HDI Global Specialty SE – New Zealand

Financial Statements

for the year ended 31 December 2022

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Financial Statements for the year ended 31 December 2022

Directors' Report - Responsibilities and Approval

The directors present their report for the year ended 31 December 2022.

1. Main Business and Operations

The Entity's principal activities during the financial year continued to be the sale of general insurance policies in New Zealand. The entity received a license to carry on insurance business in New Zealand on 31 March 2021 and commenced operations on 1 May 2021.

HDI Global Specialty SE – New Zealand ("Entity") is an operating unit of HDI Global Specialty SE ("Company"), a company incorporated in Germany. The risks written by the Company under the New Zealand Insurance license are captured in the Entity. The Entity's operations are managed by HDI Global Specialty SE – Australian Branch.

2. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business. The Entity has a net current deficiency and the Company has provided a Letter of Support.

3. Events after reporting date

All events subsequent to the date of the annual financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.

The directors are not aware of any matter or circumstance arising since the end of the financial year to the date of this report that could have a material effect on the financial position of the Entity.

4. Directors

The directors of the Entity during the year and up to the date of this report are as follows:

- Ralph Beutter
- Andreas Bierschenk
- Richard Taylor
- Thomas Barenthein
- Thomas Stoeckl

HDI Global Specialty SE - New Zealand

Financial Statements for the year ended 31 December 2022

Directors' Report - Responsibilities and Approval

The directors are required by the Financial Markets Conduct Act 2013 and Insurance (Prudential Supervision) Act 2010 to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements of the entity included in this report. It is their responsibility to ensure that the annual financial statements satisfy the financial reporting standards with regards to form and content and present fairly the statement of financial position, results of operations and business of the Entity, and explain the transactions and financial position of the business of the Entity at the end of the financial year. The annual financial statements are based upon appropriate accounting policies consistently applied throughout the Company and supported by reasonable and prudent judgements and estimates.

The Directors present their report on HDI Global Specialty SE - New Zealand business for the financial year ended 31 December 2022.

The Directors are responsible for the presentation, in accordance with the Company's constitution and the generally accepted accounting practice, of financial statements which fairly present the financial position of the Entity as at 31 December 2022 and the results of the operations for the year ended 31 December 2022.

The Directors consider that the financial statements of the Entity have been prepared using the accounting policies appropriate to the Entity, consistently applied and supported by reasonable and prudent judgements and estimates, and that all applicable International Financial Reporting Standards and the NZ IFRS have been followed.

The Directors have responsibility for ensuring that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Entity and enable them to ensure that the financial statements comply with the relevant accounting standards.

The Directors have responsibility for the maintenance of a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting. The Directors consider that adequate steps have been taken to safeguard the assets of the Entity and to prevent and detect fraud and other irregularities.

Signed in accordance with a resolution of the Board of Directors:

Andreas Bierschenk
Director

Ralph Buetter
Director

Apr 28, 2023

Date

Apr 28, 2023

Date

HDI Global Specialty SE - New Zealand

Financial Statements for the year ended 31 December 2022

Statement of Profit or Loss and Other Comprehensive Income

	Notes	2022 $	2021 $
Premium revenue	7	29,250,147	7,071,000
Outwards reinsurance expense	8	(27,296,114)	(6,803,644)
Net premium revenue		**1,954,033**	**267,356**
Claims expense	9	(16,758,185)	(5,123,558)
Reinsurance and other recoveries revenue	9	15,163,726	4,606,788
Net claims incurred		**(1,594,459)**	**(516,770)**
Acquisition costs	10	(6,788,114)	(1,357,854)
Reinsurance commission revenue	11	7,854,542	1,690,600
Net Commission revenue		**1,066,428**	**332,746**
Underwriting expenses		-	-
Underwriting result		**1,426,002**	**83,332**
Investment income		21,267	154
Operating expenses	12	(1,585,762)	(902,330)
Loss before income tax		**(138,493)**	**(818,844)**
Income tax benefit/(expense)		-	-
Loss after income tax attributable to owners of the Company		**(138,493)**	**(818,844)**
Other comprehensive income for the period, net of tax		-	-
Total comprehensive loss for the period attributable to Head Office Account		**(138,493)**	**(818,844)**

HDI Global Specialty SE - New Zealand

Financial Statements as at 31 December 2022

Statement of Financial Position

	Notes	2022 $	2021 $
Assets			
Cash and cash equivalents	14	9,977,916	7,088,856
Trade and other receivables	16	16,428,565	7,671,541
GST receivable	15	-	714,517
Reinsurance and other recoveries	21.2	13,659,487	4,061,015
Deferred insurance costs	17	21,540,093	16,592,634
Total Assets		**61,606,061**	**36,128,563**
Liabilities			
Trade and other payables	18	23,972,546	14,406,044
Outstanding claims	21.1	15,041,025	4,517,144
Unearned premium	20	18,719,480	14,362,860
Unearned reinsurance commission	19	4,830,347	3,661,358
Total Liabilities		**62,563,398**	**36,947,406**
Net Assets / (Liabilities)		**(957,337)**	**(818,843)**
Due to Head Office		**(957,337)**	**(818,844)**

HDI Global Specialty SE - New Zealand

Financial Statements for the year ended 31 December 2022

Statement of Changes in Balances Due to Head Office

	Notes	2022 $	2021 $
Head Office Account			
Balance as at 1 January		(818,844)	-
(Loss) for the year attribute to Head Office Account		(138,493)	(818,844)
Total comprehensive income		-	-
Net transactions with Head Office		-	-
Balance at 31 December	23	**(957,337)**	**(818,844)**

HDI Global Specialty SE - New Zealand

Financial Statements for the year ended 31 December 2022

Statement of Cash Flows

	Notes	2022 $	2021 $
Operating Activities			
Premium received		24,849,742	13,762,320
Reinsurance and other recoveries received		5,565,254	545,773
Reinsurance commission received		9,023,531	5,351,958
Outwards reinsurance paid		(23,231,622)	(7,333,580)
Claims paid		(6,234,304)	(606,414)
Insurance costs paid		(7,851,119)	(4,442,148)
Interest received		21,267	154
Other operating receipts / (payments)		746,311	(189,207)
Net cash flows from operating activities	29	**2,889,060**	**7,088,856**
Investing Activities		-	-
Net cash flows from investing activities		-	-
Financing Activities			
Net cash flows from financing activities		-	-
Net movement in cash and cash equivalents		**2,889,060**	**7,088,856**
Cash and cash equivalents at the beginning of the year		7,088,856	-
Cash and cash equivalents at the end of the year		**9,977,916**	**7,088,856**

Notes to the Financial Statements

1. General information

HDI Global Specialty SE (the Company) is a for-profit proprietary Company, incorporated and domiciled in Germany. The Company operates a New Zealand Entity office (the Entity). The Entity is a for-profit entity for the purpose of preparing financial statements and is an FMC reporting entity for the purpose of the Financial Markets Conduct Act 2013.

