The Hollard Insurance Company Pty Ltd (NZ Branch)

NZBN 942 904 212 9851

Annual Financial Report

For the year ended

30 June 2023

Contents

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2023

Directors

The directors present their report together with the financial report of The Hollard Insurance Company Pty Ltd (NZ Branch) (the Branch) for the year ended 30 June 2023 and the auditor's report thereon.

The Hollard Insurance Company Pty Ltd (HIC) is an overseas company incorporated in Australia. Its operations in New Zealand (the Branch) are registered as an ASIC overseas company with the New Zealand Companies Office. HIC and the Branch are collectively referred to as "the Company".

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

Karl Armstrong	Independent Non-executive Director
Katrina Barry	Independent Non-executive Director, Resigned: 24 March 2023
Gary Dransfield	Independent Non-executive Director & Chair
Richard Enthoven	Executive Director
Jane Tongs	Independent Non-executive Director
Noeline Woof	Independent Non-executive Director

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

David Cantrick-Brooks	Company Secretary
Galia Durbach	Company Secretary, Resigned: 8 May 2023
Surangika Gunasekara	Company Secretary, Appointed: 22 August 2023
Jenny O'Neill	Company Secretary
Tamara Vella	Company Secretary, Appointed: 13 July 2023

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

Principal activities

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

The principal activity of the Branch during the financial year was

- Underwriting and sale of general insurance policies, and
- Investment of shareholder and insurance funds

HIC is a licensed insurer regulated by Australian Prudential Regulation Authority (APRA), while the Branch is regulated by the Reserve Bank of New Zealand (RBNZ).

Review and results of operations

The Branch distributes all its business through wholesale arrangements.

The Branch has a partnership agreement with a full-service insurance underwriting agency, Ando Insurance Group Ltd (Ando), which is the key New Zealand agency. The Branch is the underwriter and the agency distributes and administers the business on behalf of the Branch in New Zealand.

The Branch Gross written premium (GWP) has increased by 13.7% in the current year to $463m (2022: $346m) driven by continued growth in the Ando portfolio.

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2023

The Branch result for the financial year is a loss of $23.6 million (2022: profit of $0.2 million). This result has been driven by significant catastrophe claims from the North Island Flood and category 3 Cyclone Gabrielle in New Zealand.

State of Affairs

In the opinion of the directors, there were no significant changes in the state of affairs of the Branch that occurred during the financial year under review.

Events Subsequent to Balance Date

No matters or circumstances have arisen since 30 June 2023 that have significantly affected or may significantly affect the operations of the Branch, the results of those operations or the state of affairs for the Branch.

Likely Developments

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

Corporate Address

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

Level 26
188 Quay Street
Auckland 1010
New Zealand

Indemnification of officers and auditors

During the financial year HIC paid premiums in respect of a contract insuring the directors and other officers of HIC (as named in this report) and all executive officers of HIC and of any related body corporate against a liability insured as such a director, officer or executive officer to the extent permitted by the Companies Act 1993. Such insurance relates to any costs, including legal expenses incurred by directors or officers of HIC and of any related body corporate, in defending proceedings, whether civil or criminal, and other liabilities that may arise from their positions, with the exception of conduct involving any dishonest or fraudulent act, a willful breach of duty or improper use of information or position to gain a personal advantage. The directors have not included details of the amount of the premiums paid in respect of the directors' and officers' liability insurance, or details of the premium paid in respect of former directors or individual officers of HIC, as such disclosure is prohibited under the terms of the contract.

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

Basis of Preparation and Rounding

The financial report is presented in New Zealand dollars and all values are rounded to the nearest thousand dollars ($000) unless otherwise stated.

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2023

Signed in accordance with a resolution of the directors made pursuant to the Financial Markets Conduct Act 2013:

Gary Dransfield
Independent Non-executive Director & Chair

Richard Enthoven
Executive Director

Dated at Sydney 21 September 2023

Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2023

	Notes	2023 $000	2022 $000
Gross written premium		**463,358**	345,519
Gross earned premium revenue		**421,381**	325,872
Reinsurance premium expense	13	**(258,155)**	(234,998)
Net premium revenue		**163,226**	90,874
Gross claims expense	8	**(477,211)**	(180,994)
Reinsurance and other recoveries revenue	8	**334,780**	123,959
Net claims incurred		**(142,431)**	(57,035)
Acquisition expenses	7	**(144,938)**	(104,201)
Reinsurance commissions revenue		**100,620**	80,039
Net acquisition expense		**(44,318)**	(24,162)
Administration and other expenses	7	**(12,326)**	(9,929)
Underwriting result		**(35,849)**	(252)
Interest on policyholders' funds		**3,129**	517
Interest on shareholders' funds		**(13)**	(12)
Finance costs - net		**(1)**	-
(Loss)/profit before income tax		**(32,734)**	253
Tax benefit/(expense)	9	**9,156**	(82)
(Loss)/profit for the year		**(23,578)**	171
Total comprehensive (loss)/income for the year		**(23,578)**	171

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

Statement of Financial Position

AS AT 30 JUNE 2023

	Notes	2023 $000	2022 $000
Assets			
Cash and cash equivalents	10	**10,983**	54,291
Other current financial assets – term deposits		**45,000**	-
Receivables	11	**356,328**	241,621
Reinsurance and other recoveries	12	**218,751**	62,131
Deferred reinsurance expense	13	**133,145**	143,574
Deferred acquisition costs	14	**63,876**	52,623
Deferred tax assets	9	**12,289**	3,132
TOTAL ASSETS		**840,372**	557,372
Liabilities			
Loans and borrowings	6.4	**1,016**	1,018
Provisions		**25**	-
Payables	15	**283,104**	221,523
Outstanding claims	16	**274,192**	87,403
Unearned premiums	17	**225,414**	183,436
Unearned reinsurance commissions	18	**40,648**	44,442
TOTAL LIABILITIES		**824,399**	537,822
NET ASSETS		**15,973**	19,550
Equity			
Head office funds		**47,650**	27,650
Retained income/(loss)		**(31,677)**	(8,100)
TOTAL EQUITY		**15,973**	19,550

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

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2023

	Head office funds $000	Retained Income/ (Loss) $000	Total $000
Balance at 1 July 2022	**27,650**	**(8,100)**	**19,550**
Total comprehensive income for the period			
Profit/ (Loss) for the year	**-**	**(23,578)**	**(23,578)**
Total comprehensive income/(loss)	**-**	**(23,578)**	**(23,578)**
Transactions with head office			
Increase in head office funds	**20,000**	**-**	**20,000**
Total transactions with head office	**20,000**	**-**	**20,000**
Balance at 30 June 2023	**47,650**	**(31,678)**	**15,972**
Balance at 1 July 2021	**27,650**	**(8,271)**	**19,379**
Total comprehensive income for the period			
Profit/ (Loss) for the year	-	171	171
Total comprehensive income	-	171	171
Balance at 30 June 2022	**27,650**	**(8,100)**	**19,550**

