VIRGINIA SURETY COMPANY INC - NEW ZEALAND BRANCH

Annual Report

For the year ended 31 December 2023

Contents

VIRGINIA SURETY COMPANY, INC - NEW ZEALAND BRANCH

STATEMENT BY DIRECTORS
For the year ended 31 December 2023

I, being a director of Virginia Surety Company, Inc (Company), certify that the Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Balances Due to Head Office, Statement of Cash Flows and notes set out on pages 1O to 29 fairly present the Financial Statements of the New Zealand Branch of the Company for the year ended 31 December 2023. No disclosure has been made in respect of Section 211 (a), and (e) to (j) of the Companies Act 1993 following a unanimous decision by the shareholders in accordance with Section 211 (3) of the Act.

The Board of Directors of Virginia Surety Company, Inc New Zealand branch authorized these statements for issue on 26 April 2024.

On behalf of the board

Kyle Lawlor

Kyle Lawlor
Director
Date: 26 April 2024

Level 9 | 1 York Street | Sydney | NSW | 2000
GPO Box 4137 | Sydney | NSW | 2001
t: +61 2 9256 6600 | f: +61 2 9256 6611
sydney@uhyhnsyd.com.au
www.uhyhnsydney.com.au

INDEPENDENT AUDITOR'S REPORT

To the Directors of Virginia Surety Company Inc – New Zealand Branch

Opinion

We have audited the financial statements of Virginia Surety Company Inc – New Zealand Branch (the Branch), which comprise:

- the statement of financial position as at 31 December 2023;
- the statement of comprehensive income, statement of changes in head office account and statement of cash flows for the year then ended; and
- the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of the Branch, present fairly, in all material respects, the financial position of the Branch as at 31 December 2023, its financial performance and its cash flows for the year then ended in accordance with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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

Independence

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

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

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 year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matter described below to be a key audit matter.

Valuation of Insurance Contract Liabilities (2023: $27.2 million). Refer to note 10 to the financial statements, which describe the elements that make up the balance

Why a key audit matter	How our audit addressed the risk
We considered the valuation of insurance contract liabilities a key audit matter because of the complexity involved in the estimation process and the significant judgements applied by the Branch in estimating the amount. The valuation of insurance contract liabilities involves the use of actuarial models and methodologies that rely on the quality of available historical claims experience data. It involves complex and subjective assumptions about future events, both internal and external to the business, for which small changes in assumptions can result in material impacts on the estimate. In particular, significant judgement is applied in the estimation of claims that have been incurred at the reporting date but have not yet been reported to the Branch (IBNR) and the risk adjustment given the heightened level of uncertainty over these amounts.	Together with our actuarial expert, we performed the following audit procedures, amongst others: • Evaluated the actuarial models and methodologies applied by the Branch with reference to generally accepted models and methodologies applied in the sector and with the prior year; • Assessed the appropriateness of underlying significant methods and assumptions used in the valuation to check that these methods and assumptions were supported by appropriate documentation; • Assessed and tested the completeness, accuracy and appropriateness of source data used in the Branch's actuarial valuation calculations including the reconciliation of data used to the general ledger and financial statements. We used substantive testing to test the underlying claims and premiums data by agreeing a sample of records to supporting documentation; • Reviewed the discount rates applied for classes of business by the Branch's actuary and checked consistency with published risk free interest rate data; • Assessed the Branch's approach to setting the risk margin in light of the requirements of the New Zealand Equivalents to International Financial Reporting Standards and by comparing to known industry practices. • Assessed the onerosity calculation performed by management, including tracing to actuarial calculations and through review of applied estimates and judgements. • Assessed the appropriateness of management's IFRS 17 transition process, including methodological judgements and policy choices applied. • We also assessed the reasonability and completeness of the Branch's disclosures against the requirements of NZ IFRS and IFRS.

Responsibilities of Management and the Directors for the Financial Statements

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

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

The Directors are responsible for overseeing the Branch's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

https://xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Description_Auditors_responsibilities.aspx.

This description forms part of our auditor's report.

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

UHY Haines Norton

Mark Nicholaeff
Partner
Signed at Sydney, Australia
26 April 2024

UHY Haines Norton
Chartered Accountants

Statement of Comprehensive Income

For the year ended 31 December 2023

	Notes	2023	2022
			Restated
		$	$
Insurance revenue		51,410,191	48,688,190
Insurance service expense	6	(45,281,082)	(37,597,718)
Insurance service result before reinsurance contracts held		**6,129,109**	**11,090,472**
Allocation of reinsurance premiums		(835,161)	(5,006,319)
Amounts recoverable from reinsurers for incurred claims		892,244	1,181,049
Net expense from reinsurance contracts held		**57,083**	**(3,825,270)**
Insurance service result		**6,186,192**	**7,265,202**
Investment income		857,382	424,548
Distribution income		1,503,738	1,729,512
Other interest and similar income		76,050	32,695
New fair value gains/(losses) on financial assets at fair value through profit or loss		(2,197,816)	(7,151,648)
Net fair value gains/(losses) on derecognition of financial assets measured at fair value through other comprehensive income		(218,320)	(829,500)
Total investment income/(loss)		21,034	(5,794,393)
Insurance finance expenses for insurance contracts issued		(30,657)	(18,036)
Reinsurance finance income for reinsurance contracts held		—	—
Net insurance financial result		**(30,657)**	**(18,036)**
Other income and expense	9	(4,713,687)	(14,470,799)
Profit/(Loss) before tax		**1,462,882**	**(13,018,026)**
Income tax benefit/(expense)	11	423,888	(1,053,745)
Profit/(Loss) for the year after tax		1,038,994	(11,964,281)
OCI to be reclassified to profit or loss in subsequent periods			
Change in fair value of financial assets		923,194	(70,447)
Debt instruments at fair value through other comprehensive income		923,194	(70,447)
Insurance finance (expense)/income for insurance contracts issued		—	—
Net insurance financial result		—	—
Income tax relating to items that may be reclassified		—	—
Total other comprehensive income		**923,194**	**(70,447)**
Total Comprehensive income		**1,962,188**	**(12,034,728)**

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

Statement of Financial Position

As at 31 December 2023

			Restated	
				1 January
		2023	**2022**	**2022**
	Notes	**$**	**$**	**$**
Assets				
Cash and cash equivalents	13	5,595,821	2,845,965	3,712,891
Investments at fair value through profit and loss	7	10,834,486	36,095,715	47,354,778
Investments at fair value through other comprehensive income	8	23,894,688	21,259,019	23,474,425
Insurance contract assets	10	—	—	—
Reinsurance contract assets		937,871	2,305,019	17,349,312
Deferred tax assets	12	824,793	1,248,681	5,875
Current tax assets		345,163	—	—
Related Party receivables	14	34,057,389	12,041,774	5,235,127
Other assets		1,713,176	1,495,069	305,582
Total assets		78,203,387	77,291,242	97,437,990
Liabilities				
Current tax liabilities	12	—	193,549	—
Insurance contract liabilities	10	27,176,284	32,751,921	38,295,126
Deferred tax liabilities		—	—	—
Related Party Payables	14	14,757,043	10,482,767	16,984,518
Other payables		1,595,605	4,141,518	765,079
Total liabilities		**43,528,932**	**47,569,755**	56,044,723
Net assets		**34,674,455**	**29,721,487**	41,393,267
Due to Head Office		**34,674,455**	**29,721,487**	**41,393,267**

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

Virginia Surety Company, New Zealand Branch adopted NZ IFRS 17 Insurance Contracts from 1 January 2023 and has correspondingly restated the comparative period.

Statement of Changes In Head Office Account

For the year ended 31 December 2023

Head Office - USA	Head Office USA	Total Equity
At 1 January 2023 (restated)	29,721,487	29,721,487
Profit for the year attirbutable to Head Office Account	1,962,188	1,962,188
Total comprehensive income	31,683,675	31,683,675
Net current transactions with Head Office	(2,990,780)	(2,990,780)
At 31 December 2023	34,674,455	34,674,455

Head Office - USA	Head Office USA	Total Equity
At 1 January 2022, as previously reported	41,798,498	41,798,498
Impact of inital application of NZ IFRS 17 (note 2.5)	(405,231)	(405,231)
At 1 January 2022 (restated)	41,393,267	41,393,267
Profit for the year attirbutable to Head Office Account	(12,034,728)	(12,034,728)
Total comprehensive income	29,358,539	29,358,539
Net current transactions with Head Office	(362,948)	(362,948)
At 31 December 2022 (restated)	29,721,487	29,721,487

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

Virginia Surety Company, New Zealand Branch adopted NZ IFRS 17 Insurance Contracts from 1 January 2023 and has correspondingly restated the comparative period.

Statement of Cash Flows
For the year ended 31 December 2023

	Notes	2023	2022
			Restated
		$	$
Cash flows from operating activities			
Premium received		46,040,000	51,208,000
Reinsurance and other recoveries received		1,424,232	11,219,021
Claims paid		(28,767,000)	(29,380,000)
Acquisition Costs		(16,750,000)	(16,299,000)
Other Operating and Administration Expenses		(7,669,581)	(12,142,367)
Investment income		857,382	502,686
Distribution income		1,503,738	1,729,512
Interest income		76,051	32,695
Income taxes paid		(538,712)	4,488
Net cash flows (used) /generated from operating activities	13	**(3,823,890)**	**6,875,035**
Cash flows from investing activities			
Purchase of investment assets		(14,105,843)	(17,725,959)
Proceeds from sale of investments		36,436,632	23,292,390
Repayments to related parties		(17,741,339)	(12,796,073)
Net cash flows generated from/(used) in investing activities		**4,589,450**	**(7,229,642)**
Cash flows from financing activities			
Net parent company settlements		1,984,296	(512,319)
Net cash flows generated from/(used) in financing activities		**1,984,296**	**(512,319)**
Net decrease in cash and cash equivalents		2,749,856	(866,926)
Cash and cash equivalents at beginning of period		2,845,965	3,712,891
Cash and cash equivalents at end of period	13	**5,595,821**	**2,845,965**

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

Notes to the financial statements for the year ended 31 December 2023

1. Corporate information

These financial statements have been prepared for the New Zealand branch of Virginia Surety Company, Inc which is incorporated in the United States of America.

The registered office of Virginia Surety Company, Inc New Zealand branch (the Branch) for the year ended 31 December 2023 is:

73 Manchester Street,
Christchurch, 8011
New Zealand

Virginia Surety Company, Inc is the Branch's parent and Assurant, Inc is the ultimate controlling party.

Insurance Contract

All the insurance products offered or utilized by the Branch meet the definition of insurance contracts under the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and are accounted for and reported in accordance with these standards and are described below.