The address of the Entity's registered office is:

TMF Group
Level 11, 41 Shortland Street,
Auckland, 1010
New Zealand

The Company's shareholders are HDI Global SE who own 100%.

The Company was issued with an insurance license by the Reserve Bank of New Zealand with effect from 31 March 2021. The Entity provides various insurance products in New Zealand including but not limited to forestry, aviation, pet and marine insurance.

The financial statements have been prepared on a going concern basis, the validity of which depends on the continued support of the Company. The assets of the Entity are legally available for the satisfaction of debts of the Company, not solely those appearing on the accompanying Statement of Financial Position and its debts may result in claims against assets not appearing thereon. It is under the conditions of the license that the Company must ensure that the Entity is in a position to meet its obligations as and when those obligations fall due. The Entity is in a negative liability position and the Company has confirmed that it will not call upon that liability. For the purposes of these Financial Statements reference to Company also includes reference to the Entity itself as deemed relevant.

The financial statements of the Entity for the year ended 31 December 2022 were authorised for issue by the Directors on 28 April 2023.

2. Basis of preparation and summary of significant accounting policies

These financial statements have been prepared in accordance with and comply with Generally Accepted Accounting Practice in New Zealand and for the purpose of complying with GAAP, the Entity is a 'for-profit-entity'. They comply with International Financial Reporting Standards and New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable financial reporting standards appropriate for Tier 1 profit oriented entities. The financial statements have been prepared in accordance with the requirements of the Financial Markets Conduct Act 2013 and the Insurance (Prudential Supervision) Act 2010.

The financial statements have been prepared on the historical cost basis, except as stated below.

These financial statements are presented in New Zealand dollars rounded to the nearest dollar. The Entity functional currency is New Zealand dollars, even though the Entity is managed in Australia, the primary economic environment it operates in is New Zealand.

2.1 Revenue

2.1.1 Premium Revenue

Direct premium revenue comprises amounts charged to policy holders. The earned portion of premiums, including unclosed business, is recognised as Premium Revenue. Premium is earned from the date of attachment of the risk, over the contract year based on the pattern of the risks underwritten.

2. Basis of preparation and summary of significant accounting policies (continued)

2.1 Revenue (continued)

2.1.2 Reinsurance and other recoveries

Reinsurance and other recoveries on paid claims, reported claims not yet paid, and claims incurred but not reported (IBNR) are recognised as revenue on the same basis as the underlying gross claims expense. Recoveries are measured as the present value of the expected future receipts.

2.1.3 Reinsurance commission revenue

Reinsurance commission revenue comprises exchange commissions and Acquisition Costs that are a percentage of reinsurance premiums payable. Exchange commissions and Acquisition Costs are recognised in profit or loss on the same basis as outwards reinsurance expense, reflecting the pattern of the expected incidence of risk over the year of indemnity, adjusted for policy terminations.

2.2 Outwards reinsurance expense

Premium ceded to reinsurers by the Entity in exchange for reinsurance protection is expensed in accordance with the reinsurance contract's expected pattern of incidence of risks. A portion of outwards reinsurance premium is treated as deferred reinsurance premium and recognised over the year of reinsurance cover.

2.3 Claims expenses and acquisition costs

2.3.1 Claims Expenses

Claims expense represents payments made on claims and the movement in the outstanding claims liability as described in note 9. Current year claims relate to loss events that occurred during the current financial year.

2.3.2 Acquisition Costs

Acquisition costs are the costs associated with obtaining and recording insurance contracts. Acquisition costs are capitalised and amortised on the same basis as pattern of the related premium.

2.4 Income tax and deferred tax

The Entity is not a resident for tax purposes in New Zealand. Any taxable income or loss associated with the Entity is included in the Australian Entity's income tax return and lodged with the Australian Taxation Office. There will be no associated income tax expense for the Entity.

Similarly to the above, there will be no associated deferred income tax balances recognised for the Entity.

2.5 Goods and services tax (GST)

All balances are presented net of goods and services tax (GST), except for receivables and payables which are presented inclusive of GST.

Cash flows in the Statement of Cash Flows are included on a gross basis and the GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

2. Basis of preparation and summary of significant accounting policies (continued)

2.6 Financial instruments

Financial assets and financial liabilities are recognised when the Entity becomes a party to the contractual provisions to the instrument. For financial assets, this is the equivalent to the date that the Entity commits itself to either purchase or sale of the asset (i.e. trade date accounting is adopted). Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified 'at fair value through profit or loss', in which case transaction costs are expensed to profit or loss immediately.

Financial Assets

Financial assets are subsequently measured at amortised cost or fair value through profit or loss. Measurement is on the basis of two primary criteria being the contractual cash flow characteristics of the financial asset and the business model for managing the financial asset.

Financial Liabilities

Financial liabilities are subsequently measured at amortised cost using the effective interest rate method. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest expense to the profit or loss over the relevant year. The effective interest rate is the internal rate of return of the financial asset or liability. That is, it is the rate that exactly discounts the estimated future cash flows through the expected life of the instrument to the net carrying amount at initial recognition.

A financial liability cannot be reclassified.

Derecognition

Derecognition of Financial Assets

A financial asset is derecognised when the holders contractual rights to its cash flows expires, or the asset is transferred in such a way that all the risks and rewards of ownership are substantially transferred. The criteria for the derecognition of a financial asset is satisfied when the right to receive cash flows from the asset has expired or been transferred, all risks and rewards of ownership of the asset have been substantially transferred and the Entity no longer controls the asset (i.e.: has no practical ability to make a unilateral decision to sell the asset to a third party).

