QBE LENDERS' MORTGAGE INSURANCE LIMITED
New Zealand Branch

ANNUAL REPORT – 31 DECEMBER 2022

CONTENTS

This financial report includes separate financial statements for QBE Lenders' Mortgage Insurance Limited, New Zealand Branch (the Branch) as an individual entity.

The Branch is a branch of QBE Lenders' Mortgage Insurance Limited (the Company) and is a reporting entity for the purposes of the *Financial Reporting Act 2013* and the *Financial Markets Conduct Act 2013*. Its principal place of business is:

Level 21 QBE Centre
125 Queen Street
Auckland Central 1010
New Zealand

The financial report was authorised for issue by the directors on 15 February 2023. The directors have the power to amend and reissue the financial report.

STATEMENT BY DIRECTORS

For the year ended 31 December 2022

We, being two directors of QBE Lenders' Mortgage Insurance Limited, certify that the Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Balances Due To Head Office, Statement of Cash Flows and notes set out on pages **7** to 40 fairly present the Financial Statements of the New Zealand Branch of the Company for the year ended 31 December 2022.

The Board of Directors of QBE Lenders' Mortgage Insurance Limited authorised these statements for issue on 15 February 2023.

Director..

Susan Wendy Houghton

Director..

Christopher Esson

Independent auditor's report

To the directors of QBE Lenders' Mortgage Insurance Limited

Our opinion

In our opinion, the accompanying financial statements of QBE Lenders' Mortgage Insurance Limited New Zealand Branch (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 balance sheet as at 31 December 2022;
- the statement of 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 cashflows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

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

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Our audit approach

Overview

Overall materiality: $10,600, which represents approximately 1% of profit before tax.

We chose net assets 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 outstanding claims

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

Materiality

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

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

Audit scope

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

Key audit matter	How our audit addressed the key audit matter
Valuation of outstanding claims	
(2022: $21,069, 2021: $60,096) We considered the valuation of outstanding claims liability a key audit matter due to the higher level of estimation and judgement required in determining the appropriateness of the assumptions used in valuing the liability. The valuation of outstanding claims involves significant judgement given the size of the liability and the inherent uncertainty in estimating the expected future payments for claims incurred, including future events, internal and external to the business, for which small changes in assumptions can result in material impacts on the estimate. In particular, judgement arises over the estimation of payments for claims that have been incurred at the reporting date but not yet reported to the Branch as there is generally less information available in relation to these claims, and there is uncertainty over the amount which will be settled ultimately. The estimate of future payments is discounted to present value using a risk free rate of return, in order to reflect the time value of money. Judgement is involved in estimating the period over which claims are expected to settle. The outstanding claims liability includes a risk margin that allows for the inherent uncertainty in the estimation of the present value of expected future payments. In determining the risk margin, various factors are considered, such as the variability of business and macroeconomic factors affecting uncertainty. Management considers the Probability of Adequacy, a measure of the estimated overall sufficiency of reserves in light of that variability, in determining the appropriate risk margin.	Together, with PwC actuarial experts, our procedures included, but were not limited to: • Evaluating the design effectiveness and implementation of relevant key actuarial controls. Our procedures included an assessment of the adequacy around the Appointed Actuary's review of the estimate adopted • Evaluated whether actuarial methodologies were consistent with those in the industry and in prior years • Assessed key actuarial assumptions, including claims ratios and relevant economic factors by comparing them with our expectations based on experience, current trends and benchmarks • Evaluating the appropriateness and reliability of data used to derive the central estimate, historical claims data was a key input to the actuarial estimates. Accordingly, we tested the underlying reports used in the valuation of the outstanding claim liability by agreeing a sample of items back to supporting documentation, including arrears reporting and policy application data • Tested the discount rates applied • Assessed the risk margin by comparing to known industry practices.

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 QBE Lenders' Mortgage Insurance Limited's directors, as a body. 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 QBE Lenders' Mortgage Insurance Limited's directors, as a body, 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 Christopher Verhaeghe.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
15 February 2023

Sydney

FINANCIAL REPORT CONTENTS

FINANCIAL STATEMENTS

QBE LENDERS' MORTGAGE INSURANCE LIMITED
New Zealand Branch

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

	NOTE	2022 $	2021 $
Gross written premium		**–**	–
Unearned premium movement		**–**	–
Gross earned premium	2.1	**–**	–
Outward reinsurance premium		**–**	–
Deferred reinsurance premium movement		**–**	–
Outward reinsurance premium expense		**–**	–
Net earned premium (a)		**–**	–
Gross claims releases	2.2	**39,027**	43,929
Reinsurance and other recoveries	2.2	**(12,258)**	(11,099)
Net claims releases (b)		**26,769**	32,830
Movement in unexpired risk liability (c)	2.5	**(17,998)**	103,077
Reinsurance commission revenue (d)	2.1	**–**	–
Underwriting and other expenses (e)		**(16,097)**	(22,439)
Underwriting result (a)+(b)+(c)+(d)+(e)		**(7,326)**	113,468
Investment income		**19,660**	2,780
Insurance profit		**12,334**	116,248
Profit before income tax		**12,334**	116,248
Income tax expense	5.1	**(10,752)**	(28,861)
Profit after income tax		**1,582**	87,387
Other comprehensive income			
Other comprehensive income after income tax			
Total comprehensive profit after income tax		**1,582**	87,387
Profit after income tax attributable to:			
Head Office Account		**1,582**	87,387
		1,582	87,387
Total comprehensive income after income tax attributable to:			
Head Office Account		**1,582**	87,387
		1,582	87,387

The statement of comprehensive income should be read in conjunction with the accompanying notes.

QBE LENDERS' MORTGAGE INSURANCE LIMITED
New Zealand Branch

BALANCE SHEET

As at 31 December 2022

	NOTE	2022 $	2021 $
Assets			
Cash and cash equivalents	4.1	**927,409**	1,008,029
Trade and other receivables	2.6	**101,231**	13,786
Current tax receivable		**124,855**	137,036
Reinsurance and other recoveries on outstanding claims	2.3	**8,391**	23,933
Deferred tax assets	5.2	**6,618**	5,189
Total assets		**1,168,504**	1,187,973
Liabilities			
Trade and other payables	2.7	**59,924**	59,946
Outstanding claims	2.3	**21,069**	60,096
Unexpired risk liability	2.5	**36,530**	18,532
Total liabilities		**117,523**	138,574
Net assets		**1,050,981**	1,049,399
Due to Head Office – Australia		**1,050,981**	1,049,399

The balance sheet should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN BALANCES DUE TO HEAD OFFICE

For the year ended 31 December 2022

2022	**HEAD OFFICE ACCOUNT $**
At 1 January	**1,049,399**
Profit after income tax	**1,582**
Total comprehensive income	**1,582**
Net funding movements	**–**
At 31 December	**1,050,981**

2021	**HEAD OFFICE ACCOUNT $**
At 1 January	962,012
Profit after income tax	87,387
Total comprehensive income	87,387
Net funding movements	–
At 31 December	1,049,399

The statement of changes in balances due to Head Office should be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

	NOTE	2022 $	2021 $
Operating activities			
Reinsurance and other recoveries received		**3,284**	6,300
Outward insurance paid		**(87)**	–
Other underwriting costs paid		**(103,477)**	(38,932)
Interest received		**19,660**	2,780
Income taxes paid		–	(861)
Net cash flows from operating activities	6.3	**(80,620)**	(30,713)
Investing activities			
Net cash flows from investing activities		–	–
Financing activities			
Net cash flows from financing activities		–	–
Net movement in cash and cash equivalents		**(80,620)**	(30,713)
Cash and cash equivalents at the beginning of the year		**1,008,029**	1,038,742
Cash and cash equivalents at the end of the year	4.1	**927,409**	1,008,029

The statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2022

1. OVERVIEW

1.1 About the Company

About QBE Lenders' Mortgage Insurance Limited, New Zealand Branch

QBE Lenders' Mortgage Insurance Limited (the Company) is a residential lenders' mortgage insurance company incorporated in Australia and operating in New Zealand as a Branch (the Branch).

About insurance

In simple terms, insurance and reinsurance companies help their customers (consumers, businesses and other insurance companies) to manage risk. More broadly put, insurance companies create value by pooling and redistributing risk. This is done by collecting premium from those that it insures (that is policyholders) and then paying the claims of those that call upon their insurance protection. The Branch may also choose to reduce some of its own accumulated risk through the use of outward reinsurance, which is insurance for insurance companies. As not all policyholders will actually experience a claims event, the effective pooling and redistribution of risk lowers the total cost of risk management, thereby making insurance protection more cost effective for all.

The operating model of insurance companies relies on profits being generated:

- by appropriately pricing risk and charging adequate premium to cover the expected payouts that will be incurred over the life of the insurance policy (both claims and operating expenses); and
- by earning a return on the collected premium and funds withheld to pay future claims through the adoption of an appropriate investment strategy.

Insurance therefore serves a critical function of providing customers with the confidence to achieve their business and personal goals through cost effective risk management. This is achieved within a highly regulated environment, designed to ensure that insurance companies maintain adequate capital to protect the interests of policyholders.

1.2 About this report

This financial report includes the financial statements of QBE Lenders' Mortgage Insurance Limited, New Zealand Branch as an individual entity.

The financial report includes the four primary statements, namely the statement of comprehensive income (which comprises profit or loss and other comprehensive income), balance sheet, statement of changes in balances due to Head Office and statement of cash flows, as well as associated notes. Refer to Note 1.2.1 for more details.

