 pandemic and other economic and market volatility arising from global events in preparing these financial statements. Whilst the specific areas of judgement noted in prior years has not changed, the impact of COVID-19 and wider economic and market volatility has resulted in the wider application of judgement within those identified areas. Given the recent experience of the economic and financial impacts of the pandemic and wider economic and market volatility, changes to the estimates and outcomes that have been applied in the measurement of the Company's assets and liabilities may arise in the future. These represent the Company's best estimates as they existed at 30 June 2022.

The Company's business and financial performance has been impacted by COVID-19 and wider global economic and market volatility during the year primarily in the following areas:

- Some continued pressure on GWP particularly in the travel segment with large reduction of premium income since the beginning of the COVID-19 pandemic, a business decision in April 2021 to largely cease underwriting of Travel business, noting that this product line accounted for 1.6% of total GWP in 2020.
- Claims experience impacted by higher PetSure claims volume, offset by improved motor claims frequency during periods of lockdown. Increasing supply side costs for claims as a result of supply chain pressures resulting from both the pandemic and other global events.
- Additional operating expenses primarily related to cost of servicing higher PetSure customer numbers and increased claims frequency in PetSure. The Company did not receive any JobKeeper payments during the year.
- For specific potential COVID-19 claim impacts, no additional allowances (compared to FY21) have been included in FY22 for landlord and business interruption (BI) insurance products. As there is a high level of uncertainty associated with the underlying circumstances, these have been estimated exercising significant judgement. In particular, for potential business interruption claims the allowance (the BI Allowance) has been determined on a probability weighted basis. The adequacy of the provision and exposure will continue to be assessed. *Refer note 2.3 to the financial statements which accompany this report.*
- The Company has identified areas requiring improvement within the product lifecycle governance of insurance risk management as a result of the BI experience.

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

Capital

The Company's capital management strategy is founded on ensuring that there are sufficient capital resources (both economic and regulatory) to maintain and grow business in accordance with risk appetite. The Company's Internal Capital Adequacy Assessment Process (ICAAP) provides the framework to ensure that the Company is sufficiently capitalised to meet future requirements.

Refer note 4 to the financial statements which accompany this report.

The Company's regulatory capital base at 30 June 2022 comprised Common Equity Tier 1 (CET1) of $440 million with the regulatory capital adequacy multiple during the year within or above the target operating range and at close of financial year was 1.91.

Refer note 4.3 to the financial statements which accompany this report.

Additionally, the Company's capital base includes significant investments in strategic assets (insurance and insurance related assets), a significant amount of the value of which, are not included in the regulatory capital base.

Investment Activities

The Company has continued to adopt a conservative investment strategy throughout the year with focus on maintaining a high degree of liquid investments supporting insurance activities. During the year the employment of the liquidity management strategy reflected in an increase in liquid assets from $737 million to $870 million at 30 June 2022 comprised of cash and cash equivalents $368 million (2021: $434 million) and term deposits $502 million (2021: $303 million). Liquid assets are predominantly invested with approved APRA Authorised Deposit-Taking Institutions with a minimum credit rating of A (Standard and Poor’s).

In addition, in line with its strategic partnership model, the Company has strategic debt and equity investments of $124 million (2021: $131 million). This is mainly comprised of longer-term investments in unlisted insurance agencies and other companies involved in insurance related businesses. During the year the Company disposed of all of its interest in Car Next Door Pty Ltd and an 81.8% interest in PetSure (Australia) Pty Ltd to a related entity resulting in a significant part of the increased note above.

Refer note 3.4 and 7.3 to the financial statements which accompany this report.

Reinsurance

As part of its reinsurance management strategy, during the financial year the Company pro-actively worked to review and renew the components of its reinsurance programme that were expiring. At 30 June 2022, the Company successfully implemented the revised programme. Strategically the Company has utilised less proportional reinsurance, however additional horizontal Cat XOL cover was purchased compared with prior years, despite the significant market hardening.

Rating

On 3 March 2022, AM Best affirmed the Financial Strength Rating of A- (Excellent) and the Long-Term Issuer Credit Rating of “a-” (Excellent) with the outlook of these Credit Ratings being stable.

Regulatory

During the financial year, the Company has systematically actioned a work plan to ensure readiness for changes to laws affecting insurers and responded to regulatory requests. These included:.

Enhanced Breach Reporting: This significant reform came into effect on 1 October 2021 and new procedures were implemented to ensure compliance with key changes relating to the new concepts of ‘reportable situations’. Under the new regime investigations become reportable after 30 days and designated core breaches are also automatically reportable under the new legislation.

Product Design and Distribution obligation for licensees: This legislative reform was intended to drive better consumer outcomes by ensuring retail customers are at the centre of product governance arrangements, and that financial products are targeted to the appropriate class of retail consumers. This included ASIC Regulatory Guide 274 to provide ASIC’s interpretation of the design and distribution obligations.

Claims as a financial service: A new claims handling and settling regime commenced from 1 January 2022. These obligations apply to claims made on or after 1 January 2021 that are still on foot after the transition period ended on 31 December 2021. New procedures were implemented and additional training was provided to comply with the ongoing legislative requirements. These changes were carried out at a time when the claims area was dealing with the increased workload of the CAT221 floods which took place in Northern NSW and South Queensland.

Complaints: ASIC Regulatory Guide 271 internal dispute resolution replaced RG165 on 5 October 2021 which includes enforceable paragraphs relating to minimum content requirements, maximum timeframes and identified systemic issue management.

General Insurance Code of Practice 2020: A revised General Insurance Code of Practice was introduced 1 October 2021 to introduce a plain English rewrite, powers to impose sanctions, consumers provided with information on cash settlements and scope of works and mandatory standards for claims investigations. New sections on customers experiencing vulnerabilities and enhanced provision on financial hardship were introduced in the previous financial year.

APRA Insurance Risk Management Self-Assessment: APRA initiated a self-assessment exercise on 19 July 2021 in the wake of COVID 19 where insurers faced unintended Business Interruption (BI) losses. The Company provided its assessment to APRA on 29 November 2021 and has agreed with APRA to address the identified weaknesses as recorded in its roadmap as reported to APRA. APRA has provided a list of further supervision attention in the areas of implementation of change, consolidation of the Company's partners, products and distribution channels, testing effectiveness of changes/new controls, clarification of risk accountability and the Company's approach to emerging and evolving risks.

ASIC Pricing Review: ASIC called on all general insurers to review their pricing systems and controls to prevent consumer harm in October 2021. In particular, insurers were asked to independently review to confirm whether all discounts or price rewards had been fully delivered to all relevant customers, to fix all those instances leading to inconsistencies and review effectiveness of the fix, to repay the difference between the pricing promise and the price delivered to the customer and to report any breaches (under the enhanced breach reporting regime) to ASIC. A major review of the product pricing has been concluded and the results of that review were reported to ASIC on 31 August 2021. Preparations are being made for the rectification of the root cause and remediation of impacted customers where applicable. A provision of $7.4m has been recognised at 30 June 2022. Refer note 7.4 Provisions.

Commonwealth Insurance Limited (CIL) Integration: The Company has kept its regulators updated on the progress of the merger with CIL which has included a large body of work encompassing regulatory requirements, financing, technology, software, staffing and infrastructure considerations.

Australian Cyclone Reinsurance Pool: In response to inquiries about the availability and affordability of insurance cover for natural disasters there is a newly created Australian Reinsurance Pool Corporation (ARPC) will administer the scheme and will declare an event on advice from the Bureau of Meteorology. It is intended to cover cyclone and flood related damage for claims which arise until 48 hours after it ends, covering wind, rain, rainwater, rainwater run-off, storm surge, and riverine flood damage. In a recent meeting with ARPC, the Company indicated its intent to join the pool on 1 July 2023. The pool will be monitored by the ACCC.

Significant changes in the State of Affairs

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

Dividends

On 23 September 2022, the Company declared and paid a dividend of $38.73 million.

Directors' Report
FOR THE YEAR ENDED 30 JUNE 2022

Events Subsequent to Balance Date

With the exception of the dividend payment noted above and below, no matters or circumstances have arisen since 30 June 2022 that have significantly affected or may significantly affect the operations of the Company, the results of those operations or the state of affairs for the Company.

On 9 September 2022, the Company entered into a 10 year lease agreement for new premises commencing 1 July 2023, resulting in recognition, at that date, of an Asset of $48.1m and a corresponding liability of $48.1m.

Likely Developments

Information about likely developments in the operations of the Company and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Company.

Corporate Address

The registered address and principal place of business of the Company is:

Level 12
465 Victoria Avenue
Chatswood NSW 2067
Australia
Tel: (02) 9253 6600
Fax: (02) 9253 6699
www.hollard.com.au

Auditor's Independence

The auditor's independence declaration is set out on page 12 and forms part of the directors' report for the year ended 30 June 2022.

Indemnification of officers and auditors

During the financial year the Company paid an insurance premium in respect of a contract insuring the directors and other officers of the Company and all executive officers of the Company and of any related body corporate against a liability insured as such a director, officer or executive officer to the extent permitted by the Corporations Act 2001. Such insurance relates to any costs, including legal expenses incurred by directors or officers of the Company and of any related body corporate, in defending proceedings, whether civil or criminal, and other liabilities that may arise from their positions, with the exception of conduct involving any dishonest or fraudulent act, a wilful breach of duty or improper use of information or position to gain a personal advantage. The directors have not included details of the amount of the premiums paid in respect of the directors' and officers' liability insurance, or details of the premium paid in respect of former directors or individual officers of the Company, as such disclosure is prohibited under the terms of the contract.

The Company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as such an officer or auditor.

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2022

Rounding off

The Company is of a kind referred to in ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191 dated 24 March 2016, and in accordance with that Corporations Instrument, amounts in the directors' report and the financial statements are rounded off to the nearest thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of the directors.

Katrina Barry
Non-executive Director & Interim Chair

Richard Enthoven
Executive Director

Dated at Sydney 30 September 2022

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30 September 2022

The Board of Directors
The Hollard Insurance Company Pty Ltd
Level 12, 465 Victoria Avenue
Sydney, NSW, 2067

Dear Directors

Auditor's Independence Declaration to The Hollard Insurance Company Pty Ltd

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the Directors of The Hollard Insurance Company Pty Ltd.

As lead audit partner for the audit of the financial report of The Hollard Insurance Company Pty Ltd for the year ended 30 June 2022, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- The auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- Any applicable code of professional conduct in relation to the audit.

Yours faithfully

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Max Rt Murray

Max Murray
Partner
Chartered Accountants

Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2022

	Notes	2022 $000	2021 $000
Gross written premium		**1,806,775**	1,643,200
Unearned premium movement		**(78,186)**	(126,352)
Gross earned premium revenue	2.1	**1,728,589**	1,516,848
Outward reinsurance premium		**(611,058)**	(824,633)
Deferred reinsurance premium movement		**(210,362)**	33,052
Outward reinsurance premium expense	2.6	**(821,420)**	(791,581)
Net earned premium		**907,169**	725,267
Gross claims expense	2.2	**(1,198,891)**	(1,009,983)
Reinsurance and other recoveries revenue	2.1	**648,240**	510,213
Net claims expense		**(550,651)**	(499,770)
Acquisition expenses	2.7	**(475,910)**	(411,503)
Reinsurance commission revenue	2.1	**275,016**	265,294
Net acquisition expense		**(200,894)**	(146,209)
Levies and charges		**(31,554)**	(27,263)
Operating expenses	2.11	**(164,957)**	(121,445)
Underwriting result		**(40,887)**	(69,420)
Net investment income	3.1	**119,296**	52,884
Other income		**8,206**	2,764
Finance costs	4.2, b)	**-**	(214)
Foreign exchange gains (net)		**(570)**	(241)
Impairment of intangible assets	7.3	**152**	(22,276)
Other fees		**-**	(1,854)
Profit/(loss) before income tax		**86,197**	(38,357)
Income tax (expense)/benefit	6.1	**(4,101)**	20,183
Profit/(loss) after income tax		**82,096**	**(18,174)**
Other comprehensive income			
Net movement in foreign currency translation reserve		**(299)**	(100)
Income tax relating to these components of other comprehensive income		**-**	30
Other comprehensive loss after income tax		**(299)**	(70)
Total comprehensive income/(loss) for the year, net of tax		**81,797**	**(18,244)**

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Statement of Financial Position

AS AT 30 JUNE 2022

	Notes	2022 $000	2021 $000
ASSETS			
Cash and cash equivalents	3.2	**367,871**	433,837
Financial assets	3.3	**502,068**	303,472
Trade and other receivables	2.9	**957,369**	859,388
Reinsurance and other recoveries on outstanding claims	2.4	**385,528**	264,669
Deferred reinsurance expense	2.6	**247,642**	460,958
Deferred acquisition expense	2.7	**237,619**	216,203
Deferred levies and charges		**12,842**	16,130
Strategic Investments	3.4	**123,855**	169,260
Prepayments		**4,748**	3,878
Assets held for sale	7.1	**-**	4,516
Property, plant and equipment	7.2	**1,813**	2,198
Goodwill and intangible assets	7.3	**17,983**	5,035
Right-of-use assets	7.5	**3,439**	7,165
Deferred tax assets	6.2	**36,838**	46,084
Total assets		**2,899,615**	2,792,793
LIABILITIES			
Trade and other payables	2.10	**615,729**	745,616
Outstanding claims liability	2.3	**718,600**	555,624
Unearned premium liability	2.5	**947,545**	874,714
Unearned reinsurance commission	2.8	**57,549**	141,584
Provisions	7.4	**25,996**	14,024
Lease liabilities	7.5	**4,241**	8,616
Deferred tax liabilities	6.2	**35,840**	40,297
Total liabilities		**2,405,500**	2,380,475
Net assets		**494,115**	**412,318**
EQUITY			
Contributed equity	4.1	**361,659**	361,659
Retained earnings		**133,022**	50,926
Other components of equity		**(566)**	(267)
Total equity		**494,115**	**412,318**

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2022

	Attributable to the shareholder			
	Share Capital	**Retained earnings**	**Foreign currency translation reserve**	**Total equity**
2022	**$000**	**$000**	**$000**	**$000**
As at 1 July 2021	**361,659**	**50,926**	**(267)**	**412,318**
Profit for the period	-	82,096	-	82,096
Other comprehensive income	-	-	(299)	(299)
Total comprehensive loss after tax	-	82,096	(299)	81,797
At 30 June 2022	**361,659**	**133,022**	**(566)**	**494,115**