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

Derecognition of Financial Liabilities

A liability is derecognised when it is extinguished (i.e. when the obligation in the contract is discharged, cancelled or expires). An exchange of an existing financial liability for a new one with substantially modified terms, or a substantial modification to the terms of a financial liability, is treated as an extinguishment of the existing liability and recognition of a new financial liability.

The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

2. Basis of preparation and summary of significant accounting policies (continued)

Impairment of assets at amortised cost

The carrying amounts of the Entity's financial assets at amortised cost are reviewed at each balance date to determine if there is any indication of impairment. If any such impairment exists, the assets recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds the recoverable amount. Impairment losses directly reduce the carrying amount of assets and are recognised in the Statement of Profit or Loss and Other Comprehensive Income.

Trade and other receivables

Trade receivables are recognised when due and measured on initial recognition at the fair value of the consideration receivable.

Cash and cash equivalents

Cash comprises cash in bank and on hand. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, which are subject to an insignificant risk of changes in value.

Trade and other payables

Trade payables and other accounts payable are recognised when the Entity becomes obliged to make future payments resulting from the purchase of goods and services.

2.7 Outstanding claims liabilities and reinsurance and other recoveries

2.7.1 Outstanding claim liabilities

Outstanding claim liabilities are measured as the central estimate of the present value of future claim payments at the reporting date under general insurance contracts issued by the Entity, with an additional risk margin to allow for the inherent uncertainty in the central estimate.

The future payments include those in relation to outstanding claims, claims incurred but not reported (IBNR), claims incurred but not enough reported (IBNER) and their associated allocated costs as well as anticipated claims handling costs.

Claims handling costs include those costs that cannot be directly associated with individual claims, such as claims administration costs.

The future payments are discounted to present value using a risk free interest rate.

2.7.2 Reinsurance and other recoveries

Reinsurance and other recoveries on paid claims, outstanding claims, claims incurred but not reported (IBNR) and claims incurred but not enough reported (IBNER) are recognised as revenue. Recoveries are recognised and measured in a manner similar to the recognition and measurement of outstanding claims. Recoveries in relation to long-tail classes are measured as the present value of the expected future receipts evaluated on the same basis as the liability for outstanding claims to which they relate.

2. Basis of preparation and summary of significant accounting policies (continued)

2.8 Deferred insurance costs

2.8.1 Deferred acquisition costs

Acquisition costs incurred in obtaining and recording insurance contracts are deferred in recognition when they represent future benefits. Deferred acquisition costs are only recognised if they can be reliably measured and are expected to give rise to future benefits. Deferred acquisition costs are amortised over the expected pattern of the incidence of risk under the insurance contract.

2.8.2 Deferred reinsurance premium

The deferred reinsurance premium asset is the portion of reinsurance premium that the Entity has not yet expensed as it represents the reinsurance coverage to be received by the Entity after the balance date.

2.9 Unearned premium reserve and liability adequacy testing

The reserve for unearned premiums includes premiums received for risks that have not yet expired. Generally the reserve is released over pattern of the risks and is recognised as premium income.

A liability adequacy test is performed to assess whether there are any deficiencies in the unearned premium reserve due to expected future claims. The amount of these expected future claims is estimated using the present value of future claims and expenses plus an additional risk margin to reflect the inherent uncertainty in those cash flows. This is compared to the unearned premium reserve and deferred acquisition costs. Any deficiency is recognised in the Statement of Profit or Loss and Other Comprehensive Income by writing down any deferred acquisition costs first with the remaining amount recognised in the Statement of Financial Position as an unexpired risk liability.

The liability adequacy test is performed at the level of portfolio contracts that are subject to broadly similar risks and are managed together as a single portfolio. No deficiency was recognised in 2022.

2.10 Unearned reinsurance commission

Premiums ceded to the reinsurer under reinsurance contracts are recorded as an outwards reinsurance expense and are recognised over the year of the reinsurance contract. Accordingly, a portion of outwards reinsurance premium commission is treated as a prepayment and presented as unearned reinsurance commission in the Statement of Financial Position at the reporting date.

3. Changes in accounting policies and disclosures

3.1 Standards and Interpretations effective and adopted in the current year

No new standards or interpretations adopted this year.

3.2 New standards and interpretations not yet adopted

No new standards or interpretations were adopted in 2022

Standard Name	Effective date for entity	Impact
NZ IFRS 17 Insurance	1 January 2023	Material

Insurance Contracts

NZ IFRS 17 replaces NZ IFRS 4 Insurance Contracts effective from 1 January 2023. NZ IFRS 17 applies to all types of insurance contracts, i.e., life, non-life, direct insurance and reinsurance, regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

The core of NZ IFRS 17 is the General (building block) Model supplemented by:

- A specific adaptation for contracts with direct participation features (Variable Fee Approach).

- A simplified approach mainly for short duration contracts (Premium Allocation Approach).

The main features of the new accounting model for insurance contracts are:

- A measurement of the present value of future cash flows, incorporating an explicit risk adjustment, remeasured every reporting year, i.e., the fulfilment cash flows.

- A Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts, representing the unearned profitability of the insurance contract to be recognised in profit or loss over the service year (i.e., the coverage year).

- Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognised in profit or loss over the remaining contract service year.

- The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income, determined by an accounting policy choice.

Impact on the Entity

NZ IFRS 17 will require the application of new measurement models and extensive changes to presentation and disclosure. There is both a 'base' method (the General Measurement Method) and 'simplified' (the Premium Allocation Approach) method that general insurers may use for measurement and presentation. It is expected that the Entity will be able to partially or entirely use the simplified measurement approach.

As NZ IFRS 17 has been evolving the Entity has not yet assessed its full impact on the financial statements, although the key areas for the Entity are likely to be as follows:

- The net claims liabilities are currently reported at a 75% probability of sufficiency. This is expected to change under NZ IFRS 17.

- The grouping of contracts and the assessment method of the profitability of unearned business is expected to change under NZ IFRS17.