Disclosures have been grouped into the following categories in order to assist users in their understanding of our financial statements:

1. **Overview** contains information that impacts the financial report as a whole.
2. **Underwriting activities** brings together all results and balance sheet disclosures relevant to the Branch's insurance activities.
3. **Risk management** provides commentary on the Branch's exposure to various financial and capital risks, explaining the potential impact on the results and balance sheet and how the Branch manages these risks.
4. **Capital structure** provides information about the Branch's cash and the Company's capital.
5. **Tax** includes disclosures in relation to the Branch's tax balances.
6. **Other** includes other required disclosures.

Where applicable within each note, disclosures are further analysed as follows:

- **Overview** provides some context to assist users in understanding the disclosures.
- **Disclosures** (both numbers and commentary) provides required analysis of balances.
- **How we account for the numbers** summarises the accounting policies relevant to an understanding of the numbers.
- **Critical accounting judgements and estimates** explains the key estimates and judgements applied by management in determining the numbers.

The notes include information which the directors believe is required to understand the financial statements and is material and relevant to the operations, balance sheet and results of the Branch. Information is considered material and relevant if:

- the amount in question is significant because of its size or nature;
- it is important to assist in understanding the results of the Branch;
- it helps to explain the impact of significant changes in the Branch’s business; or
- it relates to an aspect of the Branch’s operations that is important to its future performance.

1.2.1 Basis of preparation

This financial report:

- has been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). It complies with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable financial reporting standards, as appropriate for for-profit entities. The Branch is a for-profit entity registered under the *Companies Act 1993*. The financial statements are prepared in accordance with the requirements of Part 7 of the *Financial Markets Conduct Act 2013*, *Financial Reporting Act 2013* and the *Companies Act 1993*. The sole shareholder of the Company has exercised its right under section 211(3) of the *Companies Act 1993* and determined that these financial statements need not comply with paragraphs (a), and (e) to (j) of section 211(1) of the Act;
- has been prepared on a historical cost basis as modified by certain exceptions, the most significant of which is the measurement of the net outstanding claims liability at present value;
- is presented in New Zealand dollars; and
- is presented with values rounded to the nearest dollar.

With effect from September 2013, the Branch ceased to write new insurance policies. The directors of the Company believe that the Branch has access to sufficient resources to meet its future liabilities and commitments. For this reason, the directors continue to adopt the going concern assumption in the preparation of the Branch’s financial statements.

Where appropriate, prior period comparatives have been reclassified in this financial report to ensure comparability in the current reporting period. The reclassification was necessary to provide the readers of the financial report with a greater understanding of the Branch’s notes to the financial statements.

New and amended Accounting Standards and Interpretations issued by the New Zealand Accounting Standards Board (NZASB) that are now effective are detailed in note 6.1.

The Branch has not adopted any Accounting Standards and Interpretations that have been issued or amended but are not yet effective.

The Branch’s ultimate parent company, QBE Insurance Group Limited (QBE Group) (incorporated in Australia) produces consolidated financial statements in accordance with Australia Accounting Standard Board (AASB) and IFRS for public use, which can be obtained at www.qbe.com or Level 18, 388 George Street, Sydney, NSW 2000, Australia.

1.2.2 Critical accounting judgements and estimates

The preparation of the Branch's financial statements requires management to make judgements and estimates that affect reported amounts.

The QBE Group has developed a centralised risk management and policy framework, designed to ensure consistency of approach across a number of operational activities. The Branch adopts these, subject to the specific requirements of local markets, legislation and regulation. Such operational activities include underwriting, claims management, actuarial assessment of the outstanding claims liability and investment management.

Sensitivity analyses in respect of critical accounting estimates and judgements are presented in order to provide information and analysis which is meaningful, relevant, reliable and comparable year on year.

The key areas in which critical estimates and judgements are applied are as follows:

- net outstanding claims liability (note 2.3);
- liability adequacy test (note 2.5); and
- recoverability of deferred tax assets (note 5.2)

Economic Outlook

The COVID-19 pandemic impacted the global economy in 2020 and 2021. The economy proved to be resilient over the past two years with economic conditions being more favourable than originally predicted, supported by strong government, regulator and lender response to the pandemic.

In 2022 the global outlook began to deteriorate amid high inflation and aggressive monetary policy tightening. The cash rate and unemployment rate are expected to increase in 2023.

The Branch has considered a broad range of factors to inform an assessment of the impact of the resulting uncertainty and general market volatility on the financial statements.

Given the uncertainty around the future levels of economic conditions affecting LMI, we anticipate that there will be changes in market conditions in the future and that the impact of these changes will be accounted for in future reporting periods as they arise and/or are able to be reasonably predicted.

The significant accounting estimates impacted by these associated uncertainties are predominantly related to the valuation of the outstanding claims, risk margin, the liability adequacy test, and earning patterns.

• **Net discounted central estimate (note 2.3):**

Favourable experience and assumption changes have resulted in a reduction in the net discounted central estimate compared to the previous balance.

The Branch will continue to monitor market developments closely, to ensure that the net discounted central estimate is reflective of the best estimate of expected future claims.

• Risk margin (note 2.3.3):

The company aims to maintain a probability of adequacy in excess of 75% reflecting the level of uncertainty in the net discounted central estimate. At the balance date, the Branch has maintained a probability of adequacy of 75%.

• Liability adequacy test (note 2.5):

This assessment is informed by the expectation of future net claims including a risk margin and is therefore subject to the same uncertainties summarised above. Future claims assumptions used in the liability adequacy test have been prepared on a basis that accounts for expected changes in market conditions in the future.

1.2.3 Foreign currency

Translation of foreign currency transactions and balances

Transactions included in the financial statements are measured using the currency of the primary economic environment in which the Branch operates (the functional currency). Foreign currency transactions are translated into the functional currency at the spot rates of exchange applicable at the dates of the transactions. At the balance date, monetary assets and liabilities denominated in foreign currency are retranslated at the rates of exchange prevailing at that date. Resulting exchange gains and losses are included in profit or loss.

Exchange rates

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

	2022		2021	
	PROFIT OR LOSS	BALANCE SHEET	PROFIT OR LOSS	BALANCE SHEET
A$/NZ$	**1.094**	**1.072**	1.061	1.062

2. UNDERWRITING ACTIVITIES

Overview

This section provides analysis and commentary on the Branch's underwriting activities. Underwriting, in simple terms, is the agreement by the insurer to assume insurance risk in return for a premium paid by the insured. The underwriter assesses the quality of the risk and prices it accordingly.

2.1 Revenue

Overview

As the Branch had ceased to write new insurance policies since 2013, other sources of revenue principally comprise amounts recovered from reinsurers under the terms of reinsurance contracts and commission income from reinsurers.

	NOTE	2022 $	2021 $
Gross earned premium			
Direct		**–**	–
		–	–
Other revenue			
Reinsurance and other recoveries	2.2	**(12,258)**	(11,099)
		(12,258)	(11,099)
Total revenue		**(12,258)**	(11,099)

How we account for the numbers

Premium revenue
Premium written comprises amounts charged to policyholders, excluding taxes collected on behalf of third parties. With effect from 2013, the Branch ceased to write new insurance policies.

Premium revenue is recognised in profit or loss from the date of attachment of risk over the period of the insurance contract in accordance with the pattern of the expected incidence of risk, adjusted for policy terminations.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2022

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

2.2 Net claims expense

Overview

The largest expense for an insurance company is net claims expense, which is the difference between the net outstanding claims liability (as described in note 2.3 below) at the beginning and the end of the financial year plus any claims payments made, net of reinsurance and other recoveries received during the financial year. As the Branch had ceased to write new insurance policies since 2013, net claims expense represents releases from development of claims from prior accident years.

	NOTE	2022 $	2021 $
Gross claims releases		**(39,027)**	(43,929)
Reinsurance and other recoveries	2.1	**12,258**	11,099
Net claims releases		**(26,769)**	(32,830)
Analysed as follows:			
Movement in net discounted central estimate	2.4.1	**(21,850)**	(27,273)
Movement in risk margin	2.3	**(4,919)**	(5,557)
Net claims releases		**(26,769)**	(32,830)

2.3 Net outstanding claims liability

Overview

The net outstanding claims liability comprises the elements described below.

- The gross central estimate (note 2.3.1). This is the provision for expected future claims payments and includes claims reported but not yet paid, claims incurred but which have not yet been reported (IBNR) and estimated claims handling costs.
- Less reinsurance and other recoveries (note 2.3.2). Insurance companies may elect to purchase reinsurance to manage their exposure to any one claim or series of claims. When an insurance company incurs a claim as a result of an insured loss, it may be able to recover some of that claim from the reinsurers or other parties associated with the claim.
- Less an amount to reflect the discount to present value using risk-free rates of return. The net central estimate is discounted to present value recognising that the claim and/or recovery may not be settled for some time. The weighted average risk-free rate used to discount the outstanding claims liability is summarised in note 2.3.4.
- Plus a risk margin (note 2.3.3). A risk margin is added to reflect the inherent uncertainty in the net discounted central estimate of outstanding claims.