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2022

	Attributable to the shareholder			
	Share Capital	**Retained earnings**	**Foreign currency translation reserve**	**Total equity**
2021	**$000**	**$000**	**$000**	**$000**
As at 1 July 2020	**215,409**	**69,100**	**(197)**	**284,312**
Loss for the period	-	(18,174)	-	(18,174)
Other comprehensive income	-	-	(70)	(70)
Total comprehensive loss after tax	-	(18,174)	(70)	(18,244)
Transactions with owners in their capacity as owners:				
Issue of shares	146,250	-	-	146,250
	146,250	-	-	146,250
At 30 June 2021	**361,659**	**50,926**	**(267)**	**412,318**

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2022

	Notes	2022 $000	2021 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Premiums received		**1,720,219**	1,516,794
Reinsurance and other recoveries received		**454,641**	490,535
Reinsurance commission received		**257,836**	228,767
Outwards reinsurance paid		**(766,952)**	(691,067)
Claims paid		**(1,035,915)**	(866,247)
Acquisition costs paid		**(465,353)**	(404,528)
Levies and insurance operating costs paid		**(179,780)**	(94,927)
Interest received		**8,321**	2,190
Dividends received		**632**	6,251
Interest paid – lease liabilities		**(161)**	(285)
Net cash flows (used in)/from operating activities	**8.1, a)**	**(6,512)**	**187,483**
CASH FLOWS FROM INVESTING ACTIVITIES			
(Payment) / receipt for term deposits		**(198,399)**	(69,078)
Purchase of investments		**(3,000)**	(1,215)
Proceeds from sale of investments		**156,357**	5,424
Loans advanced		**(1,477)**	-
Loan repayments received		**7,314**	5,357
Payments for property, plant and equipment		**(1,298)**	(453)
Purchase of intangible assets		**(14,474)**	(1,713)
Net cash flows used in investing activities		**(54,977)**	**(61,678)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**-**	146,250
Repayment of borrowings		**-**	(40,000)
Finance costs paid		**(102)**	(255)
Payment of lease liabilities		**(4,375)**	(3,410)
Net cash flows (used in)/from financing activities		**(4,477)**	**102,585**
Net (decrease)/increase in cash held		**(65,966)**	228,390
Cash and cash equivalents at 1 July		**433,837**	205,447
Cash and cash equivalents at the end of the financial year	**3.2**	**367,871**	**433,837**

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

Notes to the Financial Statements
FOR THE YEAR ENDED 30 JUNE 2022

1. OVERVIEW

1.1. About The Hollard Insurance Company Pty Ltd

The Hollard Insurance Company Pty Ltd (the Company) is a for-profit company domiciled in Australia.

The principal activity of the Company during the course of the financial year was the underwriting and sale of general insurance policies and the investment of shareholders' and insurance funds. Underwriting of general insurance policies occurs in Australia as well as New Zealand, via a permanently established New Zealand branch of the Company.

There were no significant changes in the nature of activities of the Company during the year.

Hollard Holdings Australia Pty Ltd is the immediate parent entity of the Company and ultimate parent company is IVM Intersurer B.V. (incorporated in the Netherlands).

1.2. About these Financial Statements

The financial statements comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and associated notes to the financial statements. Disclosures have been grouped into the following categories in order to assist users in their understanding of the financial statements:

1. Overview contains information that impacts the financial statements as a whole.

2. Insurance activities brings together results and statement of financial position disclosures relevant to the Company's insurance activities.

3. Investment activities and other income includes results and statement of financial position disclosures relevant to the Company's investments as well as the significant components of other income.

4. Capital structure provides information about the debt and equity components as well as the capital management practices of the Company.

5. Risk management provides commentary on the Company's exposure to various risks, explaining the potential impact on the results and statement of financial position and how the Company manages these risks.

6. Tax includes disclosures relating to the Company's income tax balances.

7. Other includes statement of financial position items such as property, plant and equipment as well as goodwill and intangible assets.

8. Additional disclosures includes disclosures required to comply with Australian Accounting Standards.

9. Events subsequent to balance date includes report on events subsequent to balance date.

Where applicable within each note to the financial statements, disclosures are further analysed as follows:

- Overview provides some context to assist users in understanding the disclosures.
- Disclosures (both numbers and commentary) provides analysis of balances as required by Australian Accounting Standards.
- Recognition and measurement summarises the accounting policies relevant to an understanding of the numbers.
- Critical accounting judgements and estimates applied in determining the financial information, including sensitivity analysis where applicable.

Comparative information has been restated to align with changes in presentations made in the current year, where applicable.

1.3. Statement of compliance

The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) and Interpretations adopted by the Australian Accounting Standards Board (AASB), the Corporations Act 2001 and comply with other requirements of law. Compliance with Australian Accounting Standards ensures that the financial statements comply with International Financial Reporting Standards (IFRSs) adopted by the International Accounting Standards Board. The financial statements were authorised for issue by the directors on the 30 September 2022.

1.4. Basis of preparation

The financial report for the period ended 30 June 2022 has been prepared on the going concern basis that contemplates the continuity of normal business activities and the realisation of assets and extinguishment of liabilities in the ordinary course of business.

For the year ended 30 June 2022, the Company recorded a net profit after tax of $82 million (2021: net loss $18 million) and had net assets of $494 million (2021: $412 million). The Company had available $870 million of cash and other assets to meet day to day obligations as they fall due. The Company's regulatory capital base at 30 June 2022 comprised CET1 of $440 million (2021: $287 million) with the regulatory capital adequacy multiple at close of financial year of 1.91 (2021: 1.61).

The financial statements are prepared on the basis of historical costs except for financial assets and strategic investments that are stated at their fair value through profit or loss and outstanding claims and related reinsurance recoveries that are discounted to present value using a risk-free rate.

As permitted by AASB 10 *Consolidated Financial Statements*, these financial statements are not presented on a consolidated basis. The Company's immediate parent, Hollard Holdings Australia Pty Ltd, prepares consolidated financial statements in compliance with Australian Accounting Standards.

The Company is of a kind referred to in ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191 dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the directors' report and financial statements have been rounded off to the nearest one thousand dollars unless otherwise stated.

The statement of financial position is prepared with the assets and liabilities presented broadly in order of liquidity. The assets and liabilities comprise both current amounts (expected to be recovered or settled within 12 months after the reporting date) and non-current amounts (expected to be recovered or settled more than 12 months after the reporting date).

Presentation and foreign currency

The financial statements are presented in Australian dollars, which is the presentation currency of the Company. Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at reporting date are translated to Australian dollars using reporting date exchange rates. Resulting exchange differences are recognised in profit or loss.

The results and statement of financial positions of foreign operations that have a functional currency different from the Company's presentation currency of Australian dollars are translated as follows:

- income, expenses and other current period movements in comprehensive income are translated using monthly average rates of exchange; and
- statement of financial position items are translated at the closing balance date rates of exchange.

The principal exchange rates used in the preparation of the financial statements were:

	2022		**2021**	
	Profit or loss	**Statement of financial position**	**Profit or loss**	**Statement of financial position**
AUD/NZD	**1.06**	**1.11**	1.07	1.07

1.5. Significant accounting policies adopted

The principal accounting policies adopted in the preparation of the financial statements have been applied consistently to all periods presented, unless stated otherwise. The significant accounting policies adopted in the preparation of these financial statements are set out within the relevant note to the financial statements.

1.6. Critical accounting judgements and estimates

The preparation of financial statements in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements and key sources of estimation uncertainty applied in the process of the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

Critical Accounting judgements and estimates	**Note**
- Outstanding claims liability	2.3
- Reinsurance and other recoveries on outstanding claims	2.4
- Liability adequacy test	2.5.a
- Trade and other receivables	2.9
- Impairment assessment of controlled entities carried at cost	3.5
- Determination of fair value of strategic investments	3.8
- Recognised deferred income tax balances	6.2
- Intangible assets initial measurement, impairment testing and useful life	7.3

COVID-19 and economic and market volatilty impact on use of judgements and estimates

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

Fur further details on the impact of COVID-19 on the Company's judgements and estimates please refer notes 2.3 and 3.8.

2. INSURANCE ACTIVITIES

Contracts under which the Company accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified future event (the insured event) adversely affects the policyholder or other beneficiary, are classified as insurance contracts.

2.1. General insurance revenue

Premium revenue from general insurance business relates to amounts charged to policyholders for the provision of insurance cover. Premium revenue includes fire service levies but excludes stamp duties, goods and services tax (GST) and other amounts collected on behalf of third parties. Premiums are disclosed net of premium refunds and discounts.

To mitigate the Company's insurance risk profile, the Company passes some of its underwriting exposure to reinsurance companies. The premiums paid to reinsurers are an expense to the Company, whereas recoveries under the reinsurance contracts are recognised as revenue. These recoveries can either be in relation to operating costs (reinsurance commission) or underwriting risk (reinsurance recoveries).

	2022 $000	2021 $000
Gross earned premium revenue	**1,728,589**	1,516,848
Other insurance revenue		
Reinsurance and other recoveries revenue	**648,240**	510,213
Reinsurance commission revenue	**275,016**	265,294
Total general insurance revenue	**2,651,845**	**2,292,355**

Recognition and Measurement

Premium Revenue

Premium revenue, including unclosed business (business written where attachment of risk is prior to reporting date and there is insufficient information to finalise and issue the insurance contract), is recognised in the statement of comprehensive income when it has been earned. Premium revenue is earned evenly over the period of the contract, commencing from the attachment date. The earning of premium approximates the pattern of the incidence of risk expected over the contract period.

The proportion of premium received, or receivable not earned in the statement of comprehensive income at the reporting date is recognised in the statement of financial position as an unearned premium liability.

Premiums on unclosed business are brought to account using estimates based on information provided by the different intermediaries and allowing for any changes in the pattern of new business and renewals.

Reinsurance and Other Recoveries

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid, claims incurred but not reported, risk margins and unexpired risk liabilities are recognised as revenue when earned. They are earned once conditions giving rise to recoveries under reinsurance contracts and other arrangements are met.

Reinsurance Commission Revenue

Reinsurance commission revenue is recognised in the statement of comprehensive income and is earned over the period of indemnity of the reinsurance contract in accordance with the pattern of the incidence of risks ceded.

Where applicable, the reinsurance commission revenue also includes income which is based on the expected profitability of the covered business ceded to the reinsurer. The final value of the variable commission revenue recognised is subject to the achievement of a specified underlying profitability hurdle rate over time. This variable revenue is recognised over the term of the reinsurance contract on a straight line, or other systematic basis, in accordance with the terms of the contract, and is reassessed at each reporting date.

2.2. Claims expense

The gross claims expense in the statement of comprehensive income comprises claims paid and the change in the liability for outstanding claims, both reported and unreported, including a risk margin and claims handling expenses.

	2022			2021		
	Current period $000	Prior years $000	Total $000	Current period $000	Prior years $000	Total $000
Gross claims expense						
Gross claims - undiscounted	**1,244,511**	**(32,517)**	**1,211,994**	991,552	18,270	1,009,822
Discount	**(8,075)**	**(5,028)**	**(13,103)**	(659)	820	161
Gross claims - discounted	**1,236,436**	**(37,545)**	**1,198,891**	990,893	19,090	1,009,983
Reinsurance and other recoveries revenue						
Reinsurance and other recoveries - undiscounted	**(655,510)**	**1,555**	**(653,955)**	(522,831)	12,672	(510,159)
Discount	**4,331**	**1,384**	**5,715**	295	(349)	(54)
Reinsurance and other recoveries - discounted	**(651,179)**	**2,939**	**(648,240)**	(522,536)	12,323	(510,213)
Net claims expense	**585,257**	**(34,606)**	**550,651**	**468,357**	**31,413**	**499,770**

Current period claims relate to risks borne in the current financial period. Prior period claims relate to a reassessment of the risks borne in all previous financial periods.

2.3. Outstanding claims liability

A liability is recorded at the end of the year for the estimated cost of claims incurred but not settled at the reporting date. The determination of the outstanding claims liabilities involves two steps:

- The determination of the central estimate of Outstanding Claims at the reporting date. The central estimate of Outstanding Claims includes an allowance for claims incurred but not reported (IBNR) and the further development of reported claims. The central estimate has no deliberate bias towards either over or under estimation. However, the estimates do not necessarily represent the mid-point of the range of possible outcomes as the potential for adverse movement generally exceeds the potential for favourable movement.
- The determination of a risk margin and claims handling expense provision to be added to the central estimates of Outstanding Claims.

	2022 $000	2021 $000
Gross undiscounted central estimate	**699,121**	525,875
Discount to present value	**(13,199)**	(806)
	685,922	525,069
Plus: Risk margin	**32,678**	30,555
Gross outstanding claims liability	**718,600**	**555,624**
Payable within 12 months	**540,844**	337,117
Payable greater than 12 months	**177,756**	218,507
	718,600	**555,624**

A stabilisation reserve of $1.2 million (2021: $2.8 million) is included in the outstanding claims liability which represents a provision held for certain partners in the agency distribution channel where a component of the profit share payable is withheld as a buffer against adverse claims development.

Recognition and Measurement

Gross central estimate

The liability for outstanding claims is measured as the central estimate of the present value of expected future payments against claims incurred at the reporting date under general insurance contracts issued by the Company, with an additional risk margin to allow for the inherent uncertainty in the central estimate. Under the Institute of Actuaries of Australia Professional Standard 302 "Valuations of General Insurance Claims", the central estimate is the best estimate of the expected liabilities for outstanding claims based on information currently available and exhibits no bias either towards a pessimistic or an optimistic outcome.

The expected future payments include those in relation to claims reported but not yet paid, claims incurred but not yet reported, claims incurred but not enough reported and anticipated claims handling expenses. The expected future payments are discounted to present value using a risk-free rate.

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

The table below analyses the movement in the gross outstanding claims liability, showing separately the movement in gross claims liability and the impact of reinsurance.

	2022 $000	2021 $000
Balance at beginning of financial year	**555,624**	411,888
Claims expense – prior accident year	**(32,517)**	18,270
Incurred claims recognised in profit or loss	**1,244,512**	991,543
Discount movement	**(13,104)**	365
Claims payments	**(1,033,336)**	(865,626)
Foreign exchange	**(2,579)**	(816)
Balance at end of financial year	**718,600**	**555,624**

Risk margin

A risk margin is applied to the outstanding claims liability to reflect the inherent uncertainty in the central estimate of the outstanding claims liability. The risk margin increases the probability that the net liability is adequately provided to approximately a 75% confidence level.