3.2 New standards and interpretations not yet adopted (continued)

- The measurement and presentation of deferred acquisition costs is expected to change under NZ IFRS 17.
- The measurement and presentation of reinsurance is expected to change under NZ IFRS 17.
- It is expected there will be substantial changes to the presentation and disclosure.

The standards, amendments and interpretations to existing standards which are listed above are not mandatory for the Entity until the financial year when they are expected to be applied.

4. Critical accounting estimates and judgements

The preparation of the financial statements in conformity with NZ IFRS requires management to make judgements and estimates with respect to assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on going basis. Revisions to accounting estimates are recognised in the year in which the estimates are revised and in any future years affected.

The most significant area in which judgments and estimates are made are outstanding claims liability and the related reinsurance recoveries.

Outstanding claims liabilities

The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. Claims experience to date is limited and the nature of the policies sold means that claims experience will potentially be somewhat volatile, given it's the second year of operations. It is therefore likely that the final outcome will prove to be different from the original liability established.

Claims reported to the Entity at balance date are estimated with due regard to the claim circumstance as reported by the insured, legal representative, assessor, loss adjuster and/or other third party and then combined, where appropriate, with historical evidence on the cost of settling similar claims. Estimates of the cost of claims reported are reviewed regularly and are updated as and when new information arises.

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 IBNER reserves. Short-tail claims are typically reported and settled in a shorter time frame after the claim event, and hence, estimates are more certain.

In calculating the estimated cost of unpaid claims for the Entity, the Company uses a variety of estimation techniques, generally based upon statistical analysis of historical Group Company information and industry experience that assumes that the development pattern of the current claims will be consistent with past experience and/or general industry benchmarks as appropriate. Allowance is made, however, for changes or uncertainties that may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims. The ultimate net outstanding claims provision also includes an additional risk margin to allow for the uncertainty within the estimation process.

5. Risk Management

5.1 Risk Management overview

The Entity's operations are exposed to a number of key risks including financial and insurance risk. The Company's policies and procedures in managing these risks are set out below.

The Company's financial condition and operating activities are affected by the following core risks - strategic, balance sheet and market, interest, credit, liquidity, solvency, counter party, insurance, concentration, operational and governance risk.

The Company's Board has the ultimate responsibility for risk management and is assisted by the Board Risk & Audit Committee in its oversight of material risks and adherence to Board approved risk appetite and risk policies. The Company fulfils its responsibilities in respect of HDI Global Specialty SE – New Zealand, by ensuring that the Entity has its own Branch Committee which also performs this role. The Company's management apply the three lines of defence model for risk management as follows:

Line of Defence	Responsibility of	Accountable for
First	All employees	Identifying, assessing and managing risk within risk appetite and policy and framework requirements
Second	Chief Risk Officer of the Company	Owning and monitoring the application of the risk frameworks, and measures and reports on risk performance and compliance. Is independent from the first line
Third	Internal audit function	Independent assurance over internal controls and risk management practices

The material risks addressed by the risk management framework include:

Strategic Risk - The risk of threat or possibility that an action or event will adversely affect the Entity's ability to achieve its strategic objectives.

Insurance Risk - The risk originated in underwriting of insurance or reinsurance policies and resulting from fluctuation in the timing, frequency and severity of insured events and in the timing and amount of claims settlements, relative to expectations.

Operational Risk - The risk of loss occurring from inadequate or failed internal processes, people or systems or from external events. This includes risk associated with any outsourcing and offshoring of material business activities.

Compliance Risk - The risk of violation of statutory and regulatory provisions and internal guidelines, which could lead to lawsuits, administrative proceedings or loss of license with a significant impairment on the business operations of HSNZ and its shareholders. Compliance risk encompass legal risks, risks from changes in legislation including tax legislation and regulatory announcements.

Credit Risk - The risk of financial loss where a customer, counterparty, issuer, or insurance obligor fails to meet their financial obligations to the Entity in accordance with agreed terms. Failure includes both inability or willingness to do so.

Liquidity Risk - The risk that current and future cash flow, both expected and unexpected, cannot be met without materially affecting daily operations or the overall financial condition of the Entity.

5 Risk Management (continued)

5.1 Risk Management overview (continued)

The Entity's policies and procedures, processes and controls are designed to manage risk. These systems address all material risks, financial and non-financial risks likely to be faced by the Entity. The Board, assisted by the Board Risk & Audit Committee, directs and monitors implementation, practice and performance throughout the organisation including the Entity.

The process involves establishing the context of the risk and risk assessment through:

- Identification
- Impact assessment
- Evaluate
- Implement
- Monitor
- Review and report

Key processes and controls used to mitigate any identified risks are:

- Established policies, procedures and controls around the acceptance, underwriting and pricing of Insurance risks;
- Maintenance and use of insurance systems to provide up to date and reliable information on the risks that the Entity is exposed to;
- Processes around the development and approval of new product proposal with approval required from the Board of Directors;
- Use of an independent internal auditor, reporting to the Board Audit Committee to review compliance with Board approved policies; and
- Board appointed external actuarial involved on the establishment of claims reserves.

5.2 Insurance Risk Management

The risk originated in underwriting of insurance or reinsurance policies and resulting from fluctuation in the timing, frequency and severity of insured events and in the timing and amount of claims settlements, relative to expectations.

(a) Policies and practices for mitigating insurance risk

Controls are implemented to manage the following components of insurance risk

- pricing, including pricing strategies, technical pricing and pricing adequacy reviews;
- roles and responsibilities for pricing, the development and approval of new products and changes to existing products;
- process that identify and respond to changes in the internal and external environment impacting insurance products;
- underwriting, including processes to consider aggregate exposures from a portfolio perspective to determine the actual exposure to particular risks or event, monitoring of significant accumulation and concentration of risk, and guidelines around the utilisation of reinsurance in pricing and underwriting;
- delegated authorities to control underwriting risks at a policy and portfolio level
- delegated authorities for the acceptance, assessment and settlement of claims including operational and ex-gratia authority limits;
- procedures relating to the notification, assessment, evaluation, settlement and closure of claims, and processes to detect and reduce loss associated with claims risk; and
- reserving practices and procedures at individual claim and portfolio level.

