The Hollard Insurance Company Pty Ltd (NZ Branch)

NZBN 942 904 212 9851

Annual Financial Report

For the year ended

30 June 2024

Contents

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2024

Directors

The directors present their report together with the financial report of The Hollard Insurance Company Pty Ltd (NZ Branch) (the Branch) for the year ended 30 June 2024 and the auditor’s report thereon.

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

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

Karl Armstrong	Independent Non-executive Director
Kate Burleigh	Independent Non-executive Director, Appointed: 1 October 2023
Richard Deutsch*	Independent Non-executive Director, Appointed: 1 July 2024
Gary Dransfield	Independent Non-executive Director & Chair
Richard Enthoven	Non-executive Director
Jane Tongs	Independent Non-executive Director, Resigned: 30 June 2024
Noeline Woof	Independent Non-executive Director

*Richard Deutsch was a Partner at Deloitte Touche Tohmatsu from February 2015 to April 2021. During this period, Deloitte Touche Tohmatsu was the Appointed External Auditor of the Branch.

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

David Cantrick-Brooks	Company Secretary, Resigned: 23 September 2023
Surangika Gunasekara	Company Secretary, Appointed: 22 August 2023
Jenny O'Neill	Company Secretary, Resigned: 5 January 2024
Tamara Vella	Company Secretary

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

Principal activities

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

The principal activity of the Branch during the financial year was:

- Underwriting and sale of general insurance policies; and
- Investment of shareholder and insurance funds.

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

Review and results of operations

The Branch distributes all its business through wholesale arrangements.

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

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2024

The Branch’s Gross Written Premium (GWP), recognised as part of insurance revenue, has increased by 18.1% this year to $547 million (2023: $463 million). This was predominately driven by continuous growth in the Ando portfolio.

The Branch has achieved a profit after tax of $30 million for the financial year (2023: loss of $14 million). The turnaround was attributable to growth in GWP, no natural peril events during the current year, and lower claims across multiple classes of business.

Significant changes in the State of Affairs

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

Environmental reporting

The Branch is a climate reporting entity for the purposes of Financial Markets Conduct Act 2013 and is pleased to disclose it will release its inaugural climate statement to NZ Financial Markets Authority (FMA) on 31 October 2024. This statement will comply with Aotearoa New Zealand Climate Standards (NZ CS1, 2 and 3) issued by the External Reporting Board (XRB) which can be found here: https://www.companiesoffice.govt.nz/all-registers/climate-related-disclosures.

Events Subsequent to Balance Date

No matters or circumstances have arisen since 30 June 2024 that have significantly affected or may significantly affect the operations of the Branch, the results of those operations or the state of affairs for the Branch.

Likely Developments

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

Corporate Address

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

Level 26
188 Quay Street
Auckland 1010
New Zealand

Indemnification of officers and auditors

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

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2024

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

Basis of preparation and rounding off

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

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

Gary Dransfield
Independent Non-executive Director & Chair

Richard Enthoven
Non-executive Director

Dated at Sydney 23 September 2024

Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2024

	Notes	2024 $000	Restated 2023 $000
Insurance revenue	2.1	511,826	421,381
Insurance service expense	2.1	(367,175)	(618,503)
Insurance service result before reinsurance contracts held		**144,651**	**(197,122)**
Allocation of reinsurance premiums	2.2	(169,489)	(157,775)
Amounts recoverable from reinsurers	2.2	67,506	339,548
Net (expense)/income from reinsurance contracts held		**(101,983)**	**181,773**
Insurance service result		**42,668**	**(15,349)**
Investment income	**3.1**	**4,078**	**3,117**
Insurance finance expenses from insurance contracts issued	2.1, 2.3	(5,720)	(941)
Reinsurance finance income from reinsurance contracts held	2.2, 2.3	4,874	711
Net insurance finance result		**(846)**	**(230)**
Net insurance and investment result		**45,900**	**(12,462)**
Other expenses	7.1	(3,751)	(6,478)
Finance costs		-	(1)
Profit/(loss) before income tax		**42,149**	**(18,941)**
Income tax (expense)/benefit	6.1	(11,802)	5,303
Profit/(loss) after income tax		**30,347**	**(13,638)**
Other comprehensive income			
Other comprehensive income/(loss), after income tax		-	-
Total comprehensive income/(loss) for the year, net of tax		**30,347**	**(13,638)**

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

The Branch has adopted NZ IFRS 17 *Insurance Contracts* from 1 July 2023 and has correspondingly restated the comparative period. The impacts of adoption of NZ IFRS 17 are detailed in Note 1.5.

Statement of Financial Position

AS AT 30 JUNE 2024

	Notes	2024 $000	Restated 2023 $000	Restated 1 July 2022 $000
ASSETS				
Cash and cash equivalents	3.2	43,513	10,983	54,291
Financial assets	3.3	22,603	46,221	-
Other receivables	7.2	10,358	3,175	1,147
Reinsurance contract assets	2.2	107,401	248,901	51,215
Prepayments		28	28	29
Deferred tax assets	6.2	-	8,675	3,372
Total assets		**183,903**	**317,983**	**110,054**
LIABILITIES				
Other payables	7.3	9,686	60,026	3,162
Loans and borrowings		1,010	1,016	1,018
Insurance contract liabilities	2.1	114,392	231,600	86,895
Deferred tax liabilities	6.2	3,127	-	-
Total liabilities		**128,215**	**292,642**	**91,075**
Net assets		**55,688**	**25,341**	**18,979**
EQUITY				
Head office funds		47,650	47,650	27,650
Retained earnings/(accumulated losses)		8,038	(22,309)	(8,671)
Total equity		**55,688**	**25,341**	**18,979**

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

The Branch has adopted NZ IFRS 17 *Insurance Contracts* from 1 July 2023 and has correspondingly restated the comparative period. The impacts of adoption of NZ IFRS 17 are detailed in Note 1.5.

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2024

	Attributable to the shareholder		
	Head office funds	Retained earnings	Total equity
2024	**$000**	**$000**	**$000**
Restated balance as at 30 June 2023	47,650	(22,309)	25,341
Profit for the period	-	30,347	30,347
At 30 June 2024	**47,650**	**8,038**	**55,688**

	Attributable to the shareholder		
	Head office funds	Accumulated losses	Total equity
2023	**$000**	**$000**	**$000**
As at 1 July 2022, as previously reported	**27,650**	**(8,100)**	**19,550**
Impact of initial application of NZ IFRS 17, net of tax	-	(571)	(571)
Restated balance as at 1 July 2022	27,650	(8,671)	18,979
Loss for the period (restated)	-	(13,638)	(13,638)
Total comprehensive loss after tax (restated)	-	(13,638)	(13,638)
Transactions with Head Office:			
Increase in head office funds	20,000	-	20,000
Restated balance at 30 June 2023	**47,650**	**(22,309)**	**25,341**

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

The Branch has adopted NZ IFRS 17 *Insurance Contracts* from 1 July 2023 and has correspondingly restated the comparative period. The impacts of adoption of NZ IFRS 17 are detailed in Note 1.5.

Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2024

	Notes	2024 $000	Restated 2023 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Premiums received	2.1	533,351	354,507
Reinsurance held recoveries received	2.2	209,740	132,648
Reinsurance held premiums paid	2.2	(165,349)	(147,850)
Claims and other expenses paid	2.1	(322,280)	(307,944)
Acquisition costs paid	2.1	(189,348)	(99,921)
Other operating payments		(11,085)	(5,789)
(Payments)/receipts from related parties		(50,188)	54,149
Net cash flows from/(used in) operating activities	**7.4a)**	**4,841**	**(20,200)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Net (payment)/receipt for term deposits		23,750	(45,000)
Interest received		3,945	1,896
Net cash flows from/(used in) investing activities		**27,695**	**(43,104)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Additional head office funding received		-	20,000
Finance costs paid		(6)	(4)
Net cash flows (used in)/ from financing activities		**(6)**	**19,996**
Net increase/(decrease) in cash held		32,530	(43,308)
Cash and cash equivalents at 1 July		10,983	54,291
Cash and cash equivalents at the end of the financial year	**3.2**	**43,513**	**10,983**

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

The Branch has adopted NZ IFRS 17 *Insurance Contracts* from 1 July 2023 and has correspondingly restated the comparative period. The impacts of adoption of NZ IFRS 17 are detailed in Note 1.5.

Notes to the Financial Statements
FOR THE YEAR ENDED 30 JUNE 2024

1. Overview

1.1. About The Hollard Insurance Company Pty Ltd (NZ Branch)

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

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

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

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

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

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

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

1.2. About these Financial Statements

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

1. **Overview** contains information that impacts the financial statements as a whole.
2. **Insurance activities** brings together results and statement of financial position disclosures relevant to the Branch’s insurance activities.
3. **Investment activities** includes results and statement of financial position disclosures relevant to the Branch’s investments.
4. **Capital structure** provides information about the debt and equity components as well as the capital management practices of the Branch.
5. **Risk management** provides commentary on the Branch’s exposure to various risks, explaining the potential impact on the results and statement of financial position and how the Branch manages these risks.
6. **Tax** includes disclosures relating to the Branch’s income tax balances.
7. **Other** includes statement of comprehensive income items such as expenses and statement of financial position and disclosures required to comply with New Zealand Generally Accepted Accounting Practice.
8. **Events subsequent to balance date** includes report on events subsequent to balance date.

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

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

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

1.3. Statement of compliance

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). For the purposes of complying with NZ GAAP, the Branch is a for-profit entity. These financial statements comply with International Financial Reporting Standards (IFRS) and New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS). The financial statements were authorised for issue by the directors on the 23 September 2024.

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

1.4. Basis of preparation

The financial report for the year ended 30 June 2024 has been prepared on the going concern basis that contemplates the continuity of normal business activities and the realisation of assets and extinguishment of liabilities in the ordinary course of business.

For the year ended 30 June 2024, the Branch recorded a net profit after tax of $30 million (2023: net loss $14 million) and had net assets of $56 million (2023: $25 million). The Branch had available $66 million (2023: $57 million) of cash and other assets to meet day to day obligations as they fall due.

The financial statements are prepared on the basis of historical costs except for financial assets that are stated at their fair value through profit or loss and insurance contract liabilities and reinsurance contract assets that are discounted to present value.

The financial statements are presented in New Zealand dollars, which is the functional and presentation currency of the Branch. All values are rounded to the nearest thousand dollars unless otherwise stated.

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

1.5. New and amended standards and interpretations

In these financial statements, the Branch has applied NZ IFRS 17 *Insurance Contracts* (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. Refer to Note 7.5 for further information.

NZ IFRS 17 transitional impacts

The new accounting standard NZ IFRS 17 which replaces NZ IFRS 4 *Insurance Contracts* (NZ IFRS 4) became effective for annual periods beginning on or after 1 January 2023. The objective of NZ IFRS 17 is to establish globally consistent principles for the recognition, measurement, presentation, and disclosure of insurance contracts issued and reinsurance contracts held. Whilst the new standard does not change the underlying economics or cashflows of the Branch's insurance contracts it issues and reinsurance contracts it holds, it is expected to have impacts on the timing of emergence of profits.

The Branch was required to first apply NZ IFRS 17 on 1 July 2023 (with a transition date of 1 July 2022). This set of financial statements has been prepared in compliance with the new accounting standard. The Branch has applied the full retrospective approach and has restated the comparative period.

The adoption of NZ IFRS 17 did not change the classification of the Branch's insurance contracts. 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 simplified approach, the premium allocation approach, which simplifies the measurement of insurance contracts in comparison with the general model.

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

- Measurement of the liability for incurred claims, previously claims outstanding and incurred-but-not reported (IBNR) claims, continues to be determined on a discounted probability-weighted expected value basis. The liability for incurred claims includes an explicit risk adjustment for non-financial risk to reflect the compensation for bearing uncertainties about the amount and timing of cash flows. This is conceptually different to the NZ IFRS 4 risk margin which reflected the inherent uncertainty in the central estimate of the present value of the expected future payments.
- The liability for remaining coverage, akin to unearned premium liabilities less deferred acquisition costs, 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 involves recognition of a loss component when a group of contracts is onerous. Previously these may have formed part of the unexpired risk reserve provision after the deduction of any related deferred acquisition costs (Liability Adequacy Test (LAT) deficiency), which in comparison was recognised at a more aggregate level. The measurement of the loss component involves an explicit evaluation of risk adjustment for non-financial risk and includes an adjustment for the time value of money.
- Measurement of the asset for incurred claims continues to reflect the expected recovery of claims where contracts reinsure the underlying direct contracts.
- 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 adoption of NZ IFRS 17 has resulted in reclassification of amounts in the Statement of Comprehensive Income and Statement of Financial Position, and a decrease in net assets as at 1 July 2022 of $571k. This amount was recognised as an adjustment to the opening balance of retained earnings as shown in the Statement of Changes in Equity. The opening net asset impact reflects the reversal of risk margin and application of the NZ IFRS 17 risk adjustment of ($17k), recognition of net loss component of ($721k), other smaller items of ($73k) and deferred tax impact of $240k.

1.6. Critical accounting judgements and estimates

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

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

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

Critical accounting judgements and estimates	**Notes**
Valuation of insurance contracts issued and reinsurance contracts held	2.4
Valuation of loss components and recovery on loss components	2.4
Recognised deferred income tax balances	6.2

2. Insurance activities

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

Insurance contract liabilities represent the rights and obligations arising from insurance and reinsurance contracts issued, and comprise of the liability for remaining coverage and the liability for incurred claims.

Reinsurance contract assets represent the rights and obligations arising from reinsurance contracts held, and comprise of the assets for remaining coverage and the assets for incurred claims.

Initial recognition

The Branch recognises groups of insurance contracts it issues from the earliest of:

- the beginning of the coverage period for the group of contracts;
- the date when the first payment from a policyholder in the group of contracts is due; or
- for a group of onerous contracts, if facts and circumstances indicate that the group of contracts is onerous.

The Branch recognises groups of reinsurance contracts held it has entered into from:

- Proportionate reinsurance contracts held - the later of the beginning of the coverage period of the reinsurance contracts or the underlying insurance contracts; or
- Non-proportionate reinsurance contracts held - the earlier of the beginning of the coverage period of the reinsurance contracts held or the period in which the underlying insurance contracts becomes onerous.