The overall risk margin is determined allowing for diversification between classes of business and the relative uncertainty of the outstanding claims estimate for each class.

The assumptions regarding uncertainty for each class were applied to the net central estimates, and the results were aggregated, allowing for diversification in order to arrive at an overall provision, which is intended to have a 75% probability of sufficiency.

	2022	**2021**
Net overall risk margin applied	**11.2%**	12.1%

Critical Accounting Estimates and Judgements

Gross central estimate

The estimation of claims incurred but not reported (IBNR) is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about the claim event is generally available. IBNR claims may often not be reported until some years after the events giving rise to the claims that have happened. Long-tail classes of business will typically display greater variations between initial estimates and final outcomes because there is a greater degree of difficulty in estimating IBNR reserves. Short-tail claims are typically reported soon after the claim event and hence tend to display lower levels of volatility.

In calculating the estimated cost of unpaid claims, the Company uses a variety of estimation techniques, generally based upon statistical analyses of historical Company and general industry experience that assumes that the development pattern of the current claims will be consistent with past Company experience and/or general industry benchmarks as appropriate. Allowance is made, however, for changes or uncertainties that may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims.

The general approach to actuarial estimation of insurance liabilities is to analyse all available past experience, primarily claim payments, movements in case estimates and movements in incurred claim costs. This analysis allows patterns to be identified in the past experience. Based on this, development patterns associated with the run-off of Outstanding Claims and Premium Liabilities at the reporting date can be estimated.

COVID-19 Impact on use of judgements and estimates

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

The motor portfolio has continued to be impacted through favourable claim frequency due to various periods of restrictions imposed in different parts of Australia and New Zealand which consequentially reduced vehicle usage. In respect of other classes of business, where the effect of COVID-19 on insurance liabilities is quantifiable and reflected in the data, the impact has been appropriately captured within the outstanding claim liabilities. Where claim cost calculations are highly uncertain as a result of COVID-19 or the current economic downturn being experienced, the Company has recognised a separate net outstanding claim provision in relation to its Australian business. This provision has been estimated exercising significant judgement on a probability-weighted basis on a range of variables and relates to potential claims made on business interruption.

Many business interruption (BI) policies in Australia sought to exclude cover for pandemics through a reference to the Quarantine Act (which had been repealed in 2015 and replaced by the Biosecurity Act). A test case (to which the Company was a party) on whether the Quarantine Act reference should be construed as a reference to the Biosecurity Act was determined by the Court of Appeal in October 2020 when the Court ruled in favour of policyholders. That judgment was upheld in June 2021 when the High Court denied insurers' application for special leave to appeal. Following that determination a second industry test case was commenced in the Federal Court of Australia to seek clarification on other specific points of interpretation on aspects of business interruption policies which were required to be resolved to establish whether policyholders will ultimately be covered. The Court's judgment on those issues was delivered in October 2021 which judgment was predominantly in favour of insurers' arguments on those issues. On appeal, the Full Federal Court delivered a judgment on 21 February 2022 that was largely consistent with the primary judge's findings on key points of construction (except with respect to the treatment of Job keeper when quantifying any covered claim). Applications for special leave to the High Court were filed in March 2022 and we continue to await confirmation as to whether the High Court will agree to grant leave to hear a final appeal on these matters.

In particular, in determining the estimate for the COVID-19 specific element relating to business interruption coverage, and the relevant allowance, significant judgement has been exercised. There is a large degree of uncertainty related to the judgement areas used in the estimation and therefore the range of potential financial outcomes in relation to these matters is abnormally wide. Consequently, the associated estimated allowance reflects a substantial risk margin. Refer note 1.6 for further details on judgements and estimates used related to impact of COVID 19.

Key Assumptions

The outstanding claims liabilities included in the reported results are calculated based on the key actuarial assumptions as disclosed below:

	2022				**2021**			
	Personal Lines	**Pet**	**Commercial**	**New Zealand**	**Personal Lines**	**Pet**	**Commercial**	**New Zealand**
Discounted mean term	**0.49**	**0.36**	**1.34**	**0.51**	0.51	0.35	2.01	0.55
Discount rate	**2.44%**	**2.35%**	**2.82%**	**3.15%**	0.15%	0.04%	0.28%	0.44%
Inflation rate	**3.30%**	**3.25%**	**3.90%**	**3.25%**	2.54%	2.50%	3.18%	2.50%
Claims handling expense rate	**2.26%**	**0.60%**	**3.25%**	**0.40%**	3.06%	0.60%	2.76%	0.40%

Discounted mean term of claims

The discounted mean term of claims relates to the expected payment pattern for claims. It is calculated by class of business and is generally based on historical settlement patterns. The discounted mean term of claims, while not itself an assumption, provides a summary indication of the future cash flow pattern.

Discount rate

The outstanding claims liability is discounted at a rate equivalent to that inherent in a portfolio of risk-free fixed interest securities with coupon and redemption cash flows exactly matching the projected inflation claim cash flows.

Inflation rate

For most valuation methods an implicit allowance for future claims inflation is incorporated to the extent that it is present in the claims experience analysed. For one valuation method, which does not have a material bearing on the valuation outcomes, an explicit inflation assumption is required. For short tail valuation portfolios, the only portfolios for which this method is used, the inflation assumption is 3.58% (2021: 2.87%).

Claims handling expense rate

The adopted claims handling expense rate is a percentage of the projected gross outstanding claim payments. Historical expense rates are considered when deriving the expected expense rate.

Sensitivity Analysis

The movement in any of the above key actuarial assumptions will impact the performance and equity of the Company. The table below describes how a change in each of the assumptions will affect the Company. Each change has been calculated in isolation of the other changes, and without regard to other changes to balance date amounts that may occur simultaneously. The movements are stated in absolute terms where the base assumption is a percentage or average term.

	Sensitivity	Impact on claims liability	2022 $'000	2021 $'000
Discounted mean term	+ 6 mths	Increase claims liability	**1,318**	3,668
	- 6 mths	Reduce claims liability	**(1,313)**	(3,622)
Discount rate	+ 1% p.a.	Increase claims liability	**(2,806)**	(3,601)
	- 1% p.a.	Reduce claims liability	**2,858**	3,684
Inflation rate	+ 1% p.a.	Increase claims liability	**2,808**	3,555
	- 1% p.a.	Reduce claims liability	**(2,811)**	(3,545)
Claims handling expense rate	+ 1% p.a.	Increase claims liability	**7,117**	5,441
	- 1% p.a.	Reduce claims liability	**(7,117)**	(5,441)

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2022

a) Claims development

Claims development tables are disclosed in order to put the claims estimates included in the financial statements into context, allowing comparison of those claims estimates with the claims results seen in previous years. In effect, the table highlights the Company's ability to provide an estimate of the total value of claims. The top part of the table provides a review of current estimates of cumulative claims and demonstrates how the estimated claims have changed at subsequent reporting or accident year-ends. The lower part of the table provides a reconciliation of the total reserve included in the statement of financial position and the estimates of cumulative claims.

	Earlier	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**Total**
	$000	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**
Projected net ultimate claims cost for long tail claims at:												
Earlier	15,532	2,475	3,740	2,866	2,950	5,615	8,737	17,596	17,956	21,201	24,580	
Year 1	15,203	3,236	3,587	2,568	2,425	5,972	7,911	17,987	16,873	18,172	-	
Year 2	17,568	3,403	3,368	2,056	2,319	5,773	9,694	17,103	14,506	-	-	
Year 3	23,772	3,491	2,827	2,454	2,236	5,726	11,051	17,436	-	-	-	
Year 4	27,045	4,508	2,878	2,818	2,322	5,787	10,977	-	-	-	-	
Year 5	28,364	4,732	2,903	2,968	2,102	5,617	-	-	-	-	-	
Year 6	29,976	4,487	2,847	2,542	2,063	-	-	-	-	-	-	
Year 7	30,881	4,397	2,783	2,533	-	-	-	-	-	-	-	
Year 8	30,773	4,558	2,781	-	-	-	-	-	-	-	-	
Year 9	29,822	4,594	-	-	-	-	-	-	-	-	-	
Year 10	29,597	-	-	-	-	-	-	-	-	-	-	
Current estimate of net ultimate claims payments	29,597	4,594	2,781	2,533	2,063	5,617	10,977	17,436	14,506	18,172	24,580	132,856
Cumulative net payments to date	28,488	4,442	2,780	2,510	1,920	4,649	8,096	10,733	6,370	5,627	2,813	78,428
Net undiscounted central estimate - long tail	1,109	152	1	23	143	968	2,881	6,703	8,136	12,545	21,767	54,428
Net undiscounted central estimate - short tail	49	-	-	-	-	-	1,732	1,425	63,871	19,739	152,841	239,657
Total undiscounted net outstanding claim payments	1,158	152	1	23	143	968	4,613	8,128	72,007	32,284	174,608	294,085
Discount to present value	(211)	(128)	-	-	(3)	(25)	(148)	(572)	(892)	(1,707)	(3,387)	(7,073)
Net discounted central estimate	947	24	1	23	140	943	4,465	7,556	71,115	30,577	171,221	287,012
Claims settlement costs												12,167
Risk margin												32,678
Total net outstanding future claim payments												331,857
Stabilisation reserve												1,215
Reinsurance and other recoveries												385,528
Gross outstanding claims liability												718,600

2.4. Reinsurance and other recoveries on outstanding claims

To mitigate the Company's insurance risk profile, the Company passes some of its underwriting exposure to reinsurance companies. Recoveries under these reinsurance contracts relate to underwriting risk.

	2022 $000	2021 $000
Reinsurance and other recoveries on outstanding claims - undiscounted	**391,400**	265,129
Discount to present value	**(5,872)**	(460)
Balance at end of financial year	**385,528**	**264,669**
Receivable within 12 months	**316,532**	197,460
Receivable in greater than 12 months	**68,996**	67,209
	385,528	**264,669**

Recognition and Measurement

Estimates of reinsurance and other recoveries are assessed in a manner similar to the assessment of outstanding claims. Refer note 2.3. Recoveries are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

The recoverability of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as counterparty credit risk. Impairment is recognised where there is objective evidence that the Company may not receive amounts due and these amounts can be reliably measured.

2.5. Unearned premium liability

Gross written premium is earned in profit or loss in accordance with the pattern of incidence of risk of the related business. The unearned premium liability is that portion of gross written premium that has not yet been earned in profit or loss as it represents insurance coverage to be provided to policyholders after balance date.

	2022 $000	2021 $000
Balance at beginning of financial year	**874,714**	748,541
Deferral of unearned premium on contracts written in the financial year	**1,806,775**	1,643,199
Earning of premium written in current and previous financial years	**(1,728,589)**	(1,516,848)
Foreign exchange impact	**(5,355)**	(178)
Balance at end of financial year	**947,545**	**874,714**
To be earned within 12 months	**946,427**	873,373
To be earned in greater than 12 months	**1,118**	1,341
	947,545	**874,714**

Recognition and Measurement

The proportion of premium received, or receivable not earned in the statement of comprehensive income at the reporting date is recognised in the statement of financial position as an unearned premium liability.

a) Liability Adequacy Test

Provision is made for unexpired risks arising from general insurance business where the expected value of claims and expenses attributed to the unexpired periods of policies in force at the reporting date exceeds the unearned premiums liability in relation to such policies after the deduction of any related deferred acquisition costs (LAT). The LAT is an area of critical judgement. Refer note 2.3 for more detail on underlying assumptions.

The provision for unexpired risk is calculated separately for each group of contracts subject to broadly similar risks and managed together as a single portfolio. LAT is currently performed at the distribution channel level for intermediated business and lines of business level for non-intermediated.

The LAT assesses whether the net unearned premium liability is sufficient to cover future claims costs for in-force policies. Future claims are calculated as the present value of the expected cash flows relating to future claims and includes a risk margin to increase the statistical probability that the estimate is adequate. A 75% probability of adequacy is a recognised industry benchmark in Australia, being the minimum required by APRA for Australian licensed insurers.

	2022	**2021**
Net overall risk margin applied	**5.8%**	6.1%

The application of the LAT in respect of net unearned premium liabilities has identified a deficit at a line of business level for the Company at 30 June 2022 and at 30 June 2021 resulting in a write down of deferred acquisition costs within Commercial Lines. Set out below are the amounts reflecting the LAT deficiency test at the line of business level:

Divisional LAT	**2022 $000**	**2021 $000**
Net unearned premium liabilities per IFRS	**46,697**	**32,137**
less:		
Net present value of expected future cash flows for future claims before risk margin	**(40,877)**	**(29,469)**
Net discounted risk margin	**(6,428)**	**(3,953)**
Deficiency at balance date	**608**	**1,285**
Deferred acquisition expense adjustment	**588**	**(1,285)**

2.6. Deferred reinsurance premium

The deferred reinsurance premium asset is that portion of the reinsurance premium that represents reinsurance coverage to be received after the balance date.

	2022 $000	**2021 $000**
Balance at beginning of financial year	**460,958**	428,197
Premiums deferred in financial year	**611,058**	824,633
Amortisation of premiums deferred	**(821,420)**	(791,581)
Foreign exchange impact	**(2,954)**	(291)
Balance at end of financial year	**247,642**	**460,958**
To be expensed within 12 months	**246,524**	458,555
To be expensed in greater than 12 months	**1,118**	2,403
	247,642	**460,958**

Recognition and Measurement

Premiums ceded to reinsurers under reinsurance contracts held by the Company are recorded as a reinsurance premium expense and are recognised in the statement of comprehensive income from the attachment date over the period of indemnity of the reinsurance contract in accordance with the pattern of the incidence of risk ceded.

Accordingly, a proportion of reinsurance premium expense is treated as prepaid and disclosed as deferred reinsurance expense in the statement of financial position.

2.7. Deferred acquisition costs

Acquisition costs include commission or brokerage paid to agents or brokers for obtaining business, selling and underwriting costs such as advertising and risk assessment, the administrative costs of recording policy information and premium collection cost.