5 Risk Management (continued)

5.2 Insurance Risk Management (continued)

Concentration of insurance risk is mitigated through diversification over classes of insurance business, geographical locations of the risks underwritten and the use of reinsurance. In relation to the use of reinsurance contracts are purchased to share the exposure of the Entity with Reinsurers and in some instances the purchase of excess of loss reinsurance to protect the Entity against individual large losses.

The terms and conditions attaching to insurance policies affect the level of risk accepted by the Entity. There are no special terms and conditions in any non standard contracts that would have a material impact on the financial statements.

Insurance contracts are generally entered into on an annual basis and at the time of entering into a contract all terms and conditions are negotiable, or, in the case of renewals, renegotiated. Non-standard and long-term policies may only be written if expressly approved by the Company's Chief Underwriter Officer.

5.3 Credit risk

Credit risk is the risk that one party to a financial instrument or contract will cause financial loss to the other party by failing to discharge an obligation.

The Entity's credit risk arises predominantly from reinsurance activities, cash and cash equivalents and premium debtors. The significant concentrations of credit risk are outlined below.

	2022	2021
Financial assets		
Cash and cash equivalents	9,977,916	7,088,856
	9,977,916	**7,088,856**
Receivables		
Reinsurance and other recoveries	13,659,487	4,061,015
Trade and other receivables	16,428,565	7,671,541
	30,088,052	**11,732,556**
Total financial assets	**40,065,968**	**18,821,412**

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if applicable) or to historical information about counter party default rates:

	2022	2021
Credit exposure by credit rating		
AA+ to AA-	18,978,990	10,554,436
A+ to A-	7,113,777	960,586
Unrated	13,973,201	7,306,390
Total	**40,065,968**	**18,821,412**

5.4 Liquidity risk

The Entity's solvency is based on the Company's therefore the Entity's ability to mitigate liquidity risks directly correlates to the Company's liquidity risk.

To ensure payments are made when they fall due, the Company has key facilities and arrangements in place to mitigate liquidity risks:

- investment portfolio mandates provide sufficient cash deposits to meet day-to-day obligations;
- investment funds set aside within the portfolio can be realised to meet significant claims payment obligations;
- in the event of a major catastrophe, cash access is available under the terms of reinsurance arrangements;
- mandate liquidity limits;
- regularity of premiums received provides substantial liquidity to meet claims payments and associated expenses as they arise; and
- flexibility in investment strategies implemented for investment management to provide sufficient liquidity to meet claim payments as they fall due, based on actuarial assumptions.

The maturity table, based on the expected cash flows is presented below for the purposes of disclosing the cash flows that are actually expected to occur over the life of the Entity's financial assets and liabilities.

2022

	At call 2022 $	1 year or less 2022 $	More than 1 year 2022	Total 2022 $
At fair value through profit or loss:				
Cash and cash equivalents	2,477,916	7,500,000	-	9,977,916
Investments	-	-	-	-
	2,477,916	**7,500,000**	**-**	**9,977,916**
Receivables				
Trade and other receivables		16,428,565	-	16,428,565
Reinsurance and other recoveries		9,203,777	4,455,710	13,659,487
	-	**25,632,342**	**4,455,710**	**30,088,052**
Financial liabilities				
Trade and other payables		23,972,546		23,972,546
Outstanding claims		10,033,537	5,007,488	15,041,025
	-	**34,006,083**	**5,007,488**	**39,013,571**

5.4 Liquidity risk (continued)

2021

	At call	1 year or less	More than 1 year	Total
	2021	**2021**	**2021**	**2021**
At fair value through profit or loss:				
Cash and cash equivalents	7,088,856	-		7,088,856
	7,088,856	**-**		**7,088,856**
Receivables				
Trade and other receivables		7,671,541		7,671,541
Reinsurance and other recoveries		4,061,015		4,061,015
	-	**11,732,556**		**11,732,556**
Financial liabilities				
Trade and other payables		14,040,894		14,040,894
Outstanding claims		2,543,431	1,973,713	4,517,144
	-	**16,584,325**	**1,973,713**	**18,558,038**

Trade and other receivables and payables are non-interest bearing.

Trade and other payables are due and payable in less than 120 days.

6. Capital Management and Head Office Account

The Entity has no capital given its legal structure and the business is managed at the Group level.

The Capital Management Strategy of HDI Global Specialty SE is to optimise shareholder value, having regard to the need to hold sufficient capital to protect the interests of policyholders, and comply with relevant regulatory requirements, by management the level, mix and use of capital resources. The primary objective is to ensure there are sufficient capital resources to maintain and grow the business, in accordance with risk appetite. HDI Global Specialty's Own Risk and Solvency Assessment Process (ORSA) provides the framework to ensure that the Group as a whole, and each regulatory entity, is capitalised to meet internal and external requirements. The ORSA is reviewed regularly and where appropriate, adjustments are made to reflect changes in the capital needs and risk profile of HDI Global Specialty SE.

The Board Audit and Risk Committee and Branch Committee oversee capital computations and maintains optimal capital structure by advising their respective Boards on dividend payments. In addition, HDI Global Specialty manages its required level of capital through analysis and optimisation of the product and asset mix, reinsurance program, catastrophe exposure and investment strategy.