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

Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2023

	Notes	2023 $000	2022 $000
CASHFLOWS FROM OPERATING ACTIVITIES			
Premiums received		**350,624**	317,936
Reinsurance and other recoveries received		**135,294**	107,331
Reinsurance commission received		**76,946**	60,414
Receipts from related parties		**52,140**	-
Reinsurance paid		**(225,773)**	(191,015)
Claims paid		**(290,422)**	(176,258)
Acquisition costs paid		**(99,826)**	(93,223)
Levies, charges, administration and other expenses paid		**(19,183)**	(20,186)
Interest received		**1,908**	-
Net cash flows (used in)/from operating activities	19	**(18,292)**	4,999
CASHFLOWS FROM INVESTING ACTIVITIES			
Purchase of financial instruments		**(45,000)**	-
Net cash flows used in investing activities		**(45,000)**	-
CASHFLOWS FROM FINANCING ACTIVITIES			
Finance costs paid		**(16)**	-
Additional head office funding received		**20,000**	-
Net cash flows from financing activities		**19,984**	-
Net (decrease)/increase in cash and cash equivalents		**(43,308)**	4,999
Cash and cash equivalents at the beginning of the financial year		**54,291**	49,292
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR	10	**10,983**	54,291

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

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2023

1. GENERAL INFORMATION

The Hollard Insurance Company Pty Ltd (NZ Branch) (the Branch) is a for-profit entity and registered under the Companies Act 1993. The Hollard Insurance Company Pty Ltd (HIC), of which the Branch is a part, is domiciled in Australia.

The assets of the branch are legally available for the satisfaction of debts of the entire company, not solely those appearing on the accompanying balance sheet and its debts may result in claims against assets not appearing thereon.

The principal activity of the Branch during the course of the financial year was the underwriting and sale of general insurance policies.

HIC is a licensed insurer under the Insurance (Prudential Supervision) Act 2010.

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

The Branch was registered on 24 December 2015 and commenced operations in New Zealand in February 2016.

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

The financial report was authorised for issue by the directors on 21 September 2023.

2. SIGNIFICANT ACCOUNTING POLICIES

The significant policies which have been adopted in the preparation of this financial report are:

2.1 Statement of compliance

The financial statements have been prepared in accordance with New Zealand generally accepted accounting practice (NZ GAAP). For the purposes of complying with NZ GAAP, the Branch is a for-profit entity. These financial statements comply with International Financial Reporting Standards (IFRS) and New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS).

HIC is a Financial Markets Conduct (FMC) reporting entity under the Financial Markets Conduct Act 2013. These financial statements have been prepared in accordance with the requirements of the Financial Markets Conduct Act 2013.

2.2 Basis of preparation

The financial report is presented in New Zealand dollars, which is the functional currency of the Branch. All values are rounded to the nearest thousand dollars ($000) unless otherwise stated.

The financial report for the period ended 30 June 2023 has been prepared on the going concern basis that contemplates the continuity of normal business activities and the realisation of assets and extinguishment of liabilities in the ordinary course of business. For the year ended 30 June 2023, the Company recorded a net loss after tax of $23.6 million (2022: profit of $0.2 million). The Company has sufficient cash and other assets to meet day to day obligations as they fall due.

The financial report is prepared on a historical cost basis except for financial assets that are stated at their fair value and outstanding claims and related reinsurance recoveries that are discounted to present value using a risk-free rate.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Branch takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of NZ IFRS 2 *Share-based payments*, leasing transactions that are within the scope of NZ IFRS 16 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in NZ IFRS 2 *Share-based payments* or value in use in NZ IFRS 36 *Impairment of Assets*.

2.3 Classification of insurance contracts

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

2.4 Revenue

(a) Gross written premium

Gross written premium (GWP) revenue from general insurance business relates to amounts charged to policyholders for the provision of insurance cover. GWP revenue excludes fire and emergency service levies, earthquake commissions, goods and services tax (GST) and other amounts collected on behalf of third parties. GWP is disclosed net of premium refunds and discounts.

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

The proportion of premium received, or receivable not earned in the statement of comprehensive income at the reporting date is recognised in the statement of financial position as an unearned premium liability. GWP on unclosed business is brought to account using estimates based on information provided by the different intermediaries and allowing for any changes in the pattern of new business and renewals.

Premium receivable is recognised as the amount due and is normally settled between 30 days and 12 months. The recoverability of premium receivable is assessed, and provision is made for impairment based on recognisable lifetime credit losses where there have been significant increases in credit risk since initial recognition considering all reasonable and supportable information. Premium receivable is presented net of any provision for impairment.

Recoverability of receivables
The recoverability of receivables from insurance, reinsurance and non-insurance contracts in the context of the economic downturn have been considered. The methodologies applied in the base expected credit loss (ECL) calculations remained unchanged from those applied in the prior financial year.

(b) Reinsurance and Other Recoveries

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

Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims. Recoveries are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

(c) Reinsurance Commissions Revenue

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

2.5 Unexpired risk liability

Provision is made for unexpired risks arising from general insurance business where the expected value of claims and expenses attributed to the unexpired periods of policies in force at the reporting date exceeds the unearned premiums liability in relation to such policies after the deduction of any related deferred acquisition costs.

The provision for unexpired risk is calculated separately for each group of contracts subject to broadly similar risks and managed together as a single portfolio.

The Liability Adequacy Test assesses whether the net unearned premium liability is sufficient to cover future claims costs for in-force policies. Future claims are calculated as the present value of the expected cash flows relating to future claims and includes a risk margin to increase the statistical probability that the estimate is adequate to 75%. The 75% basis is a recognised industry benchmark in Australia and New Zealand.

2.6 Reinsurance premium expenses

Premiums ceded to reinsurers under reinsurance contracts held by the Branch are recorded as a reinsurance premium expense and are recognised in the statement of comprehensive income from the attachment date over the period of indemnity of the reinsurance contract in accordance with the pattern of the incidence of risk ceded. Accordingly, a proportion of reinsurance premium expense is treated as prepaid and disclosed as deferred reinsurance expense in the statement of financial position.

2.7 Outstanding claims liability

The estimation of the outstanding claims liability includes a number of key assumptions. The Branch takes all reasonable steps to ensure that it has appropriate information on which to base this estimate. However, given the uncertainty involved it is likely that the final outcome will differ from the original claims liability established.

The liability for outstanding claims is measured as the central estimate of the present value of expected future payments against claims incurred at the reporting date under general insurance contracts issued by the Branch, with an additional risk margin to allow for the inherent uncertainty in the central estimate.
The expected future payments include those in relation to claims reported but not yet paid, claims incurred but not yet reported, claims incurred but not enough reported and anticipated claims handling expenses. The expected future payments are discounted to present value using a risk-free rate.

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

The gross claims expense in the Statement of Comprehensive Income comprises claims paid and the change in the liability for outstanding claims, both reported and unreported, including the risk margin and claims handling expenses.

2.8 Acquisition costs

Acquisition costs incurred in obtaining general insurance contracts are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the Statement of Comprehensive Income in subsequent reporting periods. Acquisition costs include commission or brokerage paid to agents or brokers for obtaining business, selling and underwriting costs such as advertising and risk assessment, the administrative costs of recording policy information and premium collection cost.

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

2.9 Assets backing general insurance liabilities

The assets backing general insurance liabilities are those assets required to cover the insurance liabilities. Insurance liabilities include outstanding claims, unearned premium liabilities, unexpired risk liability, unearned reinsurance commissions and payables associated with insurance operations. HIC has determined that all assets are held to support insurance liabilities.