	NOTE	2022 $	2021 $
Gross discounted central estimate	2.3.1	**18,413**	52,521
Risk margin	2.3.3	**2,656**	7,575
Gross outstanding claims liability		**21,069**	60,096
Reinsurance and other recoveries on outstanding claims	2.3.2	**(8,391)**	(23,933)
Net outstanding claims liability		**12,678**	36,163

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2022

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

	2022			2021		
	GROSS	REINSURANCE	NET	GROSS	REINSURANCE	NET
	$	$	$	$	$	$
At 1 January	**60,096**	**(23,933)**	**36,163**	104,025	(41,332)	62,693
Current accident year development in net discounted outstanding claims (note 2.4.2)	**13,907**	**(6,338)**	**7,569**	49,050	(22,352)	26,698
Prior accident year development in net discounted outstanding claims (note 2.4.2)	**(48,015)**	**18,596**	**(29,419)**	(87,422)	33,451	(53,971)
Movement in risk margin (note 2.2)	**(4,919)**	**–**	**(4,919)**	(5,557)	–	(5,557)
Released claims recognised in profit or loss	**(39,027)**	**12,258**	**(26,769)**	(43,929)	11,099	(32,830)
Claims payments	**–**	**3,284**	**3,284**	–	6,300	6,300
At 31 December	**21,069**	**(8,391)**	**12,678**	60,096	(23,933)	36,163

2.3.1 Gross discounted central estimate

	NOTE	2022 $	2021 $
Gross undiscounted central estimate excluding claims settlement costs		**18,798**	51,652
Claims settlement costs		**469**	1,337
Gross undiscounted central estimate		**19,267**	52,989
Discount to present value		**(854)**	(468)
Gross discounted central estimate	2.3	**18,413**	52,521
Payable within 12 months		**8,761**	24,236
Payable in greater than 12 months		**9,652**	28,285
Gross discounted central estimate	2.3	**18,413**	52,521

How we account for the numbers

The gross discounted central estimate is the present value of the expected future payments for claims incurred and includes reported but unpaid claims, IBNR and claims settlement costs. The gross discounted central estimate is determined by the Appointed Actuary, supported by a team of actuaries. The valuation process includes extensive consultation with claims and underwriting staff as well as senior management. The net discounted central estimate of outstanding claims is subject to a comprehensive independent review at least annually. The risk management procedures related to the actuarial function are explained further in note 3.2.

Critical accounting judgements and estimates

The determination of the amounts that the Branch will ultimately pay for claims arising under insurance contracts involves a number of critical assumptions. Some of the uncertainties impacting these assumptions are as follows:

- changes in patterns of claims incidence, reporting and payment;
- volatility in the estimation of future costs due to the time that elapses before a definitive determination of the ultimate claims cost can be made;
- changes in the legal environment, including the interpretation of liability laws and the quantum of damages; and
- changing social, political and economic trends, for example, house price inflation, unemployment and interest rates.

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims that have been reported to the Branch but not yet paid, for which some information about the claims is generally available. The longer the delay between the event giving rise to the claim and final claim settlement, the greater the variability between initial estimates of the loss incurred and the final settlement amount, as a result of additional financing and settlement costs incurred by the lender and changes in property valuations.

Central estimates are determined using a variety of estimation techniques, generally based on an analysis of historical experience which assumes an underlying pattern of claims development and payment. The final selected central estimate is based on a judgemental consideration of the results of each method and qualitative information, for example:

- historical trends in the development and incidence of the numbers of defaults reported, numbers of defaults cured, numbers of properties taken into possession, numbers of such properties sold, numbers of claims arising from these sales, and the costs of those claims;
- exposure details, including policy counts, sums insured and various other characteristics of the borrowers and loans; and
- historical and likely future trends of expenses associated with managing claims to finalisation.

The gross central estimate is discounted to present value using the appropriate risk-free rate.

Central estimates are calculated gross of any reinsurance and other recoveries. A separate estimate is made of the amounts recoverable based on the gross central estimate (note 2.3.1).

2.3.2 Reinsurance and other recoveries on outstanding claims

	NOTE	2022 $	2021 $
Reinsurance and other recoveries on outstanding claims - undiscounted		**8,790**	24,153
Discount to present value		**(399)**	(220)
Reinsurance and other recoveries on outstanding claims	2.3	**8,391**	23,933
Receivable within 12 months		**3,992**	11,044
Receivable in greater than 12 months		**4,399**	12,889
Reinsurance and other recoveries on outstanding claims	2.3	**8,391**	23,933

How we account for the numbers

The recoverability of amounts due from reinsurers and others is assessed at each balance date to ensure that the balances properly reflect the amounts that are ultimately expected to be received, taking into account counterparty credit risk and the contractual terms of reinsurance contracts. Counterparty credit risk in relation to reinsurance assets is considered in note 3.3. Recoveries are discounted to present value using the appropriate risk-free rate.

2.3.3 Risk Margin

Overview

A risk margin is determined by the Company's Board to reflect the inherent uncertainty in the net discounted central estimate.

The risk margin and the net discounted central estimate are key inputs in the determination of the probability of adequacy, which is a statistical measure of the relative adequacy of the outstanding claims liability to ultimately be able to pay claims. For example, a 90% probability of adequacy indicates that the outstanding claims liability is expected to be adequate 9 years in 10.

	2022 $	2021 $
Risk margin ($)	**2,656**	7,575
Risk margin as a percentage of the net discounted central estimate (%)	**26.5%**	26.5%
Probability of adequacy (%)	**75.0%**	75.0%

Both the Reserve Bank of New Zealand (RBNZ) and the Australian Prudential Regulation Authority (APRA) require a probability of adequacy of 75% for the determination of minimum capital.

How we account for the numbers

NZ IFRS 4 *Insurance Contracts* requires an entity to adopt an appropriate risk margin. The resulting probability of adequacy is not of itself an accounting policy as defined by NZ IAS 8 *Accounting Policies*, *Changes in Accounting Estimates and Errors*. The appropriate level of risk margin is not determined by reference to a fixed probability of adequacy.

Critical accounting judgements and estimates

The determination of the appropriate level of risk margin takes into account the level of uncertainty in the central estimate due to estimation error, data quality, variability of key discount assumptions and possible economic and legislative changes.

The key drivers of uncertainty unique to the Branch's insurance liability are as follows:

- Reliance on consistent arrears management practices and this may change in the future;
- Uncertainties surrounding the global economy, with potential flow-on impacts to the New Zealand economy through future property prices, unemployment and interest rates; and
- Concentration of property losses in a particular region.

2.3.4 Discount rate used to determine the outstanding claims liability

Overview

Claims typically may not settle for some time. As such, the liability is discounted to reflect the time value of money. The table below summarises the weighted average discount rate used to discount the outstanding claims liability.

	2022 %	2021 %
Discount rate	**3.4**	0.4

How we account for the numbers

NZ IFRS 4 requires that the net central estimate is discounted to reflect the time value of money using risk-free rates that are based on current observable, objective rates that relate to the nature, structure and terms of the future obligations.

2.3.5 Weighted average term to settlement

Overview

The weighted average term to settlement refers to the period from the balance date to the expected date of claims settlement. All other factors being equal, a longer weighted average term to settlement generally results in a larger impact on the central estimate from discounting. The weighted average term to settlement of the Branch's outstanding claims liability is summarised below.

	2022 YEARS	2021 YEARS
Weighted average term to settlement	**1.3**	1.4

2.3.6 Net discounted central estimate maturity profile

Overview

The maturity profile is the Branch's expectation of the period over which the net central estimate will be settled. The Branch uses this information to ensure that it has adequate liquidity to pay claims as they are due to be settled and to inform the Branch's investment strategy. The expected maturity profile of the Branch's net discounted central estimate is analysed below.

		1 YEAR OR LESS	1 TO 2 YEARS	2 TO 3 YEARS	3 TO 4 YEARS	4 TO 5 YEARS	OVER 5 YEARS	TOTAL
2022	**$**	**4,803**	**2,907**	**1,455**	**577**	**199**	**81**	**10,022**
2021	$	13,192	8,259	4,465	1,780	616	276	28,588

2.3.7 Impact of changes in key variables on the net outstanding claims liability

Overview

The impact of changes in key variables used in the calculation of the outstanding claims liability is summarised in the table below. Each change has been calculated in isolation from the other changes and shows the after tax impact on profit assuming that there is no change to any of the other even if, in practice, this may be considered unlikely to occur.

The sensitivities below assume that all changes directly impact profit after income tax. In practice, however, if the central estimate was to increase, at least part of the increase may result in an offsetting change in the level of risk margins rather than in a change to profit after income tax, depending on the nature of the change in the central estimate. Likewise, if the coefficient of variation were to increase, it is possible that the probability of adequacy would reduce from its current level rather than result in a change to profit after income tax.

		PROFIT (LOSS)[1]	
	SENSITIVITY	2022	2021
	%	$	$
Severity	+20	**(1,864)**	(5,205)
	-20	**1,864**	5,205
Claim rates	+20	**(1,864)**	(5,205)
	-20	**1,864**	5,205
Discount rate	+5	**21**	12
	-5	**(21)**	(12)
Coefficient of variation	+20	**(390)**	(1,090)
	-20	**390**	1,090

[1] Net of tax at the prima facie rate of 28%.

2.4 Claims development - net undiscounted central estimate

Overview

The claims development table demonstrates the extent to which the original estimated ultimate claims payments in any one accident year (item (a) in the table below) has subsequently developed favourably (that is, claims cost estimates have reduced) or unfavourably (i.e. further claims expense has been recognised in subsequent years). This table therefore illustrates the variability and inherent uncertainty in estimating the central estimate each year. The ultimate claims cost for any particular accident year is not known until all claims payments have been made, which could be some time into the future. The estimated ultimate claims payments at the end of each subsequent accident year demonstrates how the original estimate has been revised over time (b).