Notes to the Financial Statements

		2022 $	2021 $
7.	**Premium revenue**		
	Gross written premium	33,606,767	21,433,860
	Movement in unearned premium	(4,356,620)	(14,362,860)
	Total premium revenue	**29,250,147**	**7,071,000**
8.	**Outwards reinsurance expense**		
	Ceded written premium	(31,180,569)	(20,311,984)
	Movement in ceded unearned premium	3,884,455	13,508,340
	Total outwards reinsurance expense	**(27,296,114)**	**(6,803,644)**
9.	**Net claims incurred**		
	Claims expense		
	Gross incurred claims and related expenses		
	Undiscounted (Gross)	(17,456,683)	(5,214,315)
	Discount (Gross)	698,498	90,757
	Total claims expense	**(16,758,185)**	**(5,123,558)**
	Reinsurance and other recoveries revenue		
	Undiscounted (Ceded)	15,788,132	4,686,409
	Discount (Ceded)	(624,406)	(79,621)
	Total reinsurance and other recoveries revenue	**15,163,726**	**4,606,788**
	Net claims incurred	**(1,594,459)**	**(516,770)**
10.	**Acquisition costs**		
	Gross acquisition costs	(7,851,118)	(4,442,148)
	Movement in deferred acquisition costs	1,063,004	3,084,294
	Total acquisition costs	**(6,788,114)**	**(1,357,854)**
11.	**Reinsurance commission revenue**		
	Reinsurance commission	9,023,531	5,351,958
	Movement in unearned reinsurance commission	(1,168,989)	(3,661,358)
	Total reinsurance commission revenue	**7,854,542**	**1,690,600**

Notes to the Financial Statements

12. Operating expenses		2022 $	2021 $
Actuarial		(79,851)	(52,000)
Administration fees Related parties	26	(1,146,049)	(594,676)
Advertising		1,650	(2,000)
Auditors remuneration		(125,430)	(66,000)
Bank charges		(4,479)	(1,717)
Consulting		(2,807)	(39,769)
General office		-	(1,331)
IT and system		(327,865)	(96,270)
Legal		6,467	(35,328)
Other (losses)/gains		116,738	(11,291)
Statutory charges		(24,136)	(1,948)
Total operating expenses		**(1,585,762)**	**(902,330)**

13. Auditors remuneration

Auditors remuneration to PwC	**125,430**	**66,000**

Notes to the Financial Statements

		2022 $	2021 $
14.	**Cash and cash equivalents**		
	Bank balances with Westpac	2,477,916	7,088,856
	Short term deposits with Westpac	7,500,000	-
		9,977,916	**7,088,856**
15.	**Current tax assets**		
	GST receivable	-	714,517
	Total current tax assets	**-**	**714,517**
16.	**Trade and other receivables**		
	Trade receivables	13,967,086	7,306,390
	Related party receivables	2,455,364	365,151
	Interest accrual	6,115	-
	Total Trade and other receivables	**16,428,565**	**7,671,541**
17.	**Deferred insurance costs**		
	Deferred acquisition costs		
	Opening balance	3,084,294	-
	Movement in deferred acquisition costs	1,063,004	3,084,294
	Total deferred acquisition costs	**4,147,298**	**3,084,294**
	Total deferred reinsurance premium asset		
	Opening balance	13,508,340	-
	Movement in ceded unearned premium	3,884,455	13,508,340
	Total deferred reinsurance premium asset	**17,392,795**	**13,508,340**
	Total deferred insurance costs	**21,540,093**	**16,592,634**
18.	**Trade and other payables**		
	Reinsurance premium payables	20,927,350	12,978,403
	Accrued expenses	358,913	257,246
	Related party payables	2,661,244	1,170,395
	GST payable	25,039	-
	Total trade and other payables	**23,972,546**	**14,406,044**
19.	**Unearned reinsurance commission**		
	Opening balance	3,661,358	-
	Unearned reinsurance commission movement	1,168,989	3,661,358
	Total unearned reinsurance commission	**4,830,347**	**3,661,358**
20.	**Unearned premium**		
	Opening balance	14,362,860	-
	Movement in unearned premium	4,356,620	14,362,860
	Total unearned premium	**18,719,480**	**14,362,860**

21. Outstanding claims and reinsurance and other recoveries	2022 $	2021 $
21.1. Outstanding claims		
Central estimate	13,251,004	3,843,964
Discount to present value	(656,060)	(74,870)
	12,594,944	3,769,094
Claims handling costs	530,041	249,858
Discount to present value	(26,243)	(4,867)
	503,797	244,991
Risk margin	2,049,236	514,079
Discount to present value	(106,952)	(11,020)
	1,942,284	503,059
Total outstanding claims	**15,041,025**	**4,517,144**
Current	10,033,537	2,543,431
Non-current	5,007,488	1,973,713
Total outstanding claims	**15,041,025**	**4,517,144**
21.2. Reinsurance and other recoveries		
Reinsurance recoveries undiscounted	12,415,664	3,681,341
Discount to present value	(609,102)	(70,014)
	11,806,562	3,611,327
Other recoveries undiscounted	-	-
Discount to present value	-	-
	-	-
Risk margin	1,835,616	459,295
Discount to present value	(94,925)	(9,607)
	1,740,691	449,688
Total reinsurance recoveries	**13,547,253**	**4,061,015**
Other reinsurance receivables	112,234	-
Total reinsurance and other recoveries	**13,659,487**	**4,061,015**
Current	9,203,777	2,338,779
Non-current	4,455,710	1,722,237
Total reinsurance and other recoveries	**13,659,487**	**4,061,015**

21.3. Reconciliation of movement in discounted outstanding claims

	Gross	Reinsurance	2022 Net
Opening balance	4,517,144	(4,061,015)	456,129
Impact of changes in assumptions	(776,269)	699,175	(77,094)
Increase in claims incurred	11,300,150	(10,185,413)	1,114,737
Incurred claims recognised in profit or loss and other comprehensive income	10,523,881	(9,486,238)	1,037,643
Discounted outstanding claims	**15,041,025**	**(13,547,253)**	**1,493,772**

Reconciliation of movement in discounted outstanding claims

	Gross	Reinsurance	2021 Net
Opening balance	-	-	-
Impact of changes in assumptions	-	-	-
Increase in claims incurred	4,517,144	(4,061,015)	456,129
Incurred claims recognised in profit or loss and other comprehensive income	4,517,144	(4,061,015)	456,129
Discounted outstanding claims	**4,517,144**	**(4,061,015)**	**456,129**

21.4 Actuarial assumptions adopted in calculation of general insurance liabilities

The actuarial report is prepared by Win Li-Toh, who is a Fellow of both the Institute of Actuaries of Australia and the New Zealand Society of Actuaries, and is employed by Taylor Fry Pty Limited.

The Actuary is satisfied as to the nature, sufficiency and accuracy of the data upon which the calculation of insurance liabilities has been made and is satisfied that the accounting provisions held in respect of the insurance liabilities are adequate.