- Consumer. includes extended warranty and accidental damage products
- Retail Warranty. includes the Harvey Norman
- Prestige Motor Vehicle Insurance
- Motorcycle Insurance
- Motor Vehicle Insurance
- Classic Motor Vehicle Insurance

These products do not contain embedded derivatives or deposits that are required to be unbundled.

Reinsurance contracts

Contracts are entered into by Virginia Surety Company, Inc. New Zealand Branch (VSCNZ) with reinsurers under which it is compensated for losses on one or more contracts that meet the classification requirements for reinsurance contracts held. The benefits to which the Company is entitled under its reinsurance contracts held are recognized as reinsurance assets.

VSC NZ held the reinsurance agreement with Hollards Insurance Company Ltd to reinsure 100% of the risk associated with certain classes of business with Protecta as described below

- Prestige Motor Vehicle Insurance
- Motorcycle Insurance
- Motor Vehicle Insurance
- Classic Motor Vehicle Insurance

Protecta is a specialist underwriting agency selling insurance products through motor vehicle and motorcycle dealers, finance companies and brokers and direct to the public. VSCNZ underwrites this business.

VSC NZ has ceased to reinsure this 100% risk with Hollards Insurance Company Ltd from 1 September 2021 and has subsequently entered into a motor comprehensive excess of loss reinsurance contract through the intermediary AON Reinsurance New Zealand ltd.

2. New Accounting Standards and Amendments

2.1. New and amended standards and interpretations

In these financial statements, the Branch has applied NZ IFRS 17 for the first time. The Branch has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

2.2. IFRS 17 Insurance Contracts

NZ IFRS 17 replaces NZ IFRS 4 *Insurance Contracts* for annual periods on or after 1 January 2023.

The Branch has restated comparative information for 2022 applying the transitional provisions in NZ IFRS 17. The nature of the changes in accounting policies can be summarised, as follows:

2.3. Changes to classification and measurement

The adoption of NZ IFRS 17 did not change the classification of the Branch's insurance contracts.

The Branch was previously permitted under NZ IFRS 4 to continue accounting using its previous accounting policies. However, NZ IFRS 17 establishes specific principles for the recognition and measurement of insurance contracts issued and reinsurance contracts held by the Branch.

Under NZ IFRS 17, the Branch's insurance contracts issued and reinsurance contracts held are all eligible to be measured by applying the PAA. The PAA simplifies the measurement of insurance contracts in comparison with the general model in NZ IFRS 17.

The measurement principles of the PAA differ from the 'earned premium approach' used by the Branch under IFRS 4 in the following key areas:

- The liability for remaining coverage reflects premiums received less deferred insurance acquisition cash flows and less amounts recognised in revenue for insurance services provided
- Measurement of the liability for remaining coverage includes an adjustment for the time value of money and the effect of financial risk where the premium due date and the related period of services are more than 12 months apart
- Measurement of the liability for remaining coverage involves an explicit evaluation of risk adjustment for non-financial risk when a group of contracts is onerous in order to calculate a loss component (previously these may have formed part of the unexpired risk reserve provision)
- Measurement of the liability for incurred claims (previously claims outstanding and incurred-but-not- reported (IBNR) claims) is determined on a discounted probability-weighted expected value basis, and includes an explicit risk adjustment for non-financial risk. The liability includes the Branch's obligation to pay other incurred insurance expenses.
- Measurement of the asset for remaining coverage (reflecting reinsurance premiums paid for reinsurance held) is adjusted to include a loss-recovery component to reflect the expected recovery of onerous contract losses where such contracts reinsure onerous direct contracts.

The Branch capitalises insurance acquisition cash flows for all product lines. The Branch allocates the acquisition cash flows to groups of insurance contracts issued or expected to be issued using a systematic and rational basis. Insurance acquisition cash flows include those that are directly attributable to a group and to future groups that are expected to arise from renewals of contracts in that group. Where such insurance acquisition cash flows are paid (or where a liability has been recognised applying another IFRS standard) before the related group of insurance contracts is recognised, an asset for insurance acquisition cash flows is recognised. When insurance contracts are recognised, the related portion of the asset for insurance acquisition cash flows is derecognised and subsumed into the measurement at initial recognition of the insurance liability for remaining coverage of the related group.

2.4. Changes to presentation and disclosure

For presentation in the statement of financial position, the Branch aggregates insurance and reinsurance contracts issued and reinsurance contracts held, respectively and presents separately:

- Portfolios of insurance and reinsurance contracts issued that are assets
- Portfolios of insurance and reinsurance contracts issued that are liabilities
- Portfolios of reinsurance contracts held that are assets
- Portfolios of reinsurance contracts held that are liabilities

The portfolios referred to above are those established at initial recognition in accordance with the NZ IFRS 17 requirements.

Portfolios of insurance contracts issued include any assets for insurance acquisition cash flows.

The line item descriptions in the statement of profit or loss and other comprehensive income have been changed significantly compared with last year. Previously, the Branch reported the following line items:

- Gross written premiums
- Net written premiums
- Changes in premium reserves
- Gross insurance claims
- Net insurance claims

VIRGINIA SURETY COMPANY, INC· NEW ZEALAND BRANCH

Notes to the financial statements for the year ended 31 December 2023

2. New Accounting Standards and Amendments (continued)

Instead, IFRS 17 requires separate presentation of:

- Insurance revenue
- Insurance service expenses
- Insurance finance income or expenses
- Income or expenses from reinsurance contracts held

The Branch provides disaggregated qualitative and quantitative information about:

- Amounts recognised in its financial statements from insurance contracts
- Significant judgements, and changes in those judgements, when applying the standard

2.5. Transition

NZ IFRS 17 has be applied retrospectively to all of VSC NZ insurance contracts on transition except to the extent that it is impracticable to do so, in which case either a modified retrospective or fair value approach is applied. VSC NZ has applied a full retrospective approach. The impacts of transition are outlined below:

Statement of comprehensive income	**IFRS 17 equivalent**	**IFRS 4 equivalent**	**Variance**
Insurance revenue	(48,688,190)	(48,688,190)	—
Insurance service expense	37,597,718	38,841,209	(1,243,491)
Allocation of reinsurance premiums	5,006,320	5,006,320	—
Amounts recoverable from reinsurers for incurred claims	(1,181,049)	(1,309,830)	128,781
Investment income	(424,548)	(424,548)	—
Distribution income	(1,729,512)	(1,729,479)	(33)
Other interest and similar income	(32,695)	(32,695)	—
Net fair value gains/(losses) on financial assets at fair value through profit or loss	7,151,648	7,981,013	(829,365)
Net fair value gains/(losses) on derecognition of financial assets measured at fair value through other comprehensive income	829,499	—	829,499
Other income and expense	14,470,799	12,121,723	2,349,076
Insurance finance expenses for insurance contracts issued	18,036		18,036
Loss Before tax	**13,018,026**	**11,765,523**	**1,252,503**
Income tax expense	(1,053,745)	(12,909)	(1,040,836)
Loss After Tax	**11,964,281**	**11,752,614**	**211,667**

Statement of financial position	**IFRS 17 equivalent**	**IFRS 4 equivalent**	**Variance**
Assets			
Cash and cash equivalents	2,845,965	2,845,965	—
Investments at fair value through profit and loss	36,095,714	57,259,227	(21,163,513)
Investments at fair value through other comprehensive income	21,259,019	—	21,259,019
Related Party Receivables	12,041,774	7,312,822	4,728,952
Other assets	1,495,069	15,667,679	(14,172,610)
Reinsurance contract assets	2,305,020	18,290,522	(15,985,502)
Deferred tax assets	1,248,681	14,296	1,234,385
Liabilities			
Current Tax Liabilities	(193,549)	—	(193,549)
Related Party Payables	(10,482,767)	(5,753,820)	(4,728,947)
Other payables	(4,141,519)	(4,818,208)	676,689
Insurance contract liabilities	(32,751,921)	(60,482,146)	27,730,226
Net assets	**29,721,486**	**30,336,337**	**(614,850)**

Due to Head Office	**29,721,486**	**30,336,337**	**(614,850)**

Statement of Changes in Head Office Account

Balance at 1 January 2022 (restated)	41,393,267	41,798,498	(405,231)
Total Comprehensive Income	(12,034,728)	(11,752,612)	(282,116)
Net Assets	29,358,539	30,045,886	(687,347)
Net current transactions with Head Office	(362,947)	290,450	(653,397)
Balance as at 31 December 2022 (restated)	**29,721,486**	**30,336,336**	**(614,850)**

3. Summary of signification accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

3.1. Basis of preparation

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable financial reporting standards, as appropriate for for-profit entities. VSCNZ is a for-profit entity registered under the Companies Act 1993.

The financial statements are prepared in accordance with the requirements of Part 7 of the Financial Markets Conduct Act 2013. VSCNZ is an FMC reporting entity under Part 7 of the Financial Markets Conduct Act 2013 and it is a Licensed Insurer under the Insurance (Prudential Supervision) Act 2010. VSCNZ has a 31 December year end and has a functional currency of New Zealand Dollars (NZD).

The financial statements of VSCNZ comply with International Financial Reporting Standards (IFRS). Where appropriate, prior period comparatives have been reclassified in this financial report to ensure comparability in the current reporting period. The reclassification was necessary to provide the readers of the financial report with a greater understanding of VSCNZ notes to the financial statements.

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Branch's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions or estimates are significant, are disclosed in note 4.

3.2. Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by certain exceptions noted in the financial statements, with the principal exceptions being the measurement of financial assets at fair value at fair value through profit or loss and other comprehensive income and the measurement of the measurement of insurance contract assets and liabilities in line with NZ IFRS 17.

3.3. Insurance and reinsurance contracts classification

The Branch issues insurance contracts in the normal course of business, under which it accepts significant insurance risk from its policyholders. As a general guideline, the Branch determines whether it has significant insurance risk, by comparing benefits payable after an insured event with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

3. Summary of signification accounting policies (continued)

3.4. Level of aggregation

NZ IFRS 17 requires a Branch to determine the level of aggregation for applying its requirements. The level of aggregation for the Branch is determined firstly by dividing the business written into portfolios. Portfolios comprise groups of contracts with similar risks which are managed together. Portfolios are further divided based on expected profitability at inception into three categories: onerous contracts, contracts with no significant risk of becoming onerous, and the remainder. This means that, for determining the level of aggregation, the branch identifies a contract as the smallest 'unit', i.e., the lowest common denominator. However, the Branch makes an evaluation of whether a series of contracts need to be treated together as one unit based on reasonable and supportable information, or whether a single contract contains components that need to be separated and treated as if they were stand-alone contracts. As such, what is treated as a contract for accounting purposes may differ from what is considered as a contract for other purposes (i.e., legal or management). NZ IFRS 17 also requires that no group for level of aggregation purposes may contain contracts issued more than one year apart.