	2022 $000	2021 $000
Balance at beginning of financial year	**216,203**	189,371
Costs deferred in financial year	**497,326**	438,335
Costs expensed during the year	**(476,498)**	(410,223)
Liability Adequacy Test reversal/(deficiency)	**588**	(1,280)
Balance at end of financial year	**237,619**	**216,203**
To be expensed within 12 months	**237,334**	215,820
To be expensed in greater than 12 months	**285**	383
	237,619	**216,203**

Recognition and Measurement

Acquisition costs are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the statement of comprehensive income in subsequent reporting periods.

Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the general insurance contracts to which they relate. This pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue.

2.8. Unearned reinsurance commission

The unearned reinsurance commission is that portion recognised in line with the reinsurance premium, representing reinsurance coverage to be received after balance date.

	2022 $000	2021 $000
Balance at beginning of financial year	**141,584**	138,922
Commission earned in financial year	**190,981**	267,956
Earning of commission written in previous financial years	**(275,016)**	(265,294)
Balance at end of financial year	**57,549**	**141,584**
To be expensed within 12 months	**57,496**	141,425
To be expensed in greater than 12 months	**53**	159
	57,549	**141,584**

Recognition and Measurement

Reinsurance commission revenue is earned over the period of indemnity of the reinsurance contract in accordance with the pattern of the incidence of risks ceded. The unearned reinsurance commission represents the portion to be earned after balance date.

2.9. Trade and other receivables

	2022 $000	2021 $000
Receivables from third-party customers	**826,814**	770,455
Provision for impairment of receivables	**(7,532)**	(5,587)
Net premium receivable	**819,282**	764,868
Reinsurance and other recoveries receivable on paid claims	**78,327**	71,195
Reinsurance commissions receivable	**4,341**	73
Other receivables	**43,014**	2,201
Interest receivables	**1,432**	1,578
Net related party receivables	**-**	560
Receivable from head entity under tax contribution agreement	**10,973**	18,913
Trade and other receivables	**957,369**	**859,388**
Receivable within 12 months	**957,369**	859,388
Trade and other receivables	**957,369**	**859,388**

Recognition and Measurement

Premium receivable is recognised as the amount due and is normally settled between 30 days and 12 months. The recoverability of premium receivable is assessed, and provision is made for expected credit loss based on past default experience as well as other economic factors.

Amounts due from policyholders and intermediaries are initially recognised at cost, being the actual amounts due. Subsequent measurements are estimated by taking the initially recognised amounts and reducing them for impairment as appropriate.

Reinsurance recoveries receivable and reinsurance commissions receivable are set off against reinsurance payables where applicable. Refer note 2.10.

Receivables are non-interest bearing and are normally settled between 30 days and 12 months. The balance has not been discounted as the effect of the time value of money is not material. The net carrying amount of receivables is considered a reasonable approximation of the fair value of the assets due to the short-term nature of the assets.

2.10. Trade and other payables

	2022 $000	2021 $000
Reinsurance premiums payable	**255,790**	409,123
Acquisition costs payables	**246,618**	214,691
Trade payables	**18,940**	19,056
Other payables and accruals	**94,381**	100,156
Related parties	**-**	2,590
Trade and other payables	**615,729**	**745,616**
Payable within 12 months	**615,729**	745,616
Trade and other payables	**615,729**	**745,616**

Recognition and Measurement

Trade and other payables are stated at amortised cost, representing liabilities for goods and services provided to the Company prior to the end of the financial year and which are unpaid at that date, including a liability for fire services levy and other charges recognised on business written to the balance date. Levies and charges payable are expensed on the same basis as the recognition of premium revenue, with the portion relating to unearned premium being recorded as a prepayment and disclosed as deferred levies and charges in the statement of financial position.

Under quota share reinsurance treaty agreements, the Company has a right of offset, and settles on a net basis. Accordingly, the reinsurance payable balance represents the net position on such reinsurance treaty agreements, with the offset being applied to reinsurance recoveries receivable and reinsurance commission income receivable, on a treaty basis. The relevant cash flows pertaining to Quota Share reinsurance agreements have been presented on a gross basis within the cash flow statement.

Other than a claims discount, trade and other payables are unsecured, non-interest bearing and are normally settled within 30 days to 12 months. The balance has not been discounted as the effect of the time value of money is not material.

The carrying amount of payables is a reasonable approximation of the fair value of the liabilities because of the short-term nature of the liabilities.

2.11. Insurance operating expenses

The insurance expense disclosed in the statement of comprehensive income includes the following key expense items:

	Notes	2022 $000	2021 $000
Employee benefits costs	7.4, a)	**82,700**	69,143
Professional fees		**4,708**	3,268
Outsourced insurance services		**40,778**	24,241
Occupancy costs		**1,752**	1,937
Amortisation		**1,678**	1,919
Depreciation		**1,712**	1,562
Depreciation right-of-use asset	7.5	**3,726**	5,051
Interest unwind on operating lease liabilities	7.5	**161**	285
Corporate expenses		**27,742**	14,039
Total insurance expenses		**164,957**	**121,445**

3. INVESTMENT ACTIVITIES

The assets backing general insurance liabilities are those assets required to cover the insurance liabilities plus an allowance for solvency equal to the minimum regulatory capital prescribed by APRA. Insurance liabilities include outstanding claims, unearned premium liabilities, unexpired risk liability, unearned reinsurance commissions and payables associated with insurance operations. The Company has determined that all assets are held to support insurance liabilities.

As part of its investment strategy, the Company seeks to notionally allocate its assets to insurance activities to mature in accordance with the expected pattern of future cash flows arising from insurance liabilities.

The Company's investments comprise cash and cash equivalents, financial assets (including term deposits) and other investments (controlled entities and strategic investments in unlisted insurance agencies and other companies involved in insurance related businesses).

3.1. Investment income

	2022 $000	2021 $000
Interest income	**8,259**	2,539
Dividend income	**632**	6,774
Fair value gain on investments	**24,280**	40,214
Gain on disposal of investments	**86,125**	3,357
Total investment and other income	**119,296**	52,884

Recognition and Measurement

Interest income is recognised in the statement of comprehensive income as it accrues, using the effective interest method. Dividend income is recognised in the statement of comprehensive income on the date that the Company has a right to receive payments.

Investment income includes realised and unrealised gains or losses on financial assets and strategic investments which are reported on a combined basis as fair value gains or losses on financial assets and strategic investments.

3.2. Cash & Cash Equivalents

	2022 $000	2021 $000
Cash held for operational purposes	**367,871**	433,837
	367,871	**433,837**

3.3. Financial assets

	2022 $000	2021 $000
Term deposits	**502,068**	303,472
Total financial assets	**502,068**	**303,472**

Recognition and Measurement

Financial assets are designated at fair value through profit and loss. Initial recognition is at fair value in the statement of financial position and subsequent measurement is at fair value with any resultant unrealised gains or losses recognised in the statement of comprehensive income.

3.4. Strategic Investments

	Notes	2022 $000	2021 $000
Controlled entities		**2,000**	87,767
Associates	3.6	**86,849**	80,869
Other strategic investments	3.7	**35,006**	624
Total strategic investment assets		**123,855**	**169,260**

Recognition and Measurement

Investments in strategic investments are designated at fair value through profit or loss upon initial recognition, with the exception of investments in subsidiaries. This is permitted by AASB 1023 - General Insurance Contracts. Subsequent measurements are at fair value, with any adjustments for impairment recognised through profit or loss. All investments in subsidiaries are initially valued at cost. Where the subsidiary is acquired in stages the fair value at the date of control arising is the deemed cost.

Acquisitions and Disposals of Investments

Controlled entities: Current Year

- On 31 March 2022 the entity sold 81.8% of its 100% investments in the PetSure (Australia) Pty Ltd for $156 million. On the same date control passed to the acquirer. The Company reclassified its residual interest in PetSure (Australia) Pty Ltd from a Controlled Entity to an Equity Investment.

Controlled entities: Prior Year

- There were no acquisitions and disposals of controlled entities during the prior financial years.

Associates: Current Year

- In July 2022, the Company disposed of its entire holding in ATL Holdings Group Ltd for $3.54 million.
- In January 2022, the Company disposed of its entire holding in Car Next Door Australia Pty Ltd for $0.61 million.
- During the period, the Company acquired the balance of Holiday Rescue Ltd, a dormant entity, for no consideration.
- In August 2021, the Company participated in Open Money Group Pty Ltd's capital raise to the value of $3 million.

Associates: Prior Year

- In June 2021, the Company disposed of 80% of its interest in ListSure Pty Ltd taking its interest down to 5%. The Company reclassified its interest in ListSure Pty Ltd from an Associate to an Equity investment.
- In March 2021, the Company disposed of its entire holding in Ukawa Pty Ltd for $2.15 million.
- In February 2021, the Company disposed of its entire holding in All Parks Pty Ltd for $2.475 million. The Company also increased its shareholding in ATL Holdings Pty Ltd from 24.92% to 27.22%.

3.5. Controlled Entities

2022	**Place of incorporation**	**Principal Activity**	**Interest held %**	**Equity $'000**	**Loan $'000**	**Cost $'000**	**Impairment Adj. $'000**	**Carrying Value $'000**
Firma Insurance Services Pty Ltd	**Australia**	**Underwriting Agency**	**100%**	**132**	**-**	**132**	**(132)**	**-**
Hollard Commercial Insurance Pty Ltd	**Australia**	**Underwriting Agency**	**99.95%**	**2,000**	**-**	**2,000**	**-**	**2,000**
Holiday Rescue Limited	**New Zealand**	**Underwriting Agency**	**100%**	**522**	**-**	**522**	**(522)**	**-**
Hollard Australia Services South Africa Pty Ltd	**South Africa**	**Services entity**	**100%**	**-**	**-**	**-**	**-**	**-**
				2,654	**-**	**2,654**	**(654)**	**2,000**

2021	**Place of incorporation**	**Principal Activity**	**Interest held %**	**Equity $'000**	**Loan $'000**	**Cost $'000**	**Impairment Adj. $'000**	**Carrying Value $'000**
Firma Insurance Services Pty Ltd	Australia	Underwriting Agency	100%	132	-	132	(132)	-
Hollard Commercial Insurance Pty Ltd	Australia	Underwriting Agency	99.95%	2,000	-	2,000	-	2,000
Holiday Rescue Limited	New Zealand	Underwriting Agency	49%	522	-	522	(522)	-
PetSure (Australia) Pty Ltd	Australia	Underwriting Agency	100%	85,767	-	85,767	-	85,767
				88,421	**-**	**88,421**	**(654)**	**87,767**

Impairment

At the end of each reporting period, the Company reviews the carrying amounts of its investment in controlled entities to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Recoverable amount is the higher of fair value less costs to sell and value in use. In determining fair value, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the business for which the estimates of future cash flows have not been adjusted. In the current year the effects of the COVID 19 pandemic on the economy and our investments were considered in the assessment of the fair values of all investments.

Critical Accounting Estimates and Judgements

An impairment assessment was performed by estimating the fair value less costs to sell off the controlled entities. The result of the most current assessment was that there was no indication of impairment and the directors are confident that the carrying amount of the assets are recoverable in full.

Cash flow forecasts, including investment returns, are based on the latest three-year business plan, extended to year five based on forecasted growth. These forecasts are based on a combination of historical performance and management’s expectations of future performance based on prevailing and anticipated market factors.

Terminal value is calculated using a perpetuity growth formula based on the cash flow forecast at the end of year five. Terminal growth rates and insurance margins are based on past performance and management's expectations for future performance.

Discount rates reflect an equity risk premium appropriate to the controlled entities, incorporating risk adjustments where applicable.

In performing the impairment test at 30 June 2022, the Company has revised its future forecast cash flow estimates accordingly. Whilst no impairment has been identified at the balance date, future changes in local economic conditions and the broader operating environment have the potential to materially impact key assumptions.

	2022	2021
Terminal growth rate	**2.5%**	2.5% - 3.0%
Discount rate - pre-tax	**13.7%**	15.4% - 19.7%

Sensitivity Analysis

	Sensitivity %	**Impact on impairment assessment**	**2022 $'000**
Terminal growth rate	+ 1% p.a.	Increase headroom	**434**
	- 1% p.a.	Reduce headroom, no impairment	**(434)**
Discount rate	+ 1% p.a.	Reduce headroom, no impairment	**(674)**
	- 1% p.a.	Increase headroom	**674**

3.6. Associates

2022	Place of incorporation	Principal Activity	Interest held %	Equity $'000	Loan $'000	Cost $'000	Fair Value Adj. $'000	Fair Value $'000
Ando Insurance Group Limited	**New Zealand**	**Underwriting Agency**	**39.95%**	**8,043**	**1,828**	**9,871**	**30,491**	**40,362**
ATL Holdings Group Ltd	**Australia**	**Underwriting Agency**	**27.22%**	**1,766**	**-**	**1,766**	**1,776**	**3,542**
Grappler.io	**New Zealand**	**InsurTech**	**25.25%**	**1,385**	**352**	**1,737**	**-**	**1,737**
Insured by Us Pty Ltd	**Australia**	**Underwriting Agency**	**50.00%**	**1**	**21**	**22**	**(1)**	**21**
Insuret Pty Ltd	**Australia**	**Underwriting Agency**	**50.00%**	**668**	**838**	**1,506**	**3,832**	**5,338**
Open Money Group Pty Ltd	**Australia**	**Underwriting Agency**	**28.69%**	**9,750**	**-**	**9,750**	**18,888**	**28,638**
TwoThreeBird Holdings Ltd	**UK**	**Underwriting Agency**	**27.19%**	**^**	**1,721**	**1,721**	**5,490**	**7,211**
				21,613	**4,760**	**26,373**	**60,476**	**86,849**

2021	Place of incorporation	Principal Activity	Interest held %	Equity $'000	Loan $'000	Cost $'000	Fair Value Adj. $'000	Fair Value $'000
Ando Insurance Group Ltd	New Zealand	Underwriting Agency	39.95%	8,043	2,173	10,216	30,491	40,707
ATL Holdings Group Pty Ltd	Australia	Underwriting Agency	27.22%	1,766	-	1,766	782	2,548
Grappler.io Limited	New Zealand	InsurTech	25.25%	1,385	-	1,385	-	1,385
Insured By Us Pty Ltd	Australia	Underwriting Agency	50.00%	1	10	11	(1)	10
Insuret Pty Ltd	Australia	Underwriting Agency	50.00%	668	1,193	1,861	2,988	4,849
Open Money Group Pty Ltd	Australia	Underwriting Agency	38.40%	6,750	3,015	9,765	17,040	26,805
TwoThreeBird Holdings Ltd	UK	Underwriting Agency	27.19%	^	568	568	3,995	4,563
				18,613	**6,960**	**25,572**	**55,295**	**80,869**

^ Low value due to rounding

Summarised Financial Information of Material Associates

The summarised financial information for the year ended 30 June 2022 of the material associates is presented below:

Summarised statement of financial position as at 30 June 2022

	Open Money Group	Ando
	$000	$000
Total assets	20,276	83,972
Total liabilities	(6,304)	(82,578)
Net assets	**13,972**	**1,394**

In August 2021, Open Money Group issued new shares to new and existing shareholders to support its future growth strategy. The Company participated in the share issue and Open Money Group was able to repay the loan owed to the Company in full.