Level of aggregation

NZ IFRS 17 requires an entity to determine the level of aggregation for applying its requirements. The Branch previously applied aggregation levels under NZ IFRS 4, which were higher than the level of aggregation required by NZ IFRS 17. 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. The portfolios are further divided by year or issue and profitability for recognition and measurement purposes. Hence within each year of issue, portfolios 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); or
- A group of the remaining contracts in the portfolio (if any).

The Branch divides portfolio 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.

Contract boundary

The Branch includes in the measurement of a group of insurance contracts all the future cash flows within the boundary of each contract in the group. 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. A substantive obligation to provide insurance contract services ends when the Branch has the practical ability to reassess the risks of the particular policyholder and, as a result, can set a price or level of benefits that fully reflects those risks.

For reinsurance contracts, cash flows are within the contract boundary if they arise from substantive rights and obligations that exist during the reporting period in which the Branch is compelled to pay amounts to the reinsurer or has a substantive right to receive services from the reinsurer. A substantive right to receive services from the reinsurer ends when the reinsurer has the practical ability to reassess the risk transferred to it and can set a price or level of benefits that fully reflect those reassessed risks; or has a substantive right to terminate the coverage.

Insurance and reinsurance contract assets and liabilities

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.

Asset and liability for remaining coverage - excluding loss components

The premium allocation approach simplifies the measurement of insurance contracts in comparison with the general model in NZ IFRS 17.

The Branch applies the premium allocation approach to all insurance contracts that it issues and reinsurance contracts that it holds on the following bases:

- The coverage period of each contract in the group is one year or less; or
- For contracts with a coverage period of more than one year, the Branch reasonably expects that the measurement of the liability for remaining coverage will not differ materially from the measurement of the liability for remaining coverage applying the general model.

For groups of contracts that are not onerous at initial recognition, the Branch measures the liability for remaining coverage as premiums received at initial recognition minus any insurance acquisition cash flows at that date. The Branch capitalises insurance acquisition cash flows and allocates to groups of insurance contracts issued using a systematic and rational basis. There is no allowance for time value of money as the Branch’s insurance contracts and reinsurance contracts held do not contain a significant financing component and the majority of contracts issued by the Branch have a coverage period of 12 months or have premiums paid at the inception of the contract, hence the discounting effect on future premium receipts is immaterial and has not been recognised.

Subsequently, 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 and minus the amount recognised as insurance revenue for the services provided in the period.

Asset and liability for remaining coverage - loss components

Where, on initial recognition or during the coverage period, facts and the circumstances indicate that a group of insurance contracts is onerous, the Branch recognises a loss in Statement of Comprehensive Income for the net outflow, resulting in the carrying amount of the liability for the group being equal to the fulfilment cash flows. The fulfilment cash flows comprise an estimate of future cash flows, an adjustment to reflect the time value of money and a risk adjustment for non-financial risk. A loss component is established by the Branch for the liability for remaining coverage for such onerous group depicting the losses recognised.

If a group of underlying insurance contracts is onerous, then the Branch increases the asset for remaining coverage by the amount the Branch expects to recover from the group of reinsurance contracts held. The loss-recovery component shall not exceed the portion of the carrying amount of the loss component of the onerous group of underlying insurance contracts that the entity expects to recover from the group of reinsurance contracts held.

Asset and liability for incurred claims

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 the time value of money and for non-financial risk (the risk adjustment). Refer to Note 2.4 for further information on the actuarial methods and assumptions.

The asset for incurred claims includes the effect of non-performance risk of the reinsurer, which considers the reinsurer’s credit rating. As the Branch holds reinsurance contracts with reinsurers with A- or higher rating, the allowance for non-performance risk is immaterial and has not been recognised.

Derecognition and modification

The Branch derecognises insurance contracts when the rights and obligations relating to the contracts are extinguished (i.e. discharged, cancelled or expired).

The Branch also recognises a contract if 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.

2.1. Insurance Contract Liabilities

2024	Liability/ (Asset) For Remaining Coverage		Liability/ (Asset) For Incurred Claims		
	Excluding Loss Component $000	Loss Component $000	Estimates of the Present Future Cash Flows $000	Risk Adjustment $000	Total $000
Insurance contract liabilities	-	-	256,730	17,819	**274,549**
Insurance contract assets	(52,768)	9,819	-	-	**(42,949)**
Net insurance contract (assets)/liabilities at 1 July 2023	**(52,768)**	**9,819**	**256,730**	**17,819**	**231,600**
Insurance revenue	(511,826)	-	-	-	**(511,826)**
Insurance service expense					
Incurred claims and other attributable expenses	-	(9,819)	224,762	7,153	**222,096**
Amortisation of insurance acquisition cash flows	184,964	-	-	-	**184,964**
Changes that relate to past service – prior accident years	-	-	(33,902)	(13,825)	**(47,727)**
Losses on onerous contracts and reversal of those losses	-	7,842	-	-	**7,842**
Total insurance service expense	**184,964**	**(1,977)**	**190,860**	**(6,672)**	**367,175**
Insurance service result	**(326,862)**	**(1,977)**	**190,860**	**(6,672)**	**(144,651)**
Insurance finance expenses from insurance contracts issued	-	-	5,720	-	**5,720**
Total changes in statement of comprehensive income	**(326,862)**	**(1,977)**	**196,580**	**(6,672)**	**(138,931)**
Cash flows					
Premium received	533,351	-	-	-	**533,351**
Acquisition costs paid	(189,348)	-	-	-	**(189,348)**
Claims and expenses paid	-	-	(322,280)	-	**(322,280)**
Total cashflows	**344,003**	**-**	**(322,280)**	**-**	**21,723**
Net insurance contract (assets)/liabilities at 30 June 2024	**(35,627)**	**7,842**	**131,030**	**11,147**	**114,392**
Insurance contract liabilities	-	-	131,030	11,147	**142,177**
Insurance contract assets	(35,627)	7,842	-	-	**(27,785)**
Net insurance contract (assets)/liabilities at 30 June 2024	**(35,627)**	**7,842**	**131,030**	**11,147**	**114,392**