The Branch has elected to group together those contracts that would fall into different groups only because law or regulation specifically constrains its practical ability to set a different price or level of benefits for policyholders with different characteristics.

The branch applied a full retrospective approach for transition to NZ IFRS 17. The portfolios are further divided by year of issue and profitability for recognition and measurement purposes. Hence, within each year of issue, portfolios of contracts are divided into three groups, as follows:

- A group of contracts that are onerous at initial recognition (if any)
- A group of contracts that, at initial recognition, have no significant possibility of becoming onerous subsequently (if any)
- A group of the remaining contracts in the portfolio (if any)

3.5. Contract Boundary

NZ IFRS 17 requires that an entity shall include in the measurement of a group of insurance contracts all the future cash flows within the boundary of each contract in the group.

The Branch does not expect significant changes arising from the application of this requirement. The Branch considers cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the branch can compel the policyholder to pay the premiums or in which the Branch has a substantive obligation to provide the policyholder with insurance contract services.

The Branch shall not recognise as a liability or as an asset any amounts relating to expected premiums or expected claims outside the boundary of the insurance contract. Such amounts relate to future insurance contracts.

3.6. Insurance and reinsurance contracts

3.6.1. Recognition and measurement of insurance contracts

NZ IFRS 17 requires an entity to recognise a group of insurance contracts it issues from the earliest of (a) the beginning of the coverage period of the group of contracts; (b) the date when the first payment from a policyholder in the group becomes due; and (c) for a group of onerous contracts, when the group becomes onerous.

The Branch applies the premium allocation approach (PAA) to all the insurance contracts that it issues and reinsurance contracts that it holds.

The Branch does not expect significant changes arising from the application of these changes. It is expected that a group of insurance contracts issued shall be recognised from the beginning of the coverage period of the group of contracts, from 1 January of each financial reporting year. Individual contracts shall be added to each group based on the beginning of the coverage period of the contracts, through to 31 December of each financial reporting year

3.6.2. Subsequent measurement of insurance contracts

The Branch measures the carrying amount of the liability for remaining coverage at the end of each reporting period as the liability for remaining coverage at the beginning of the period:

- Plus premiums received in the period
- Minus insurance acquisition cash flows, with the exception of property insurance product line for which the Branch chooses to expense insurance acquisition cash flows as they occur
- Plus any amounts relating to the amortisation of the insurance acquisition cash flows recognised as an expense in the reporting period for the group
- Plus any adjustment to the financing component, where applicable
- Minus the amount recognised as insurance revenue for the services provided in the period
- Minus any investment component paid or transferred to the liability for incurred claims

3. Summary of signification accounting policies (continued)

The Branch estimates the liability for incurred claims as the fulfilment cash flows related to incurred claims. The fulfilment cash flows incorporate, in an unbiased way, all reasonable and supportable information available without undue cost or effort about the amount, timing and uncertainty of those future cash flows, they reflect current estimates from the perspective of the Branch, and include an explicit adjustment for non-financial risk (the risk adjustment). The Branch does not adjust the future cash flows for the time value of money and the effect of financial risk for the measurement of liability for incurred claims that are expected to be paid within one year of being incurred.

Where, during the coverage period, facts and circumstances indicate that a group of insurance contracts is onerous, the branch recognises a loss in profit or loss for the net outflow, resulting in the carrying amount of the liability for the group being equal to the fulfilment cash flows. A loss component is established by the Branch for the liability for remaining coverage for such onerous group depicting the losses recognised.

Insurance acquisition cash flows are allocated as a portion of premium to profit or loss (through insurance revenue) on the following basis.

Reserving Class	Methodology	% Portfolio
Accidental Damage	SL	31%
Consumer Warranty	SL	5%
Motor Warranty	Mix	32%
Credit	RO78	8%
GAP	RO78	2%
Comp Retained	SL	22%
XOL Extended Warranty (VSC)	SL	1%
Total		**100%**

3.6.3. Reinsurance contracts held - measurement

The Branch measures its reinsurance assets for a group of reinsurance contracts that it holds on the same basis as insurance contracts that it issues.

However, they are adapted to reflect the features of reinsurance contracts held that differ from insurance contracts issued, for example the generation of expenses or reduction in expenses rather than revenue.

Where the branch recognises a loss on initial recognition of an onerous group of underlying insurance contracts or when further onerous underlying insurance contracts are added to a group, the Branch establishes a loss-recovery component of the asset for remaining coverage for a group of reinsurance contracts held depicting the recovery of losses.

The branch calculates the loss-recovery component by multiplying the loss recognised on the underlying insurance contracts and the percentage of claims on the underlying insurance contracts the Branch expects to recover from the group of reinsurance contracts held. The Branch uses a systematic and rational method to determine the portion of losses recognised on the group to insurance contracts covered by the group of reinsurance contracts held where some contracts in the underlying group are not covered by the group of reinsurance contracts held.

The loss-recovery component adjusts the carrying amount of the asset for remaining coverage.

3.7. Insurance acquisition cash flows

Insurance acquisition cash flows arise from the costs of selling, underwriting and starting a group of insurance contracts (issued or expected to be issued) that are directly attributable to the portfolio of insurance contracts to which the group belongs.

The Branch chooses to expense insurance acquisition cash flows as they occur, the Branch uses a systematic and rational method to allocate:

(1) Insurance acquisition cash flows that are directly attributable to a group of insurance contracts:

(a) to that group; and

(b) to groups that include insurance contracts that are expected to arise from the renewals of the insurance contracts in that group.

(2) Insurance acquisition cash flows directly attributable to a portfolio of insurance contracts that are not directly attributable to a group of contracts, to groups in the portfolio.

Where insurance acquisition cash flows have been paid or incurred before the related group of insurance contracts is recognised in the statement of financial position, a separate asset for insurance acquisition cash flows is recognised for each related group.

The asset for insurance acquisition cash flow is derecognised from the statement of financial position when the insurance acquisition cash flows are included in the initial measurement of the related group of insurance contracts.

At the end of each reporting period, the Branch revises amounts of insurance acquisition cash flows allocated to groups of insurance contracts not yet recognised, to reflect changes in assumptions related to the method of allocation used.

After any re-allocation, the Branch assesses the recoverability of the asset for insurance acquisition cash flows, if facts and circumstances indicate the asset may be impaired. When assessing the recoverability, the branch applies:

- An impairment test at the level of an existing or future group of insurance contracts; and
- An additional impairment test specifically covering the insurance acquisition cash flows allocated to expected future contract renewals.

If an impairment loss is recognised, the carrying amount of the asset is adjusted and an impairment loss is recognised in profit or loss.

The Branch recognises in profit or loss a reversal of some or all of an impairment loss previously recognised and increases the carrying amount of the asset, to the extent that the impairment conditions no longer exist or have improved.

3. Summary of signification accounting policies (continued)

3.8. Insurance contracts - modification and derecognition

The Branch derecognises insurance contracts when:

The rights and obligations relating to the contract are extinguished (i.e., discharged, cancelled or expired)
Or
The contract is modified such that the modification results in a change in the measurement model or the applicable standard for measuring a component of the contract, substantially changes the contract boundary, or requires the modified contract to be included in a different group. In such cases, the Branch derecognises the initial contract and recognises the modified contract as a new contract

When a modification is not treated as a derecognition, the Branch recognises amounts paid or received for the modification with the contract as an adjustment to the relevant liability for remaining coverage.

3.9. Presentation

The Branch has presented separately, in the statement of financial position, the carrying amount of portfolios of insurance contracts issued that are assets, portfolios of insurance contracts issued that are liabilities, portfolios of reinsurance contracts held that are assets and portfolios of reinsurance contracts held that are liabilities.

Any assets for insurance acquisition cash flows recognised before the corresponding insurance contracts are included in the carrying amount of the related groups of insurance contracts are allocated to the carrying amount of the portfolios of insurance contracts that they relate to.

The Branch disaggregates the total amount recognised in the statement of profit or loss and other comprehensive income into an insurance service result, comprising insurance revenue and insurance service expense, and insurance finance income or expenses.

The Branch does not disaggregate the change in risk adjustment for non-financial risk between a financial and non-financial portion and includes the entire change as part of the insurance service result.

The Branch separately presents income or expenses from reinsurance contracts held from the expenses or income from insurance contracts issued.

3.10. Measurement models

NZ IFRS 17 permits the use of a simplified approach referred to as the ‘premium allocation approach’ (which is similar to the current basis on which general insurance is brought to account under NZ IFRS 4) if the liability for remaining coverage under the premium allocation approach is not expected to materially differ from that under the general model, or if the coverage period of the contracts is not greater than one year.

VSC NZ has developed a model and methodology for assessing eligibility of contracts with coverage periods of greater than one year to apply the premium allocation approach. Our assessment, which involved detailed modelling under a range of scenarios as well as a qualitative assessment of contract features, has determined that the premium allocation approach is expected to apply to the entire portfolio of NZ business.

For 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 when incurred. VSC NZ does not plan to apply this option and expects to amortise acquisition costs over the coverage period of the related insurance contracts, consistent with current accounting under NZ IFRS 4.

3.11. Onerous contracts

NZ IFRS 17 requires the identification of ‘groups’ of onerous contracts which will be determined at a more granular level of aggregation than the level at which the liability adequacy test is performed under NZ IFRS 4. Contracts that are measured using the premium allocation approach are assumed not to be onerous unless facts and circumstances indicate otherwise.

VSC NZ has developed a framework for identifying relevant facts and circumstances that may be indicators of possible onerous contracts which includes consideration of management information for planning and performance management. If facts and circumstances that may be indicators of possible onerous contracts exist, the onerous contract losses are measured based on an estimation of fulfillment cash flows and are recognised in the profit or loss.

Onerous contract losses must be measured on a gross basis (excluding the effect of reinsurance), with the impact on equity and profit or loss mitigated by related income on reinsurance recoveries to the extent that the onerous contracts are covered by reinsurance. Where applicable, in isolation, the application of the onerous contracts requirements is expected to result in a decrease in opening equity on adoption of NZ IFRS 17.