As part of its investment strategy, the Branch seeks to manage its notional assets allocated to insurance activities to mature in accordance with the expected pattern of future cash flows arising from insurance liabilities. The following policies apply to assets held to back general insurance liabilities:

(a) Financial Instruments at Fair Value through Profit or loss

Financial assets are designated at fair value through profit and loss. Initial recognition is at fair value in the Statement of Financial Position and subsequent measurement is at fair value with any resultant unrealised gains or losses recognised in the Statement of Comprehensive Income.

Cash and cash equivalents and Bank overdrafts are carried at the face value of the amounts deposited or drawn, which approximates their fair value.

(b) Receivables

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

2.10 Levies and other charges

A liability for levies and other charges is recognised on business written to the balance date, where the Branch is compelled to collect from Insureds. Levies and charges payable, where the Branch is not compelled to collect from Insureds, are expensed on the same basis as the recognition of premium revenue, with the portion relating to unearned premium being recorded as a prepayment and disclosed as deferred levies and charges.

2.11 Impairment and derecognition of financial assets

Financial assets, other than those at fair value through profit and loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are assessed for impairment by recognising lifetime credit losses for all financial instruments for which there have been significant increases in credit risk since initial recognition considering all reasonable and supportable information. An impairment gain or loss is recognised in the profit or loss where the amount of expected credit losses (or reversal) that is required to adjust the loss allowance to the amount that is required to be recognised in accordance with NZ IFRS 9 *Financial Instruments*.

The Branch derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Branch neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Branch recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Branch retains substantially all the risks and rewards of ownership of a transferred financial asset, the Branch continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

2.12 Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the Statement of Comprehensive Income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of Assets or Liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. In addition, Deferred tax is not recognised for taxable temporary differences arising on the initial recognition of Goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset Current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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

2.13 Goods and services tax

Revenue and expenses are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as a current asset or liability in the statement of financial position. Cash flows relating to GST are included in the statement of cash flows on a net basis.

2.14 Payables

Payables are stated at amortised cost. These amounts represent liabilities for goods and services provided to the Branch prior to the end of the financial year and which are unpaid at that date. The amounts are unsecured and are normally settled within 30 days of the due date.

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

2.15 Cash and cash equivalents

Cash and cash equivalents include deposits at call which are readily convertible to cash and are subject to an insignificant risk of change in value.

2.16 Provisions

A provision is recognised in the Statement of Financial Position when the Branch has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

3. APPLICATION OF NEW AND REVISED NEW ZEALAND EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (NZ IFRS)

All mandatory Standards, Amendments and Interpretations have been adopted in the financial year where relevant. None had a material impact on these financial statements.

The following standards are effective in the current year and have been applied by the Branch.

Standard/Interpretation	Applied in the financial year ending
Annual Improvements to NZ IFRS 2018-2020	30 June 2023
Onerous Contracts-Cost of Fulfilling a Contract	30 June 2023
Property, Plant and Equipment Proceeds before Intended Use	30 June 2023

3.1 Standards and interpretations in issue not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the Branch in the period of initial application. These standards and interpretations have been issued but are not yet effective.

Standard/Interpretation	Operative year ending
NZ IFRS 17 Insurance Contracts	30 June 2024
Reference to the Conceptual Framework	30 June 2024
Classification of Liabilities as Current or Non-current	30 June 2024
NZ CS 2 Aotearoa New Zealand Climate Standards	30 June 2024

The Branch currently plans to adopt the standards and amendments detailed above in the reporting periods beginning after their respective operative dates. An initial assessment of the financial impact of the standards and amendments have 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

The new accounting standard for insurance contracts (NZ IFRS 17) which replaces NZ IFRS 4 Insurance Contracts and AASB 1023 General Insurance Contracts was adopted by the New Zealand Accounting Standards Board in July 2017 and became effective for annual periods beginning on or after 1 January 2023. The objective of NZ IFRS 17 is to establish globally consistent principles for the recognition, measurement, presentation, and disclosure of insurance contracts issued. Whilst the new Standard does not change the underlying economics or cashflows of the Branch's insurance contracts it issues, it is expected to have impacts on the timing of emergence of profits.

The Branch is required to first apply NZ IFRS 17 on 1 July 2023 (with a transition date of 1 July 2022) and prepare financial statements compliant with the new accounting Standard for the year ending 30 June 2024 with a restated comparative prior year based on NZ IFRS 17 (year ended 30 June 2023).

The Company continues to make progress towards implementation of the NZ IFRS 17 standard with an implementation program in place that includes changes to systems, data and processes which are required in order to adhere to the Standard for financial statement reporting for June 2024. The Company continues to manage the implementation plan for the Branch in accordance with its broader implementation plan for the Group.

Below are some of the key accounting changes applicable to the Branch in applying the new accounting Standard.

Measurement of insurance/reinsurance contracts

Measurement models

NZ IFRS 17 introduces a new 'general model' for the recognition and measurement of insurance contracts based on fulfilment cashflows (discounted future cash flows risk adjusted for non-financial risk) and contractual service margin (CSM).

NZ IFRS 17 permits the use of a simplified approach referred to as the 'premium allocation approach' if the coverage period of the contracts is not greater than one year, or if the liability for remaining coverage under the premium allocation approach is not expected to materially differ from that under the general model.

A significant majority of the Branch's insurance contracts have a coverage period that does not exceed one year and therefore are automatically eligible to apply the premium allocation approach. For contracts with coverage periods that exceed one year the Company has developed a model and methodology to assess eligibility to apply the premium allocation approach. Our assessment, which is in the process of being finalised, includes a qualitative assessment of contract features, a materiality assessment and detailed scenario modelling. To date, this assessment has indicated that the premium allocation approach can be applied to all of the Company's insurance contracts.

For groups of contracts that apply the premium allocation approach and have a coverage period of one year or less, NZ IFRS 17 provides an option to recognise any insurance acquisition costs as expenses in profit or loss when incurred. The Branch will elect to continue deferring certain acquisition cash flows, previously deferred acquisition expenses, when the standard is adopted by the Branch on 1 July 2023.

The Branch has undertaken a process of reclassifying its contracts of similar risks which are managed together into separate portfolios. The Branch is currently in the process of completing this assessment.

Onerous contracts

NZ IFRS 17 requires the identification of 'groups' of onerous contracts which will be determined at a more granular level of aggregation, at initial recognition of the groups of contracts, than the level at which the liability adequacy test is performed under NZ IFRS at each reporting period end. Contracts that are measured using the premium allocation approach are assumed not to be onerous unless the facts and circumstances indicate otherwise.

The Company has developed a framework for identifying relevant facts and circumstances that may be indicators of possible onerous contracts which includes past, present, and future internal management information for planning and performance management.

Should the facts and circumstances indicating possible onerous contracts exist, the onerous contract losses will be measured based on an estimation of fulfilment cash flows and will be recognised in profit or loss.

Discount rates

NZ IFRS 17 requires estimates of future cash flows to be discounted to reflect the time value of money and financial risks related to those cash flows, with the Standard providing for two approaches to determine the discount rates to be used, namely Top-Down or Bottom-Up approaches.

The Branch will calculate NZ IFRS 17 discount rates using the bottom-up approach described in NZ IFRS 17, whereby an illiquidity premium (if considered material) is added to a risk-free rate. Risk-free rates will be calculated based on the returns of government bonds, adjusted for illiquidity where required.