Cumulative actual net claims payments (d) are deducted from the expected ultimate claims payments in each accident year (c) at the current balance date, resulting in the net undiscounted central estimate (e), which is reconciled to the discounted central estimate (f).

The accident year movement (g) reflects the ultimate undiscounted net claims estimate at the end of the current financial year (c) less the equivalent at the end of the previous financial year (b). This is further summarised in note 2.4.1.

The claims development table is presented net of reinsurance. With reinsurance arrangements and with the Branch's risk tolerance managed on a net basis, it is considered neither meaningful nor practicable to provide this information other than on a net accident year basis.

	2018 & PRIOR YEARS $	2019 $	2020 $	2021 $	2022 $	TOTAL $
Net ultimate claims payments:						
(a) Original estimate of net ultimate claims payments	**–**	**22,105**	**43,951**	**25,682**	**7,556**	
(b) One year later	**–**	**3,556**	**1,817**	**2,093**	**–**	
Two years later	**–**	**–**	**359**	**–**	**–**	
Three years later	**–**	**–**	**–**	**–**	**–**	
(c) Current estimate of net ultimate claims payments	**–**	**–**	**359**	**2,093**	**7,556**	**10,008**
(d) Cumulative net payments to date	**–**	**–**	**–**	**–**	**–**	**–**
(e) Net undiscounted central estimate at 31 Dec 2022	**–**	**–**	**359**	**2,093**	**7,556**	**10,008**
Discount to present value						**(455)**
Claims settlement costs						**469**
Risk margin						**2,656**
(f) Net outstanding claims liability at 31 Dec 2022 (note 2.3)						**12,678**
(g) Movement in accident year net undiscounted central estimate (note 2.4.1)	**(3,285)**	**–**	**(1,458)**	**(23,589)**	**7,556**	**(20,776)**

Uncertainty surrounding claims development is materially resolved within four years.

The development of claims from prior accident years was better than expected at 31 December 2021, leading to an overall release of the central estimate for prior years of $28,332. This release is reflective of the favourable economic environment.

2.4.1 Reconciliation of claims development table to profit or loss

Overview

The table below reconciles the net increase or decrease in estimated ultimate claims payments in the current financial year from the claims development table (item (g) in note 2.4) to the analysis of current and prior accident year central estimate development recognised in profit or loss (note 2.4.2).

	2022			2021		
	CURRENT ACCIDENT YEAR $	PRIOR ACCIDENT YEARS $	TOTAL $	CURRENT ACCIDENT YEAR $	PRIOR ACCIDENT YEARS $	TOTAL $
Net undiscounted central estimate movement (note 2.4)	**7,556**	**(28,332)**	**(20,776)**	25,682	(51,989)	(26,307)
Movement in claims settlement costs	**371**	**(1,239)**	**(868)**	1,261	(2,079)	(818)
Movement in discount	**(358)**	**152**	**(206)**	(245)	97	(148)
Movement in net discounted central estimate (note 2.4.2)	**7,569**	**(29,419)**	**(21,850)**	26,698	(53,971)	(27,273)

2.4.2 Net central estimate development

Overview

The table further analyses the current and prior accident year movement in the net discounted central estimate separately identifying the gross and reinsurance components. Prior accident year claims are those claims that occurred in a previous year but for which a reassessment of the claims cost has impacted the result in the current period.

	2022			2021		
	CURRENT ACCIDENT YEAR $	PRIOR ACCIDENT YEARS $	TOTAL $	CURRENT ACCIDENT YEAR $	PRIOR ACCIDENT YEARS $	TOTAL $
Gross central estimate development						
Undiscounted	**14,563**	**(48,285)**	**(33,722)**	49,499	(87,593)	(38,094)
Discount	**(656)**	**270**	**(386)**	(449)	171	(278)
	13,907	**(48,015)**	**(34,108)**	49,050	(87,422)	(38,372)
Reinsurance and other recoveries						
Undiscounted	**(6,636)**	**18,714**	**12,078**	(22,556)	33,525	10,969
Discount	**298**	**(118)**	**180**	204	(74)	130
	(6,338)	**18,596**	**12,258**	(22,352)	33,451	11,099
Net central estimate development						
Undiscounted	**7,927**	**(29,571)**	**(21,644)**	26,943	(54,068)	(27,125)
Discount	**(358)**	**152**	**(206)**	(245)	97	(148)
Net discounted central estimate development (note 2.4.1)	**7,569**	**(29,419)**	**(21,850)**	26,698	(53,971)	(27,273)

2.5 Liability adequacy test

Critical accounting judgements and estimates

An actuarial analysis of the expected pattern of the incidence of risk over the policy coverage period is used to derive a recognition (earning) pattern for each underwriting year. The pattern is reviewed annually and requires estimating both the total amount of claims expense expected under the contract and when those claims are expected to arise. These estimations involve the use of significant judgement and are reassessed at the end of each reporting period.

Liability adequacy test

Overview

At each balance date, the Branch is required to assess net premium liabilities (being unearned premium less deferred insurance costs) to determine whether the amount provided is sufficient to pay future claims.

If the present value of expected future claims exceeds the net premium liabilities, the net premium liability is deemed deficient. This deficiency is immediately recognised in profit or loss. In recognising the deficiency, an insurer must first write down any related intangible assets and then deferred acquisition costs before recognising an unexpired risk liability.

Expected present value of future cash flows for future claims including risk margin

	2022 $	2021 $
Undiscounted net central estimate	**31,985**	15,187
Discount to present value	**(5,892)**	(1,950)
	26,093	13,237
Risk margin at the 75th percentile of insurance liabilities	**10,437**	5,295
Expected present value of future cash flows for future claims including risk margin	**36,530**	18,532

The application of the liability adequacy test in respect of the net unearned premium liabilities identified a deficit of $36,530 as at 31 December 2022 (2021: $18,532). The deficit was adjusted to unexpired risk liability as follows:

Unexpired risk liability

	2022 $	2021 $
At 1 January	**18,532**	121,608
Liability adequacy test deficit recognised	**17,998**	(103,076)
At 31 December	**36,530**	18,532

How we account for the numbers

At each balance date, the adequacy of the unearned premium liability is assessed on a net of reinsurance basis against the present value of the expected future claims cash flows, plus an additional risk margin to reflect the inherent uncertainty of the central estimate. The assessment is carried out at the portfolio level, being a portfolio of contracts subject to broadly similar risks and which are managed together as a single portfolio.

The application of the liability adequacy test in respect of the net unearned premium liabilities identified a deficit of $36,530 as at 31 December 2022 (2021: $18,532).

Critical accounting judgements and estimates

NZ IFRS 4 requires that this test be carried out at the level of a "portfolio of contracts that are subject to broadly similar risks and are managed together in a single portfolio". As NZ IFRS 4 does not explicitly define "broadly similar risks" or "managed together as a single portfolio", and the Branch is a monoline insurer, the Branch has interpreted these terms to represent the entire portfolio.

The Branch has adopted a risk margin of 40% (2021: 40%) for the purpose of the liability adequacy test to produce a 75% probability of adequacy in respect of total insurance liabilities. The 75% basis is a recognised industry benchmark in New Zealand, as required by RBNZ, and in Australia, being the minimum probability of adequacy required for Australian licensed insurers by APRA.

2.6 Trade and other receivables

Overview

Trade and other receivables comprise amounts owed to the Branch by Head Office. Balances are repayable on demand and interest free.

	2022 $	2021 $
Trade receivables		
Amounts due from Head Office	**101,231**	13,786
Trade and other receivables	**101,231**	13,786
Receivable within 12 months	**101,231**	13,786
Trade and other receivables	**101,231**	13,786

Due to the predominantly short term nature of these receivables, their carrying value is assumed to approximate the fair value.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables. No receivables are pledged by the Branch as collateral for liabilities or contingent liabilities.

How we account for the numbers

Receivables are initially recognised at fair value and are subsequently measured at amortised cost less an allowance for expected credit losses (ECL). Any increase or decrease in the loss allowance is recognised in profit or loss within operating expenses.

Critical accounting judgements and estimates

The allowance for ECL is based on the difference between the cash flows due in accordance with the contract and the cash flows that the Branch expects to receive. The allowance for ECL reflects judgements and assumptions that take into account prior credit risk and loss history, current and expected future market conditions and individual debtor circumstances. Any shortfall is discounted at an approximation to the asset's original effective interest rate.

The allowance is based on the portion of lifetime ECL that result from possible default events within 12 months from reporting date, unless there has been a significant increase in credit risk since initial recognition, in which case the allowance is based on the lifetime ECL.

The credit risk in relation to amounts due from Head Office is assessed with regard to the credit standing of the Company and policies and practices surrounding the periodic settlements of balances. The Branch has determined that the credit risk has not increased significantly since initial recognition.

The Branch does not foresee losses arising on this receivable from possible default events within 12 months from the reporting date and considers that no allowance for impairment is required at 31 December 2022 (2021: nil).

2.7 Trade and other payables

Overview

Trade and other payables are principally amounts owed to related entities. Amounts due are repayable on demand and interest free.