For purposes of valuing the outstanding claims liability (OCL), the appointed actuary estimated the gross ultimate claims using the expected loss ratio method, with the IBNR reserve set equal to the difference between estimated ultimate losses and actual reported losses. The methodology was adopted because:

- There is little to no claims experience to date for more granular, triangle-based approaches
- The lines of business are niche and underwriter expectations of ultimate loss is valuable information to be incorporated.

The appointed actuary selected the estimated ultimate loss ratio (ULR) for each valuation group after considering:

- The incurred loss ratio to date
- The historical ultimate incurred loss ratios on similar classes of business from HSAB
- The quantum of case estimates
- The potential for late reported claims, and
- Underwriter expectations (particularly for classes of business where reported losses take many years to develop).

The appointed actuary selected these loss ratios on a nominal basis and thus made an implicit allowance for inflation.
The appointed actuary estimated the gross unpaid claims as the IBNR reserve plus case estimates on reported claims. The appointed actuary then applied claim handling expense loadings, discount factors and risk margins to arrive at the gross outstanding claims provision.

The key assumptions which have the greatest effect on the net outstanding claims liabilities are:

	2022	2021
Inflation rate implicit	Implicit	Implicit
Discount rate	5.0%	1.7%
Claims handling expense rate	4.0%	6.5%
Future loss ratios	60.0%	63%
Risk margin	15.6%	13.3%
Weighted average expected term to settlement	1.07 years	1.16 years

The impact of changes in key variables on the outstanding claims provision is summarised in the table below:

2022	Movement in net outstanding claims	Loss	Head Office Account
5% increase in loss ratios across all portfolios	**125,339**	**(263,832)**	**(1,082,676)**
10% additional IBNR development	**108,421**	**(246,914)**	**(1,065,758)**

21.4 Actuarial assumptions adopted in calculation of general insurance liabilities (continued)

2021	Movement in net outstanding claims	Loss	Head Office Account
5% increase in loss ratios across all portfolios	**28,583**	**(461,698)**	**(461,698)**
10% additional IBNR development	**39,463**	**(472,578)**	**(472,578)**

Note: The tables highlights what the result would be in the event that the variable movement is realised.

Process for determining the risk margin

The risk margin was determined by allowing for uncertainty taking into account the following:

(i) Independent risks, comprising variation in future claims costs due to the randomness inherent in the insurance process and random variation in the historical claims costs affecting the parameters selected for use in the actuarial models.

(ii) External systemic risk, comprising variation in future claims costs due to risks external to the modelling process, for example, catastrophic events or changes in the legislative environment.

(iii) Internal systemic risk which represents variation in future claims costs due to the models not being fully representative of the underlying insurance process and due to errors in the data on which the models are based.

The risk margin is intended to achieve a provision which will have 75% probability of sufficiency.

21.5.1 Claims development

The following table shows the development of gross outstanding claims:

Accident Year	2021	2022	Total
At end of accident year	4,450,378	16,245,582	20,695,960
One year later	3,837,188		3,837,188
Two years later			
Current estimate of incurred	3,837,188	16,245,582	20,082,770
Cumulative payments	(1,836,720)	(4,995,046)	(6,831,766)
Gross undiscounted outstanding claims	2,000,468	11,250,536	13,251,004
Discount to present value	(89,707)	(566,353)	(656,060)
Claims handling costs	76,430	427,367	503,797
Risk margin	292,116	1,650,168	1,942,284
Gross outstanding claims liability	2,279,307	12,761,718	15,041,025

21.5.2 Claims development

The following table shows the development of net outstanding claims:

Accident Year	2021	2022	Total
At end of accident year	223,264	1,223,683	1,446,948
One year later	228,220		228,220
Two years later			
Current estimate of incurred	228,220	1,223,683	1,451,904
Cumulative payments	(119,707)	(496,857)	(616,564)
Net undiscounted outstanding claims	108,513	726,826	835,340
Discount to present value	(5,477)	(41,481)	(46,958)
Claims handling costs	76,430	427,367	503,797
Risk margin	28,135	173,458	201,593
Net outstanding claims liability	207,601	1,286,170	1,493,772

Notes to the Financial Statements

	Notes	2022 $	2021 $

22. Liability adequacy test

A liability adequacy test was performed for 31 December 2022 which indicates a surplus of $453,421 (2021: $161,328). The tests were based on:

Central estimate of the present value of expected future cash flows ($)	1,294,433	1,075,033
Present value of expected future cash flows related to the risk margin	261,880	195,223
Present value of expected future cash flows including risk margin	**1,556,313**	**1,270,256**
The probability of adequacy (%)	75%	75%
Unearned premium	18,719,480	14,362,860
Deferred insurance costs	(21,540,093)	(16,592,634)
Unearned reinsurance commission	4,830,347	3,661,358
Net unearned premium net of deferred insurance costs	**2,009,734**	**1,431,584**
Total surplus / (deficiency)	**453,421**	**161,328**

23. Head office account

Opening balance	(818,844)	-
Loss for the year	(138,493)	(818,844)
Head office account at 31 December	**(957,337)**	**(818,844)**

24. Credit rating

The Company received a financial strength rating of A+ from Standard's and Poor on the 18 May 2018. The credit rating is an indication of the Company's current and future claims paying ability (Refer to Note 22 - Liability Adequacy Test).

25. Related parties

HDI Global Specialty SE – Australian Branch
HDI Global Specialty SE – Australian Branch is a branch of the Company. It manages the entity business and settles operating expenses on behalf of the Entity.

HDI Reinsurance Ireland
HDI Reinsurance Ireland is a subsidiary of one of the Company's shareholders. It provides quotashare reinsurance.

Hannover Re SE Germany
Hannover Re SE Germany is a shareholder of the Company. It provides quotashare reinsurance.

Hannover Re SE – Australian Branch
Hannover Re SE – Australian Branch is a Branch of a shareholder of the Company (Hannover Re SE Germany). It provides quotashare reinsurance.

All transactions with related parties were undertaken on an arm's length basis. All outstanding balances are unsecured and due for settlement on normal terms of credit.