The profitability of groups of contracts is assessed by actuarial valuation models that take into consideration existing and new business. The Branch assumes that no contracts in the portfolio are onerous at initial recognition unless facts and circumstances indicate otherwise. For contracts that are not onerous, the Branch assesses, at initial recognition, that there is no significant possibility of becoming onerous subsequently by assessing the likelihood of changes in applicable facts and circumstances. The Branch considers facts and circumstances to identify whether a group of contracts are onerous based on:

- Pricing information
- Results of similar contracts it has recognised
- Environmental factors, e.g., a change in market experience or regulations

The Branch divides portfolios of reinsurance contracts held applying the same principles set out above, except that the references to onerous contracts refer to contracts on which there is a net gain on initial recognition. For some groups of reinsurance contracts held, a group can comprise a single contract.

3. Summary of signification accounting policies (continued)

Risk adjustment
The measurement of insurance contract liabilities will include a risk adjustment which replaces the risk margin under NZ IFRS 4. The risk margin under NZ IFRS 4 reflects the inherent uncertainty in the net discounted central estimate, whereas the risk adjustment under NZ IFRS 17 is defined as the compensation required for bearing the uncertainty that arises from non-financial risk.

VSC NZ intends to apply a cost of capital approach as a key input to determining the risk adjustment for both the liability for incurred claims and the liability for remaining coverage. When applying the premium allocation approach, no explicit risk adjustment is determined for the liability for remaining coverage, except when measuring onerous contracts.

VSC NZ expects to adopt an NZ IFRS 17 risk adjustment from a target range (expressed as a percentage of expected future cash flows which are equivalent to the NZ IFRS 4 central estimate), a range that is expected to be lower than the equivalent NZ IFRS 4 risk margin range.

Similar to the risk margin, the risk adjustment includes the benefit of diversification. NZ IFRS 17 requires the disclosure of the confidence level that corresponds to the risk adjustment used in the measurement of insurance contract liabilities.

Discount rates
NZ IFRS 4 requires the net central estimate of outstanding claims to be discounted using risk-free rates as described in note 4.1.3.

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 but does not prescribe a methodology for determining the discount rates used.

VSC NZ will apply a ‘bottom-up approach’ which requires the use of risk-free rates adjusted to reflect the illiquidity characteristics of the insurance contracts, which will result in higher discount rates relative to current requirements and an increase in opening equity on adoption of NZ IFRS 17.

3.12. Insurance revenue

The insurance revenue for the period is the amount of expected premium receipts (excluding any investment component) allocated to the period. The Branch allocates the expected premium receipts to each period of insurance contract services on the basis of the passage of time. But if the expected pattern of release of risk during the coverage period differs significantly from the passage of time, then the allocation is made on the basis of the expected timing of incurred insurance service expenses.

The Branch changes the basis of allocation between the two methods above as necessary, if facts and circumstances change. The change is accounted for prospectively as a change in accounting estimate.

For the periods presented, all revenue has been recognised on the basis of the passage of time.

3.13. Loss components

The Branch assumes that no contracts are onerous at initial recognition unless facts and circumstances indicate otherwise. Where this is not the case, and if at any time during the coverage period, the facts and circumstances indicate that a group of insurance contracts is onerous, the Branch establishes a loss component as the excess of the fulfilment cash flows that relate to the remaining coverage of the group over the carrying amount of the liability for remaining coverage of the group. Accordingly, by the end of the coverage period of the group of contracts the loss component will be zero.

3.14. Insurance finance income and expense

Insurance finance income or expenses comprise the change in the carrying amount of the group of insurance contracts arising from:

- The effect of the time value of money and changes in the time value of money; and
- The effect of financial risk and changes in financial risk.

The Branch does not disaggregate finance income and expenses because the related financial assets are managed on a fair value basis and measured at FVPL.

3.15. Net income or expense from reinsurance contracts held

The Branch presents separately on the face of the statement of profit or loss and other comprehensive income, the amounts expected to be recovered from reinsurers, and an allocation of the reinsurance premiums paid. The Branch treats reinsurance cash flows that are contingent on claims on the underlying contracts as part of the claims that are expected to be reimbursed under the reinsurance contract held, and excludes investment components and commissions from an allocation of reinsurance premiums presented on the face of the statement of profit or loss and other comprehensive income.

3.16. Recognition of interest and similar income

Interest income comprises amounts calculated using the effective interest method and other methods. These are disclosed separately on the face of the income statement.

In its *Interest income calculated using the effective interest method* the Branch only includes interest on financial instruments at amortised cost or FVOCI.

Other interest income includes interest on all financial assets measured at FVPL, using the contractual interest rate.

The Branch calculates interest income on financial assets, other than those considered credit-impaired, by applying the EIR to the gross carrying amount of the financial asset.

`

3. Summary of signification accounting policies (continued)

3.17. Taxation

The income tax expense for the year is the tax payable on the current year's taxable income, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax is provided in full, using the liability method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax assets and liabilities are recognized for temporary differences at the tax rate expected to apply when the assets are recovered or liabilities are settled. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or liability. No deferred tax asset or liability is recognized in relation to these temporary differences if they arose in a transaction that is not a business combination and at the time did not affect either accounting profit or taxable loss.

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities. Current tax assets and liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the asset and settle the liability on a net basis, or to realize the asset and settle the liability simultaneously.

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It ls calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognized as a liability (or asset) to the extent that ii is unpaid {or refundable).

Current and deferred tax is recognized as an expense or income in the statement of comprehensive income, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognized directly in equity.

3.18. Goods and services tax (GST)

Revenues, expenses and assets are recognized net of the amount of GST, except:

- Where the amount of GST incurred is not recoverable from the taxation authority, it is recognized as part of the cost of acquisition of an asset or as part of an item of expense: or

- For receivables and payables which are recognized inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

3.19. Investments income

Interest income is recognized in the period in which it is earned. Dividends are recognized when the right to receive payment is established. Investment income includes realized and unrealized gains or losses on financial assets which are reported on a combined basis as net fair value gains or losses on financial assets in the Statement of Comprehensive Income.

3.20. Investments at fair value through profit and loss

Investment assets are financial assets within the scope of NZ IFRS 9. VSCNZ investments are designated at fair value through profit or loss on initial recognition and subsequently remeasured to fair value at each reporting date, reflecting the branch's business model for managing and evaluating the investment portfolio.

Assets that are subsequently measured at fair value through profit or loss are not subject to impairment considerations under the expected credit losses model.

All purchases and sales of investments that require delivery of the asset within the time frame established by regulation or market convention are recognized at trade date, being the date on which the branch commits to buy or sell the asset. Investments are recognized when the right to receive future cash flows from the asset has expired or has been transferred and the branch has transferred substantially all the risks and rewards of ownership.

3.21. Debt instruments measured at fair value through other comprehensive income

The Branch applies the new category under IFRS 9 for debt instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is both collecting contractual cash flows and selling financial assets
- The contractual terms of the financial asset meet the SPPI test

These instruments largely comprise debt instruments that were previously categorized as FVTPL assets. During the period, the entity changed its accounting policy to remove this FVTPL designation and as a result the assets are now categorized as FVOCI assets. The entity does not consider the impact of this change to be material.. Debt instruments in this category are those that are intended to be held to collect contractual cash flows and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial measurement, debt instruments are measured at amortised cost, using the effective interest rate (EIR) method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. ECLs are recognised in the statement of profit or loss when the investments are impaired.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. Where the Branch holds more than one investment in the same security, they are deemed to be disposed of on a first-in-first-out basis. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

3. Summary of signification accounting policies (continued)

3.22. Foreign currency

3.22.1. Translation of foreign currency transactions and balances

Transactions included in the financial statements are measured using the currency of the primary economic environment In which the Branch operates (the functional currency NZ $). Foreign currency transactions are translated into functional currencies at the spot rates of exchange applicable at the dates of the transactions. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange prevailing at that date. Resulting exchange gains and losses are included in profit or loss. Any unrealized foreign exchange gain or loss on the China Bond Fund investment is included in profit or loss.

3.23. Trade and other receivables

Trade and other receivables are principally amounts owed to the branch by policyholders. Unclosed premium receivables are estimated amounts due to the branch in relation to business for which the branch is on risk but where the policy is not billed to the counterparty at the balance date.

Amounts owed to the branch are financial assets within the scope of NZ IFRS 9 except for those amounts which represent rights due under an insurance contract as defined in NZ IFRS 17.

Premium and reinsurance receivables are excluded from the scope of NZ IFRS 9. These are initially recognized at fair value and are subsequently measured at amortized cost less any impairment. Any increase or decrease in the provision for impairment is recognized in profit or loss within underwriting and other expenses.

A provision for impairment *on* Premium or reinsurance receivables is established when there is objective evidence that the branch will not be able to collect all amounts due according to the original term of the receivable.

Receivables within the scope of NZ IFRS 9 are managed to collect contractual cash flows and their contractual terms generate cash flows that are solely payments of principal {and interest thereon, where applicable). Receivables are initially recognized at fair value and are subsequently measured at amortized cost less an allowance for impairment.

impairment of receivables within the scope of NZ IFRS 9 is calculated as an allowance for expected credit losses (ECLs). Any increase or decrease in the allowance for ECLs is recognized in profit or loss within underwriting and other expenses.

For receivables within the scope of NZ IFRS 9, the allowance for ECLs is based on the difference between the cash flows due in accordance with the contract and the cash flows that the branch expects to receive. The allowance for ECL's reflects judgements and assumptions that take into account
prior credit and loss history, current and expected future market conditions and individual debtor circumstances. Any shortfall is discounted at an approximation to the asset's original effective interest rate.

For all other receivables within the scope of NZ IFRS 9, the allowance is based on the portion of lifetime ECLs that result from possible default events within 12 months from reporting date, unless there has been a significant increase in credit risk since initial recognition, in which case the allowance is based on the lifetime ECLs

VSCNZ considers that the credit risk on other receivables within the scope of NZ IFRS 9 has not increased significantly fault events within 12 months from the reporting date, and considers that no allowance for impairment is required at 31 December 2023.

For receivables outside the scope of NZ IFRS 9, an allowance for impairment is established when there is objective evidence that VSCNZ will not be able to collect all amounts due according to the original term of the receivable. VSC New Zealand regularly reviews the collectability of receivables and the adequacy of allowances for impairment.

3.24. Trade and other payables

Trade and other payables primarily comprise amounts related to intercompany balance. premium payable and taxes.

Amounts owed by VSCNZ are financial liabilities within the scope of NZ IFRS 9 except for those amounts which represent obligations under an insurance contract as defined in NZ IFRS 17.

Reinsurance premium payables are outside the scope of NZ IFRS 9. They are initially recognized at fair value and are subsequently measured at amortized cost.

Other payables are within the scope of NZ IFRS 9. They are also initially recognized at fair value and are subsequently measured at amortized cost.