Summarised statement of financial position as at 30 June 2021

	Open Money Group	Ando
	$000	$000
Total assets	44,481	70,218
Total liabilities	(46,803)	(66,511)
Net assets	**(2,322)**	**3,707**

Summarised statement of comprehensive income for 2022:

	Open Money Group	Ando
	$000	$000
Revenue	10,398	38,997
Profit/(loss) after tax	(9,303)	(1,562)
Total comprehensive income	**(9,303)**	**(1,562)**

Summarised statement of comprehensive income for 2021:

	Open Money Group	Ando
	$000	$000
Revenue	8,217	32,973
Profit/(loss) after tax	(3,245)	4,541
Total comprehensive income	**(3,245)**	**4,541**

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FOR THE YEAR ENDED 30 JUNE 2022

3.7. Other Investments

2022	Place of incorporation	Principal Activity	Interest held %	Equity $'000	Loan $'000	Cost $'000	Fair Value Adj. $'000	Fair Value $'000
PetSure (Australia) Pty Ltd	**Australia**	**Underwriting Agency**	**18.20%**	**15,610**	**-**	**15,610**	**19,099**	**34,709**
Expense Check Pty Ltd	**Australia**	**InsurTech**	**6.45%**	**1,000**	**-**	**1,000**	**(903)**	**97**
ListSure Pty Ltd	**Australia**	**Underwriting Agency**	**5.07%**	**200**	**-**	**200**	**-**	**200**
Starts at 60 Pty Ltd	**Australia**	**Underwriting Agency**	**1.13%**	**200**	**-**	**200**	**(200)**	**-**
Wild Goose Holdings Pty Ltd	**Australia**	**Underwriting Agency**	**18.40%**	**3,375**	**-**	**3,375**	**(3,375)**	**-**
				20,385	**-**	**20,385**	**14,621**	**35,006**

2021	Place of incorporation	Principal Activity	Interest held %	Equity $'000	Loan $'000	Cost $'000	Fair Value Adj. $'000	Fair Value $'000
Car Next Door Pty Ltd	Australia	Car sharing company	0.53%	200	-	200	127	327
Expense Check Pty Ltd	Australia	InsurTech	6.45%	1,000	-	1,000	(903)	97
ListSure Pty Ltd	Australia	Underwriting Agency	5.07%	200	-	200	-	200
Starts at 60 Pty Ltd	Australia	Underwriting Agency	1.13%	200	-	200	(200)	-
Wild Goose Holdings Pty Ltd	Australia	Underwriting Agency	18.40%	3,375	-	3,375	(3,375)	-
				4,975	**-**	**4,975**	**(4,351)**	**624**

3.8. Fair value hierarchy

The table below analyses investments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical investments
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the investment, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for investments that are not based on observable market data (unobservable inputs).

	2022 $000	2021 $000
Investment assets - term deposits	**502,068**	303,472
Investment assets - strategic investments	**123,855**	169,261
Total investment assets	**625,923**	472,733
Less controlled entities carried at cost	**(2,000)**	(87,767)
Investments designated as fair value through profit and loss	**623,923**	**384,966**
Total level 1 investment assets - term deposits	**502,068**	303,472
Total level 2 investment assets - strategic investment loans	**4,760**	6,960
Total level 3 investment assets	**117,095**	74,533
Total investment assets	**623,923**	**384,966**

Reconciliation of level 3 investments		
Balance at beginning of financial year	**74,533**	35,171
Acquisitions	**3,000**	1,215
Disposals	**(327)**	(2,067)
Fair value adjustments	**24,279**	40,214
Reclassification from carried at cost	**15,610**	-
Balance at end of financial year	**117,095**	**74,533**

Critical accounting judgements and estimates

There is inherent uncertainty when estimating the value of any unlisted shares because there may be no open market to determine their fair value, therefore an appropriate method between cost, market value and discounted cash flows has been applied to estimate their values. The accuracy of forecasts used to estimate the value of the investee, discount rates and general market conditions are factors that cause uncertainty. The Company uses the best information available to estimate the value, with no conservatism or optimism employed. During the valuation process for the current year the impacts on the economy and the investments related to COVID-19 have been assessed and considered in arriving at values.

COVID-19 Impact on use of Judgements and Estimates

The Company's investments in strategic investments (associates and other strategic investments) are designated at fair value through profit and loss. The fair value is determined based on a discounted cash flow analysis and observable market data. This measurement basis has not changed as a result of COVID-19 noting that the assumptions within the analysis have changed to incorporate a measure, where relevant, to reflect the economic uncertainty and impact on individual investments. When using models to conduct analysis, judgement is required in the inputs used. The investments which are subject to valuation using unobservable inputs are disclosed in the Company's fair value hierarchy. Refer note 1.6 for further details on judgements and estimates used related to impact of COVID-19.

The value of the Level 3 investments is determined using a discounted cash flow methodology unless there has been a recent transaction. Future cash flows are estimated based on past performance and information received from the investee. Discount rates and terminal value set by management are disclosed below:

Level 3 investment valuation key inputs

	2022	2021
Terminal growth rates	**2.5%**	2% - 2.5%
Discount rate - post tax	**13.7% - 21.7%**	12.8% - 22.8%

Sensitivity Analysis

The table below describes how a change in each of the key assumptions set out above will affect the fair value of level 3 investments.

	Sensitivity %	Impact	2022 Equity/Profit or (Loss) before tax $'000
Terminal growth rate	**+ 1% p.a.**	**Increase**	**6,289**
	- 1% p.a.	**Decrease**	**(5,305)**
Discount rate	**+ 1% p.a.**	**Increase**	**7,611**
	- 1% p.a.	**Decrease**	**(9,050)**

4. CAPITAL STRUCTURE

Capital management plays a central role in managing risk to create shareholder value whilst also ensuring that the interests of other stakeholders including policyholders, lenders and regulators are met. Capital finance growth, capital expenditure and business plans also provide support if adverse outcomes arise from insurance, investment performance or other activities. The determination of the appropriate level of capital is based on regulatory and economic consideration.

4.1. Contributed Equity

	2022		2021	
	Number	**$000**	**Number**	**$000**
At beginning of financial year	**361,658,763**	**361,659**	215,408,575	215,409
Issued during the year	**-**	**-**	146,250,188	146,250
At end of the financial year	**361,658,763**	**361,659**	361,658,763	361,659

All ordinary shares on issue are fully paid and have no par value. Ordinary shares entitle the holder to a vote at a general meeting of the Company and to participate in the dividends and the proceeds on winding up of the Company in proportion to the number of, and amounts paid on, the shares held. In the event that the Company is wound up, shareholders rank after all other creditors and are entitled to any proceeds on liquidation.

4.2. Interest bearing liabilities

Tier 2 Regulatory capital - Subordinated Notes	**2022** **$000**	**2021** **$000**
At beginning of financial year	**-**	40,000
Repaid during the year	**-**	(40,000)
At end of the financial year	**-**	-
Total interest-bearing debt	**-**	**-**

Recognition and Measurement

Interest bearing liabilities are initially measured at fair value net of transaction costs directly attributable to the transaction and are subsequently measured at amortised cost. Any difference between the proceeds and the redemption amount is recognised through profit or loss over the period of the financial liability using the effective interest method.

a) Subordinated Notes

The subordinated notes were issued on 29 June 2018 to the immediate parent entity, Hollard Holdings Australia Pty Ltd. The subordinated notes had a term of 10 years, maturing on 29 June 2028, and were subject to a fixed interest rate. The holder did not have a right of conversion but did have the ability, subject to certain conditions, to transfer.

The subordinated notes had to be converted into a variable number of ordinary shares if APRA determined that the Company was non-viable or written off if not converted within five days from notification of non viability. In September 2020, the Company redeemed the subordinated notes from its Parent and replaced with the issue of ordinary share capital.

b) Finance costs

	2022 $000	2021 $000
Finance costs	-	214

Finance costs include interest on interest-bearing debt as well as sundry interest on overdue payables.

4.3. Capital management

Capital Management plays a central role in ensuring adequate capital is maintained over time and for monitoring compliance with regulatory capital requirements and targets. A key component of capital management is the Internal Capital Adequacy Assessment Process (ICAAP) - as articulated in the Company's ICAAP Summary Statement - and includes:

- specific capital targets set in context of the Company's approach for ensuring adequate capital is maintained over time;
- plans for how target levels of capital are met; and
- potential sources of additional capital, if required.

The Company is a licensed insurer regulated by the APRA and is subject to APRA's prudential standards. Licensed insurers are subject to a Prescribed Capital Amount (PCA), being the minimum level of capital that the regulator deems necessary to meet policyholder obligations. The prescribed method uses a risk-based approach. The Company's policy is to hold capital in excess of the minimum prudential capital requirement.

Capital calculations for regulatory purposes are based on the premium liabilities model which is different to the deferral and matching model which underpins the measurement of assets and liabilities in the financial statements. The premium liabilities model assesses future claims payments arising from future events insured under existing policies. This differs to the measurement of the outstanding claims liability on the statement of financial position which considers claims relating to events that occur only up to and including the reporting date.

The ICAAP also sets the actions and procedures for monitoring compliance with its regulatory capital requirements and capital targets. These include:

- setting of triggers to alert management to potential breaches of targets;
- actions to avert and rectify potential breaches of these requirements; and
- setting the target levels of regulatory capital, in line with the Company's risk appetite, being 1.50 to 1.85 times the PCA at the balance date.

Capital Adequacy	2022 $000	2021 $000
Common Equity Tier 1 Capital		
Paid up ordinary shares	**361,659**	361,659
Retained income	**133,022**	50,927
Other reserves	**(566)**	(268)
Net surplus relating to insurance liabilities	**28,523**	23,326
Regulatory adjustments to common equity tier 1	**(83,082)**	(148,186)
Total Common Equity Tier 1 Capital	**439,556**	**287,458**
Regulatory capital base	**439,556**	**287,458**
Insurance risk charge	**107,048**	76,646
Insurance concentration risk charge	**35,000**	28,866
Asset risk charge	**77,697**	56,498
Operational risk charge	**54,549**	49,032
Less: aggregation benefit	**(44,733)**	(32,746)
Prescribed Capital Amount (PCA)	**229,561**	178,296
Capital Adequacy Multiple (CAM)	**1.91**	1.61

The Hollard Insurance Company Pty Ltd has been externally rated by AM Best since 2016. On 3 March 2022, AM Best affirmed the Financial Strength Rating of A- (Excellent) and the Long-Term Issuer Credit Rating of “a-” (Excellent) with the outlook of these Credit Ratings being stable.

5. RISK MANAGEMENT

The Board and management recognise that effective risk management is a critical component of sound business practice and integral to achieving the Company's business objectives.

In accordance with the APRA's prudential standard CPS 220 Risk Management, GPS 230 Reinsurance Management and GPS 110 Capital Adequacy, the Board and senior management have developed, implemented and monitor the ongoing maintenance and effectiveness of a Group Risk Management Framework (RMF). Key documents within the RMF are:

- Group Risk Management Strategy (RMS)
- Group Risk Appetite Statement (RAS)
- Reinsurance Management Strategy (ReMS)
- Internal Capital Adequacy Assessment Process (ICAAP) Summary Statement
- Recovery Plan
- Business Continuity and Crisis Management Plan

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

During the financial year ended, five formal Board committees with delegated responsibilities to assist with risk management monitoring met regularly. These included the Board Risk Committee, Board Audit Committee, Board Remuneration Committee, Board Projects and Technology Committee and Board Reinsurance Committee. Cross membership on committees allows effective communication between committees ensuring that all risk related matters are appropriately considered.

The Board annually submits a Risk Management Declaration to APRA.

RMS

The RMS describes the group wide RMF and is reviewed and approved by the Board annually and consists of complementary elements that are embedded throughout the business management cycle and culture. Key aspects include:

- Descriptions of each material risk (both financial and non-financial) and the Group's approach in managing these risks
- Risk Management Processes including policies, procedures, risk assessments, controls, management information systems, monitoring and reporting
- Accountabilities and governance arrangements for the management of risk across the organisation.

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

RAS

The RAS outlines the clear boundaries for the Company's material risks with clear links to risk tolerances and limits that are captured in the RMS, Business Plan, ICAAP and Recovery Plan. The RAS sets out the degree of risk the Company is prepared to accept in pursuit of its strategic objectives and business plans and is reviewed annually by the Board. The degree of risk is described in qualitative and quantitative terms as the limit of acceptable risk for each risk category in the Company's defined risk universe.

ReMS

The Board's annually approved ReMS outlines the Company's management of reinsurance risk. The Company participates in both proportional (quota share) and non-proportional (excess of loss) reinsurance treaties to limit its exposure to large risks (both individual and event) as well as a means for providing capital support.

On behalf of the Board, the Board Reinsurance Committee monitors the adequacy and effectiveness of the ReMS ensuring the reinsurance programs are adequate to protect policyholder's interest within Board approved risk tolerance levels as defined in the RAS.

ICAAP

The Board's annually approved ICAAP covers the Company's approach to, and processes around capital management including principles aimed at having robust processes in place to ensure that sufficient capital is available to meet current and future policyholder obligations.

Recovery Plan

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

Business Continuity Plan and Crisis Management (BCP)

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

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

During the year 2022, the Company revised its risk management framework to reflect its new operating model. This model, and the associated roles and responsibilities, have been formally described in the RMS. Under the 3 lines of defence model the key business functions (1st line of defence) are accountable for managing risk and compliance within risk appetite, in accordance with frameworks and policies. Monitoring, review and challenge is undertaken by a dedicated risk and compliance team (2nd line of defence). The CRO and group risk function provide regular reports to the Board Risk Committee. Independent assurance is conducted by the Internal Audit team (3rd line of defence). The Internal Audit team reports to the Board Audit Committee (comprising solely of independent non-executive directors).