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2024

2023	Liability/ (Asset) For Remaining Coverage		Liability/ (Asset) For Incurred Claims		
	Excluding Loss Component $000	Loss Component $000	Estimates of the Present Future Cash Flows $000	Risk Adjustment $000	Total $000
Insurance contract liabilities	-	-	91,739	7,131	**98,870**
Insurance contract assets	(18,231)	6,256	-	-	**(11,975)**
Net insurance contract (assets)/liabilities at 1 July 2022	**(18,231)**	**6,256**	**91,739**	**7,131**	**86,895**
Insurance revenue	(421,381)	-	-	-	**(421,381)**
Insurance service expense					
Incurred claims and other attributable expenses	-	(6,256)	475,818	16,250	**485,812**
Amortisation of insurance acquisition cash flows	132,258	-	-	-	**132,258**
Changes that relate to past service – prior accident years	-	-	(3,824)	(5,562)	**(9,386)**
Losses on onerous contracts and reversal of those losses	-	9,819	-	-	**9,819**
Total insurance service expense	**132,258**	**3,563**	**471,994**	**10,688**	**618,503**
Insurance service result	**(289,123)**	**3,563**	**471,994**	**10,688**	**197,122**
Insurance finance expenses from insurance contracts issued	-	-	941	-	**941**
Total changes in statement of comprehensive income	**(289,123)**	**3,563**	**472,935**	**10,688**	**198,063**
Cash flows					
Premium received	354,507	-	-	-	**354,507**
Acquisition costs paid	(99,921)	-	-	-	**(99,921)**
Claims and expenses paid	-	-	(307,944)	-	**(307,944)**
Total cashflows	**254,586**	**-**	**(307,944)**	**-**	**(53,358)**
Net insurance contract (assets)/liabilities at 30 June 2023	**(52,768)**	**9,819**	**256,730**	**17,819**	**231,600**
Insurance contract liabilities	-	-	256,730	17,819	**274,549**
Insurance contract assets	(52,768)	9,819	-	-	**(42,949)**
Net insurance contract (assets)/liabilities at 30 June 2023	**(52,768)**	**9,819**	**256,730**	**17,819**	**231,600**

Recognition and Measurement

Insurance revenue

Insurance revenue is an allocation of total expected premium to each period of coverage on the basis of the passage of time.

Insurance service expense

Insurance service expense arising from insurance contracts are recognised in the Statement of Comprehensive Income generally as they are incurred and comprises of the following:

- Incurred claims and other insurance service expenses
- Amortisation of insurance acquisition cash flows - the Branch amortises insurance acquisition cash flows on a straight-line basis over the coverage period of the group of contracts
- Losses on onerous contracts and reversals of such losses
- Adjustments to the liabilities for incurred claims that do not arise from the effects of the time value of money, financial risk and changes therein.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2024

2.2. Reinsurance Contract Assets

2024	Asset/ (Liability) For Remaining Coverage		Asset/(Liability) For Incurred Claims		
	Excluding Loss Recovery Component $000	Loss Recovery Component $000	Estimates of the Present Future Cash Flows $000	Risk Adjustment $000	Total $000
Reinsurance contract assets	-	-	324,466	15,184	**339,650**
Reinsurance contract liabilities	(100,568)	9,819	-	-	**(90,749)**
Net reinsurance contract (liabilities)/assets at 1 July 2023	**(100,568)**	**9,819**	**324,466**	**15,184**	**248,901**
Allocation of reinsurance premiums	(169,489)	-	-	-	**(169,489)**
Amounts recoverable from reinsurers					
Recovery of incurred claims and other expenses	-	(9,819)	74,764	4,759	**69,704**
Changes that relate to past service – prior accident years	-	-	1,818	(11,858)	**(10,040)**
Loss recovery on onerous underlying contracts and adjustments	-	7,842	-	-	**7,842**
Amounts recoverable from reinsurers	**-**	**(1,977)**	**76,582**	**(7,099)**	**67,506**
Net income or expense from reinsurance contracts held	**(169,489)**	**(1,977)**	**76,582**	**(7,099)**	**(101,983)**
Reinsurance finance income from reinsurance contracts held	-	-	4,874	-	**4,874**
Total changes in statement of comprehensive income	**(169,489)**	**(1,977)**	**81,456**	**(7,099)**	**(97,109)**
Cash flows					
Reinsurance held premiums paid	165,349	-	-	-	**165,349**
Reinsurance held recoveries received	-	-	(209,740)	-	**(209,740)**
Total cashflows	**165,349**	**-**	**(209,740)**	**-**	**(44,391)**
Net reinsurance contract (liabilities)/assets at 30 June 2024	**(104,708)**	**7,842**	**196,182**	**8,085**	**107,401**
Reinsurance contract assets	-	-	196,182	8,085	**204,267**
Reinsurance contract liabilities	(104,708)	7,842	-	-	**(96,866)**
Net reinsurance contract (liabilities)/assets at 30 June 2024	**(104,708)**	**7,842**	**196,182**	**8,085**	**107,401**

2023	Asset/ (Liability) For Remaining Coverage		Asset/(Liability) For Incurred Claims		
	Excluding Loss Recovery Component $000	Loss Recovery Component $000	Estimates of the Present Future Cash Flows $000	Risk Adjustment $000	Total $000
Reinsurance contract assets	-	-	130,792	5,535	**136,327**
Reinsurance contract liabilities	(90,643)	5,531	-	-	**(85,112)**
Net reinsurance contract (liabilities)/assets at 1 July 2022	**(90,643)**	**5,531**	**130,792**	**5,535**	**51,215**
Allocation of reinsurance premiums	(157,775)	-	-	-	**(157,775)**
Amounts recoverable from reinsurers					
Recovery of incurred claims and other expenses	-	(5,531)	271,730	13,862	**280,061**
Changes that relate to past service – prior accident years	-	-	53,881	(4,213)	**49,668**
Loss recovery on onerous underlying contracts and adjustments	-	9,819	-	-	**9,819**
Total amounts recoverable from reinsurers	**-**	**4,288**	**325,611**	**9,649**	**339,548**
Net income or expense from reinsurance contracts held	**(157,775)**	**4,288**	**325,611**	**9,649**	**181,773**
Reinsurance finance income from reinsurance contracts held	-	-	711	-	**711**
Total changes in statement of comprehensive income	**(157,775)**	**4,288**	**326,322**	**9,649**	**182,484**
Cash flows					
Reinsurance held premiums paid	147,850	-	-	-	**147,850**
Reinsurance held recoveries received	-	-	(132,648)	-	**(132,648)**
Total cashflows	**147,850**	**-**	**(132,648)**	**-**	**15,202**
Net reinsurance contract (liabilities)/assets at 30 June 2023	**(100,568)**	**9,819**	**324,466**	**15,184**	**248,901**
Reinsurance contract assets	-	-	324,466	15,184	**339,650**
Reinsurance contract liabilities	(100,568)	9,819	-	-	**(90,749)**
Net reinsurance contract (liabilities)/assets at 30 June 2023	**(100,568)**	**9,819**	**324,466**	**15,184**	**248,901**

Recognition and Measurement

Net expenses from reinsurance contracts

The Branch presents separately on the face of the Statement of 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 as claims on the underlying contracts as part of the claims that are expected to be reimbursed under the reinsurance contracts held, and excludes investment components and commissions from an allocation of reinsurance premiums presented on the face of the statement of profit or loss.

The amount of reinsurance expenses recognised in the reporting period depicts the transfer of received services at an amount that reflects the ceding premiums the Branch expects to pay in exchange for those services. Reinsurance expenses are recognised similarly to insurance revenue, based on the passage of time over the coverage period.

2.3. Insurance and reinsurance finance (expenses)/income

Insurance finance expenses from insurance contracts issued	Notes	2024 $000	2023 $000
Discount unwind		5,846	1,057
Due to changes in interest rates		(126)	(116)
Total insurance finance income from insurance contracts issued	**2.1**	**5,720**	**941**

Reinsurance finance income from reinsurance contracts held	Notes	2024 $000	2023 $000
Discount unwind		4,994	841
Due to changes in interest rates		(120)	(130)
Total reinsurance finance income from reinsurance contracts held	**2.2**	**4,874**	**711**

Recognition and Measurement

Insurance and reinsurance finance (expenses)/income comprises changes in the carrying amounts of groups of insurance contracts issued and reinsurance contracts held arising from the effects of the time value of money. The Branch has chosen to recognise insurance and reinsurance finance (expenses)/income in the profit or loss.