Amounts due to reinsurers and third parties are settled under standard terms and conditions. Amounts due to related entities are repayable on demand and interest free.

There were no contract liabilities at 31 December 2023 {2022: nil). VSCNZ has no obligations to fulfil services to customers for which it has already received consideration (or an amount of consideration is due) from the customers.

3.25. Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

`

3. Summary of signification accounting policies (continued)

3.26. Critical accounting estimates and judgements

The Branch makes estimates and assumptions in respect of certain key assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

These critical accounting estimates and judgements are specified in note 4 .

3.27. Rounding of amounts

Amounts in the financial statements have been rounded off to the nearest dollar.

4. Critical estimates and judgements

4.1. Insurance and reinsurance contracts

The Branch applies the PAA to simplify the measurement of insurance contracts. When measuring liabilities for remaining coverage, the PAA is broadly similar to the Branch's previous accounting treatment under IFRS 4. However, when measuring liabilities for incurred claims, the Branch now discounts cash flows that are expected to occur more than one year after the date on which the claims are incurred and includes an explicit risk adjustment for non-financial risk.

4.1.1. Liability for remaining coverage

Insurance acquisition cash flows

An asset for insurance acquisition cash flows is recognised for acquisition cash flows incurred before the related group of insurance contracts has been recognised.

The effect of electing to recognise insurance acquisition cash flows as an expense when incurred for a group of insurance contracts is to increase the liability for remaining coverage and reduce the likelihood of any subsequent onerous contract loss. There would be an increased charge to profit or loss on incurring the expense, offset by an increase in profit released over the coverage period.

Onerous groups

For groups of contracts that are onerous, the liability for remaining coverage is determined by the fulfilment cash flows. Any loss-recovery component is determined with reference to the loss component recognised on underlying contracts and the recovery expected on such claims from reinsurance contracts held.

Time value of money

The Branch adjusts the carrying amount of the liability for remaining coverage to reflect the time value of money and the effect of financial risk using discount rates that reflect the characteristics of the cash flows of the group of insurance contracts at initial recognition.

4.1.2. Liability for incurred claims

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, including Paid Chain Ladder and Bomheutter-Ferguson method.

The main assumption underlying these techniques is that a VSCNZ's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analyzed by accident years, but can also be further analyzed by geographical area, as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development.

In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in future, {e.g., to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

Similar judgements, estimates and assumptions are employed in the assessment of adequacy of provisions for unearned premium. Judgement is also required in determining whether the pattern of insurance service provided by a contract requires amortization of unearned premium on a basis other than time apportionment.

Claims provisions are expected to be settled inline with the maturity profile of claims found in Note 5.2.2 and discounting has been applied accordingly.

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

- changes in patterns of claims incidence, reporting and payment;
- volatility in the estimation of future costs for long tail insurance classes due to the longer period of time that elapses before a definitive determination of the ultimate claims cost can be made;
- incidence of catastrophic events close to the balance sheet date;
- changes in the legal environment including the interpretation of liability laws and the quantum of damages; and
- social and economic trends, for example price and wage inflation and interest rates.

4. Critical estimates and judgements (continued)

Central estimates for each class of business are determined by reference to a variety of estimation techniques, generally based on a statistical analysis of historical experience which assumes an underlying pattern of claims development and payment. The final selected central estimates are based on a judgmental consideration of the results of each method and quantitative information, for example, the class of business, the maturity of the portfolio and the expected term to settlement of the class. Projections are based on both historical experience and external benchmarks where relevant. The gross central estimate is discounted to present value using the appropriate risk-free rate.

Central estimates are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts recoverable from reinsurers based on the gross central estimate.

4.1.3. Discount rates

Insurance contract liabilities are calculated by discounting expected future cash flows at a risk free rate, plus an illiquidity premium where applicable. Risk free rates are determined by reference to the yields of highly liquid AAA-rated sovereign securities in the currency of the insurance contract liabilities. The illiquidity premium is determined by reference to observable market rates.

The outstanding claims provision represents payments that will be in the future, they are discounted to reflect the time value of money, effectively recognizing that the assets held back insurance liabilities will earn a return during that period. The discount rate is adopted based on the 'bottom-up approach' which requires the use of risk-free rates adjusted to reflect the illiquidity characteristics of the insurance contracts in lieu of IFRS17.

The risk-free discount rate but allows an illiquidity premium to be added as per accounting requirements. This is to be used in determining the present expected future claims payments. We have used the monthly risk free rates provided by the New Zealand Treasury Department in their statistical table on risk free discount rates, which ranges between 4% and 6%. On the top off of the risk-free rate, we added a illiquidity premium, which is based on bottom-up approach, and is within the ranges less than 1%

The relevant discount rate is applied to the anticipated cash flow profile of the central estimate, including related reinsurance recoveries, determined by reference to a combination of historical analysis and current expectations of when claims and recoveries will be settled. The weighted average term to settlement of the Branch's claims provision is 1.14 years (2022: 1.31 years).

Other Assumptions

The assumption for claims inflation by receiving class may differ by methodology
a) the Paid Chain Ladder method implicit includes an assumption of inflation;
b) the inflation used in the Bomhuetter-Ferguson method is based on the historical experience at an individual program level; and
c) the inflation used in the Future Claims Liabilities is based on the historical experience at an individual program level combines with future expectations of the likely increases in Average Claim Size in the portfolio.

4.1.4. Impact of changes in key variables on the outstanding claims provision

Each of the variations illustrated in the below table are regarded as an potential variation in VSCNZ's ultimate liabilities for outstanding or future claims. Variations wider than those below are possible.

	Liability for Incurred Claims	% Changes	Liability for Remaining Coverage	% Change
Base Assumption	4,221,684		29,013,892	
Increase in Discount Rate by 1%	4,247,169	0.6%	28,729,029	-1.0%
Adoption of Highest OCL Model	6,945,605	64.5%		
1% higher inflation assumption	4,193,401	-0.7%	29,303,663	1.0%
Increase Cancellation Rate by 2%			29,463,006	1.5%
Increase in Loss Ratio for Protecta portfolios by 10%			30,324,934	4.5%

4.1.5. Risk adjustment for non-financial risk

The risk adjustment for non-financial risk is the compensation that the Branch requires for bearing the uncertainty about the amount and timing of the cash flows of groups of insurance contracts. The risk adjustment reflects an amount that an insurer would rationally pay to remove the uncertainty that future cash flows will exceed the expected value amount.

The Branch has estimated the risk adjustment using a confidence level (probability of sufficiency) approach at the 65th percentile. That is, the branch has assessed its indifference to uncertainty for all product lines (as an indication of the compensation that it requires for bearing non-financial risk) as being equivalent to the 65th percentile confidence level less the mean of an estimated probability distribution of the future cash flows. The Branch has estimated the probability distribution of the future cash flows, and the additional amount above the expected present value of future cash flows required to meet the target percentiles.

Risk margins are determined by management and are held to mitigate the potential for uncertainty in the central estimate. The determination of the appropriate level of risk margin takes into account similar factors to those used to determine the central estimate, such as:

- change in the mix of business, in particular the mix of business and the overall weighted average term to settlement;
- prior accident year claims development: and
- the level of uncertainty in the net discounted central estimate due to actuarial estimation, data quality issues, variability of key discount and inflation assumptions and legislative uncertainty.

4. Critical estimates and judgements (continued)

The variability by class of business uses techniques similar to those used in determining the central estimate. These techniques determine a range of possible outcomes of ultimate payments and assign a likelihood to outcomes at different levels. These techniques use standard statistical distributions, and the measure of variability is referred to as the coefficient of variation.

The appropriate risk margin for two or more classes of business combined is likely to be less than the sum of the risk margins for the individual classes. This reflects the benefit of diversification in general insurance. The statistical measure used to determine diversification is called the correlation. The higher the correlation between two classes of business, the more likely it is that a negative outcome in one class will correspond to a negative outcome in the other class.

The risk margin for VSCNZ is determined by analyzing the variability of each class of business and the correlation between classes of business and divisions. Correlations are determined for aggregations of classes of business. Whilst there are estimation techniques for determining correlations, they are difficult to apply. The correlations adopted by VSCNZ are normally derived from industry analysis and the judgement of experienced and qualified actuaries.

4.1.6. Assets for insurance acquisition cash flows

The Branch applies judgement in determining the inputs used in the methodology to systematically and rationally allocate insurance acquisition cash flows to groups of insurance contracts. This includes judgements about the amounts allocated to insurance contracts expected to arise from renewals of existing insurance contracts in a group and the volume of expected renewals from new contracts issued in the period.

At the end of each reporting period, the branch revisits the assumptions made to allocate insurance acquisition cash flows to groups and where necessary revises the amounts of assets for insurance acquisition cash flows accordingly.

In the current and prior year, for all product lines, the Branch did not identify any facts and circumstances indicating that the assets may be impaired.

5. Risk management

Risk management is a key part of VSCNZ's governance structure and our strategic and business planning. It underpins the setting of limits and authorities and it is embedded in the monitoring and evaluation of performance. This holistic approach to risk management allows an of the Branch's risks to be managed in an integrated manner.

VSCNZ's risk management framework defines the risks that VSCNZ Is exposed to and sets out the framework to manage those risks and meet strategic objectives whilst taking into account the creation of value for shareholders . The framework is made up of complementary elements that are embedded throughout the business management cycle and culture. Key aspects include: governance, risk appetite and tolerance, delegated authorities, risk policies, measurement and modelling, risk and control self-assessment, risk treatment, optimization and ongoing improvement through management action plans, risk and performance monitoring.

VSCNZ is subject to extensive prudential and other forms of regulation in the jurisdiction in which they conduct business. Prudential regulation is generally designed to protect policyholders. Regulation covers a number of areas including solvency, change in control and capital movement limitations. The regulatory environment in NZ, Australia and overseas continues to evolve in response to economic, political and industry developments. VSCNZ works closely with regulators and monitors regulatory developments across its global operations to assess their potential impact on its ability to meet solvency and other requirements.

VSCNZ's risk profile is described under the following broad risk categories:

- Strategic risk
- Insurance risk
- Credit risk
- Market risk
- Liquidity risk
- Operational risk

Each of these is described more fully in sections 5.1 to 5.5 below.

5.1. Strategic risk

Strategic risk refers to the current and prospective impact on earnings and or capital arising from strategic business decisions, implementation of decisions and responsiveness to external change. This includes risks associated with business strategy and change, tax planning, investment strategy and corporate governance. Of particular relevance is capital management risk.