Annually, the Board receives a Financial Condition Report (FCR) completed by the Appointed Actuary as required under APRA's prudential standard CPS 320 Actuarial and Related Matters. The FCR reports on a number of areas including the management of risk by the Company. The FCR is submitted to APRA and to the RBNZ.

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

- Strategic Risk (note 5.1) The risk of not meeting financial and other objectives arising from poor strategic decisions, underperforming strategic investments, failed implementation of strategic projects, risks from the impacts of competitors, emerging strategic risks and other fundamental strategic issues that impact the Group or the insurance industry in Australia and NZ.
- Insurance Risk (note 5.2) The risk associated with the variable outcome of writing insurance business being the financial consequences of failures in core insurance processes of underwriting, pricing, product design, claims management, reinsurance programs and catastrophic claims events and includes the adequacy of insurance liability provisions.
- Credit Risk (note 5.3) The risk that a person or an institution with whom the Company has entered a financial contract, who is a counterparty to the contract, will partially or fully default on the obligation, or be subject to a downgrade in their assessed credit quality. This excludes exposures to strategic debt such as loans which are included in strategic investments.
- Market Risk (note 5.4) The risk of lower than expected return on investments (excl. strategic investments), or losses from asset liability mismatches, due to adverse movements in interest rates, inflation, equity markets, currencies and other economic factors. This category includes other market risks impacting the balance sheet and capital adequacy, including liquidity, treasury management and access to capital.
- Operational Risk (note 5.5) The risk of an incident occurring which leads or could lead to the actual outcome of a business-process to differ from expected outcomes due to inadequate or failed processes, people, systems or external factors.
- Customer and Community Expectations Risk (note 5.6) The risk of delivering unfair outcomes to customers or not meeting community expectations.
- Compliance Risk (note 5.7) The risk of loss arising from either the current (or future) regulatory framework under which the Company operates including risks associated with breaching the law, taxation obligations and requirements of a financial services licence holder and general insurer in the Australian and New Zealand markets.

The Company has adopted an environmental policy statement and will in future revisit the RAS in light of impending regulatory guidance around the management of climate risks.

Further discussions on the application of the Company's general risk management practices are presented in the following sections, while details, policies and frameworks are more fully described in the RMS. Notable features of the risk management environment in each of the risk categories are also included.

5.1 Strategic risk

The Company seeks to manage Strategic risk as part of its annual strategic planning process. The Business Plan is a requirement of the RMS and is reviewed and approved by the Board annually. Subsequent regular monitoring of these risks is undertaken by the Board Risk Committee. Development of the Business Plan includes consideration of the internal and external environment by senior management, identifying material risks with overall review and challenge by the Group risk function to form an aggregate view of the Company's exposure to strategic risk.

The primary focus in managing strategic risk during the year has centred on achieving business plan and objectives in the face of adverse weather events, operating expense challenges in preparing for the CIL acquisition, continuation of the simplification strategy (e.g. sale of PetSure, withdrawal from non-core product lines and addressing IT systems) and dealing with the economic impacts of markets emerging from the pandemic. On the one hand uncertainty has dissipated due to increased certainty from the legal processes related to Business Interruption insurance, while on the other hand uncertainty has increased due to a deteriorating economic outlook.

5.2 Insurance risk

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

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

This means the Company underwrites risks within its areas of core competence (short tail personal, commercial and pet insurance lines) and avoids areas of accumulation or concentration by risk class, industry, geography that cannot be readily measured, quantified and reinsured and generally avoids long tail insurance classes. This is supported by actively diversifying risks and strict rules-based underwriting in personal lines and pet insurance portfolios, and a conservative risk selection strategy in commercial lines and New Zealand portfolios. Exceptions are considered under tightly controlled circumstances.

During the year insurance risk has been materially impacted by adverse weather events (flooding) and rapidly increasing claims inflation throughout the industry.

Customer outcomes are actively considered by the Company as an important perspective when assessing Insurance Risk. Customer outcomes considerations impact the design of appropriate products for our target markets, use of fair and efficient claims philosophies, underwriting strategies designed to address the impacts of climate change and the availability of cover, pricing strategies that impact affordability of cover, etc. Moreover, regulators have increased their own focus on these aspects, such as in ASIC’s pricing review and APRA’s Insurance Risk Management Self-assessment and their focus on customer outcomes in proposed prudential standards on operational resilience.

5.3 Credit risk

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

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

Investments

The Investment and Liquidity Policy contains minimum requirements for counterparties for liquid investment portfolio (size of investments, concentrations, minimum ratings). The Company seeks to limit its exposure to credit risk by investing cash with counterparties that are APRA regulated authorised deposit taking institutions.

As part of its approach to investing in strategic insurance related businesses, the Company may provide loans to investment entities (where in some cases the Company mitigates its credit exposure by securing the loans over the assets of the investment entities). The associated credit risk exposure is indicated by the carrying amount of these loans and is monitored on a regular basis via the Management Investment Committee and the Board Investment Committee in compliance also with requirements of the Strategic Investment Framework.

Reinsurance Receivables

In accordance with the Reinsurance Management Strategy and Risk Appetite Statement, reinsurance is placed with counterparties that have a Standard and Poor's (or equivalent) credit rating of "A-" or better whilst long tail reinsurance must be placed with counterparties with a Standard and Poor's (or equivalent) credit rating of "A+". Contractual terms include a requirement for collateralisation if ratings of reinsurance counterparties are downgraded. Exceptions to the policy can be approved by the Board Reinsurance Committee. In addition reinsurance contracts include a requirement for collateralisation where the associated recoveries are outstanding at the second balance date from the recovery being recognised.

Credit exposure

The table below provides information regarding the credit risk exposure of the Company by classifying major classes of investment assets according to Standard and Poor's short-term credit ratings of the counterparties. Where an amount relates to a long-term exposure the relevant amount has been included in the equivalent short-term rating.

2022	**A-1 $000**	**A-2 $000**	**A-3 $000**	**Not Rated $000**	**Total $000**
Cash	**367,871**	**-**	**-**	**-**	**367,871**
Financial assets	**493,736**	**8,332**	**-**	**-**	**502,068**
Investments	**-**	**-**	**-**	**123,855**	**123,855**
Receivables	**4,130**	**49,481**	**-**	**903,758**	**957,369**
Reinsurance and other recoveries	**179,873**	**182,062**	**579**	**23,014**	**385,528**
Total investment assets	**1,045,610**	**239,875**	**579**	**1,050,627**	**2,336,691**

2021	**A-1 $000**	**A-2 $000**	**A-3 $000**	**Not Rated $000**	**Total $000**
Cash	433,837	-	-	-	433,837
Financial assets	298,245	-	5,227	-	303,472
Investments	-	-	-	169,260	169,260
Receivables	5,247	63,365	-	790,776	859,388
Reinsurance and other recoveries	158,162	85,457	597	20,453	264,669
Total investment assets	**895,491**	**148,822**	**5,824**	**980,489**	**2,030,626**

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

2022		Past due			
	Not past due $000	Up to 30 days $000	31-120 days $000	120+ days $'000	Total $'000
Cash	**367,871**	-	-	-	**367,871**
Financial assets	**502,068**	-	-	-	**502,068**
Investments	**123,855**	-	-	-	**123,855**
Receivables	**670,407**	**181,557**	**54,085**	**51,320**	**957,369**
Reinsurance and other recoveries	**385,528**	-	-	-	**385,528**
Total risk exposure	**2,049,729**	**181,557**	**54,085**	**51,320**	**2,336,691**

2021		Past due			
	Not past due $000	Up to 30 days $000	31-120 days $000	120+ days $'000	Total $'000
Cash	433,837	-	-	-	**433,837**
Financial assets	303,472	-	-	-	**303,472**
Investments	169,260	-	-	-	**169,260**
Receivables	605,002	168,343	72,870	13,173	**859,388**
Reinsurance and other recoveries	264,669	-	-	-	**264,669**
Total risk exposure	**1,776,240**	**168,343**	**72,870**	**13,173**	**2,030,626**

For assets to be classified as ‘past due’, contractual payments in arrears are more than 90 days. An expected credit loss adjustment is recorded in the statement of comprehensive income for these assets. When credit exposure is adequately secured, arrears more than 90 days might be classified as ‘past due’, with no expected credit loss recorded. The Company operates mainly on a ‘nor past due basis’ and sufficient collateral will be obtained for ‘past due’ assets. An assessment of expected credit loss will also be performed if applicable.

5.4 Market risk

Market Risk is the risk of lower than expected return on investments (excl. strategic investments), or losses from asset liability mismatches, due to adverse movements in interest rates, inflation, equity markets, currencies and other economic factors. This category includes other market risks impacting the balance sheet and capital adequacy, including liquidity, treasury management and access to capital. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimising the return on risk and to ensure that the Company is appropriately capitalised to meet its current and future policyholder obligations.

The Board annually reviews risk appetite with regard to the investment strategy in relation to policyholder funds and shareholder funds with specific risk limits set in regard to liquid assets and in regard to strategic investments.

The Management Investment Committee and the Board Investment Committee monitor the application of the Investment and Liquidity Policy that sets out the key parameters such as liquidity limits, target duration matching and foreign exchange exposure limits, as well as reviewing application of the fair value process related to the Strategic Investment portfolio.

Cash flow and fair value interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Floating rate instruments expose the Company to cash flow interest risk, and the Company manages interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments. The Board approved Investment and Liquidity policy also requires it to manage the maturities of interest bearing liabilities. Any gap between fixed and variable rate instruments and their maturities can also be managed by the Company through the use of derivative financial instruments. As at 30 June 2022 the Company did not have any such exposures to derivative financial instruments. Interest on floating rate instruments is repriced at intervals of less than one year. Interest on fixed interest rate instruments is priced at inception of the financial instrument and is fixed until maturity.

	Sensitivity	2022 Equity/Profit or Loss before tax $'000	2021 Equity/Profit or Loss before tax $'000
Impact of interest movement	+ 1% p.a.	**8,699**	7,339
	- 1% p.a.	**(8,699)**	(7,339)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The key objective of the Company's liquidity management is to ensure it has sufficient available liquidity to meet current and future obligations to policy holders under both normal and stressed liquidity environments without incurring unacceptable losses or risking damage to the Company's reputation.

The following key arrangements are in place to mitigate liquidity risks:

- A Board approved Investment and Liquidity Policy and monitored by the Board Investment Committee comprising mandated liquidity limits including asset/liability duration.
- Management and reporting on Premium receivables from intermediaries and customers
- Advanced cash call and collateralisation clauses in reinsurance contracts combined with accelerated receipt of large reinsurance recoveries to manage potential shortfalls that could arise from mismatches in timing of claim payment and recoveries.
- The policy also imposes minimum levels for aggregate investment in APRA/RBNZ regulated ADIs which provides a control for managing the relatively non-liquid insurance related strategic investments.

Maturity profiles

The following table summarises the maturity profile of the Company's financial liabilities. Other than insurance contracts, the maturity profile is based on the remaining undiscounted contractual obligations. For insurance contracts, the maturity profiles are determined on the discounted estimated timing of net cash outflows. Repayments that are subject to notice are treated as if notice were to be given immediately.

2022	Up to a year $000	1-3 years $000	3 + years $000	Total $000
Payables	**615,730**	**-**	**-**	**615,730**
Outstanding claims	**540,844**	**148,648**	**29,108**	**718,600**
Provisions	**17,212**	**431**	**953**	**18,596**
	1,173,786	**149,079**	**30,061**	**1,352,926**

2021	Up to a year $000	1-3 years $000	3 + years $000	Total $000
Payables	745,616	-	-	745,616
Outstanding claims	337,117	189,952	28,555	555,624
Provisions	8,291	3,248	2,485	14,024
	1,091,024	**193,200**	**31,040**	**1,315,264**

The Company's financial liabilities are carried in the statement of financial position at amounts that approximate fair value. The carrying amounts of all financial assets and liabilities are reviewed to ensure they are not in excess of the net fair value.

Foreign Currency Risk

The Company undertakes transactions denominated in foreign currency, predominantly in New Zealand Dollars, consequently is exposed to exchange rate fluctuations. The Board has imposed a limit on the Company's monetary asset exposure to foreign currency to be a maximum % of the Company's regulated capital base. Active monitoring of foreign currency exposure is undertaken. Currently no hedging strategy is in place.

The following table details the Company's sensitivity to a 10% variation in the Australian dollar against the New Zealand dollar. A 10% variation represents management's assessment of a reasonable change in foreign exchange rates. The analysis is based on outstanding foreign currency denominated monetary items and adjusts their translation at the year-end for a 10% change in foreign currency rates. A positive number below indicates an increase in profit where the Australian dollar weakens 10% against the relevant currency. For a 10% strengthening of the Australian dollar against the relevant currency, there would be a comparable impact on the profit, and the movements below are negative.

	2022			2021		
Currency Exposure	**Net Asset exposure $'000**	**Sensitivity $'000**	**Profit (Loss) NZD $'000**	**Net Asset exposure $'000**	**Sensitivity $'000**	**Profit (Loss) NZD $'000**
New Zealand dollar	**19,550**	**+10%**	**1,955**	29,350	+10%	2,935
		-10%	**(1,955)**		-10%	(2,935)

The table above includes both monetary and non-monetary assets exposed to foreign currency fluctuations.

5.5 Operational risk

Operational Risk is the risk that the Company is financially negatively impacted as a result of any inadequate or failed processes, people or systems. The risk areas encapsulated in this category include operational processes, technology, IT security, business continuity, suppliers and outsourcing, fraud, people, financial processes and reporting and models.

The Company manages this risk by employing a range of risk management processes, including documented critical processes, the identification of key risks and the design and implementation of effective controls within those processes. Operational risk reviews and assessments, incident and breach reporting, policies, procedures and frameworks, business case due diligence, control development including segregation of duties, performance management and training, and reporting and monitoring all further support the management of these risks. Numerous operational procedures, frameworks and policies are relevant to the management of this risk, included functional operating frameworks (e.g. Finance), Business Continuity Frameworks and related crisis managements plans (such as the Crisis and Incident Management Plan and Pandemic Response Plan that were followed at the onset of COVID-19), various IT and Cybersecurity Policies, HR and other policies.

During the year, Operational Risk management received specific focus in the form of remediation activities in the control environment of operational processes, addressing various aspects of people risk and, particularly, a significant investment in the implementation of new claims and policy administration systems.