	2022 $	2021 $
Amounts due to related entities	**59,924**	59,859
Reinsurance premium payables	**–**	87
Trade and other payables	**59,924**	59,946
Payable within 12 months	**59,924**	59,946
Trade and other payables	**59,924**	59,946

How we account for the numbers

Amounts due to related entities are initially recognised at fair value and are subsequently measured at amortised cost

3. RISK MANAGEMENT

Overview

The Company is in the business of managing risk, and its ability to satisfy customers' risk management needs is central to what we do. The Company aims to generate wealth and maximise returns for its shareholders by pursuing opportunities that involve risk. Our people are responsible for ensuring that the Company's risks, including those of the Branch, are managed and controlled on a day-to-day basis. The Company aims to use its ability to properly manage risk to provide more certainty and improved outcomes for all stakeholders.

The Australia Pacific division of QBE Group (QBE AusPac), of which the Company is a part, applies a consistent and integrated approach to enterprise risk management (ERM). QBE AusPac's risk management framework sets out the approach to managing key risks and meeting strategic objectives whilst taking into account the creation of value for our shareholders. QBE AusPac's risk management framework is articulated in the Risk Management Strategy (RMS) and Reinsurance Management Strategy (REMS), both of which are approved annually by the Company Board and lodged with APRA.

The framework consists of complementary elements that are embedded throughout the business management cycle and culture of the organisation. Key aspects include risk appetite, governance, reporting, risk assessments, modelling and stress testing, management, and monitoring and risk culture.

Risk management is a continuous process and an integral part of robust business management. QBE AusPac's approach is to integrate risk management into the broader management processes of the organisation. It is QBE AusPac's philosophy to ensure that risk management remains embedded in the business and that the risk makers or risk takers are themselves the risk managers. Specifically, the management of risk must occur at each point in the business management cycle.

QBE Group's strategy for managing risk is to:

- achieve competitive advantage by better understanding the risk environments in which the Branch operates;
- give confidence to the business to make objective, risk-based decisions to optimise returns; and
- avoid unwelcome surprises to the achievement of business objectives by reducing uncertainty and volatility through the identification and management of risks.

The framework is supported by a suite of policies that detail QBE AusPac's approach to the key risk categories used by companies within the division to classify risk:

- Strategic risk (note 3.1)
- Insurance risk (note 3.2)
- Credit risk (note 3.3)
- Market risk (refer below)
- Liquidity risk (note 3.4)
- Operational risk (note 3.5)
- Compliance risk (note 3.6)
- Group risk (note 3.7)

The Company has adopted the risk management approach and framework set by QBE Group and QBE AusPac, and applied them to the activities of the Branch, where applicable.

Due to the nature of its activities, the Branch is not exposed to market risk, being the risk of variability in the value of investments due to investment market movement (including equity prices, interest rates and credit spreads); and foreign exchange rate movements.

3.1 Strategic risk

Overview

Strategic risk is the current and prospective impact on earnings and/or capital as a result of strategic business decisions or responsiveness to external change. QBE AusPac classifies strategic risk into five sub-categories, that have been adopted by the Company, as follows:

- business, product, market and distribution approach;
- capital structure, organisational structure, strategic asset planning and management;
- acquisition/disposal decision and negotiation;
- tax planning and decisioning; and
- external environment, including disruption from competitors; environmental, social and governance risks; reputational impact; and geo-political and regulatory uncertainty.

The Company's approach to managing strategic risk is underpinned by QBE AusPac's strategic risk appetite statement that has been adopted by the Company Board and is summarised below.

Business, product and market distribution

- **Business:** The Company is a residential lenders' mortgage insurance company underwriting business in Australia and New Zealand. The Company Board meets at least quarterly to review performance against business plans. Actual results are monitored and analysed regularly at various levels in the Company to identify adverse trends so that remedial action can be taken at an early stage. One of the key tools used to ensure achievement of business plans is to identify the 'manage to' likely scenarios impacting the plan year, based on events that have occurred or risks identified since plans were set. The Company assesses how these scenarios would impact return on equity (ROE) forecasts and develop and implement bridging actions to drive plan achievability.
- **Products:** The Company reviews the structuring of its insurance products on an ongoing basis in line with developments in market expectations, legislation and claims trends.
- **Market distribution approach:** The Company makes use of banks and other financial institutions to market its insurance products.

The Branch ceased to write new insurance policies in 2013.

Capital structure, organisational structure, strategic asset planning and management

The Internal Capital Adequacy Assessment process (ICAAP) outlines the Company's approach for ensuring adequate capital is maintained over time and for monitoring compliance with regulatory capital requirements and targets.

The ICAAP includes:

- specific capital targets set in the context of the Company's risk profile, the Company Board's risk appetite and regulatory capital requirements;
- plans for how target levels of capital are to be met; and
- potential sources of additional capital, if required.

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

- the setting of triggers to alert management to potential breaches of these requirements; and
- actions to avert and rectify potential breaches of these requirements.

Achieving capital targets is dependent on an appropriate level and mix of capital, and effective capital management to yield adequate returns. Oversight of the Company's capital management framework is performed by senior management, the QBE AusPac Executive Risk and Capital Committee and the Company Board Risk and Capital Committee.

Management has a particular focus on the following performance indicators.

- The Company actively manages the components of capital in order to maintain a level of eligible regulatory capital that exceeds APRA requirements. The Company Board set the target level of regulatory capital for 2022 at 1.32-1.44 times (2021: 1.32-1.44 times) the Prescribed Capital Amount (PCA).
- The Company is subject to regulatory requirements to maintain a minimum level of capital to meet obligations to policyholders. It is the Company's policy to maintain a capital base appropriate to its size, business mix, complexity and risk profile which fully complies with and meets or exceeds local regulatory requirements.
- Insurer financial strength ratings provided by the major rating agencies demonstrate the Company's financial strength and claims paying ability.

In addition to the management reporting and planning processes, the Company has dedicated staff responsible for understanding the regulatory capital requirements of its operations. The quality of assets (particularly investments and reinsurance recoveries) held by the Company is continuously monitored to ensure any potential issues are identified and remedial action, where necessary, is taken to restore effective capital levels.

Tax risk management

The Company's approach to managing taxation risk is underpinned by QBE Group Tax Risk Policy.

The Company's approach to tax management is based on the following guiding principles:

- the Company seeks open, honest and transparent relationships with tax authorities in all relevant jurisdictions;
- the Company will comply with all applicable tax laws, regulations and disclosure requirements and pay the amount of tax that is legally required to be paid in all the jurisdictions in which the Company operates;
- the Company engages in efficient tax planning that supports our business and reflects commercial and economic activity – no transaction will be entered into where obtaining a tax benefit is the primary purpose; and
- the Company conducts transactions with other QBE companies on an arm's length basis in accordance with current Organisation for Economic Cooperation and Development (OECD) principles.

External environment, including disruption from competitors; environmental, social and governance (ESG) risks; reputational impact; and geo-political and regulatory uncertainty

The QBE Group Strategic Risk Policy governs the management of risks arising from the external environment.

Competitor actions, geo- political and regulatory uncertainty are monitored and regularly reported to the Company Board.

QBE Group's ESG Risk and Emerging Risk standards operationalise the Company's approach to managing ESG and emerging risks respectively, including climate change. Biannual horizon scans are performed on ESG and emerging risks, including assessment of potential financial and reputational impacts. Risk treatment plans are developed for material risks, which include development of underwriting and investment policy, monitoring frameworks and stress and scenario analysis. ESG risks and emerging risks are regularly reported to the QBE AusPac Executive Risks and Capital Committee and the Company Board Risk and Capital Committee.

Climate change is a material business risk for the Company, potentially impacting our business and customers in the medium to long-term. We have considered potential short-term scenarios that could affect our insurance business written to date and our current investments, and we expect no material impact on the amounts recognised or disclosed in the financial statements.

3.2 Insurance risk

Overview

Insurance risk is the risk of fluctuations in the timing, frequency and severity of insured events and claims settlements, relative to expectations.

QBE AusPac classifies insurance risk into three sub-categories:

- underwriting;
- insurance concentration; and
- reserving.

The Company's approach to managing insurance risk is underpinned by QBE AusPac's insurance risk appetite statement and Insurance Risk Policy, which have been approved by the Company Board and is summarised below.

Underwriting risk

The Branch ceased to write new insurance policies in 2013.

The Branch is a monoline insurer providing residential lenders' mortgage insurance (LMI) in New Zealand. The Branch insures the lender should the borrower default on repayment of the loan, and covers the remaining loan balance, plus selling costs and expenses, following the application of the proceeds from the sale of the security property.

Insurance concentration risk

Insurance concentration risk for a lenders' mortgage insurer is the risk of catastrophic loss resulting from a prolonged economic downturn. The Company operates in Australia, New Zealand (in run-off) and has a subsidiary in Hong Kong. Its exposures are monitored and limits on maximum aggregate exposures to individual borrowers and per property, are contained in underwriting policies and embedded in systems and processes.

The Company is exposed to the possibility of large losses from economic events such as a significant increase in regional or nationwide unemployment levels, weakening in house prices, or a significant increase in interest rates over a short period of time. As required by APRA, the Company calculates its insurance concentration risk charge ("ICRC") which is the net probable maximum loss from a APRA prescribed three-year economic or property downturn equivalent to a 1-in-200 year event. As at 31 December 2022, the ICRC was $347.7 million (2021: $404.3 million).

Reserving risk

Reserving risk is managed through the actuarial valuation of insurance liabilities. The valuation of the net central estimate is performed by qualified and experienced actuaries, with reference to historical data and reasoned expectations of future events. The central estimate is subject to a comprehensive independent external review at least annually.