Capital management risk

VSCNZ is subject to extensive prudential and other forms of regulation in the jurisdiction in which they conduct business. Prudential regulation is generally designed to protect policyholders. Regulation covers a number of areas including solvency, change in control and capital movement limitations. The regulatory environment in NZ, Australia and overseas continues to evolve in response to economic, political and industry developments. VSCNZ works closely with regulators and monitors regulatory developments across its global operations to assess their potential impact on its ability to meet solvency and other requirements.

5.2. Insurance risk

Insurance risk is the risk of fluctuations in the timing. frequency and severity of insured events and claims settlements. relative to the expectations at the time of underwriting. This includes underwriting, catastrophe, claims concentration and claims estimation risks. The risks inherent in any single insurance contract are the possibility of the insured event occurring and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, these risks are random and unpredictable. In relation to the pricing of individual insurance contracts and the determination of the level of the outstanding claims provision in relation to a portfolio of insurance contracts, the principal risk is that the ultimate claims payments will exceed the carrying amount of the provision established.

Insurance and reinsurance policies are written in accordance with VSCNZ's management practices and New Zealand regulations taking into account VSCNZ's risk appetite and tolerance and underwriting standards. Pricing of risks is controlled by the use of in-house pricing models relevant to specific portfolios. Experienced underwriters and actuaries maintain historical pricing and claims analysis for each portfolio and this is combines with a detailed knowledge of the current developments in the respective markets and classes of business.

The branch limits its exposure to an individual catastrophe or an accumulation of claims by reinsuring a portion of risks undertaken. This allows the Branch to control exposure to insurance tosses, reduce volatility of reported results and protect capital. Further detail of our reinsurance contracts are discussed under Note 1.

5. Risk management (continued)

5.2.1. Claims development table

The following tables show the estimates of cumulative incurred claims, including both claims notified and IBNR for each successive accident year at each reporting date, together with cumulative payments to date.

As required by NZ IFRS 17, in setting claims provisions, the Branch gives consideration to the probability and magnitude of future experience being more adverse than assumed which is reflected in the risk adjustment. In general, the uncertainty associated with the ultimate cost of settling claims is greatest when the claim is at an early stage of development. As claims develop, the ultimate cost of claims becomes more certain.

The Branch has not disclosed previously unpublished information about claims development that occurred earlier than five years before the end of the annual reporting period in which it first applies NZ IFRS 17.

Gross undiscounted liabilities for incurred claims for 2023 - All products

Direct Business				
Accident Year (AY)	**Prior**	**2022 (Restated)**	**2023**	**Total**
At end of accident year (CY)		34,026	4,225,416	
One year later (CY+1)		(285)		
Two years later (CY+2)				
Gross estimates of the undiscounted amount of the claims	85,692	(285)	4,225,416	4,310,823
At end of accident year		20,506,891	22,070,891	
One year later		20,685,830		
Two years later				
Cumulative payments to date		20,685,830	22,070,891	42,756,721
Gross undiscounted liabilities for incurred claims	**85,692**	**20,685,545**	**26,296,308**	**47,067,545**
Undiscounted Claims Handling Expenses				102,038
Effect of discounting				(46,133)
Total gross liabilities for incurred claims (discounted)				**47,123,450**

	Note	Estimates of the present value of future cash flows	Risk adjustment	Total
Total gross liabilities for incurred claims		**4,310,824**	**283,995**	**4,594,819**
Related to:				
Direct Business		4,310,824	283,995	4,594,819

Reinsurance

Accident Year (AY)	**Prior**	**2022 (Restated)**	**2023**	**Total**
At end of accident year (CY)		(33,882)	—	
One year later (CY+1)		(39,152)		
Two years later (CY+2)				
Gross estimates of the undiscounted amount of the claims	(265,859)	(39,152)	—	(305,011)
At end of accident year		1,897,917	—	
One year later		1,896,165		
Two years later				
Cumulative payments to date	26,858,052	1,896,165	—	28,754,217
Gross undiscounted liabilities for incurred claims	**26,660,309**	**1,857,013**	**—**	**28,517,322**
Undiscounted Claims Handling Expenses				(3,731)
Effect of discounting				77,981
Total gross liabilities for incurred claims (discounted)				28,591,572

	Note	Estimates of the present value of future cash flows	Risk adjustment	Total
Total gross liabilities for incurred claims		**(305,011)**	**(26,041)**	**(331,052)**
Related to:				
Reinsurance		(305,011)	(26,041)	(331,052)

Notes to the financial statements for the year ended 31 December 2023

5. Risk management (continued)

5.2.2. Maturity profile of claims

Gross outstanding claim liability	1 year or less	1-2 years	2-3 years	3-4 years	4-5 years	5+ years	Total
At December 2022	3,487,387	-54,004	-136,881	-76,843	-49,519	-7,160	**3,162,980**
At December 2023	4,509,446	-7	-93,402	-80,327	-66,734	-5,209	**4,263,767**

5.3. Credit risk

Credit risk is the risk of default by transactional counterparties as well as the loss of value of assets due to deterioration in credit quality. Exposure to credit risk results from financial transactions with securities issuers, debtors, policyholders and reinsurers.

Intermediaries and business partners are subject to a variety of statutory regulatory controls in addition to controls within VSCNZ management framework. Financial Institutions in general are subject to a range of regulatory control processes. Agents tend to be less subject to statutory regulatory control with greater emphasis on monitoring and supervision on the part of VSCNZ.

Of the interest bearing investments balance at the end of the year, 12.5 million (2022: 10.9 million) is due from the New Zealand Government, the Group's single largest credit exposure. Apart from this, VSCNZ does not have significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The concentration of credit risk is limited due to the fact that the customer base is large and unrelated, and through appropriate risk management applied to investment activities.

5.3.1. Credit quality of financial assets

The following tables provide information regarding VSCNZ's aggregate credit risk exposure at the balance sheet date in respect of the major classes of financial assets.

	CREDIT RATING							
	Aaa	Aa	A	BBB	BB	B	CCC and Below	TOTAL
At December 2023	$	$	$	$				$
Cash and cash equivalents	—	4,245,714	1,331,871	—	—	—	—	5,577,585
Investments at fair value through profit or loss	27,086	42,254	4,134,440	4,121,438	1,747,603	453,965	307,699	10,834,485
Investments at Fair Value through Other Comprehensive Income	17,541,012	2,524,133	1,767,149	1,919,039	—	—	—	23,751,334
At December 2022								
Cash and cash equivalents	—	2,201,113	644,852	—	—	—	—	2,845,965
Investments at fair value through profit or loss	—	3,573,476	9,457,077	17,614,709	3,898,337	1,263,350	288,766	36,095,715
Investments at Fair Value through Other Comprehensive Income	14,219,381	1,671,800	3,895,094	1,472,744	—	—	—	21,259,019

5.3.2. Reinsurance counterparty credit risk

The following table provides information about the quality of VSCNZ's credit risk exposure in respect of undiscounted reinsurance and other recoveries on outstanding claims at the balance sheet date. The analysis classifies the assets according to Standard and Poor's counterparty ratings. *AAA* is the highest possible rating.

	CREDIT RATING	
	A-	**TOTAL**
At December 2023	**$**	**$**
Reinsurance recoveries on outstanding claims	(11,258)	(11,258)
Total		**(11,258)**
At December 2022		
Reinsurance recoveries on outstanding claims	732,649	732,649
Total		**732,649**

5.3.3. Market risk

Market risk is the risk of variability in the value of and returns on, investments and the risk associated with variability of interest rates, foreign exchange rates and economy wide inflation on both assets and liabilities excluding insurance liabilities.

5. Risk management (continued)

5.3.3.1. Currency risk

VSCNZ's exposure to foreign currency risk at the end of the reporting period, expressed in New Zealand dollar, was as follows.

	2023	2022
		Restated
	$	$
	NZD	NZD
Related Party receivable	34,057,389	12,041,774
Related Party Payable	9,663,341	10,482,767

	2023	2022
		Restated
	$	$
Net foreign exchange gain/(loss) included in other gains/ (losses)	587,489	6,477,946

Sensitivity

VSCNZ is primarily exposed to changes in currencies of the related party entities it deals with. The sensitivity of profit or loss to changes in the exchange rates arises mainly from Australian dollars in 2023 and US dollars in 2022 financial assets.

	Impact on post-tax profit	Impact on post-tax profit
	2023	2022 Restated
	$	$
AUD/NZD exchange rate - increase 11% (2022 - 11%)	(2,017,221)	3,333,444
AUD/NZD exchange rate - decrease 11% (2022 - 11%)	2,017,221	(3,333,444)

5.3.3.2. Interest rate risk

Financial instruments with floating interest rate expose VSCNZ to cash flow interest rate risk, whereas fixed interest rate instruments expose the Branch to fair value interest rate risk.

VSCNZ's risk management approach is to minimize interest rate risk by actively managing investment portfolios to achieve a balance between cash flow interest rate risk and fair value interest rate risk. VSCNZ invests in high quality, liquid interest-bearing securities and cash and actively manages the duration of the fixed interest portfolio.

The claims provision is discounted to present value by reference to risk-free interest rates. VSCNZ is therefore exposed to potential underwriting result volatility as a result of interest rate movements. In practice, however, an increase or decrease in interest rates Is normally offset by a corresponding increase or decrease in inflation. VSCNZ has a policy of maintaining a relatively short duration for assets backing insurance liabilities in order to minimize any further potential volatility affecting insurance profit.

The contractual maturity profile of VSCNZ's interest-bearing financial assets and hence its exposure to interest rate risk, and the effective weighted average interest rate for interest-bearing financial assets is analyzed in the table below. The table includes investments at the maturity date of the security.

INTEREST - BEARING FINANCIAL ASSETS MATURING IN

	1 YEAR OR LESS	1 TO 2 YEARS	2 TO 3 YEARS	3 TO 4 YEARS	4 YEARS OR MORE	Total
At December 2023	$	$	$	$	$	
Fixed rate	12,318,404	5,947,915	1,691,250	4,331,595	10,440,011	**34,729,175**
Weighted average interest rate	%	4.95				
At December 2022						
Fixed rate	36,936,506	10,749,022	5,756,834	793,440	3,118,932	**57,354,734**
Weighted average interest rate	%	1.93				

All financial assets are measured at fair value through profit or loss. Movements in interest rates impact the value of interest-bearing financial assets and therefore impact reported profit after tax. The impact of a 3.5% increase or decrease in interest rates on interest-bearing financial assets owned by the Branch at the balance sheet date is shown in the table below.