5.6 Customer and Community Expectation Risk

The risk of delivering unfair outcomes to customers or not meeting community expectations comprises both conduct risk and reputational risk. The Company seeks to manage Customer and Community Expectation risk through risk management processes that avoid inappropriate or unethical behaviour, remuneration models and practices, product features, sales practices or service standards including claims management and complaints processes, that deliver unfair customer outcomes or imbalanced rewards between the insurer or its partners and the customer. The Company avoids reputational risk that generate a loss of trust in the business and in the insurance industry and financial services industry more generally. This is achieved through various means through adoption of industry codes of practice, monitoring of remuneration of incentives through the Board Remuneration Committee, managements of conflicts of interest, training, complaints monitoring and reporting, etc.

Apart from implementing and addressing the outcome of the regulatory changes that have a significant impact on customer expectations (eg new claims, complaints and breach reporting processes), along with other insurers in the industry, work was also initiated to undertake a review requested by ASIC of many industry participants of pricing promises provided to customers.

5.7 Compliance Risk

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

In line with the above, numerous regulatory changes were implemented in the industry, work was concluded on the Insurance Risk Management self-assessment requested by APRA and related remediation activities took place in relation to product governance procedures and monitoring of distribution partners.

6. TAXATION

6.1. Income tax expense

Reconciliation of prima facie tax to income tax expense	2022 $000	2021 $000
Profit/(Loss) before income tax	**86,197**	(38,357)
Prima facie tax expense/(benefit)	**25,859**	(11,507)
Tax effect of non-temporary differences:		
Net non-assessable income	**(21,801)**	(6,203)
Foreign branch differences in tax rates	**(5)**	48
Non-taxable income	**-**	(1,800)
Under/(over) provision in prior period	**48**	(721)
Income tax (benefit)/expense	**4,101**	**(20,183)**
Current tax	**(668)**	(15,165)
Deferred tax	**4,721**	(4,298)
Under/(over) provision in prior period	**48**	(720)
Income tax (benefit)/expense	**4,101**	**(20,183)**

Recognition and Measurement

Income tax on the profit or loss for the year comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

6.2. Recognised deferred income tax balances

	2022 $000	2021 $000
Deferred tax assets	**36,838**	46,084
Deferred tax liabilities	**(35,840)**	(40,297)
	998	**5,787**

Movement in temporary differences

	2022			2021		
	Opening $000	**Profit or loss $000**	**Closing $000**	**Opening $000**	**Profit or loss $000**	**Closing $000**
Employee benefits	**3,255**	**1,344**	**4,599**	2,141	1,114	3,255
Outstanding claims	**4,543**	**716**	**5,259**	3,292	1,251	4,543
Provisions	**1,422**	**2,608**	**4,030**	1,184	238	1,422
Other items	**18,965**	**(3,349)**	**15,616**	18,942	23	18,965
Property plant and equipment	**450**	**48**	**498**	7	443	450
Deferred tax asset before set-off	**28,635**	**1,367**	**30,002**	25,566	3,069	28,635
Investments	**(25,230)**	**3,751**	**(21,479)**	(13,424)	(11,806)	(25,230)
Intangible assets	**(444)**	**444**	**-**	(6,173)	5,729	(444)
Other assets	**(14,623)**	**262**	**(14,361)**	(15,026)	403	(14,623)
Deferred tax liability before set-off	**(40,297)**	**4,457**	**(35,840)**	(34,623)	(5,674)	(40,297)
Unrecognised temporary differences	**17,449**	**(10,613)**	**6,836**	10,401	7,048	17,449
Net deferred tax assets/(liabilities)	**5,787**	**(4,789)**	**998**	**1,344**	**4,443**	**5,787**

Recognition and Measurement

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and associates and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Critical Accounting Estimates and Judgements

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

6.3. Deferred Tax Balances Not Recognised

Unrecognised taxable temporary differences associated with investments:

	2022 $000	2021 $000
Investment in controlled entity revalued in accordance with AASB3 for which no deferred tax liability recognised	**6,836**	10,401
Unrecognised taxable temporary difference associated with an investment due to its applicable exemption	**-**	7,048
	6,836	**17,449**

Tax Consolidation Regime

Since 1 January 2015 the Company was the head entity of a tax-consolidated group. As of 30 March 2022, as a result of the PetSure (Australia) Pty Ltd disposal, the existing tax consolidated grouping ceased and was converted to a multiple entity tax-consolidated group (MEC).

The current and deferred tax amounts for the tax consolidated group are allocated among entities in the group using a “standalone taxpayer” approach whereby each entity in the tax-consolidated group calculates its current tax and deferred taxes as if it continued to be a separate taxable entity in its own right.

Deferred tax assets and deferred tax liabilities are measured by reference to the carrying amounts of the assets and liabilities in the Company’s statement of financial position and its tax base applying under tax consolidation. Companies in the tax group assess the expected recoverability of unused tax losses and tax credits only in the period in which they arise and before assumption by the head entity, in accordance with AASB 112, applied in its own circumstances, without regard to the circumstances of the tax-consolidated group.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses assumed by the head entity from the subsidiary in the tax-consolidated group are recognised in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised by the head entity as an equity contribution to or distribution from the subsidiary.

The head entity recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses assumed from subsidiaries are recognised by the head entity only.

The members of the tax consolidated group are in the process of entering into a tax funding agreement for the recently formed MEC which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding arrangements require payments equal to the current tax liability (asset) assumed by the head entity and any deferred tax asset arising from tax losses assumed by the head entity. Where the amounts arising for the period under the tax funding arrangement differ to the amounts initially recognised by the Company for its current taxes and deferred tax assets (related to losses or tax credits) it will result in a net contribution from or a distribution to the head entity and be recognised in equity. The current results are prepared as if this agreement has been executed.

The Company, in conjunction with other members of the tax-consolidated group are in the process of entering into a tax sharing agreement for the recently formed MEC. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as the likelihood of payment of any amounts under the tax sharing agreement is considered remote. The current results have been prepared as if the agreement had been executed.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2022

7. OTHER

This section provides disclosures on components of the Company's statement of financial position not disclosed previously in the financial statements, including:

- Assets classified as held for sale
- Property, plant and equipment
- Goodwill and intangible assets
- Provisions, including employee benefits liability and expense
- Lease liabilities, right-of-use assets and lease expense

7.1. Assets classified as held for sale

	2022 $000	2021 $000
Assets held for sale:		
Real brand	-	4,516
Total Assets held for sale	**-**	**4,516**

In July 2021, the Company executed agreements granting a call option to the related party to acquire the Real brand at any time post 1 July 2021 which was called on in June 2022. In addition, as part of the arrangements, the Company entered into a new 10 year distribution agreement with the related party effective 25 October 2020. The agreements include additional consideration payable based on certain hurdles. As at 30 June 2022, these additional consideration payments are considered to be unlikely to be received and have therefore not been included in the results.

7.2. Property, plant and equipment

2022	Leasehold Improvements $'000	Office Equipment $'000	Motor Vehicles $'000	Total $'000
Cost				
At 1 July	**6,149**	**6,602**	**502**	**13,253**
Additions	**18**	**1,502**	**27**	**1,547**
Disposals	**-**	**(1)**	**-**	**(1)**
End of the financial year	**6,167**	**8,103**	**529**	**14,799**
Depreciation				
At 1 July	**(4,840)**	**(5,855)**	**(360)**	**(11,055)**
Depreciation	**(951)**	**(671)**	**(90)**	**(1,712)**
Disposals	**-**	**1**	**-**	**1**
Reclassifications	**-**	**(220)**	**-**	**(220)**
End of the financial year	**(5,791)**	**(6,745)**	**(450)**	**(12,986)**
Carrying amount				
End of the financial year	**376**	**1,358**	**79**	**1,813**

2021	Leasehold Improvements $'000	Office Equipment $'000	Motor Vehicles $'000	Total $'000
Cost				
At 1 July	6,139	6,212	465	**12,816**
Additions	10	390	59	**459**
Disposals	-	-	(22)	**(22)**
End of the financial year	**6,149**	**6,602**	**502**	**13,253**
Depreciation				
At 1 July	(3,843)	(5,386)	(290)	**(9,519)**
Depreciation	(997)	(473)	(92)	**(1,562)**
Disposals	-	4	22	**26**
End of the financial year	**(4,840)**	**(5,855)**	**(360)**	**(11,055)**
Carrying amount				
End of the financial year	**1,309**	**747**	**142**	**2,198**

Recognition and Measurement

Property, plant and equipment are stated at cost, depreciated over their useful lives and are subject to impairment testing. All costs for repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful lives of each item of property and equipment. The rates used for this purpose are:

	2022	2021
Leasehold improvements	**5 yrs - 7 yrs**	5 yrs - 7 yrs
Office equipment	**3 yrs - 10 yrs**	3 yrs - 10 yrs
Motor vehicles	**4 yrs**	4 yrs

7.3. Goodwill and intangible assets

Intangible assets are assets with no physical substance. These assets support the generation of future earnings and are subject to impairment testing, with finite useful life intangible assets also subject to amortisation over the useful life.

2022	Goodwill $000	Identifiable Intangibles Software $000	Rights& Other $000	Brand Names $000	Total $000
Cost					
At 1 July	**6,127**	**28,055**	**2,097**	**-**	**36,279**
Additions	**-**	**14,406**	**-**	**-**	**14,406**
Write off	**-**	**-**	**(2,097)**	**-**	**(2,097)**
End of the financial year	**6,127**	**42,461**	**-**	**-**	**48,588**
Amortisation					
At 1 July	**(6,127)**	**(23,020)**	**(2,097)**	**-**	**(31,244)**
Amortisation	**-**	**(1,678)**	**-**	**-**	**(1,678)**
Write off	**-**	**-**	**2,097**	**-**	**2,097**
Reallocation	**-**	**220**	**-**	**-**	**220**
End of the financial year	**(6,127)**	**(24,478)**	**-**	**-**	**(30,605)**
Carrying amount					
End of the financial year	**-**	**17,983**	**-**	**-**	**17,983**

2021	Goodwill $000	Identifiable Intangibles Software $000	Rights& Other $000	Brand Names $000	Total $000
Cost					
At 1 July	6,127	26,342	2,097	20,425	**54,991**
Additions	-	1,713	-	-	**1,713**
Assets held for sale	-	-	-	(20,425)	**(20,425)**
End of the financial year	**6,127**	**28,055**	**2,097**	**-**	**36,279**
Amortisation					
At 1 July	-	(21,550)	(1,648)	-	**(23,198)**
Amortisation	-	(1,470)	(449)	-	**(1,919)**
Assets held for sale	-	-	-	15,909	**15,909**
Impairment	(6,127)	-	-	(15,909)	**(22,036)**
End of the financial year	**(6,127)**	**(23,020)**	**(2,097)**	**-**	**(31,244)**
Carrying amount					
End of the financial year	**-**	**5,035**	**-**	**-**	**5,035**

Recognition and Measurement

Intangible assets with finite lives

Intangible assets with finite lives that are acquired separately are carried at cost, those acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

The amount initially recognised for internally generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria set out in accounting standards. Where no internally generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, intangible assets with finite lives are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Amortisation is recognised on a straight-line over the estimated useful lives. The estimated useful live and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. The useful lives for each category of intangible assets are:

	2022	**2021**
Software	**3 yrs - 5 yrs**	3 yrs - 5 yrs
Rights & Other	**7 yrs**	7 yrs

Impairment

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

7.4. Provisions

	2022 $000	2021 $000
Employee benefits:		
Annual leave	**5,926**	4,760
Long service leave	**2,820**	2,571
Other entitlements	**6,586**	3,527
	15,332	10,858
Other provisions:		
Make good provision	**3,264**	3,166
Regulatory	**7,400**	-
Total Provisions	**25,996**	**14,024**

The make good provision represents an estimate for the make good obligations required for the office premises leased by the Company. The liability at the reporting date is expected to be settled at the end of the lease period.

Regulatory provision represents the estimate of the net impact of premium refunds and remediation costs that may be payable to policyholders as a result of an industry wide ASIC Pricing Promise review. The liability is based on management's estimate of those costs less estimated commission repayments and reinsurance recoveries and includes an interest charge. The amount by its nature is uncertain.

a) Employee benefit expense

	2022 $000	2021 $000
Superannuation	**6,555**	4,805
Salaries and other employee benefits expense	**72,170**	59,254
Movement in share-based payments	**-**	(72)
Other employee related expenses	**3,975**	5,156
	82,700	**69,143**

7.5. Leases

THE COMPANY AS A LESSEE

The Company has a number of lease contracts for premises used in its operations. Lease contracts for premises are recognised on the balance sheet at the commencement of the lease, with the exception of those leases not exceeding 12 months (short-term leases) and leases of low value assets, which are expensed on a straight-line-basis and presented within Operating Expenses on the face of the Statement of Comprehensive Income.

The Company recognises substantially all of its lease commitments in the statement of financial position as right-of-use assets and lease liabilities in the amount of the present value of the remaining lease payments. Subsequent to initial measurement, the right-of-use asset is depreciated on a straight-line basis over the lease term, while lease payments are separated into a principal and interest portion to wind up the lease liability over the lease term.

Pursuant to some of its lease agreements, the Company has the option to renew the lease for a period of up to four years. The Company applies judgement and considers all relevant factors in assessing whether it is reasonably certain to exercise an option. This assessment is performed periodically, and when the Company is reasonably certain to exercise an option to extend the duration of a lease, that option is then included when calculating or re-calculating the right-of-use asset and lease liability.

The Company also has certain leases of machinery with lease terms of 12 months or less and leases of office equipment with low value. The Company applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

As at 30 June 2022 the Company has not contractually committed to any leases that were yet to commence.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

	Premises 2022	Premises 2021
	$000	**$000**
At the beginning of the year	**7,165**	**10,114**
Additions	**-**	1,069
Total right-of-use asset at the end of the year	**7,165**	**11,183**
Depreciation expense	**(3,726)**	(3,778)
Impairment	**-**	(240)
Net carrying value at the end of the year	**3,439**	**7,165**

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	2022	2021
	$000	**$000**
As at 1 July	**8,616**	**10,037**
Additions	**-**	2,410
Accretion of interest	**161**	285
Payments	**(4,536)**	(4,116)
At 30 June	**4,241**	**8,616**
Below is a maturity analysis of the Company's undiscounted lease commitments (as lessee).		
Within one year	**3,316**	4,536
Between one year and five years	**995**	4,311
Minimum lease payments	**4,311**	**8,847**

Set out in the table below are the amounts recognised during the period in profit or loss resulting from the Company's leases (as lessee).