The discount rate will be required to value expected claims cashflows that will occur more than 12 months from the Balance sheet date, and fulfilment cashflows of insurance contracts with contract boundaries that are more than 12 months, to their present value. No discounting will be applied to Liabilities for Remaining Coverage (LRC) as these are expected to unwind within 12 months of the reporting date. As most contracts issued by the Branch have a coverage period of 12 months or less or have premiums paid at the inception of the contract, the discounting effect on future premium receipts is expected to be immaterial.

Transition

The adoption of NZ IFRS 17 is to be done on a retrospective basis, with the Standard providing for three transition approaches dependent on the circumstances of the entity. The Full Retrospective Approach is required under NZ IFRS 17 unless it is impractical to do so. Under this approach the entity is required to prepare and present its financial statements as if the accounting standard has always been in place and the comparative financial information is restated from the beginning of the earliest period presented.

The Branch is proposing to apply the "full retrospective approach" in the 2024 financial year which entails presenting the financial statements as if NZ IFRS 17 has always applied.

Presentation and disclosure

NZ IFRS 17 introduces significant changes to the presentation and disclosures of the financial statements, including new line items on the statement of comprehensive income and statement of financial position as well as extensive disclosures which require increased granularity and analysis of movements.

The requirements of NZ IFRS 17 are complex and implementation thereof requires time. The Company's implementation program is progressing to produce NZ IFRS 17 compliant financial statements for the year ending 30 June 2024.

The Company continues to closely monitor all these developments and to assess the financial impacts of the standard. The Branch expects the timing of recognition of profit will change under NZ IFRS 17 due to the different valuation method used to determine the insurance liabilities. At the time of finalising the financial statements for 2023, the Branch was not yet in a position to quantify the financial impact of NZ IFRS 17 on the opening retained earnings as at 1 July 2022, or future profit and loss. The project continues to progress towards meeting this objective for relevant financial and regulatory reporting in 2024.

NZ CS 2 Aotearoa New Zealand Climate Standards

The External Reporting Board ("XRB") of New Zealand issued three Climate Standards that set requirements for: Climate - related Disclosures (Aotearoa New Zealand Climate Standard 1 (NZ CS 1)): First -time adoption of Aotearoa New Zealand Climate Standards (NZ CS 2); and General Requirements for Climate -related Disclosures (NZ CS 3).

The Climate Standards are effective from 1 January 2023, with mandatory assurance required on the Greenhouse gas emissions included in the Climate Statements for the 2025 Group Annual Report. The Branch expects to adopt the Climate Standards for the 2024 financial year.

The Branch has commenced work to build upon the TCFD disclosures to ensure readiness and compliance with the relevant new Climate Standards in the 2024 financial year.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

4.1 Key sources of estimation uncertainty

(a) Outstanding claims

A liability is recorded at the end of the year for the estimated cost of claims incurred but not settled at the reporting date, including the cost of claims incurred but not yet reported to the Branch.

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

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

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

Details of specific actuarial techniques and assumptions used in calculating the outstanding claims liability at the reporting date are described in note 5. Analysis of outstanding claims liability is provided in note 16.

(b) Assets arising from reinsurance contracts and other recoveries

Estimates of reinsurance and other recoveries are also computed using the above methods. In addition, the recoverability of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as counterparty credit risk. The recoverability of these assets is assessed, and provision is made for expected credit loss based on past default experience as well as other economic factors. Analysis of reinsurance recoveries is provided in note 12.

5. ACTUARIAL ASSUMPTIONS AND METHODS

As at 30 June 2023, the outstanding claims liability for the Branch was assessed by the Appointed Actuary and the Appointed Actuary was satisfied as to the nature, sufficiency and accuracy of the data used to determine the outstanding claims liability. The Appointed Actuary for the Branch at 30 June 2023 is David Wright (Fellow of the New Zealand Society of Actuaries) of The Hollard Insurance Company Pty Ltd.

5.1 Process used to determine outstanding claims liabilities

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

The determination of the outstanding claims liabilities involves two steps:

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

5.2 Actuarial assumptions

The key actuarial assumptions for the determination of the outstanding claims liabilities are as follows:

	2023	**2022**
Discounted mean term of claims (years)	**0.46**	0.51
Expense rate (% of gross claims)	**0.07%**	0.40%
Discount rate	**5.45%**	3.15%
Inflation rate	**5.00%**	3.25%

Process used to determine actuarial assumptions
A description of the processes used to determine these assumptions is provided below.

Initial Net Cost of Claims

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

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

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

Inflation rate
For most valuation methods an implicit allowance for future claims inflation is incorporated to the extent that it is present in the claims experience analysed. For one valuation method, which does not have a material bearing on the valuation outcomes, an explicit inflation assumption is required. For short tail valuation portfolios, the only portfolios for which this method is used, the inflation assumption is 2.50%.

5.3 Sensitivity analysis

The outstanding claims liabilities included in the reported results are calculated based on the key actuarial assumptions as disclosed above. The movement in any of the above key actuarial assumptions will impact the performance and equity of the Branch. The table below describes how a change in each of the assumptions will affect the outstanding claims liabilities.

The table below summarises the sensitivity of the net outstanding claims liabilities to changes in key variables.

Key Actuarial Assumptions	Changes	Impact on outstanding claims liabilities (NZD) $'000
Discount rate	Increase by 1.0% p.a.	(241)
	Decrease by 1.0% p.a.	245
Discounted mean term	Increase by 0.5 years	(119)
	Decrease by 0.5 years	120
Expense rate	Increase by 1.0%	1809
	Decrease by 1.0%	(1809)
Inflation rate	Increase by 1.0%	244
	Decrease by 1.0%	(245)

6. RISK MANAGEMENT

The Board and management recognise that effective risk management is a critical component of sound business practice and integral to achieving the business objectives of HIC and the Branch (Collectively referred to as “the Company").

The Board is ultimately responsible for the establishment and maintenance of an effective Risk Management Framework (RMF) that provides a structure for identifying and managing material risks to ensure the Company is being prudently and soundly managed, having regard to the size, business mix and complexity of its operations.

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

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

During the financial year ended 30 June 2023, five formal Board committees with delegated responsibilities to assist with risk management monitoring met regularly. These included the Board Risk Committee, Board Audit Committee, Board Remuneration Committee, Board Projects and Technology Committee and Board Reinsurance Committee. Cross membership on committees allows effective communication between committees ensuring that all risk related matters are appropriately considered. The Board annually submits a Risk Management Declaration to APRA.

Risk Management Strategy (RMS)

The board annually reviews and approves the RMS following a review process facilitated by the Group Risk and Compliance team, in consultation with management. Key aspects include:

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

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

Risk Appetite Statement (*RAS)*

The Board, in annually approving the RAS, is responsible for setting the Company’s risk appetite and for oversight of its operation by management. The RAS is a key component in setting the Company's business strategy. The RAS sets out the degree of risk the Company is prepared to accept in pursuit of its strategic objectives and business plans, by outlining clear boundaries for the material risks in the form of risk tolerances and limits.

Business Plan

Currently, the Company is in an “investment and execution” phase, integrating the HIP business and executing its Transformation agenda focused on consolidation of core systems onto a single claims, policy, and data platform for its' Australian business. This will foster a One Hollard approach and establishes the foundations for greater efficiencies, and future opportunities.

During the financial year, the Company launched its refreshed purpose, which combined with our six strategic principles, establishes a set of foundational principles for all Hollardites. The Company is continuing its multi-year Culture Integration Plan to enable the efficient delivery of our strategy aspirations for the benefit of our customers, people, and partners.