	Notes	2022 $	2021 $

26. Related party transactions

Revenue		
Reinsurance recoveries from HDI Reinsurance Ireland	6,649,724	795,631
Reinsurance recoveries from Hannover Re SE Germany	7,206,008	1,374,054
Reinsurance recoveries from Hannover Re SE - Australian Branch	1,307,995	2,437,103
Reinsurance commission from HDI Reinsurance Ireland	3,123,871	273,610
Reinsurance commission from Hannover Re SE Germany	3,139,777	472,544
Reinsurance commission from Hannover Re SE - Australian Branch	1,590,894	944,446
Expenses		
Reinsurance premium to HDI Reinsurance Ireland	(9,715,861)	(1,016,179)
Reinsurance premium to Hannover Re SE Germany	(11,004,219)	(1,755,218)
Reinsurance premium to Hannover Re SE - Australian Branch	(6,576,034)	(4,032,247)
Administration fees - HDI Global Specialty SE - Australian Branch	(1,146,049)	(594,676)
Related parties balances		
Receivables		
Reinsurance recoveries receivables from HDI Reinsurance Ireland	4,658,413	595,495
Reinsurance recoveries receivables from Hannover Re SE Germany	5,843,079	1,028,416
Reinsurance recoveries receivables from Hannover Re SE - Australian Branch	3,157,995	2,437,103
Receivables from HDI Global Specialty SE - Australian Branch	2,455,364	365,150
Payables		
Payable to HDI Global Specialty SE - Germany	550,000	550,000
Payable to HDI Global Specialty SE - Australian Branch	2,111,244	620,395
Reinsurance payable to HDI Reinsurance Ireland	8,191,914	1,953,263
Reinsurance payable to Hannover Re SE Germany	12,735,437	4,148,702
Reinsurance payable to Hannover Re SE - Australian Branch	-	6,681,207
Reinsurance payable to HDI Global Specialty SE - Australian Branch	-	195,232

27. Capital management and solvency

The Company's solvency position is calculated in accordance with the regulatory requirements of the Federal Financial Supervisory Authority (BaFin), the financial regulatory authority of Germany. The Company holds capital that is in excess of its SCR and MCR.

Actual solvency capital	785,899,000	621,048,000
Minimum solvency capital	251,580,000	204,247,000
Solvency margin	534,319,000	416,801,000
Solvency ratio	3.12	3.04

	Notes	2022 $	2021 $

28. Contingencies

At 31 December 2022, the Entity had no contingent liabilities or contingent assets.

29. Cash flow from operating activities

Loss for the year	**(138,493)**	**(818,844)**
Change in operating assets and liabilities		
(Increase)/decrease in GST receivables	714,517	(714,517)
(Increase)/decrease in trade and other receivables	(8,757,024)	(7,671,541)
(Increase)/decrease in deferred insurance costs	(4,947,460)	(16,592,634)
(Increase)/decrease in reinsurance and other recoveries	(9,598,472)	(4,061,015)
Increase/(decrease) in trade and other payables	9,566,502	14,406,044
Increase/(decrease) in outstanding claims	10,523,881	4,517,144
Increase/(decrease) in unearned premium	4,356,620	14,362,861
Increase/(decrease) in unearned reinsurance commission	1,168,989	3,661,358
Net cash flow from operating activities	**2,889,060**	**7,088,856**

30. Legal Structure

The Entity is an operating unit of the Company and therefore there are no investing or financing activities.

31. Subsequent Events

There are no events subsequent to balance date which have materially affected or may materially affect the financial statements of that data.

Independent auditor's report

To the Directors of HDI Global Specialty SE

Our opinion

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

What we have audited

The Branch's financial statements comprise:

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

Basis for opinion

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

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

Independence

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

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

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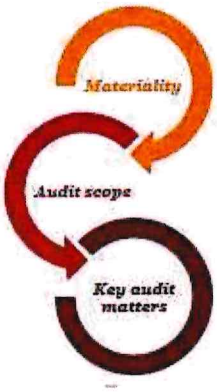
Our audit approach

Overview



Overall materiality: $291,900, which represents approximately 1% of gross written premium.

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

We utilised a 1% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.

We have determined that there is one key audit matter:

- Valuation of insurance liabilities

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

Materiality

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

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

Audit scope

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not

provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

Key audit matter	How our audit addressed the key audit matter
Valuation of insurance liabilities	
As at 31 December 2022, the Branch had net outstanding claims liabilities of $1.5m, which includes gross outstanding claims liabilities of $15.0m and reinsurance and other recoveries of $13.5m. The valuation of these balances involves significant judgement given the complexity involved in the estimation process and the inherent uncertainty in estimating the expected future payments for claims incurred, including those not yet reported. The balances are determined using actuarial valuation models and methodologies. We considered this a key audit matter due to the significant judgement around key assumptions used in determining these balances. In particular, the key assumptions are: • an estimate of payments for claims that have been incurred at the reporting date but not yet reported to management as there is generally less information available in relation to these claims; • an estimate of the period over which claims are expected to settle, in order to estimate the present value of future payments, to reflect the time value of money; and • determination of the risk margin that allows for the inherent uncertainty in the estimate of the present value of expected future payments uncertainty. Refer to the following notes in the financial statements: Note 4 for critical accounting judgements and estimates, Note 21.1, 21.2, 21.3, 21.4 and 21.5 for the balances, actuarial assumptions and methods.	Our audit procedures included evaluating the design effectiveness and implementation of relevant key actuarial controls, including key data reconciliations and management review of the estimates of gross outstanding claims liabilities and reinsurance and other recoveries.To evaluate the appropriateness of methodologies and assumptions utilised, we, together with our actuarial experts: • evaluated the work of management's expert, being the Appointed Actuary, including their professional competence, capability and objectivity; • evaluated whether the actuarial methodologies applied were consistent with recognised practices and the prior period; • assessed the appropriateness of assumptions selected by management by comparing them with our expectations based on experience, current trends and benchmarks, and our industry knowledge; and • reviewed any new or significant reinsurance treaties and terms. We tested a sample of premiums received, claims paid, reinsurance recoveries and reinsurance premium ceded during the period, used in the actuarial valuation model, to supporting documentation.

Other information

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

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

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

Responsibilities of the Directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

This description forms part of our auditor's report.

Who we report to

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

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
28 April 2023

Sydney