3.3 Credit risk

Overview

Credit risk is the risk of financial loss where a customer, counterparty or issuer fails to meet their financial obligations to the Branch in accordance to the agreed terms. The Branch's exposure to credit risk principally arises from cash and cash equivalents and/or a reduction or delay in repayments or interest payments from the default of counterparties such as mortgagees and reinsurers.

The Company's approach to managing credit risk is underpinned by QBE AusPac's credit risk appetite and Credit Risk Policy, which have been approved by the Company Board and are summarised below.

Reinsurance counterparty credit risk

The Company's objective is to place reinsurance, including that for the Branch, with highly rated counterparties. Concentration of risk with reinsurance counterparties is monitored strictly and regularly by QBE Group Security Committee and is controlled by reference to the following protocols:

- treaty reinsurance is placed in accordance with the requirements of the Company's REMS and security committee guidelines;
- reinsurance arrangements are regularly reassessed to determine their effectiveness based on current exposures, historical claims and potential future losses based on the Company's insurance concentrations; and
- exposure to reinsurance counterparties and the credit quality of those counterparties is actively monitored.

Credit risk exposures are calculated regularly and compared with authorised credit limits. In certain cases, the Company requires letters of credit or other collateral arrangements to be provided to guarantee the recoverability of the amount involved. The Company holds $66.5 million (2021: $187.0 million) in collateral to support reinsurance recoveries on outstanding claims, including those of the Branch.

The following table provides information about the quality of the Branch's credit risk exposure in respect of reinsurance recoveries on outstanding claims at the balance date. The analysis classifies the assets according to Standard & Poor's (S&P) counterparty credit ratings. AAA is the highest possible rating. Rated assets falling outside the range of AAA to BBB are classified as speculative grade.

	CREDIT RATING						
	AAA $	AA $	A $	BBB $	SPECULATIVE GRADE $	NOT RATED $	TOTAL $
As at 31 December 2022							
Reinsurance recoveries on outstanding claims[1,2]	**-**	**-**	**7,816**	**-**	**-**	**-**	**7,816**
As at 31 December 2021							
Reinsurance recoveries on outstanding claims[1,2]	-	-	22,295	-	-	-	22,295

[1] The Branch has no reinsurance recoveries receivable on paid claims at 31 December 2022 (2021: nil).
[2] Excludes other non-reinsurance recoveries of $575 (2021: $1,638).

None of the Branch's reinsurance recoveries are past due or impaired or have terms that have been renegotiated and would otherwise have been past due or impaired (2021: nil).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

Insurance and other credit risk

Credit risk arising from insurance contracts principally relates to the risk of default by the underlying borrowers.

As an insurer, the Branch does not receive access to the current credit quality of performing insured loans but is provided with data on loans in default by insured lenders. The relevant LMI master policy defines "default" as the borrower's failure to pay when due an amount equal to the scheduled monthly mortgage payment under the terms of the mortgage. Generally, the master policies require an insured to notify the insurer of a default within fourteen days of the end of the month when the total amount due is unpaid and in arrears by more than ninety days. For reporting and internal tracking purposes, the Branch does not consider a loan to be in default until it has been delinquent for three consecutive monthly payments.

Credit risk on LMI contracts is therefore principally managed up-front through the underwriting process, prior to the acceptance of risk. The Company has a centralised credit risk function that incorporates pricing, claims liability modelling, credit policy, portfolio performance reporting and analysis, and underwriting quality assurance.

Acceptance of credit risk is managed primarily using two scorecards, built on credit bureau data and Company portfolio history. Credit rules are used to support these two scorecards. The centralised credit risk unit manages and maintains the scorecards and a centralised underwriting policy and procedure.

Lenders usually collected the single premium from a prospective borrower and remitted the amount to the Branch. Under a standard LMI policy, premium payment was required before policy cover was incepted, which eliminated credit risk on premiums receivable.

The Branch does not hold any collateral as security against its exposures, however, in the event of a claim by the lender, the lender's rights as mortgagee are assigned to the Branch.

Investment and Treasury credit risk

The Company, including the Branch, only transacts with investment counterparties within the limits outlined in the delegated authorities. Investment counterparty exposure limits are applied to individual counterparty exposures and to multiple exposures within the one group of related companies in relation to cash deposits. Counterparty exposure limit compliance is monitored daily. The Branch's principal exposures relate to cash and cash equivalents.

The following table provides information regarding the Branch's aggregate credit risk exposure at the balance date in respect of the major classes of financial assets. The analysis classifies the assets according to S&P counterparty credit ratings. AAA is the highest possible rating. Rated assets falling outside the range of AAA to BBB are classified as speculative grade.

	CREDIT RATING						
	AAA $	AA $	A $	BBB $	SPECULATIVE GRADE $	NOT RATED $	TOTAL $
As at 31 December 2022							
Cash and cash equivalents	**-**	**927,409**	**-**	**-**	**-**		**927,409**
As at 31 December 2021							
Cash and cash equivalents	-	1,008,029	-	-	-		1,008,029

The carrying amount of the relevant asset classes in the balance sheet represents the maximum amount of credit exposure.

3.4 Liquidity risk

Overview

Liquidity risk is the risk of insufficient liquid assets to meet liabilities as they fall due or only being able to achieve the required level of liquidity at excessive cost. The Company's liquidity risk arises due to the nature of insurance activities where the timing and amount of cash outflows are uncertain.

The Company's approach to managing liquidity risk is underpinned by QBE AusPac's liquidity risk appetite and Liquidity Risk Policy, which have been approved by the Company Board.

The Company, including the Branch, manages liquidity risk using a number of tools, as follows:

- cash flow targeting;
- maintaining a minimum proportion of liabilities in liquid assets;
- cash flow forecasting; and
- stress testing and contingency planning.

Liquidity is managed using a number of cash flow forecasting and targeting tools and techniques. Cash flow forecasting and targeting is conducted at operational level and involves actively managing operational cash flow requirements.

To supplement the cash flow targeting and to ensure that there are sufficient liquid funds available to meet insurance and investment obligations, a minimum percentage of the Company's liabilities is held, at all times, in cash and liquid securities. The Company also maintains a defined proportion of funds under management in liquid assets.

The Company actively forecasts cash flow requirements, including for the Branch, to identify future cash surpluses and shortages to optimise invested cash balances and limit unexpected calls from the investment pool. The Company limits the risk of liquidity shortfalls resulting from mismatches in the timing of claims payments and receipts of claims recoveries.

The following table summarises the maturity profile of the Branch's financial liabilities based on the remaining contractual obligations.

	1 YEAR OR LESS $	1 TO 3 YEARS $	3 TO 5 YEARS $	OVER 5 YEARS $	TOTAL $
As at 31 December 2022					
Trade and other payables	**59,924**	**-**	**-**	**-**	**59,924**
As at 31 December 2021					
Trade and other payables	59,946	-	-	-	59,946

The maturity profile of the Branch's net discounted central estimate is analysed in note 2.3.6.

The maturity of the Branch's directly held interest-bearing financial assets is shown in the table below.

		INTEREST BEARING FINANCIAL ASSETS MATURING IN						
		1 YEAR OR LESS $	1 TO 2 YEARS $	2 TO 3 YEARS $	3 TO 4 YEARS $	4 TO 5 YEARS $	OVER 5 YEARS $	Total $
As at 31 December 2022								
Floating rate	$	927,409	-	-	-	-	-	927,409
Weighted average interest rate	%	2.15%						2.15%
As at 31 December 2021								
Floating rate	$	1,008,029	-	-	-	-	-	1,008,029
Weighted average interest rate	%	0.15%						0.15%

3.5 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events (including legal risk).

Operational risk can materialise in a number of forms including internal fraud, external fraud, employment practices and workplace safety, improper business practices, damage to physical assets, business disruption and system failures and execution, delivery and process management.

The Company's approach to managing operational risk is underpinned by QBE AusPac's operational risk appetite and Operational Risk Policy, which have been approved by the Company Board.

The Company, including the Branch, identifies and assesses operational risk through:

- The Risk and Control Self-Assessment (RCSA) process, which identifies and assesses the key risks to achieving business objectives and is conducted at business unit level.
- The Operational Risk Appetite Statement, which sets out the nature and level of risk the Company Board is willing to take in pursuit of the organisation's objectives. The Operational Risk Appetite Statement is measured through an assessment of the control environment, key risk indicators, issues and incidents.
- The emerging risk process, which identifies and assesses new risks, which are characterised by incomplete but developing knowledge or existing risks that develop in new or surprising ways.
- The scenario analysis process, which assesses the impact of potentially extreme scenarios and the appropriateness of our contingency planning.

3.6 Compliance risk

Overview

Compliance risk is the risk of legal or regulatory penalties, financial loss or impacts and non-financial loss or impacts (including reputational damage) resulting from a breach of obligations. Obligations refers to those in legislation, regulation, industry codes and standards, internal polices and ethical and business standards.

The Company's approach to managing compliance risk is underpinned by QBE AusPac's compliance risk appetite, which have been approved by the Company Board and is summarised below.

The Company, including the Branch, manages compliance risk through its governance, culture, stakeholder management and strategy approach. There are six components for managing compliance risk with defined responsibilities across the three lines of defence:

- identify compliance obligations and controls;
- embed compliance obligations across systems and process;
- communicate and train staff on compliance requirements;
- monitor obligations and controls;
- identify and rectify issues, incidents and breaches; and
- report on and assess the state of compliance.