	2022	2021
	$000	**$000**
Depreciation expense of right-of-use assets	**(3,726)**	(3,778)
Interest expense on lease liabilities	**(161)**	(240)
Expense relating to short-term leases (included in cost of sales)	**-**	(40)
Total amount recognised in profit or loss	**(3,887)**	**(4,058)**

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2022

8. ADDITIONAL DISCLOSURES

This section includes other information that must be disclosed to comply with Australian Accounting Standards, including:

- Cash flow disclosures;
- Related party transactions and balances;
- Key management personnel;
- Commitments for expenditure;
- Auditors' remuneration; and
- Accounting policy changes for the current year as well as for future years.

8.1. Cash Flow Disclosures

For the purposes of the statement of cash flows, cash includes cash on hand and at bank and short term deposits at call, net of outstanding bank overdrafts. Cash as at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

a) Reconciliation of Profit After Income Tax to Cash Flows from Operating Activities

	2022 $000	2021 $000
(Loss) / Profit from ordinary activities after income tax	**82,096**	**(18,174)**
Adjustments for:		
Depreciation	**1,712**	**1,562**
Amortisation	**1,678**	**1,919**
Amortisation - right-of-use asset	**3,726**	**5,061**
(Gain)/loss on fair value of investments	**(24,280)**	**(40,214)**
Finance costs	**101**	**255**
Interest capitalised on investment loans	**-**	**(390)**
Net foreign exchange (gains) losses	**237**	**(70)**
Impairment of intangible assets	**(152)**	**22,276**
Net (gain)/loss on sale of investments	**(85,726)**	**(3,357)**
Net (gain)/loss on sale of assets	**(30)**	**(10)**
Change in assets and liabilities, excluding net assets acquired:		
(Increase)/decrease in receivables	**(97,982)**	**(90,798)**
(Increase)/decrease in deferred reinsurance expense	**213,316**	**(32,761)**
(Increase)/decrease in deferred acquisition costs	**(21,416)**	**(26,832)**
(Increase)/decrease in reinsurance and other recoveries on claims	**(120,859)**	**(23,315)**
(Increase)/decrease in other assets	**2,418**	**(5,362)**
(Increase)/decrease in deferred tax asset	**9,246**	**(10,124)**
Increase/(decrease) in payables	**(129,885)**	**125,926**
Increase/(decrease) in outstanding claims	**162,976**	**143,736**
Increase/(decrease) in unearned premium liability	**72,831**	**126,173**
Increase/(decrease) in unearned reinsurance commissions	**(84,034)**	**2,662**
Increase/(decrease) in deferred tax liability	**(4,457)**	**5,681**
Increase/(decrease) in employee entitlements and provisions	**11,972**	**3,638**
Cash flows from/(used in) operating activities	**(6,512)**	**187,482**

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2022

8.2. Related Party Disclosures

Set out below is a summary of related party transactions by nature of transaction. The summary includes balances, income and expenses, cash, and non-cash components related to each transaction type and classification of related party:

a) Transactions with Related Parties

	2022 $000	2021 $000
Dividend income		
Subsidiaries	**-**	**6,000**
Associates	**632**	**456**
Other related parties	**-**	**255**
Interest income		
Other related parties	**5,496**	**-**
Associates	**208**	**469**
Acquisition costs expensed		
Subsidiaries	**(53,089)**	**(144,554)**
Associates	**(90,029)**	**(80,294)**
Other related parties	**(185,038)**	**(48,890)**

Commission and profit share arrangements (classified as acquisition costs) are generally comparable with terms and conditions offered to unrelated agencies and brokers, with the exception of the advance commission payments made to associates. Advance commission outstanding at balance date was $13.30 million (2021: $4.96 million).

b) Outstanding Balances with Related Parties

	2022 $000	2021 $000
Acquisition costs payable		
Subsidiaries	**12,891**	79,750
Associates	**52,464**	45,897
Other related parties	**95,380**	10,825
Tax Group receivable Parent entity	**11,077**	18,913

c) Loans Provided to Related Parties

	Associates		Other	
	2022	**2021**	**2022**	**2021**
	$000	**$000**	**$000**	**$000**
Loan facilities made available*	**4,760**	8,878	**-**	10,000
Facility unutilised at end of financial year^	**-**	(1,918)	**-**	(7,500)
Facility used at end of financial year	**4,760**	**6,960**	**-**	**2,500**
Average interest rate	**-%**	5.3%	**-%**	-%
Movement during the year:				
Facility used at beginning of financial year	**6,960**	7,838	**2,500**	5,500
Loans advanced	**1,474**	10	**-**	-
Loans repaid	**(3,713)**	(913)	**(2,500)**	(3,309)
Reclassifications	**39**	-	**-**	-
Capitalised interest	**-**	25	**-**	309
Facility used at end of financial year	**4,760**	**6,960**	**-**	**2,500**

* This limit refers to capital facilities provided during the year and refers to the principal amount of loans.

^ This limit refers to capital utilised and includes interest capitalised on loans from time to time.

The loans to Associates are generally for terms not exceeding three years from drawdown of the facility and generally secured by a charge over the assets and liabilities of the associate or conversion to equity rights.

The loan to Other is repayable on 31 July 2022 and is secured by a charge over all assets and all liabilities of the related company.

d) Loans Provided by Parent Entity

	Subordinated notes	
	2022	**2021**
	$000	**$000**
At beginning of financial year	**-**	40,000
Loans repaid	**-**	(40,000)
At end of financial year	**-**	**-**
Fixed interest rate	**-%**	6.0%

Information on the subordinated notes is contained in note 4.2.a).

8.3. Key Management Personnel

	2022	**2021**
	$000	**$000**
Short-term benefits	**6,684**	3,524
	6,684	**3,524**

The benefits above were expensed in the financial year in relation to key management personnel. The increase arises from an increase in the number of key management personnel following the functional restructure in 2021. None of the non-executive directors, executive directors or other key management personnel hold shares in the Company nor any share options against the issued and un-issued shares.

8.4. Commitments

Expenditure

Certain properties, motor vehicles and computer equipment are leased under non-cancellable operating leases. The amount of the commitment at year end is set out below:

	2022 $000	2021 $000
Within one year	**26**	29
Between one year and five years	**-**	26
	26	**55**

There are no options to purchase the relevant assets on expiry of the lease.

8.5. Auditors' remuneration

	2022 $000	2021 $000
Fees to the auditor of the statutory financial report	**412**	398
Fees for other statutory assurance services required by legislation	**98**	86
Fees for other services	**87**	-
	597	484

Other services during the financial year comprised consulting services with regard to the creation of a data analytics tool for internal audit.

8.6. Other Accounting Policy Disclosures

a) Accounting Policies Adopted During the Financial Year

The Company adopted the following new or revised accounting standards as applicable which became effective for the annual reporting period commencing on 1 July 2021, none of which had a material impact on the Company.

- AASB 2020-5 Amendment to Australian Accounting Standards - Insurance Contracts
- AASB 2018-6 Amendment to Australian Accounting Standards - Definition of a Business
- AASB 2018-7 Amendment to Australian Accounting Standards - Definition of Material
- AASB 2019-1 Amendment to Australian Accounting Standards - References to the Conceptual Framework

b) Accounting Standards and Interpretations Issued But Not Yet Effective

There are a number of new accounting standards and amendments issued, but not yet effective, none of which have been early adopted by the Company.

The Company intends to adopt new, revised or amending Accounting Standards and Interpretations in the operating year commencing 1 July after the effective date of the relevant standards and interpretations as set out below. The new standards and amendments, when applied in future periods are not expected to have a material impact on the financial position of the Company, except where noted below.

	Effective date	Operative year ending
- AASB 17 Insurance Contracts	1 January 2023	30 June 2024
- AASB 2020-1 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current	1 January 2022	30 June 2023
- AASB 2020-3 Amendments to Australian Accounting Standards – Annual Improvements 2018–2020 and Other Amendments	1 January 2022	30 June 2023
- AASB 2021-2 Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates	1 January 2023	30 June 2024
- AASB 2021-5 Amendments to Australian Accounting Standards – Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023	30 June 2024

AASB 17 Insurance Contracts (AASB 17)

As reported in the previous financial year, the Company is in the process of implementing AASB 17 (IFRS 17) which becomes effective for annual periods beginning on or after 1 January 2023. The Company will be required to present AASB 17 compliant financial statements for the year ended 30 June 2024.

Implementation Process

The Company has in a place a project team to work through the Interpretation of AASB 17 and selection and drafting of accounting policies. A technological solution has been identified that will execute the calculations required to meet the statutory financial reporting and disclosure requirements. The necessary data and process changes to achieve compliance have been identified and the project team is working on configuring the system build out to suit the commercial arrangements in place. The project is well progressed and the entity is scheduled to meet the effective reporting dates for AASB 17.

Key Accounting Policy Changes

<u>Adoption of Premium Allocation Approach</u>
AASB17 provides options for three measurement models depending on the nature of the insurance contract: The General Measurement Model, the Variable Fee Approach and the Premium Allocation Approach. The Company has modelled and reviewed the profile of the risk classes and policies written and is satisfied that a significant proportion of the contracts have coverage periods of 12 months or less. While the business does write business in the public liability and travel classes which tend to have coverage periods greater than 12 months, this business is deemed to be incidental. Based on the largely short tail insurance products offered by the Company, it is likely to align its accounting policies to the simplified Premium Allocation Approach. A similar approach is expected to be adopted for outward reinsurance, and inward reinsurance where relevant.

<u>Grouping of Insurance Contracts (GIC)</u>
In respect of the level of aggregation, AASB17 requires grouping of a portfolio of contracts subject to similar risks that are managed together. The Company intends to group insurance contracts by distribution channel and class of business and underwriting year. The methodology is supported by the dedicated governance and leadership structures in place across the business. The distribution channels are as follows:

- Broker & Direct - Personal lines
- Broker & Direct - Commercial lines
- Agency
- New Zealand
- Pet

These portfolios are classified as follows on initial recognition, which classification will be unchanged for the life of the underlying policies:

- Onerous
- Significant probability of not being onerous
- Other (profitable)

Upon transition to AASB 17, there may be impact to equity arising from early recognition of losses arising from the aforesaid grouping of insurance contracts. However, the Company is unable to estimate the impact currently.

Deferral of Acquisition Costs

In terms of the options available in AASB17, acquisition costs can either be deferred, or recognised immediately as incurred. To reduce volatility of reported results the Company will continue deferring acquisition costs and releasing them to profit or loss as part of the Insurance Service Expense on the same basis as the insurance revenue of the underlying policies.

Key Judgements and Estimates

Expense Classification and Allocation

AASB17 requires reporting entities to allocate operating expenses attributable to insurance contracts to portfolios. Management is assessing data and assumptions to develop a model that will achieve a reasonable allocation of costs.

Risk Adjustment

The risk adjustment measures the compensation that the entity would require to make the entity indifferent between:

- Fulfilling a liability that has a range of possible outcomes arising from non-financial risk; and
- Fulfilling a liability that will generate fixed cashflows with the same expected present value as in the insurance contracts.

The risk adjustment is meant to inform users of the Company's financial statements about the amount charged for the uncertainty arising from non-financial risk relating to the amount and timing of cashflows.

Risk adjustment modelling and policy are an evolving area in the industry and are currently being assessed.

Given the significance of project implementation items that are being progressed, and current limitations such as data availability, system calculation capabilities, and evolving accounting policy positions, the Company is unable to reasonably estimate the financial and tax implications of the adoption of AASB 17 at the time these financial statements were authorised for issue.

Transition Approach

At this stage of the project implementation, the Company expects to apply the Full Retrospective Approach on adoption of AASB17. To satisfy the requirements of the approach the grouping of insurance contracts and the measurement of those GIC's is to be done as if AASB17 applied from when the GIC's were initially recognised.

The Company also continues to participate in industry engagements to benchmark accounting and actuarial policy decisions given the complexities associated with the standard and potential for differing interpretations across the industry.

9. EVENTS SUBSEQUENT TO BALANCE DATE

No matters or circumstances have arisen since 30 June 2022 that have significantly affected or may significantly affect the operations of the Company, the results of those operations or the state of affairs for the Company, other than as disclosed below:

- On 9 September 2022, the Company entered into a 10 year lease agreement for new premises commencing 1 July 2023, resulting in recognition, at that date, of an Asset of $48.1m and a corresponding liability of $48.1m.
- On 23 September 2022, the Company declared and paid a dividend of $38.73 million.

Directors' Declaration

FOR THE YEAR ENDED 30 JUNE 2022

1. In the opinion of the directors of The Hollard Insurance Company Pty Ltd (Company)

    (a) the financial statements and notes that are set out on pages 13 to 71, are in accordance with the *Corporations Act 2001*, including compliance with accounting standards, and giving a true and fair view of the Company and Company's financial position as at 30 June 2022 and of their performance for the financial year ended on that date; and

    (b) there are reasonable grounds to believe that the Company will be able to pay their debts as and when they become due and payable.

2. The directors draw attention to note 1.3 to the financial statements, which includes a statement of compliance with International Financial Reporting Standards and to note 1.6 which provides information in relation to the impact of COVID-19 on the Company's use of estimates and judgements.

Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the board

Katrina Barry
Non-executive Director & Interim Chair

Richard Enthoven
Executive Director

Dated at Sydney 30 September 2022

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Independent Auditor's Report to the Members of The Hollard Insurance Company Pty Ltd

Opinion

We have audited the financial report of The Hollard Insurance Company Pty Ltd (the "Company") which comprises the statement of financial position as at 30 June 2022, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and the directors' declaration.

In our opinion, the accompanying financial report of the Company is in accordance with the *Corporations Act 2001*, including:

- Giving a true and fair view of the Company's financial position as at 30 June 2022 and of its financial performance for the year then ended; and
- Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Other Information

The directors are responsible for the other information. The other information comprises the directors' Report for the year ended 30 June 2022 but does not include the financial report and our auditor's report thereon.

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

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

Deloitte.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Company 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 has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is 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 the Australian Auditing Standards 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 this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Max Rt Murray

Max Murray
Partner
Chartered Accountants

Sydney, 30 September 2022