Over the coming years the Company is focused on balancing the near-term needs as the general insurance industry navigates the current environment challenged by natural peril activity, higher reinsurance costs, inflation and continued regulatory focus. At the same time the Company continues to seek new product opportunities with key partners, enhance our digital and automation capabilities, and improve operational and cost efficiency through our new technology and pursue new partnerships.

Reinsurance Management Strategy (ReMS)

The Board annually approves the ReMS which is a key strategic document outlining the Company’s strategy, approach, use and management of its reinsurance arrangements consistent with its risk appetite, capital management and business objectives. The Company participates in both proportional (quota share) and non-proportional (excess of loss) reinsurance treaties, to limit its exposure to large risks (both individual and event) and provide capital support.

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

Internal Capital Adequacy Assessment Process (ICAAP)

The Board’s annually approved ICAAP is the process by which the Company manages the adequacy of its capital in line with its risk appetite and risk profile.

The Company manages the adequacy of its capital base in line with the Board approved three-year business plan (HHA Group Business Plan), risk appetite, risk profile and Target Capital requirements. Sound capital management ensures that the Company can fulfil commitments made to customers, partners, and other key stakeholders with a high degree of certainty.

Recovery Plan

The Board approved Recovery Plan details the Company’s approach to, and processes around, capital management that are designed to restore capital. Key aspects of the Recovery Plan include:

- It must remain current and relevant in the context of changes to risk profile, internal systems and processes, and the external environment
- It is intended to govern capital management in severe or extreme circumstances where the ongoing viability of the organisation is threatened
- It fits in the crisis continuum with business-as-usual risk management (stable environment), ICAAP (stress environment), recovery planning (recovery environment) and resolution planning. The Recovery Plan, therefore, forms an important component of the overall RMF

Business Continuity Plan and Crisis Management

The Board recognises the importance of Business Continuity Management (BCM) in supporting the resilience of the Group. The Board approved BCM Policy sets out the objectives and approach in relation to BCM for the Company. The BCM Program (BCMP) is designed to restore operational effectiveness after a significant interruption and includes a crisis management component.

There may be circumstances where the BCMP and Recovery Plan are activated concurrently. In such circumstances there is alignment between the BCMP and the Recovery Plan in continuation of business activities (disaster recovery and business continuity) following a disruption.

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

Risk Management Framework

During the financial year 2023, the Company revised its risk management framework to reflect its new operating model. This model, and the associated roles and responsibilities, have been formally described in the RMS. Under the three lines of defence model the key business functions (1st line of defence) are accountable for managing risk and compliance within risk appetite, in accordance with frameworks and policies. A dedicated Group Risk and Compliance team (2nd line of defence) undertake monitoring, review, and challenge. The Chief Risk Officer (CRO) and group risk function provide regular reports to the Board Risk Committee. The Internal Audit team (3rd line of defence) conducts independent assurance. The Internal Audit team reports to the Board Audit Committee (comprising solely of independent non-executive directors).

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

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

- Strategic Risk (note 6.1) The risk of not meeting financial and other objectives arising from poor strategic business decisions, failed implementation of strategic projects, risks from the impacts of competitors, emerging strategic risks and other fundamental strategic issues that impact the Group or the insurance industry in Australia and NZ.
- Insurance Risk (note 6.2) The risk associated with the variable outcome of writing insurance business being the financial consequences of failures in core insurance processes of underwriting, pricing, product design, claims management, reinsurance programs and catastrophic claims events and includes the adequacy of insurance liability provisions.
- Credit Risk (note 6.3) The risk, that a person or an institution with whom the Company has entered a financial contract, who is a counterparty to the contract, will partially or fully default on the obligation, or be subject to a downgrade in their assessed credit quality. This excludes exposures to strategic debt such as loans which are included in strategic investments
- Market, Liquidity and Capital Risk (notes 6.4, 6.5) The risk of a lower-than-expected return on investments or losses from asset liability mismatches, due to adverse movements in interest rates, inflation, equity markets, currencies and other economic factors. This category includes other market risks impacting on the balance sheet and capital adequacy, including liquidity and access to capital.
- Operational Risk (note 6.6) The risk of an incident occurring which leads or could lead to the actual outcome of a business-process differing from the expected outcome due to inadequate or failed processes, people, systems or external factor.

- Compliance Risk (note 6.7) The risk of loss arising from either the current (or future) regulatory framework under which the Company operates including risks associated with breaching the law, taxation obligations and requirements of a financial services licence holder and general insurer in the Australian and New Zealand markets.

6.1 Strategic Risk

The Company seeks to manage strategic risk as part of its annual strategic planning process. The Board annually reviews and approves the HHA Group Business Plan with subsequent regular monitoring of the risks undertaken by the Board Risk Committee. The Group develops and implements strategy and the accompanying plans within its core competencies, chosen markets and operating model capability and is willing to adopt appropriately managed higher risk strategies and accept some associated earnings volatility, whilst remaining well capitalised, to achieve its strategic objectives, which are oriented to the pursuit of sustainable underwriting profit and growth.

The primary focus in managing strategic risk during the year has been centered on achieving business plan and major change initiatives (eg the Financial Transformation project (NZ IFRS 17 Insurance Contracts)).

Significant change effort has also been placed on integration of HIP with the Company with migration from, and replacement of, two sets of key operational systems and procedures, leadership teams and organisational structures having been implemented. Apart from the transformational projects, there has also been a major project in progress around Partner Monitoring and Oversight.

6.2 Insurance Risk

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

The Company in managing the risk:

- employs a conservative underwriting strategy, utilising experienced and qualified teams, and using fit for purpose pricing processes and controls. Significant increases in premiums were implemented across all our portfolios to manage insurance risk during the year.
- is willing to accept medium level of risks on variability of underlying claims performance, unmanaged claims cost drivers and insufficiency of claims and premium liabilities, appropriate with the level of risk assumed in pricing and underwriting. Higher than average claims inflation during the year impacted claims costs adversely, particularly in the home and commercial space.
- has low appetite risks arising from inappropriate policy wording, reinsurance failure and accumulations that are not mitigated in catastrophes, and inadequate reinsurance or inappropriate reinsurance program design and exposure to large accumulations and event losses from any peril. A series of weather events in both Australia and New Zealand during the year resulted in significant losses that were partially offset by our reinsurance arrangements.

6.3 Credit Risk (or Counterparty risk)

The Company’s credit/counterparty risk arises predominantly from investment in financial instruments, receivables from distribution partners or customers, and receivables for claims payments on reinsurance contracts. It uses investment grade rated reinsurers and banks with good financial standing, and a disciplined approach for credit control to manage the counterparty risks of suppliers, partners, brokers, and customers. The Group diversifies its financial exposures to counterparties where commercially viable and possible.

Investments

The Group Investment and Liquidity Policy (Policy) approved by the Board encapsulates the overall approach to be used in managing the investment and liquidity risks inherent in the Company's business and the parameters by which the Group can invest. It contains minimum requirements for counterparties for the Company's liquid investment portfolio (size of investments, concentrations, minimum ratings).

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

Reinsurance Receivables

The Board and Management understand the critical role reinsurance plays in supporting key business objectives, capital management and assisting the Company to meet its policyholder obligations.