2.4. Critical accounting estimates and judgements

As at 30 June 2024, the liability for incurred claims for the Branch was assessed by the Appointed Actuary and the Appointed Actuary was satisfied as to the nature, sufficiency and accuracy of the data used to determine the liability for incurred claims. The Appointed Actuary for the Branch as at 30 June 2024 is David Wright (Fellow of the New Zealand Society of Actuaries) of The Hollard Insurance Company Pty Ltd.

Liability for incurred claims - ultimate cost of claims

The liability for incurred claims represents the ultimate cost of claims incurred but not settled at reporting date, and consists of the central estimate which includes an allowance for claims incurred but not reported (IBNR) and further development of reported claims.

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

In calculating the estimated cost of unpaid claims, the Branch uses a variety of estimation techniques, generally based upon statistical analysis of historical branch and general industry experience that assumes that the development pattern of the current claims will be consistent with past experience and/or general industry benchmarks as appropriate. Allowance is made, however, for changes or uncertainties that may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims. The general approach to actuarial estimation of insurance liabilities is to analyse all available past experience, primarily claim payments, movements in case estimates and movements in incurred claim costs. This analysis allows patterns to be identified in the past experience. Based on this, development patterns associated with the run-off of insurance liabilities at the reporting date can be estimated.

Onerous contracts

Insurance contracts are onerous when the liability for remaining coverage is insufficient to pay future claims and other insurance service expenses attributable to the contracts. For groups of insurance contracts that are onerous, the liability for remaining coverage is determined by the fulfilment cash flows. A significant judgement in determining onerous contracts is the measurement of the ultimate cost of claims.

Risk adjustment

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. For reinsurance contracts held, the risk adjustment represents the amount of risk transferred by the Group to the reinsurer.

The Group has adopted a cost of capital approach to determine the risk adjustment. The method applies the expected cost of capital to the amount of capital required to be held by the Group over the period of risk. It provides a clear link between the Group’s required compensation for bearing risk and the risk adjustment adopted.

The adopted cost of capital is equivalent to a 69.2% probability of adequacy (2023: 66.9%).

The Branch has chosen to aggregate the change in risk adjustment for non-financial risk as part of insurance service expense.

Key assumptions

	2024	**2023**
Discounted mean term (years)	0.52	0.46
Discount rate	5.30%	5.45%
Inflation rate	3.80%	5.00%
Claims handling expense rate	0.07%	0.07%

Discounted mean term of claims

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

Discount rate

The liability for incurred claims and loss components are discounted at a rate equivalent to that inherent in a portfolio of risk-free fixed interest securities with coupon and redemption cash flows exactly matching the projected inflation claim cash flows plus an illiquidity premium. Due to the short term nature of the business, an allowance for illiquidity premium is deemed to not be material and has not been recognised. The discount rates disclosed above are expressed as weighted averages.

Inflation rate

For most valuation methods, an implicit allowance for future claims inflation is incorporated to the extent that it is present in the claims experience analysed. For one valuation method, which does not have a material bearing on the valuation outcomes, an explicit inflation assumption is required. For short tail valuation portfolios, the only portfolios for which this method is used, the inflation assumption is 3.80% (2023: 5.00%). The Branch considers inflation to be a non-financial risk as they are company specific and are selected with reference to current economic indicators.

Claims handling expense rate

Claims handling expenses are calculated by reference to expected experience of claims handling costs as a percentage of expected payments.

Sensitivity Analysis

The movement in any of the above key actuarial assumptions will impact the profit or loss and equity of the Branch. The table below describes how a change in each of the assumptions will affect the Branch. Each change has been calculated in isolation of the other changes, and without regard to other changes to balance date amounts that may occur simultaneously. The movements are stated in absolute terms where the base assumption is a percentage or average term. The impact on equity and profit or loss is identical as the changes in non-financial assumptions are recognised in the profit or loss and we have chosen to not to disaggregate the effects of time value of money between profit or loss and other comprehensive income.

	Sensitivity	**Impact on Equity/Profit or (Loss) before tax**	**2024 $000**	**2023 $000**
Discounted mean term	+ 6 mths	Increase	369	118
	- 6 mths	**Decrease**	**(371)**	**(118)**
Discount rate	+ 1 % p.a.	Increase	254	239
	- 1% p.a.	**Decrease**	**(258)**	**(243)**
Inflation rate	+ 1 % p.a.	Decrease	(1,304)	(1,792)
	- 1 % p.a.	**Increase**	**1,304**	**1,792**
Claims handling expense rate	+ 1 % p.a.	Decrease	(259)	(241)
	- 1 % p.a.	**Increase**	**260**	**242**

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2024

3. Investment activities

The assets backing general insurance liabilities are those assets required to cover the insurance liabilities plus an allowance for solvency equal to the minimum regulatory capital prescribed by APRA. Insurance contract liabilities include liabilities for incurred claims, liabilities for remaining coverage associated with insurance operations. The Branch has determined that all financial assets designated at fair value through profit or loss are held to minimise the impact of mismatch between the assets and liability values.

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

The Branch's investments comprise cash and cash equivalents and financial assets (including term deposits).

3.1. Investment income

	2024 $000	2023 $000
Interest income	4,078	3,117
Total investment income	**4,078**	**3,117**

Recognition and Measurement

Interest income is recognised in the Statement of Comprehensive Income as it accrues. Dividend income is recognised in the Statement of Comprehensive Income on the date that the Branch has a right to receive payments.

3.2. Cash & Cash Equivalents

	2024 $000	2023 $000
Cash held for operational purposes	42,622	9,145
Cash held in trust	891	1,838
	43,513	**10,983**

Recognition and Measurement

Cash and cash equivalents include cash and deposits at call, with an original maturity of three months or less, which are readily convertible to cash and are subject to an insignificant risk of change in value. There are no restrictions on cash and cash equivalents.

3.3. Financial assets

	2024 $000	2023 $000
Term deposits	22,603	46,221
Total financial assets	**22,603**	**46,221**

Notes to the Financial Statements
FOR THE YEAR ENDED 30 JUNE 2024

Recognition and Measurement

Financial assets are designated at fair value through profit and loss upon initial recognition to reduce the potential asset liability mismatch that may otherwise arise. Initial recognition is at fair value in the Statement of Financial Position and subsequent measurement is at fair value with any resultant unrealised gains or losses recognised in the Statement of Comprehensive Income.

3.4. Fair value hierarchy

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

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

Total level 1 investment assets - term deposits	22,603	46,221
Total investment assets	**22,603**	**46,221**

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2024

4. Capital structure

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

4.1. Capital management

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

The capital structure of the Branch consists of cash and cash equivalents (as disclosed in Note 3.2) and designated equity, comprising of head office account and retained earnings (as disclosed in the Statement of Changes in Equity).

The Branch's capital is managed through the Internal Capital Adequacy Assessment Process (ICAAP) of HIC. Regular and robust reviews of the ICAAP are done internally and independent review are performed every three years.