Compliance management is subject to continuous improvement, recognising changes in the regulatory and legal environment and industry, customer and community expectations.

3.7 Group Risk

Overview

Group risk is the risk to a division arising specifically from being part of the wider QBE Group, including financial impact and loss of support from the parent company.

The Company's approach to managing group risk is underpinned by QBE AusPac's risk appetite, which has been approved by the Company Board and is summarised below.

Sources of group risk may include group initiatives or strategies with a material impact on one or more divisions, shared global reinsurance programs, intercompany loans and shared use of centralised group functions (such as for information technology). Group risk also includes the potential risk from reputational contagion.

The Company, including the Branch, manages group risk through various systems, controls and processes, including the use of intercompany transactions and balances accounting guidance, transfer pricing guidelines and investment management agreements.

4. CAPITAL STRUCTURE

Overview

QBE Group's objective in managing capital is to maintain an optimal balance between debt and equity in order to reduce the overall cost of capital whilst satisfying the capital adequacy requirements of regulators and rating agencies, providing financial security for our policyholders and continuing to provide an adequate return to shareholders. As a wholly owned member of the group, the Company has adopted the capital management policies and framework of the QBE Group.

Details of the Company's approach to capital risk management are disclosed in note 3.1.

4.1 Cash and cash equivalents

	2022 **$**	**2021** **$**
Cash at bank on hand	**76,825**	175,679
Overnight money	**850,584**	832,350
	927,409	1,008,029
Analysed as follows:		
Floating interest rate	**927,409**	1,008,029
	927,409	1,008,029

How we account for the numbers

Cash and cash equivalents include cash at bank and on hand and deposits at call which are readily convertible to cash on hand and which are used for operational cash requirements.

Cash and cash equivalents are initially measured at fair value then subsequently at amortised cost.

Cash and cash equivalents are subjected to impairment testing using the ECL methodology. The Branch considers that credit risk has not increased significantly since initial recognition, and that these assets represent low credit risks, taking into account the credit standing of the counterparties and the nature of the exposures. The Branch foresees negligible credit losses arising on cash and cash equivalents from possible default events within 12 months from the reporting date, and considers that no allowance for impairment is required at 31 December 2022 (2021: $nil).

Amounts in cash and cash equivalents are the same as those included in the statement of cash flows.

The reconciliation of profit after income tax to cash flows from operating activities is included in note 6.3.

4.2 APRA capital adequacy (Solvency)

Overview

APRA Prudential Standard GPS 110 Capital Adequacy for General Insurers requires that the Company maintain a capital base in excess of its prudential capital requirement as defined under the prudential standard.

The following table discloses the capital adequacy calculated in accordance with the APRA prudential framework for the Company. The 2021 and 2022 solvency positions reflect the Company's year to date 31 December quarter APRA return .

	2022 A$M	2021 A$M
Eligible Tier 1 capital as defined by APRA		
Contributed equity	**364.3**	364.3
General reserves	**0.5**	0.5
Retained profits[1]	**401.8**	444.2
Insurance liability surplus	**101.1**	145.1
Total equity	**867.7**	954.1
Less: APRA deductions	**78.3**	78.2
Actual solvency capital	**789.4**	875.9
Minimum solvency capital (APRA capital requirement)	**458.6**	522.1
Solvency ratio	**1.72**	1.68

[1] Retained profits are in accordance with APRA prudential standards

5. TAX

Overview

Income tax expense is the accounting tax charge for the period and is calculated as the tax payable on the current period taxable income based on the applicable income tax rate, adjusted for changes in deferred tax assets and liabilities attributable to temporary differences and unused tax losses. The relationship between accounting profit and income tax expense is provided in the reconciliation of prima facie tax to income tax expense (note 5.1). Income tax expense does not equate to the amount of tax actually paid to tax authorities as it is based upon the accrual accounting concept.

Accounting income and expenses do not always have the same recognition pattern as taxable income and expenses, creating a timing difference as to when a tax expense or benefit can be recognised. These differences usually reverse over time but until they do, a deferred tax asset or liability is recognised on the balance sheet. Note 5.2 details the composition and movements in deferred tax balances and the key management assumptions applied in recognising tax losses.

The Company's approach to managing tax risk is disclosed in note 3.1.

5.1 Income tax

Reconciliation of prima facie tax to income tax expense

	NOTE	2022 $	2021 $
Profit before income tax		**12,334**	116,248
Prima facie tax payable at 28%		**3,454**	32,549
Prima facie tax adjusted for non-temporary differences		**3,454**	32,549
Under provision in prior years		**7,298**	(3,688)
Income tax expense		**10,752**	28,861
Analysed as follows:			
Current tax		**12,181**	–
Deferred tax		**(1,429)**	28,861
		10,752	28,861
Deferred tax expense comprises:			
Deferred tax assets recognised in profit or loss	5.2.1	**(1,429)**	28,861
		(1,429)	28,861

How we account for the numbers

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Current tax assets and tax liabilities are offset where the Branch has a legally enforceable right to offset and intends to either settle on a net basis or to realise the asset and settle the liability simultaneously. Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, as appropriate.

5.2 Deferred income tax

	NOTE	2022 $	2021 $
Deferred tax assets	5.2.1	**6,618**	5,189

5.2.1 Deferred tax assets

The balance comprises temporary differences attributable to:

	NOTE	2022 $	2021 $
Amounts recognised in profit or loss			
Insurance provisions		**6,618**	5,189
Deferred tax assets	5.2	**6,618**	5,189

Movements:

	NOTE	2022 $	2021 $
At 1 January		**5,189**	34,050
Amounts recognised in profit or loss	5.1	**1,429**	(28,861)
At 31 December		**6,618**	5,189

How we account for the numbers

Deferred income tax is provided in full using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax liabilities are not recognised if they arise from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset in the financial statements when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

5.2.2 Tax losses

The Branch has brought to account **nil** tax losses (2021: nil).

6. OTHER

Overview

This section includes other information that must be disclosed to comply with the New Zealand Accounting Standards or the *Corporations Act 1993*.

6.1 Other accounting policies

6.1.1 New and amended standards adopted by the Branch

The Branch adopted the following new or amended accounting standards from 1 January 2022:

TITLE	
Amendments to NZ IFRS 16	*COVID-19-Related Rent Concessions beyond 30 June 2021*
Amendments to NZ IFRS 1, NZ IFRS 9 and NZ IAS 41	*Annual Improvements to NZ IFRS 2018–2020*

The adoption of these revised standards did not significantly impact the Branch's accounting policies or financial statements.

6.1.2 New accounting standards and amendments issued but not yet effective

TITLE		OPERATIVE DATE
NZ IAS 1 Amendments	*Classification of Liabilities as Current or Non-current - Deferral of Effective Date*	1 January 2023
NZ IAS 12 Amendments	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*	1 January 2023
NZ IAS 1 and NZ IAS 8 Amendments	*Disclosure of Accounting Policies and Definition of Accounting Estimates*	1 January 2023
NZ IFRS 17	*Insurance Contracts*	1 January 2023

The New Zealand Accounting Standards and amendments detailed in the table above are not mandatory for the Branch until the operative dates stated; however, early adoption is permitted.

The Branch currently plans to apply the standards and amendments detailed above for the reporting periods beginning on their respective operative dates. An assessment of the financial impact of the standards and amendments has been undertaken and they are not expected to have a material impact on the Branch's financial statements, except where noted below.

NZ IFRS 17 *Insurance Contracts*

NZ IFRS 17, a new accounting standard for insurance contracts, was adopted by the New Zealand Accounting Standards Board (NZASB) in August 2017. In June 2020, the IASB issued *Amendments to IFRS 17* which deferred the effective date from 1 January 2021 to 1 January 2023 and made significant amendments to the standard in response to the feedback from, and implementation issues raised by stakeholders. The amendments were adopted by the NZASB in August 2020.

Measurement of insurance contracts

Measurement models
The standard introduces a new 'general measurement model' (GMM) for the recognition and measurement of insurance contracts. The liability for remaining coverage (LRC) on insurance contracts issued, which represents insurance coverage to be provided after the balance date, is measured as the sum of:

- the present value of expected future cash flows and a risk adjustment (collectively referred to as the 'fulfilment cash flows'); and
- a contractual service margin (CSM), being the unearned profit, which is recognised as insurance revenue in profit or loss over the coverage period of the contracts. The contractual service margin is earned based on a pattern of coverage units which may not be the same as the pattern of incidence of risk used to earn gross written premium under NZ IFRS 4 *Insurance Contracts* (NZ IFRS 4).

A reinsurance asset for remaining coverage (RI ARC) on reinsurance contracts held is measured on a similar basis, except there is typically no unearned profit but a net cost on purchasing the reinsurance.

The NZ IFRS 17 LRC and RI ARC replace NZ IFRS 4 unearned premium and deferred insurance and reinsurance costs in the Branch's balance sheet.

NZ IFRS 17 permits the use of a simplified 'premium allocation approach' (PAA), which is similar to the current basis on which general insurance is brought to account under NZ IFRS 4, if the LRC under the two models (PAA and GMM) is not materially different. Given that LMI contracts provide insurance cover for long durations, the Branch has determined that the difference would be material and therefore, the GMM is applied.

The GMM requires that the CSM is earned with reference to coverage units (reflecting the provision of insurance services by the insurer to the policyholder, i.e., the insurer stands ready to pay claims). Compared with the NZ IFRS 4 revenue recognition pattern based on the incidence of risk, this change in approach is expected to lead to slower revenue recognition under NZ IFRS 17 and consequently larger LRC and RI ARC (unearned premium and deferred cost) balances, and a reduction in net assets on adoption of NZ IFRS 17.