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

Credit exposure

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

Year ended 30 June 2023	AA $000	A $000	BBB $000	Not Rated $000	Total $000
Financial assets					
Reinsurance and other recoveries	**36,458**	**182,293**	**-**	**-**	**218,751**
Receivables	**-**	**-**	**-**	**356,328**	**356,328**
Cash and term deposits	**55,983**	**-**	**-**	**-**	**55,983**
Total risk exposure	**92,441**	**182,293**	**-**	**356,328**	**631,062**

Year ended 30 June 2022	AA $000	A $000	BBB $000	Not Rated $000	Total $000
Financial assets					
Reinsurance and other recoveries	10,355	51,776	-	-	62,131
Receivables	-	-	-	241,621	241,621
Cash and term deposits	54,291	-	-	-	54,291
Total risk exposure	64,646	51,776	-	241,621	358,043

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

Year ended 30 June 2023

	Not past due	Past due 0 to 30 days	Past due 31 to 120 days	Impairment	Total
	$000	$000	$000	$000	$000
Financial assets					
Reinsurance and other recoveries	**218,751**	**-**	**-**	**-**	**218,751**
Receivables	**356,328**	**-**	**-**	**-**	**356,328**
Cash and term deposits	**55,983**	**-**	**-**	**-**	**55,983**
Total risk exposure	**631,062**	**-**	**-**	**-**	**631,062**

Year ended 30 June 2022

	Not past due	Past due 0 to 30 days	Past due 31 to 120 days	Impairment	Total
	$000	$000	$000	$000	$000
Reinsurance and other recoveries	62,131	-	-	-	62,131
Receivables	241,621	-	-	-	241,621
Cash and term deposits	54,291	-	-	-	54,291
Total risk exposure	358,043	-	-	-	358,043

For assets to be classified as ‘past due’, contractual payments in arrears are more than 90 days. An expected credit loss adjustment is recorded in the statement of comprehensive income for these assets. When credit exposure is adequately secured, arrears more than 90 days might be classified as ‘past due’, with no expected credit loss recorded. The Company operates mainly on a ‘not past due basis’ and sufficient collateral will be obtained for ‘past due’ assets. An assessment of expected credit loss will also be performed if applicable.

6.4 Market Risk

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

The Group has a low appetite for investment risks arising from adverse marked to market movements in investments from interest rates and inflation. The Group aims to manage the diversification of assets to avoid asset concentration risks. The Group has no appetite to speculate with interest rates and related derivatives and does not actively pursue currency risk but accepts not to hedge the currency risk of its strategic investments in NZ and foreign currency denominated outsourcing arrangements.

The Board annually reviews risk appetite with regard to the investment strategy in relation to policyholder funds and shareholder funds with specific risk limits set in regard to liquid assets and in regard to strategic investments. The Management Investment Committee and the Board monitor the application of the Investment and Liquidity Policy that sets out the key parameters such as liquidity limits, target duration matching and foreign exchange exposure limits, as well as reviewing application of the fair value process related to the Strategic Investment portfolio.

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

Floating rate instruments expose the Company to cash flow interest risk, and the Company manages interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments. The Board approved Investment and Liquidity policy also requires it to manage the maturities of interest bearing liabilities. Any gap between fixed and variable rate instruments and their maturities can also be managed by the Company through derivative financial instruments.

As at 30 June 2023 the Company did not have any such exposures to derivative financial instruments. Interest on floating rate instruments is repriced at intervals of less than one year. Interest on fixed interest rate instruments is priced at inception of the financial instrument and is fixed until maturity.

The analysis below is performed for reasonable movements in key variables with all other variables held constant, showing the impact on profit before tax. The correlation of variables will have a significant effect in determining the ultimate impact on interest rate risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis.

Year ended 30 June 2023	**Change in interest rate**	**Impact on profit before tax $'000**	**Total $'000**
Bank balances related to New Zealand	**+1%**	**664**	**664**
	-1%	**(664)**	**(664)**

Year ended 30 June 2022	**Change in interest rate**	**Impact on profit before tax $'000**	**Total $'000**
Bank balances related to New Zealand	+1%	543	543
	-1%	(543)	(543)

Liquidity Risk
Liquidity risk is the risk associated with an inability for the Group to realise asset values to meet liabilities as they fall due, including the financial impact of not matching assets and liabilities by the necessary term, currency, duration etc. The key objective of the Company's liquidity management is to ensure it has sufficient available liquidity to meet current and future obligations to policy holders under both normal and stressed liquidity environments without incurring unacceptable losses or risking damage to the Company's reputation.

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

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

Maturity Profiles

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

Year ended 30 June 2023	Up to a year $000	1-3 years $000	3 + years $000	Total $000
Financial liabilities				
Payables	**283,104**	**-**	**-**	**283,104**
Outstanding claims	**239,676**	**32,993**	**1,523**	**274,192**
Loans and Borrowings*	**-**	**1,016**	**-**	**1,016**
Total	**522,780**	**34,009**	**1,523**	**558,312**

Year ended 30 June 2022	Up to a year $000	1-3 years $000	3 + years $000	Total $000
Financial liabilities				
Payables	221,523	-	-	221,523
Outstanding claims	73,353	13,150	900	87,403
Loans and Borrowings*	-	1,018	-	1,018
Total	**294,876**	**14,168**	**900**	**309,944**

* With effect from 1 September 2019, the Branch entered into a Claims and underwriting agreement with a distribution partner in New Zealand to underwrite a Travel portfolio. As part of this agreement, the Branch was advanced a loan of $1m as a claims deposit which is payable on termination or expiry of the agreement. The agreement expires on 31 August 2025. Interest accrues on the loan at 1.2% per annum.

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

6.5 Capital risk

Capital Risk is the risk associated with an inability for the Company to access capital to support its business, or from having inadequate capital frameworks or from falling below its APRA Prescribed Capital Requirements (including internally assessed margins).

The Group maintains sufficient capital to meet all its financial and regulatory obligations and to be able to pay all claims to a high degree of certainty. The Group seeks to monitor and manage its capital position through an effective and regulatory compliant capital management framework which details the target capital operating range, monitoring, and stress-testing activity.

6.6 Operational Risk

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

The Company manages this operational risk by employing a range of risk management processes, including documented critical processes, the identification of key risks and the design and implementation of effective controls within those processes. The below further support the management of these risks:

- operational risk reviews and assessments
- incident and breach reporting
- policies, procedures, and frameworks
- business case due diligence
- control development including segregation of duties
- performance management and training
- reporting and monitoring

Numerous operational procedures, frameworks and policies are relevant to the management of this risk, included functional operating frameworks (e.g. Finance), Business Continuity Frameworks and related crisis managements plans (such as the Crisis and Incident Management Plan and Pandemic Response Plan that were followed at the onset of COVID-19), various IT and Cybersecurity Policies, HR, and other policies.

During the year, Operational Risk management received specific focus in the form of remediation activities in the control environment of operational processes and addressing various aspects of the HIP transition and strategic transformation project (Claims, Policy Administration and Finance) related risks.

6.7 Compliance Risk

Compliance Risk is the risk of loss arising from either the current (or future) regulatory framework under which the Group operates. Specifically including risks associated with breaching the law, taxation obligations and requirements of a financial services licence holder and of a general insurer in the Australian and New Zealand market.