	SENSITIVITY	PROFIT/(LOSS) *		OCI	
		2023	2022 Restated	2023	2022 Restated
	%	$	$	$	$
	+3.50	(1,302,349)	(1,714,513)	(2,197,206)	(1,082,141)
Interest rate movement - interest bearing financial assets	-3.50	1,302,349	1,714,513	2,197,206	707,203

*Net of tax at the Branch's prima facie rate of 28%

5. Risk management (continued)

5.3.3.3. Price risk

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded on the market.

5.4. Liquidity risk

Liquidity risk can be defined as the risk that the branch will not be able to meet its payment obligations as they fall due without excessive cost.

Ultimate responsibility for liquidity risk management rests with the board of directors, who have built an appropriate liquidity risk management framework for the management of VSCNZ's short, medium and long term funding and liquidity management requirements.

VSCNZ manages liquidity risk by maintaining adequate reserves and banking facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

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

As at 31 December 2023	**1 year or less**	**2 to 3 year**	**3 to 6 years**	**Over 5 years**	**Total**
Current tax liabilities	—	—	—	—	—
Deferred tax liabilities	—	—	—	—	—
Related Party Payables	14,757,043	—	—	—	14,757,043
Other payables	1,595,605	—	—	—	1,595,605
	16,352,648	**—**	**—**	**—**	**16,352,648**
As at 31 December 2022 (Restated)					
Current tax liabilities	193,549	—	—	—	—
Deferred tax liabilities	—	—	—	—	—
Related Party Payables	10,482,767	—	—	—	10,482,767
Other payables	4,141,518	—	—	—	4,141,518
	14,817,834	**—**	**—**	**—**	**14,817,834**

5.5. Operational risk

Operational risk is the risk of financial loss resulting from inadequate or failed internal processes, people and systems or from external events (including legal risk). VSCNZ manages operational risk within the same robust risk management framework as its other risks. The risk assessment and monitoring framework involves on-going:

- identification and review of the key risks to VSCNZ;
- definition of the acceptable level of risk appetite and tolerance;
- assessment of those risks throughout VSCNZ in terms of the acceptable revel of risk (risk tolerance) and the residual risk remaining after having considered risk treatment;
- assessment of whether each risk is within the acceptable level of risk, or requires appropriate action be taken to mitigate any excess risk;
- transparent monitoring and reporting of risk management related matters on a timely basis; and
- alignment of internal audit programs with risks.

One of the cornerstones of VSCNZ's risk management framework is the recruitment and retention of high quality people who are entrusted with appropriate levels of autonomy within the parameters of disciplined risk management practices.

VSCNZ operates a system of delegated authorities based on expertise and proven performance, and compliance is closely monitored. Other controls include effective segregation of duties, access controls and authorization and reconciliation procedures.

6. Insurance service expense

The breakdown of insurance service expense by major product line is presented below:

2023

Description	Credit Insurance	Consumer Extended Warranty	Accidental Damage and Theft	Gap/ Residual Protection	Motor Warranty	Comprehensive Motor	XOL Reinsurance	Total
Incurred claims and other expenses	1,316,107	5,621,374	3,240,014	91,261	5,226,133	11,661,159	(208,202)	26,947,846
Amortisation of insurance acquisition cashflows	4,202,058	2,471,634	182,168	5,256,100	552,924	5,206,600	(10,009)	17,861,475
Losses on onerous contracts and reversals of those losses	—	590,928	(299)	(118,866)	—	—	—	471,763
Total	**5,518,165**	**8,683,936**	**3,421,883**	**5,228,495**	**5,779,057**	**16,867,759**	**(218,211)**	**45,281,084**

2022 (Restated)

Description	Credit Insurance	Consumer Extended Warranty	Accidental Damage and Theft	Gap/ Residual Protection	Motor Warranty	Comprehensive Motor	XOL Reinsurance	Total
Incurred claims and other expenses	890,629	5,520,706	1,634,507	307,999	4,915,752	7,471,334	1,083,428	21,824,355
Amortisation of insurance acquisition cashflows	6,089,759	2,495,965	166,682	—	410,225	6,430,987	(128,781)	15,464,837
Losses on onerous contracts and reversals of those losses	—	189,361	299	118,866	—	—	—	308,526
Total	**6,980,388**	**8,206,032**	**1,801,488**	**426,865**	**5,325,977**	**13,902,321**	**954,647**	**37,597,718**

7. Investments at fair value through profit or loss

	2023 $	2022 Restated $
Corporate bond fund	10,834,294	36,095,714
Total Investment at fair value through profit or loss	**10,834,294**	**36,095,714**

8. Investments at fair value through other comprehensive income

The breakdown of debt instruments measured at FVOCI is, as follows.

	2023	2022 Restated
Investments measured at FVOCI		
Investments in Bonds	23,894,687	21,259,019
Total Investments measured at FVOCI	**23,894,687**	**21,259,019**

Direct investment in bonds and corporate bonds

The investments included in the Statement of financial position are carried at fair value. The major methods used in determining fair value of investments are disclosed below.

The table below analyses financial instruments carried at fair value according to the inputs used in their valuation. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). There were no level 2 investments.
- Level 3: Valuation techniques are applied for which any significant input is not based on observable market data. There were no level 3 investments.

31 December 2023	Level 1	Level 2	Total
Direct investment in bonds	—	23,894,688	23,894,688
Corporate bond fund	10,834,486	—	10,834,486
Total	**10,834,486**	**23,894,688**	**34,729,174**

31 December 2022 (restated)	Level 1	Level 2	Total
Direct investment in bonds	—	21,259,019	21,259,019
Corporate bond fund	36,095,715	—	36,095,715
Total	**36,095,715**	**21,259,019**	**57,354,734**

INTEREST-BEARING FINANCIAL ASSETS MATURITY	2023	2022 Restated
	$	$
Amounts maturing within 12 months	12,318,404	36,935,991
Amounts maturing in greater than 12 months	22,410,577	20,418,743
Total Investment at fair value through profit or loss and Other Comprehensive Income	**34,728,981**	**57,354,734**

9. Other income and expense

	2023	2022 Restated
	$	$
Profit Share	5,008	2,349,175
Intercompany cost allocation charge	305,603	271,640
Office & communication	(5,769)	(17,254)
Management fees	4,830,594	5,021,663
Bank charges	26,937	11,088
Marketing & Advertising	(92,616)	28,178
Legal fees	30,820	215
Auditors & professional fees	166,293	170,000
(Gain)/loss on foreign exchange	587,489	6,489,178
Other expenses	(1,140,672)	146,916
	4,713,687	**14,470,799**

Notes to the financial statements for the year ended 31 December 2023

10. Insurance and reinsurance contracts

The breakdown of groups of insurance and reinsurance contracts issued, and reinsurance contracts held, that are in an asset position and those in a liability position is set out in the table below:

	2023		
	Assets	**Liabilities**	**Net**
Credit Insurance	—	9,031,538	9,031,538
Consumer Extended Warranty	—	11,897,253	11,897,253
Accidental Damage and Theft	—	1,054,819	1,054,819
Gap/ Residual Protection	—	(4,449,081)	-4,449,081
Motor Warranty	—	1,159,548	1,159,548
Comprehensive motor	—	8,482,209	8,482,209
Total insurance contracts issued	**—**	**27,176,286**	**27,176,286**
XOL Reinsurance	**1,189,738**	(251,867)	937,871
Total reinsurance contracts held	**1,189,738**	**(251,867)**	**937,871**

	2022 (restated)		
	Assets	**Liabilities**	**Net**
Credit Insurance	—	7,910,503	7,910,503
Consumer Extended Warranty	—	14,609,236	14,609,236
Accidental Damage and Theft	—	119,941	119,941
Gap/ Residual Protection	—	(80,127)	(80,127)
Motor Warranty	—	2,855,152	2,855,152
Comprehensive motor	—	7,337,216	7,337,216
Total insurance contracts issued	**—**	**32,751,921**	**32,751,921**
XOL Reinsurance	4,590,101	(2,285,082)	2,305,019
Total reinsurance contracts held	**4,590,101**	**(2,285,082)**	**2,305,019**

Notes to the financial statements for the year ended 31 December 2023

10.1. Roll-forward of net asset or liability for insurance contracts issued showing the liability for remaining coverage and the liability for incurred claims

10.1.1. All classes of Businesses

The roll-forward of the net asset or liability for insurance contracts issued, showing the liability for remaining coverage and the liability for incurred claims for all classes of businesses, is disclosed in the table below:

	2023					
	Liabilities for remaining coverage		Liabilities for incurred claims			
'000's	**Excluding loss component**	**Loss component**	**Estimates of the present value of future cash flows**	**Risk adjustment**	**Assets for insurance acquisition cash flows**	**Total**
Insurance contract liabilities as at 01/01/2023	25,042	309	7,006	395	—	32,752
Insurance contract assets as at 01/01/2023	—	—	—	—		—
Net insurance contract (assets)/liabilities as at 001/01/2023	25,042	309	7,006	395	—	32,752
Insurance revenue	(51,410)	—	—	—	—	(51,410)
Insurance service expenses						
Incurred claims and other expenses		(309)	26,691	256	—	26,638
Amortisation of insurance acquisition cash flows	17,861				—	17,861
Losses on onerous contracts and reversals of those losses		780			—	780
Insurance service result	(33,549)	472	26,691	256	—	(6,130)
Insurance finance expenses	—	—	31	—	—	31
Total changes in the statement of comprehensive income	(33,549)	472	26,722	256	—	(6,099)
Cash flows						
Premium received	46,040					46,040
Claims and other expenses paid			(28,372)	(395)		(28,767)
Insurance acquisition cash flows	(16,750)					(16,750)
Total cash flows	29,290	—	(28,372)	(395)	—	523
Allocation from assets for insurance acqusition cash flows to groups of insurance contracts	—	—	—	—	—	—
Other movements	—	—	—	—	—	—
Net insurance contract (assets)/liabilities as at 31/12/2023	**20,783**	**780**	**5,357**	**256**		**27,176**
Insurance contract liabilities as at 31/12/2023	20,783	780	5,357	256	—	27,176
Insurance contract assets as at 31/12/2023	—	—	—	—	—	—
Net insurance contract (assets)/liabilities as at 31/12/2023	**20,783**	**780**	**5,357**	**256**	**—**	**27,176**