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

4.2. Exemption from compliance with Solvency Standard

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

The Reserve Bank of New Zealand considers it appropriate to grant the exemption because it is satisfied that HIC is required under the law or regulatory requirements of the Commonwealth of Australia to comply with standards or requirements that relate to the same or similar matters that are covered by the solvency standard or part of the solvency standard to which this exemption relates, and in terms of achieving the purposes of the Solvency Standard for Non-life Insurance Business 2014, at least as satisfactory as the solvency standard or part of the solvency standard to which this exemption relates to.

HIC is currently in compliance with the regulatory standards and requirements prescribed by the Australian Prudential Regulation Authority (APRA). The Capital Adequacy Multiple (CAM) as at 30 June 2023 has not been restated. The CAM as at 30 June 2024 has been calculated in accordance with APRA Prudential Standards effective 1 July 2023. The solvency figures reported to APRA are as follows:

	2024 AUD$000	**2023 AUD$000**
Actual solvency capital	560,617	428,789
Minimum solvency capital	350,381	326,863
Solvency margin	**210,236**	**101,926**
Capital Adequacy Multiple (CAM)	**1.60**	**1.31**

On 12 August 2024, S&P Global Ratings (S&P) affirmed its 'A' long-term financial strength and long-term issuer credit ratings on HIC. The outlook on the ratings is stable.

5. Risk management

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

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

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

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

During the financial year ended 30 June 2024, there were five formal Board committees with delegated responsibilities to assist with risk management monitoring met regularly. These included the Board Risk Committee, Board Audit Committee, Board Remuneration Committee, Board Projects and Technology Committee and Board Reinsurance Committee. Cross membership on committees allows effective communication between committees ensuring that all risk related matters are appropriately considered. The Board annually submits a Risk Management Declaration to APRA.

Risk Management Strategy (RMS)

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

- Description of each material risk (both financial and non-financial) and the Group’s approach in managing the risks

- Risk Management Processes including policies, procedures, risk assessments, controls, management information systems, monitoring and reporting

- Accountabilities and governance arrangements for the management of risk across the organisation

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

Risk Appetite Statement (RAS)

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

Business Plan

Over the last 5 years, the Company has progressed a significant change journey across the enterprise-wide operating model, all in support of a long-term partnership focused strategy.

In FY24, with the introduction of a new executive leadership team, the Company refreshed the articulation of its strategy under five strategic principles detailed below. Considering the highly complex external and internal environment in which the Company operates, it has been imperative for Hollard to align focus, investment and effort across these key strategic principles.

The Company remains in an "investment and execution" phase, executing its Transformation agenda focused on consolidation of core systems onto a single claims, policy, and data platform. This will foster a One Hollard approach and establishes the foundations for greater efficiencies, and future opportunities.

Reinsurance Management Strategy (ReMS)

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

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

Internal Capital Adequacy Assessment Process (ICAAP)

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

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

Recovery & Exit Plan

The Board approved the Recovery & Exit Plan details the Company's approach to, and processes around, capital management that are designed to restore the financial resilience during or following stress. Key aspects of the Plan include:

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

The Recovery & Exit Plan, therefore, forms an important component of the overall RMF.

Business Continuity Plan and Crisis Management

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

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

Risk Management Framework

The Company's risk management framework provides the structure for identifying and managing material risks to ensure the Company is being prudently and soundly managed, having regard to the size, business mix and complexity of its operations. The Company's operating model, and the associated roles and responsibilities, have been formally described in the RMS.

Under the three lines of defence model the key business functions (1st line of defence) are accountable for managing risk and compliance within risk appetite, in accordance with frameworks and policies. A dedicated Group Risk and Compliance team (2nd line of defence) undertake monitoring, review, and challenge. The Chief Risk Officer (CRO) and group risk function provide regular reports to the Board Risk Committee. The Internal Audit team (3rd line of defence) conducts independent assurance. The Internal Audit team reports to the Board Audit Committee (comprising solely of independent non-executive directors).

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

On behalf of the Board, the Board Risk Committee and the Board Audit Committee monitors the adequacy and effectiveness of the ICAAP, Recovery & Exit Plan and the Business Continuity Plan.

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

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

ESG (Sustainability) Strategy

For the Financial Year ended 30 June 2024, the Group developed a revised sustainability strategy (known as the "Shared Value Strategy & Roadmap"), through the support and guidance of its shareholders with their already well-established Yellowwood Pride Framework. This revision will supersede the "Hollard Environmental, Social and Governance (ESG) Sustainability Roadmap 2023 to 2026".

Shared Value is a way to think about how the Group can do well by doing good, how it becomes a catalyst for enduring, positive, social change whilst running a sustainable and profitable business by looking at how it make decisions and how it thinks about its role not just in the economy but the wider global community. The Group's approved Shared Value Strategy & Roadmap requires it to identify and understand sustainability risks and opportunities (including environmental, social and governance) to reduce the accessibility and affordability pressures of insurance for our most vulnerable communities.

5.1. Strategic risk

The Company seeks to manage strategic risk as part of its annual strategic planning process. The Board annually reviews and approves the HHA Group Business Plan with subsequent regular monitoring of the risks undertaken by the Board Risk Committee.

The Company develops and implements strategy, and the accompanying plans within its core competencies, chosen markets, while operating to enhance its digital and automation capabilities and focusing on improving outcomes for its customers and creating long-term shareholder value. It is willing to adopt appropriately managed medium risk strategies and accept some associated earnings volatility, whilst remaining well capitalised, to achieve its strategic objectives through a range of key strategic technology transformation projects aimed at driving improved operational efficiency and business practices, and enhanced customer experience.

The primary focus in managing strategic risk during the year has been centred on achieving business plan and major change initiatives such as implementation of the new Policy Administration System (PAS), introduction new Claims management system, and the Finance project to implement AASB 17 Insurance Contracts. Apart from the transformational projects, there has also been a major focus on delivering the Partner Engagement Model project for governance, oversight, monitoring and reporting framework that promotes risk-based consistency and accuracy across partner activities.

5.2. Insurance risk

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

The Company in managing the risk:

- is willing to accept a medium level of underwriting risk by employing a conservative underwriting strategy of underwriting diversified risks within its area of core competence. Temporary and permanent embargo activities (bushfire and flood) have been completed in FY24, and further strengthening and uplifting of underlying controls, procedures and processes within the underwriting governance framework is in progress.
- is willing to accept a medium level of risk of pricing by utilising experienced and qualified teams and using fit for purpose pricing processes and controls and advanced pricing tools. In FY24, significant increases in premiums (consistent with the industry at large) were implemented across the majority of our portfolios (including targeted pricing increase in high catastrophe exposure area) and the Company also participated in the Cyclone Reinsurance Pool.