The Company seeks to manage Compliance Risk through implementation and monitoring of a formal Compliance Framework and application of the principles of the framework to distribution partners/ intermediaries, maintaining and reviewing an incident and breach framework, and maintaining visibility and currency on compliance obligations via obligations data reports and participation in Industry committees, forums, and seminars.

The Board Risk Committee monitors the performance of the Company in meeting its compliance obligations. A Board approved Tax Risk Management and Governance Framework is in place and monitored by the Board Audit Committee.

During the year, the Company continues to prepare for and implement regulatory changes, including the Conduct of Financial Institutions (CoFI) and Mandatory Climate-Related Disclosures regimes. Heightened focus on partner monitoring & oversight has also led to the implementation of ongoing Partner Compliance Reviews.

7. PROFIT/(LOSS) BEFORE INCOME TAX EXPENSE IS ARRIVED AT AFTER CHARGING THE FOLLOWING ITEMS

	2023 $000	2022 $000
Acquisition costs comprise		
Commission expenses	**144,938**	**104,201**
	144,938	**104,201**
Administration and other expenses comprise		
Professional fees	**422**	**527**
Staff and staff related expenses	**728**	**1,036**
Corporate and general expenses	**12,795**	**6,654**
Specific underwriting expenses/(income)	**(1,619)**	**1,712**
	12,326	**9,929**

Staff and staff related expenses associated with the Branch are paid by head office and recharged to the Branch.

Audit fees and Directors' remuneration are borne as part of head office overheads and are not separately charged to the Branch.

The auditor of the Branch is Deloitte Touche Tohmatsu, Australia.

8. CLAIMS EXPENSE

	2023			2022		
	Current period $000	Prior years $000	Total $000	Current period $000	Prior years $000	Total $000
Gross claims and related expenses - undiscounted	**492,188**	**(9,498)**	**482,690**	189,497	(7,228)	182,269
Discount movement	**(6,580)**	**1,100**	**(5,480)**	(1,085)	(191)	(1,276)
	485,608	**(8,398)**	**477,210**	188,412	(7,419)	180,993
Reinsurance and other recoveries - undiscounted	**(346,411)**	**7,150**	**(339,261)**	(128,702)	3,841	(124,861)
Discount movement	**5,297**	**(816)**	**4,481**	817	86	903
	(341,114)	**6,334**	**(334,780)**	(127,885)	3,927	(123,958)
Net claims expense	**144,494**	**(2,064)**	**142,430**	**60,527**	**(3,492)**	**57,035**

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

9. INCOME (BENEFIT)/TAX EXPENSE

	2023 $000	2022 $000
Current tax (benefit)/expense		
Deferred tax movement	**(9,156)**	82
Total income tax (benefit)/expense	**(9,156)**	**82**
Numerical reconciliation between tax expense and pre-tax accounting profit		
Accounting (loss)/profit before income tax	**(32,734)**	**253**
Prima facie income tax calculated at 28% of profit before tax	(9,165)	71
Change in deductible temporary differences	-	11
Changes in prior year estimates	9	-
	(9,156)	**82**
Deferred Tax balances recognised		
Tax losses (revenue in nature)	**(29,881)**	(17,585)
Deductible temporary differences:		
Provision for doubtful debts	**(294)**	(198)
Deferred acquisition costs	**21,436**	14,734
Outstanding claims	**(3,550)**	(83)
	(12,289)	**(3,132)**

10. CASH AND CASH EQUIVALENTS

	2023 $000	2022 $000
Bank balances	**9,145**	53,307
Cash held in trust	**1,838**	984
	10,983	**54,291**

11. RECEIVABLES

The Branch's exposure to credit risk and impairment losses related to premium and commission receivable are disclosed in note 6.3.

	2023 $000	2022 $000
Current		
Premiums receivable	**354,757**	238,226
Other receivables	**250**	3,292
Prepayments	**59**	62
Commissions receivable	**41**	41
Interest receivables	**1,221**	-
	356,328	**241,621**

12. REINSURANCE AND OTHER RECOVERIES

	2023 $000	2022 $000
Expected future recoveries relating to:		
Paid claims	**1,705**	1,526
Outstanding claims discounted to present value	**217,046**	60,605
	218,751	**62,131**
Current	**191,497**	51,904
Non-current	**27,254**	10,227
	218,751	**62,131**
Reconciliation of changes in reinsurance and other recoveries		
Balance at the beginning of the financial year	**62,131**	65,252
Reinsurance and other recoveries raised in the year	**334,780**	123,959
Reinsurance and other recoveries received in the year	**(178,160)**	(127,080)
Balance at the end of the financial year	**218,751**	**62,131**

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2023

13. DEFERRED REINSURANCE EXPENSE

	2023 $000	2022 $000
Current	**130,887**	139,641
Non-current	**2,258**	3,933
	133,145	**143,574**
Reconciliation of changes in deferred reinsurance		
Balance at the beginning of the financial year	**143,574**	135,491
Reinsurance premiums deferred in the year	**247,726**	243,081
Reinsurance premiums expensed during the year	**(258,155)**	(234,998)
Balance at the end of the financial year	**133,145**	**143,574**

14. DEFERRED ACQUISITION COSTS

	2023 $000	2022 $000
Current	**63,876**	**52,623**
Reconciliation of changes in acquisition costs		
Balance at the beginning of the financial year	**52,623**	45,374
Acquisition costs deferred during the year	**156,191**	111,450
Acquisition costs expensed during the year	**(132,258)**	(104,201)
Liability Adequacy Test deficiency	**(12,680)**	-
Balance at the end of the financial year	**63,876**	**52,623**

15. PAYABLES

	2023 $000	2022 $000
Trade payables - acquisition costs	**134,605**	78,240
Other related parties*	**57,030**	2,882
Trade payables and accruals - other	**16,206**	16,392
Claims payable on inwards reinsurance	**(4)**	11,748
Reinsurance premiums payable	**75,267**	112,261
	283,104	**221,523**

* The Branch’s related party transactions are with HIC.

16. OUTSTANDING CLAIMS

	2023 $000	2022 $000
Current	**239,676**	73,353
Non-current	**34,516**	14,050
	274,192	**87,403**
Central estimate	**277,941**	87,317
Risk margin	**3,164**	1,579
	281,105	88,896
Discount to present value	**(6,913)**	(1,493)
Gross outstanding claims liability	**274,192**	**87,403**
Reconciliation of changes in discounted gross outstanding claims		
Balance at beginning of financial year	**87,403**	82,667
Change in prior years gross claims outstanding	**(9,498)**	(7,228)
Current year gross claims incurred	**492,188**	189,497
Claims paid	**(290,422)**	(176,257)
Discount movement	**(5,479)**	(1,276)
Balance at the end of the financial year	**274,192**	**87,403**

Risk margin

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

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

	2023	2022
Net overall risk margin applied	**6.0%**	6.6%

17. UNEARNED PREMIUMS

	2023 $000	2022 $000
Current	**225,414**	**183,436**
Balance at beginning of financial year	**183,436**	163,789
Written premium deferred in the year	**463,358**	345,519
Written premium earned during the year	**(421,380)**	(325,872)
Balance at the end of the financial year	**225,414**	**183,436**

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2023

18. UNEARNED REINSURANCE COMMISSIONS

	2023 $000	2022 $000
Current	**40,648**	**44,442**
Balance at beginning of financial year	**44,442**	39,299
Commissions deferred during the year	**96,826**	85,182
Commissions earned during the year	**(100,620)**	(80,039)
Balance at the end of the financial year	**40,648**	**44,442**

19. RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH FLOW FROM OPERATING ACTIVITIES

	2023 $000	2022 $000
Profit/(Loss) from ordinary activities after income tax	**(23,578)**	171
Adjustments for:		
Interest on shareholders' funds	**13**	-
Finance costs - net	**1**	-
Changes in assets and liabilities during the financial year:		
Change in receivables	**(114,706)**	(30,854)
Change in reinsurance and other recoveries	**(156,620)**	3,121
Change in deferred reinsurance expense	**10,429**	(8,083)
Change in deferred acquisition costs	**(11,253)**	(7,249)
Change in deferred tax	**(9,157)**	64
Change in payables	**61,581**	18,303
Change in outstanding claims	**186,789**	4,736
Change in unearned premium liability	**41,978**	19,647
Change in unearned reinsurance commissions	**(3,794)**	5,143
Change in employee benefit liabilities	**25**	-
Net cash flow generated/(used in) operating activities	**(18,292)**	**4,999**

20. CAPITAL RISK MANAGEMENT

The Branch manages its capital to ensure that on a legal entity level it meets regulatory solvency requirements and it will continue to meet its debts as and when they fall due.

The capital structure of the Branch consists of cash and cash equivalents (as disclosed in note 10) and designated equity, comprising of head office account and Retained Income (as disclosed in the Statement of Changes in Equity).

The Branch's capital is managed through the ICAAP of HIC. Regular and robust reviews of the ICAAP are done internally and independent reviews are performed every three years.

The Branch designates a balance of the head office funds as contributed equity. This balance forms part of the head office account and is segregated as a non-operational trade balance. These head office funds are non-interest bearing, have no fixed repayment date with such repayment not expected in the foreseeable future.

Notes to the Financial Statements

21. EXEMPTION FROM COMPLIANCE WITH SOLVENCY STANDARD

The Branch is exempted from compliance with the Solvency Standard for Non-life Insurance Business 2014. The exemption was issued as part of the grant of licence under section 55 of the Insurance (Prudential Supervision) Act 2010.

The Reserve Bank of New Zealand considers it appropriate to grant the exemption because it is satisfied that The Hollard Insurance Company Pty Ltd is required under the law or regulatory requirements of the Commonwealth of Australia to comply with standards or requirements that relate to the same or similar matters that are covered by the solvency standard or part of the solvency standard to which this exemption relates, and in terms of achieving the purposes of the Act, at least as satisfactory as the solvency standard or part of the solvency standard to which this exemption relates to.

The Hollard Insurance Company Pty Ltd is currently in compliance with the regulatory standards and requirements prescribed by the Australian Prudential Regulation Authority.

The solvency figures as at 30 June 2023 reported to the Australian Prudential Regulation Authority are as follows:

	2023 **AUD$'000**	**2022** **AUD$'000**
Actual solvency capital	**430,338**	439,556
Minimum solvency capital	**323,453**	229,561
Solvency margin	**106,885**	209,995
Capital Adequacy Multiple	**1.33**	**1.91**

22. INSURER FINANCIAL STRENGTH RATING

As at the date of this report the Branch has an insurer financial strength rating of A- (Excellent) from AM Best, with a stable outlook.

23. LIABILITY ADEQUACY TEST

The application of the liability adequacy test (LAT) in respect of net premium liabilities of The Hollard Insurance Company Pty Ltd has identified a deficit at 30 June 2023 and a surplus at 30 June 2022.

The application of the liability adequacy test in respect of net premium liabilities in the Branch identified a deficit as at 30 June 2023.

24. EVENTS AFTER THE REPORTING PERIOD

No matters or circumstances have arisen since 30 June 2023 that have significantly affected or may significantly affect the operations of the Branch, the results of those operations or the state of affairs for the Branch.

Independent Auditor's Report to the Shareholders of The Hollard Insurance Company Pty Ltd - New Zealand Branch

Opinion

We have audited the financial statements of The Hollard Insurance Company Pty Ltd – New Zealand Branch (the "Branch") which comprise the statement of financial position as at 30 June 2023, and the statement of comprehensive income, the statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies as set out on pages 4 to 34.

In our opinion, the accompanying financial statements present fairly, in all material respects, the Branch's financial position as at 30 June 2023 and its financial performance and 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").

Basis for Opinion

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

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

Other than in our capacity as auditor, we have no relationship with or interests in the Branch, except that partners and employees of our firm deal with the Branch on normal terms within the ordinary course of trading activities of the business of the Branch.

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

Emphasis of Matter – New Zealand Branch

The New Zealand branch is part of The Hollard Insurance Company Pty Ltd, which is incorporated in Australia. As described in note 1 of the financial statements, the assets of the branch are legally available for the satisfaction of debts of The Hollard Insurance Company Pty Ltd, not solely those appearing on the accompanying statement of financial position and its debts may result in claims against assets not appearing thereon. Our opinion is not qualified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. 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.

Deloitte.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Valuation of outstanding claims Refer to notes 4.1 (a), 5, and 16 to the financial statements. Included in the statement of financial position as at 30 June 2023 is an outstanding claims liability totalling NZ$274,192k (2022: NZ$87,403k). The valuation of outstanding claims involves a complex estimation process given the inherent uncertainty in estimating the expected present value of future payments for claims incurred, including making significant judgements and assumptions. In particular, judgement arises over the estimation of payments for claims that have been incurred at the reporting date but have not yet been reported to the Branch, and claims that have been reported but there is uncertainty over the amount which will be settled. Further judgement arises from estimating the future claim payments from catastrophe claims, the impact of inflation and the apportionment of Earthquake Commission ("EQC") recoveries. The outstanding claims liability contains a risk margin that relates to the inherent uncertainty in the central estimate, including consideration of external systemic risk. The risk margin, determined using actuarial techniques and methodologies, is based on past experience and industry practice to ensure realistic provisioning for outstanding claims.	In conjunction with our actuarial specialists our audit procedures included, but were not limited to: • obtaining an understanding of the key controls, including key data reconciliations and management's review of estimates; • assessing the appropriateness of valuation methodologies, processes and models with respect to actuarial standards; • comparing valuation assumptions to underlying experience or other sources of assumptions to assess reasonableness; • assessing that appropriate technical and peer review controls have been performed and perform reasonableness checks for a sample of valuation spreadsheet calculations; • inquiring with management and assessing documentation of actuarial model integrity checks; • testing, on a sample basis, the completeness and accuracy of the underlying data used in the calculation of the policy liability including tracing premiums, claims estimates and claims payments to third party evidence; • assessing the reasonableness of calculations, methodology and checks performed by management; and • assessing the appropriateness of the disclosures in the notes to the financial statements.

Other Information

The directors on behalf of the Branch are responsible for the other information. The other information comprises the information included in the Directors' report for the year ended 30 June 2023, 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 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, 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 of the Branch are responsible on behalf of the Branch for the preparation and fair presentation of the financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS), and for such internal control as the directors determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISAs (NZ), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

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

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

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

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

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

The auditor also provides those charged with governance with a statement that the auditor has complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on the auditor's independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, the auditor determines those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. The auditor describes these matters in the auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, the auditor determines that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Max Rt Murray

Max Murray
Partner
Chartered Accountants
Sydney, Australia, 21 September 2023