10.1.1. All classes of Businesses(continued)

	2022 (Restated)					
	Liabilities for remaining coverage		Liabilities for incurred claims			
‘000’s	**Excluding loss component**	**Loss component**	**Estimates of the present value of future cash flows**	**Risk adjustment**	**Assets for insurance acquisition cash flows**	**Total**
Insurance contract liabilities as at 01/01/2022 (Restated)	23,356	—	14,365	574		38,295
Insurance contract assets as at 01/01/2022 (Restated)	—	—	—	—	—	—
Net insurance contract (assets)/liabilities as at 01/01/2022 (Restated)	23,356	—	14,365	574	—	38,295
Insurance revenue	(48,688)	—	—	—	—	(48,688)
Insurance service expenses						
Incurred claims and other expenses		—	22,004	(179)		21,824
Amortisation of insurance acquisition cash flows	15,465					15,465
Losses on onerous contracts and reversals of those losses		309				309
Investment components	—	—	—	—	—	—
Insurance service result	(33,223)	309	22,004	(179)	—	(11,090)
Insurance finance expenses	—		18			18
Total changes in the statement of comprehensive income	(33,223)	309	22,022	(179)	—	(11,072)
Cash flows						
Premium received	51,208					51,208
Claims and other expenses paid			(28,499)	(1,003)		(29,502)
Insurance acquisition cash flows	(16,299)					(16,299)
Total cash flows	34,909	—	(29,380)	—	—	5,529
Allocation from assets for insurance acqusition cash flows to groups of insurance contracts	—	—	—	—	—	—
Other movements	—	—	—	—	—	—
Net insurance contract (assets)/liabilities as at 31/12/2023	**25,042**	**309**	**7,006**	**395**	**—**	**32,752**
Insurance contract liabilities as at 31/12/2023	25,042	309	7,006	395		32,752
Insurance contract assets as at 31/12/2023	—	—	—	—	—	—
Net insurance contract (assets)/liabilities as at 31/12/2023	**25,042**	**309**	**7,006**	**395**	**—**	**32,752**

	2023				
	Assets for remaining coverage		**Assets for incurred claims**		
000's	**Excluding loss component**	**Loss component**	**Estimates of PV of future cash flows**	**Risk adjustment for non-financial risk**	**Total**
Opening reinsurance contract assets as at 01/01/2023 (Restated)	**50**		**2,255**	**—**	**2,305**
Opening reinsurance contract liabilities as at 01/01/2023 (Restated)					—
Net balance as at beginning of reporting period as at 001/01/2023 (Restated)	**50**	**—**	**2,255**	**—**	**2,305**
Reinsurance expenses: Allocation of premiums paid to the reinsurer	(835)				(835)
Recoveries of incurred claims and other insurance service expenses		—	892	—	
Net income (expenses) from reinsurance contracts held	**(835)**	**—**	**892**	**—**	**57**
Total amounts recognised in the statement of profit or loss and OCI	**(835)**	**—**	**892**	**—**	**57**
Cash flows					
Premiums paid net of ceding commissions and other directly attributable expenses paid	810				810
Recoveries from reinsurance			**(2,234)**		**(2,234)**
Total cash flows	**810**	**—**	**(2,234)**	**—**	**(1,424)**
Net balance as at end of reporting period	**25**	**—**	**913**	**—**	**938**
Closing reinsurance contract assets as at 31/12/2023	25		913	—	938
Closing reinsurance contract liabilities as at 31/12/2023	—	—	—	—	—
Net balance as at end of reporting period as at 31/12/2023	**25**	**—**	**913**	**—**	**938**

	2022 (restated)				
	Assets for remaining coverage		Assets for incurred claims		
000's	Excluding loss component	Loss component	Estimates of PV of future cash flows	Risk adjustment for non-financial risk	Total
Opening reinsurance contract assets as at 01/01/2022 (Restated)	13		17,337	—	17,350
Opening reinsurance contract liabilities as at 01/01/2022 (Restated)					—
Net balance as at beginning of reporting period as at 001/01/2022 (Restated)	**13**	**—**	**17,337**	**—**	**17,350**
Reinsurance expenses: Allocation of premiums paid to the reinsurer	(5,006)				(5,006)
Recoveries of incurred claims and other insurance service expenses		**—**	**1,181**	**—**	**1,181**
Net income (expenses) from reinsurance contracts held	**(5,006)**	**—**	**1,181**	**—**	**(3,825)**
Total amounts recognised in the statement of profit or loss and OCI	**(5,006)**	**—**	**1,181**	**—**	**(3,825)**
Cash flows					
Premiums paid net of ceding commissions and other directly attributable expenses paid	5,044				5,044
Recoveries from reinsurance			**(16,263)**		**(16,263)**
Total cash flows	**5,044**	**—**	**(16,263)**	**—**	**(11,219)**
Net balance as at end of reporting period	**50**	**—**	**2,255**	**—**	**2,305**
Closing reinsurance contract assets as at 31/12/2022 (restated)	50		2,255	—	2,305
Closing reinsurance contract liabilities as at 31/12/2022 (restated)	—	—	—	—	—
Net balance as at end of reporting period as at 31/12/2022 (restated)	**50**	**—**	**2,255**	**—**	**2,305**

Notes to the financial statements for the year ended 31 December 2023

11. Income tax expense

(a) The components of tax expenses comprise:

	2023 $	2022 Restated $
Current Tax Expense	—	193,549
Deferred tax	423,888	(1,247,294)
Total income tax (expense)/benefit	**423,888**	**(1,053,745)**

(b) the prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax as follows:

	2023 $	2022 Restated $
Profit/(Loss) before Taxation	**1,462,881**	**(13,018,026)**
Prima facie tax	409,607	(3,645,047)
DTA on tax losses not recognised	(180,061)	860,014
Under/(over) provided in prior period	—	193,549
Expenses not deductible of tax	194,342	1,537,739
Total income tax benefit/(expense)	**423,888**	**(1,053,745)**

12. Deferred tax assets

(a) Asset

	2023 $	2022 Restated $
Deferred tax assets comprise:		
Provisions and accruals	288,240	500,581
Actuarial Adjustments	218,481	86,387
Provisions for profit share	153,466	661,712
Others	164,606	—
	824,793	**1248680**

(b) Reconciliation

(i) Deferred tax asset

The movement in deferred tax asset for each temporary difference during the year is as follows:

	2023 $	2022 Restated $
Opening balance	1,248,680	5,875
Current year movement	(423,887)	1,242,805
Deferred Tax Asset	**824,793**	**1,248,680**

Deferred tax assets have not been recognized in respect of tax loss carry-forwards totaling $2,444,438 (2022: $3,087,510) relating to the New Zealand operations on the basis that it is not probable that future taxable profit will be available against which the Branch can use the benefits therefrom.

(ii) Current Tax liability

	2023 $	2022 Restated $
Tax installment	345,163	(193,549)
Foreign withholding tax	—	—
Current Tax Asset/(Liability)	**345,163**	**(193,549)**

13. Cash and cash equivalents

	2023	2022
		Restated
	$	$
Cash at bank and in hand	**5,595,821**	**2,845,965**

Amount in cash and cash equivalents are the same as those included in the cash flow statement.

Cash and cash equivalents include balances readily convertible to cash.

Reconciliation to Cash Flow Statement

Reconciliation of net profit after tax to net cash flows from operations

	2023	2022
		Restated
Net profit/(loss) after tax	1,038,994	(11,964,281)
Adjustments for:		
Loss on investments at fair value through profit or loss	2,197,816	7,151,648
Loss on investments at fair value through Other Comprehensive Income	218,320	829,500
Foreign exchange (gain)/loss	(191,685)	219,386
Changes in Assets and Liabilities:		
(Increase) In Other Assets	(218,111)	(1,189,487)
Decrease in Reinsurance contract assets	1,367,149	15,044,293
(Decrease)in Insurance Contract Liabilities	(5,575,636)	(5,543,205)
(Decrease)Increase/ in Other payables	(2,545,913)	3,376,439
Decrease/(Increase) in deferred tax asset	423,888	(1,242,806)
(Increase)/Decrease in current tax asset	(538,712)	193,549
Net cash flows (used)/ generated from operating activities	**(3,823,890)**	**6,875,036**

14. Related party transactions and balances

The following material transactions occurred with related parties.

		Loan to Related Parties	Purchases from Related Parties	Expenses Charged by Related Parties
Fellow subsidiaries:		**$**	**$**	**$**
The Warranty Group Asia Pacific Holdings PTE.LTD	**2023**	**—**	**—**	**305,603**
The Warranty Group Australasia Pty Ltd		**—**	**4,830,594**	**—**
Virginia Surety Company, Inc -Australia Branch		**26,389,341**	**—**	**0**
	2022			
The Warranty Group Australasia Pty Ltd		**—**	**5,021,663**	**0**

Short-term employee benefits

The Key Management Personnel benefits are paid by The Warranty Group Australasia Pty Ltd and are included in the management fees charged to the branch.

Year-end receivable/(payable) balances arising from sales/purchases of products/services

	2023	2022 Restated
	$	**$**
Virginia Surety Company, Inc -Australia Branch	34,045,745	7,358,056
The Warranty Group Australia Pty Ltd	11,644	11,353
Total related party receivables	**34,057,389**	**7,369,409**
American Banking Insurance Group	(148,988)	(66,122)
The Warranty Group Asia Pacific Holdings PTE.LTD	(508,787)	(163,185)
Virginia Surety Company, Inc -Australia Branch	—	(45,234)
The Warranty Group NZ Branch	(3,425,280)	(1,307,576)
The Warranty Group Australia Pty Ltd	(8,587,423)	(3,585,579)
TWG Holdings, Inc	(418,143)	(403,301)
Protecta Insurance New Zealand	(1,668,422)	—
Lorica LLC	—	(28,480)
National Underwriting Agency New Zealand Branch	—	(210,925)
Total related party payables	**(14,757,043)**	**(5,810,402)**

During the year, Virginia Surety Company New Zealand branch provided an intercompany loan to Virginia Surety Company Australia Branch on 11 December 2023 at the interest rate of 4.5%. The loan has the maturity of 31 December 2026 unless earlier terminated by the Parties.

Unless otherwise stated, related parties are fellow subsidiaries of the ultimate parent company.

Terms and conditions of transactions with related parties

Sales to and purchases from related parties are made in arm's length transactions both at normal market prices and on normal commercial terms.

15. Insurer financial strength rating and solvency disclosure

Virginia Surety Company, Inc has a financial strength rating of A+ issued by A.M. Best Rating Services (2022: A+) and the following solvency information:

	2023	2022 Restated
	$	**$**
Actual solvency capital	579,827,838	541,268,309
Minimum solvency capital	101,413,317	104,587,163
Solvency margin	478,414,521	436,681,146
Solvency ratio	**5.72**	**5.18**

16. Events occurring after reporting date

At the date of this report, no other matter or circumstance has occurred subsequent to year end that has significantly, or may significantly affect, the operations of VSCNZ, the results of those operations or the state of affairs of VSCNZ.