- is willing to accept a medium level of risk of variability of underlying claims performance, unmanaged claims cost drivers and insufficiency of claims and premium liabilities, commensurate with the level of risk assumed in pricing and underwriting. High claims inflation during the year impacted average claims costs adversely, however, improvement has been observed in the leakage and ex-gratia rate.
- has a low appetite for any insurance product flaws including inadequate design, delivery or maintenance that result in any material unintended exposures or misalignment with corresponding reinsurance arrangements. In FY24, the harmonisation of Product Governance Framework and Policies have been completed, and the Company regularly monitor of consistency between product and reinsurance wordings.
- has a medium appetite for exposure to large accumulations and event losses from any natural peril while acknowledging exposure to catastrophes from natural perils is unavoidable but limits exposure to large single claims and accumulated natural peril losses, and to any one catastrophe event through its reinsurance net retention.

5.3. Credit risk (or Counterparty risk)

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

Investments

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

The Company seeks to limit its exposure to credit risk by investing cash with counterparties that are APRA regulated authorised deposit taking institutions. The Strategic Asset Allocation, implemented with the support by expert asset management consultants, enabled exposure to fixed interest (Government & Corporate bonds), managed by a specialised fixed interest manager and held with an independent custodian.

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

Reinsurance receivables

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

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

Credit exposure

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

2024	**A-1 $000**	**A-2 $000**	**A-3 $000**	**Not Rated $000**	**Total $000**
Cash	43,513	-	-	-	43,513
Financial assets	22,603	-	-	-	22,603
Other receivables	-	-	-	10,358	10,358
Reinsurance contract assets - Asset for incurred claims	4	176,774	27,489	-	204,267

2023	**A-1 $000**	**A-2 $000**	**A-3 $000**	**Not Rated $000**	**Total $000**
Cash	10,983	-	-	-	10,983
Financial assets	46,221	-	-	-	46,221
Other receivables	-	-	-	3,175	3,175
Reinsurance contract assets - Asset for incurred claims	259,235	80,415	-	-	339,650

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

		Past due			
2024	**Not past due $000**	**Up to 30 days $000**	**31-120 days $000**	**120+ days $000**	**Total $000**
Cash	43,513	-	-	-	43,513
Financial assets	22,603	-	-	-	22,603
Other receivables	10,358	-	-	-	10,358
Reinsurance contract assets - Asset for incurred claims	135,801	-	-	68,466	204,267
Receivables within Insurance contract liabilities	369,856	-	-	-	369,856

		Past due			
2023	**Not past due $000**	**Up to 30 days $000**	**31-120 days $000**	**120+ days $000**	**Total $'000**
Cash	10,983	-	-	-	10,983
Financial assets	46,221	-	-	-	46,221
Other receivables	3,175	-	-	-	3,175
Reinsurance contract assets - Asset for incurred claims	271,705	-	-	67,945	339,650
Receivables within Insurance contract liabilities	354,757	-	-	-	354,757

For assets to be classified as 'past due', contractual payments in arrears are more than 90 days. When credit exposure is adequately secured, arrears more than 90 days might be classified as 'past due', with no expected credit loss recorded. The Company operates mainly on a 'nor past due basis' and sufficient collateral will be obtained for 'past due' assets. The Company has not recognised an expected credit loss at 30 June 2024.

5.4. Market risk

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

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

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

Cash flow and fair value interest rate risk

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

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

As at 30 June 2024 the Company did not have any such exposures to derivative financial instruments. Interest on floating rate instruments is repriced at intervals of less than one year. Interest on fixed interest rate instruments is priced at inception of the financial instrument and is fixed until maturity.

In addition, interest rate risk exists in insurance contracts issued by the Company which the Company manages by adopting close asset/liability matching criteria, to minimise the impact of mismatch between asset and liability values arising from interest rate movements.

The below table is the impact of interest rate movements on financial assets. The impact on equity and profit or loss is identical as the financial assets are measured at fair value through profit or loss. The impact of discount rate movements on net insurance contract liabilities is disclosed in Note 2.4.

	Sensitivity	Impact on Equity/Profit or (Loss) before tax	2024 $000	2023 $000
Impact of interest movement	+ 1% p.a.	Increase	595	664
	- 1% p.a.	Decrease	(595)	(664)

Liquidity risk

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

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

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

Maturity profiles

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

	Up to a year $000	1 - 2 years $000	2 - 3 years $000	3 - 4 years $000	4 - 5 years $000	5+ years $000	Total $000
2024							
Loans and borrowings*	-	1,010	-	-	-	-	1,010
Insurance contract liabilities - Liability for incurred claims	120,760	15,436	5,296	685	-	-	142,177
2023							
Loans and borrowings*	-	-	1,016	-	-	-	1,016
Insurance contract liabilities - Liability for incurred claims	238,735	29,780	4,447	1,588	-	-	274,550

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

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

5.5. Capital risk

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

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

5.6. Operational risk

Operational Risk is the risk of an incident occurring which leads or could lead to the actual outcome of a business process to differ from the expected outcome due to inadequate or failed processes, people, systems or external factors. The risk areas encapsulated in this category include operational processes, distribution partner processes, technology, information security, business continuity, suppliers and outsourcing, fraud, people, financial processes and reporting and models.

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

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

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

During the year, Operational Risk management received continued focus in the form of risk profile uplift activities, remediation activities in the control environment and strategic transformation project (Claims, Policy Administration and Finance) related risks.

5.7. Compliance risk

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

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

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

During the financial year, the Company has systematically actioned a work plan to ensure readiness for changes to laws affecting insurers and responded to regulatory requests, including CPS 511 Remuneration which commenced on 1 January 2024, and delivered on a compliant solution under the new AASB 17 Insurance Contracts standard. It has also updated the Recovery & Exit Plan to meet the CPS 190 requirements, which began on 1 January 2024. The Company continues to prepare for the Standing Committee on Economics initiated comprehensive Parliamentary Inquiry into the responses of insurers to the major floods of 2022 final recommendations, by reviewing potential outcomes to enhance compliance readiness, customer service, and market position. It continues to respond to the industry wide ASIC Pricing Review to review pricing systems and controls to prevent consumer harm, and to find, fix, to repay the difference between the pricing promise and the price delivered to the customer.

6. Taxation

6.1. Income tax expense

	2024 $000	2023 $000
Profit/(Loss) before income tax	42,150	(18,941)
Prima facie tax expense/(benefit) at 28% (2023: 28%)	11,802	(5,303)
Income tax expense/(benefit)	**11,802**	**(5,303)**
Deferred tax	11,802	(5,303)
Income tax expense/(benefit)	**11,802**	**(5,303)**

Recognition and measurement

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

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

6.2. Recognised deferred income tax balances

	2024 $000	2023 $000
Deferred tax assets	19,455	30,111
Deferred tax liabilities	(22,582)	(21,436)
Net deferred tax (liabilities)/assets	**(3,127)**	**8,675**

Movement in temporary differences

	2024			2023		
	Opening $000	Profit or loss $000	Closing $000	Opening $000	Profit or loss $000	Closing $000
Employee benefits	7	275	282	-	7	7
Insurance liabilities	(83)	83	-	228	(311)	(83)
Provisions	307	(307)	-	293	14	307
Tax losses	29,880	(10,707)	19,173	17,585	12,295	29,880
Deferred tax asset before set-off	**30,111**	**(10,656)**	**19,455**	**18,106**	**12,005**	**30,111**
Insurance assets	(21,436)	(1,146)	(22,582)	(14,734)	(6,702)	(21,436)
Deferred tax liability before set-off	**(21,436)**	**(1,146)**	**(22,582)**	**(14,734)**	**(6,702)**	**(21,436)**
Net deferred tax (liabilities)/assets	**8,675**	**(11,802)**	**(3,127)**	**3,372**	**5,303**	**8,675**