Onerous contracts
A 'group' of insurance contracts issued is onerous at initial recognition if the total fulfilment cash flows, previously recognised acquisition cash flows and any cash flows arising from the contracts (such as premiums received) is a net outflow. Groups of contracts that were not onerous on initial recognition can become onerous on subsequent measurement due to unfavourable changes in the fulfilment cash flows that relate to future service (for example, increased estimates of expected claims to be incurred over the period of remaining coverage).

The shortfall (or reversal of any previous shortfall) is immediately recognised in the income statement.

NZ IFRS 17 requires the identification of groups of onerous contracts at a more granular level of aggregation than the level at which the liability adequacy test is performed under NZ IFRS 4.

Onerous contract losses must be measured on a gross basis (excluding the effect of reinsurance), with the impact on equity and profit or loss mitigated by related income on reinsurance recoveries to the extent that the onerous contracts are covered by reinsurance.

Deficits recorded under NZ IFRS 4 with respect to the liability adequacy test are reversed on adoption of NZ IFRS 17.

The application of the onerous contracts requirements by the Branch is not expected to result in a material change in net assets on adoption of NZ IFRS 17.

Risk adjustment
The measurement of insurance contract liabilities will include a risk adjustment, which replaces the risk margin under NZ IFRS 4. The NZ IFRS 4 risk margin reflects the inherent uncertainty in the net discounted central estimate of net outstanding claims, whereas the NZ IFRS 17 risk adjustment is defined as the compensation required for bearing the uncertainty that arises from non-financial risk, and under the GMM applies to both liabilities / reinsurance assets for incurred claims and for remaining coverage. The Branch intends to apply a cost of capital approach to determining the risk adjustment as a whole.

The risk adjustment with respect to remaining coverage is included in the determination of the LRC and RI ARC as described above, the impact of which is captured in the variance to unearned income and deferred cost balances derived from the NZ IFRS 4 earning pattern.

The risk adjustment relating to the liability for incurred claims (equivalent to the NZ IFRS 4 outstanding claim liabilities) is expected to result in a lower level of risk adjustment as a percentage of expected future cash flows (unchanged from the equivalent NZ IFRS 4 central estimate) compared to the Branch's NZ IFRS 4 risk margin. Similar to the risk margin, the risk adjustment includes the benefit of diversification. The risk margin only reflects benefits realised by diversification within the Branch, however, the risk adjustment also reflects an allocation of diversification benefits realised on consolidation by the QBE Group.

NZ IFRS 17 requires the disclosure of the confidence level that corresponds to the risk adjustment used in the measurement of insurance contract liabilities

Recognition of a risk adjustment relating to incurred claims compared to the NZ IFRS 4 risk margin is not expected to result in a material change in net assets on adoption of NZ IFRS 17.

Discount rates
NZ IFRS 4 requires the net central estimate of outstanding claims to be discounted using risk-free rates as described in note 2.3.4. NZ IFRS 17 requires estimates of future cash flows to be discounted to reflect the time value of money and financial risks related to the insurance cash flows using a rate which reflects the liquidity characteristics of the contracts. However, NZ IFRS 17 does not prescribe a methodology for determining the discount rates used.

The Branch will apply a 'bottom-up approach' which requires the use of risk-free rates adjusted to reflect the illiquidity characteristics of the insurance contracts, which will result in higher discount rates relative to current requirements and an increase in net assets on adoption of NZ IFRS 17. The impact on net assets on adoption of NZ IFRS 17 is not expected to be material.

The illiquidity premium applied to the risk-free yield curve is expected to be based on the long-term weighted average credit spread of a reference portfolio of assets consistent with the Branch's related insurance liabilities over the longer term. The effect of credit risk and other factors that are not relevant to the illiquidity characteristics of insurance contracts will be eliminated to estimate the portion of the spread that reflects the illiquidity premium.

Presentation and disclosure
The standard introduces changes to the presentation and disclosure of insurance line items in the financial statements, introducing new line items on the statement of comprehensive income and balance sheet and increased disclosures compared with existing reporting requirements.

Existing insurance and reinsurance contract line items on the balance sheet (including trade debtors arising from general insurance contracts, unearned premium, deferred insurance costs, gross outstanding claims and reinsurance and other recoveries on outstanding claims) will be replaced by insurance contract assets and liabilities, and reinsurance contract assets and liabilities. Insurance contract liabilities under NZ IFRS 17 will include all cash flows that directly relate to the fulfillment of insurance contracts (direct business and inward reinsurance), including acquisition, claims settlement, policy administration and maintenance costs. It also includes other costs such as direct overheads which are currently recognised in trade and other payables on the balance sheet.

Transition
NZ IFRS 17 will be applied retrospectively to all of the Branch's insurance and reinsurance contracts on transition. The Branch has maximised the use of available information to achieve the closest approximation as possible to a full retrospective approach to transition. Where this is impracticable, allowable modifications under NZ IFRS 17 have been used.

The Branch will apply a modified retrospective approach for determination of the CSM, for which sufficient data on historical assumptions is not available for the estimation of future cash flows and risk adjustment at initial recognition as well as the amount of CSM earned to profit or loss up to the transition date, which are both key inputs. To the extent that this information is not available without the use of hindsight, permitted modifications in NZ IFRS 17 will be applied to estimate these amounts based on transition date expectations about changes that occurred between initial recognition and the transition date.

Financial impact
Based on the above and work performed to date, the adoption of NZ IFRS 17 as at 1 January 2022 is expected to decrease the Branch's reported net assets of $1,049,399. This is mainly driven by the impact of changes in the pattern of revenue recognition for the Branch's business.

The requirements of NZ IFRS 17 are complex, and the actual impact is subject to the finalisation of key assumptions in relation to each of the above components.

The Branch's implementation of NZ IFRS 17 is well-progressed, and work is ongoing to finalise the transition impacts and restate comparative information for reporting on this basis in 2023.

6.2 Contingent liabilities

Overview

Contingent liabilities are disclosed when the possibility of a future settlement is expected to result in an outflow of resources and is considered to be less than probable but more likely than remote. If the expected settlement of the liability becomes probable, a provision is recognised.

In the normal course of business, the Branch is exposed to contingent liabilities in relation to claims litigation arising out of its insurance and reinsurance transactions and may be exposed to the possibility of contingent liabilities in relation to non-insurance litigation. Provisions are made for non-insurance obligations that are probable and quantifiable.

The Branch had no contingent liabilities as at 31 December 2022 (2021: nil).

6.3 Reconciliation of profit after income tax to cash flows from operating activities

	2022 $	2021 $
Profit after income tax	**1,582**	87,387
Decrease in net outstanding claims	**(39,027)**	(43,929)
Decrease in reinsurance and other recoveries	**15,542**	17,399
Increase in trade and other receivables	**(87,445)**	(403)
Decrease in trade and other payables	**(22)**	(16,090)
Decrease in deferred tax assets	**(1,429)**	28,861
Increase in amounts due from tax authorities for current tax	**12,181**	(861)
Increase in unexpired risk liability	**17,998**	(103,077)
Cash flows from operating activities	**(80,620)**	(30,713)

6.4 Remuneration of auditors

Overview

The Company may engage the external auditor for non-audit services other than excluded services subject to the general principle that fees for non-audit services should not exceed 50% of all fees paid to the external auditor in any one financial year at the ultimate parent entity level. The Board believes some non-audit services are appropriate given the external auditor's knowledge of the Company. External tax services are generally provided by an accounting firm other than the external auditor. Consistent with prior periods, the external auditor cannot provide the excluded services of preparing accounting records or financial reports or acting in a management capacity.

The fees disclosed below are reflective of both the parent entity QBE Lenders' Mortgage Insurance Limited and QBE Lenders' Mortgage Insurance Limited - New Zealand Branch.

	2022 $	2021 $
PricewaterhouseCoopers (PwC) – Australian firm		
Audit of financial reports of the Company	**618,484**	594,198
Audit of statutory returns and other assurance services	**163,949**	153,977
	782,433	748,175

6.5 Related parties

6.5.1 Parent entity

The Branch forms part of QBE Lenders' Mortgage Insurance Limited, a Company incorporated and domiciled in Australia.

The Company's parent entity is QBE Holdings (AAP) Pty Limited and the ultimate parent entity is QBE Insurance Group Limited.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2022

6.5.2 Transactions with related parties

The following material transactions occurred with related parties:

	2022 $	2021 $
Revenue		
Reinsurance recoveries received or receivable from related entities	**14,479**	16,490
Expenses		
Management fees paid to related parties	**11,478**	19,196

6.5.3 Outstanding balances arising from transactions with related parties

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	2022 $	2021 $
Current assets		
Amounts due from related entities	**101,231**	13,786
Reinsurance recoveries from related entity on outstanding claims	**7,816**	22,295
Current liabilities		
Amounts due to related entities	**59,924**	59,859

How we account for the numbers

All transactions were made on normal commercial terms and conditions.

Outstanding balances are unsecured, interest free and repayable on demand.

6.6 Events occurring after reporting date

There is, at the date of this report, no other matter or circumstance that has arisen since 31 December 2022 that, in the opinion of the directors, has significantly affected or may significantly affect the Branch's operations, the results of those operations, or the Branch's state of affairs in future financial periods.