Recognition and Measurement

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

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

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

Critical Accounting Estimates and Judgements

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

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2024

7. Other

This section provides disclosures on components of the Branch's Statement of Comprehensive Income and Statement of Financial Position not disclosed previously in the financial statements, including:

- Expenses
- Other receivables
- Other payables
- Cash flow disclosures
- Accounting policy changes for the current year as well as for future years

7.1. Expenses

	2024 $000	2023 $000
Claims expense	182,860	477,076
Acquisition cash flows	184,964	132,258
Levies and charges	(2,748)	(1,619)
Losses on onerous contracts and reversal of those losses	(1,977)	3,562
Allocation of reinsurance premiums	169,319	157,535
Employee benefit costs	4,837	730
Professional fees	1,675	364
Outsourced insurance services	101	58
Occupancy costs	113	75
Corporate expenses	1,271	12,717
Total expenses	**540,415**	**782,756**

Represented by:		
Insurance service expense	367,175	618,503
Allocation of reinsurance premiums	169,489	157,775
Other expenses	3,751	6,478
	540,415	**782,756**

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

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

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

Notes to the Financial Statements
FOR THE YEAR ENDED 30 JUNE 2024

7.2. Other receivables

	2024 $000	2023 $000
Related Parties*	7,130	-
Other receivables	3,228	3,175
Other receivables	**10,358**	**3,175**
Receivable within 12 months	10,358	3,175
Other receivables	**10,358**	**3,175**

* The Branch's related party transactions are primarily for reinsurance recoveries collected on behalf of The Branch by HIC

Recognition and Measurement

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

At each reporting date, the Branch assesses whether other receivables measured at amortised cost are credit impaired and recognises a loss allowance for expected credit loss (ECL). The ECL on other receivables are estimated using a provision matrix based on the Branch's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date. At 30 June 2024, no ECL has been recognised on other receivables (2023: nil).

7.3. Other payables

	2024 $000	2023 $000
Related parties*	7,001	57,028
Other payables and accruals	2,685	2,998
Other payables	**9,686**	**60,026**
Payable within 12 months	9,686	60,026
Other payables	**9,686**	**60,026**

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

Recognition and Measurement

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

7.4. Cash flow disclosures

For the purposes of the statement of cash flows, cash includes cash on hand and at bank and short term deposits at call, net of outstanding bank overdrafts. This section provides a reconciliation of profit after income tax to cash flows from operating activities, detailing the key adjustments needed to convert net income into cash generated by operations. This reconciliation is important for understanding the differences between reported profit and actual cash flows, as it reflects how changes in working capital and non-cash expenses impact the financial position.

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

	2024 $000	**2023 $000**
Profit/(loss) after income tax	30,348	(13,637)
Adjustments for:		
Finance costs	-	1
Interest income	(4,078)	(3,117)
Change in assets and liabilities, excluding net assets acquired:		
(Increase)/decrease in other receivables	(7,183)	(2,028)
(Increase)/decrease in reinsurance contract assets	141,500	(197,686)
(Increase)/decrease in prepayments	-	1
(Increase)/decrease in deferred tax assets	8,675	(5,303)
Increase/(decrease) in other payables	(50,340)	56,864
Increase/(decrease) in insurance contract liabilities	(117,208)	144,705
Increase/(decrease) in deferred tax liabilities	3,127	-
Cash flows from/(used in) operating activities	**4,841**	**(20,200)**

7.5. Other accounting policy disclosures

Accounting policies adopted during the financial year

The Branch adopted the following new or revised accounting standards as applicable which became effective for the annual reporting period commencing on 1 July 2023, none of which had a material impact on the Branch except for NZ IFRS 17 (refer to Note 1.5 for further information).

- NZ IFRS 17 *Insurance Contracts*
- *Disclosure of Accounting Policies - Amendments to NZ IAS 1 and IFRS Practice Statement 2*
- *Definition of Accounting Estimates - Amendments to NZ IAS 8*
- *International Tax reform - Pillar Two Model Rules - Amendments to NZ IAS 12*

Accounting standards and interpretations issued but not yet effective

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

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

	Effective date	Operating year ending
Covenants Non-current Liabilities with Covenants – Amendments to NZ IAS 1 and Classification of Liabilities as Current or Non-current – Amendments to NZ IAS 1	1 January 2024	30 June 2025
Lease Liability in a Sale and Leaseback – Amendments to NZ IFRS 16	1 January 2024	30 June 2025
Supplier Finance Arrangements – Amendments to NZ IAS 7 and NZ IFRS 7	1 January 2024	30 June 2025
Lack of Exchangeability – Amendments to NZ IAS 21	1 January 2025	30 June 2026

8. Events subsequent to balance date

No matters or circumstances have arisen since 30 June 2024 that have significantly affected or may significantly affect the operations of the Branch, the results of those operations or the state of affairs for the Branch.

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

Opinion

We have audited the financial statements of The Hollard Insurance Company Pty Ltd – New Zealand Branch (the “Branch”) which comprises the statement of financial position as at 30 June 2024 and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the Branch’s financial position as at 30 June 2024 and 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)”). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report.

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

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

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

Emphasis of Matter – New Zealand Branch

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

Key Audit Matters

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

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Valuation of insurance contract liabilities Refer to Note 2 to the financial statements. Included in the statement of financial position as at 30 June 2024 is an insurance contract liability totalling NZ$114,392k (2023: NZ$231,600k). The valuation of insurance contract liabilities, in particular the liability for incurred claims, involves a complex estimation process given the inherent uncertainty in estimating the expected present value of future payments for claims incurred. In particular, significant management judgement arises from the assumptions used in the estimation of future payments for claims that have been incurred at the reporting date but have not yet been reported to the Branch, and claims that have been reported but there is uncertainty over the amount which will be settled. The most significant of these assumptions being claims development factors, loss ratios and credibility factors applied to each actuarial methodology used to determine the assumptions.	In conjunction with our actuarial specialists our audit procedures included, but were not limited to: • evaluating the design and implementation of the relevant controls to the actuarial valuation process, including key data reconciliations and technical and peer review management review controls; • testing, on a sample basis, the completeness and accuracy of the underlying data used in the calculation of the insurance contract liabilities including tracing premiums, claims estimates and claims payments to third party evidence; • comparing valuation assumptions to underlying experience or other sources of information to assess reasonableness of the assumptions selected; • assessing the appropriateness of valuation methodologies, processes and models with respect to actuarial standards; • inquiring with management and assessing documentation of integrity checks over the actuarial models; and • assessing the appropriateness of the disclosures in the Notes to the financial statements.

Other Information

The directors on behalf of the Branch are responsible for the other information. The other information comprises the information in the Annual Financial Report that accompanies the Financial Statements and the Audit Report, and the Climate Statement.

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

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

Responsibilities of the Directors for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Branch's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors 'use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Branch's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Branch to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Deloitte Touche Tohmatsu

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Stuart Alexander
Partner
Chartered Accountants
Sydney, 23 September 2024