



Hollard Holdings Australia Pty Ltd

ABN 30 154 586 802

Annual Financial Report

For the year ended

30 June 2021

Contents

Directors' Report	1
Auditor's Independence Declaration	11
Consolidated Statement of Comprehensive Income	12
Consolidated Statement of Financial Position	13
Consolidated Statement of Changes in Equity	14
Consolidated Statement of Cash Flows	16
Notes to the Consolidated Financial Statements	17
1. Overview	17
2. Insurance activities	22
3. Investment activities	35
4. Capital structure	42
5. Risk Management	46
6. Taxation	56
7. Other	59
8. Group Disclosures	66
9. Additional disclosures	68
10. Events subsequent to balance date	73
Directors' Declaration	74
Independent Auditor's Report	75

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2021

Directors

The directors present their report together with the consolidated financial report of Hollard Holdings Australia Pty Ltd (the Company) and its controlled entities (collectively the "Consolidated Entity") for the year ended 30 June 2021 and the auditor's report thereon.

Hollard Holdings Australia Pty Ltd is incorporated in Australia.

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

Duncan West	Chairman & Non-executive Director, Resigned: 23 September 2021
Richard Enthoven	Executive Director
Karl Armstrong	Non-executive Director
Katrina Barry	Non-executive Director
Ellen Comerford	Executive Director
David Matcham	Non-executive Director, Resigned: 30 September 2020
Alexandra Thomas	Executive Director
Jane Tongs	Non-executive Director
Noeline Woof	Non-executive Director

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

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

Jenny O'Neill	Company Secretary	
Orion Riggs	Company Secretary	Resigned: 31 August 2021
Galia Durbach	Company Secretary	

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

Principal activities

The principal activities of the Consolidated Entity during the course of the financial year were the underwriting and sale of general insurance policies and the investment of shareholder and insurance funds in liquid assets and strategic investments in underwriting, insurance related and technology businesses. The Consolidated Entity is regulated as a Level 2 Non-Operating Holding Company by the Australian Prudential Regulation Authority (APRA). All insurance underwriting activities of the Consolidated Entity are conducted by its subsidiary, The Hollard Insurance Company Pty Ltd, a licensed insurer also regulated by APRA and in New Zealand by the Reserve Bank of New Zealand (RBNZ).

The Consolidated Entity offers predominantly short tail general insurance products across Australia and New Zealand through both direct and intermediated channels. Outwards reinsurance is a key part of the Consolidated Entity's business strategy. Outwards reinsurance protections include proportional or quota share arrangements, catastrophe covers and other excess of loss programmes.

The Consolidated Entity's ultimate parent company is IVM Intersurer B.V. (incorporated in the Netherlands).

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2021

There were no significant changes in the nature of activities of the Consolidated Entity during the financial year.

Review and results of operations

The Consolidated Entity and its related parties, underwrite a full range of general insurance products, including motor, home, contents, business, pet and travel; both directly and through several key partnerships in Australia and New Zealand.

The Consolidated Entity operates via four key divisions:

Personal Lines. The Personal Lines division distributes insurance products through three main distribution channels; direct to market, through selected insurance agencies and via a broker network. The Consolidated Entity is the underwriter for all white label and agency arrangements and pays commission based on premium revenue. The Personal Lines division issues home, contents, landlord, motor, mobile phone and travel insurance. The division also has its own insurance brand - Real Insurance, which is offered direct to market. Subsequent to the Balance date, the Consolidated Entity entered into a license agreement which gives the rights to use this brand to a related party. All distribution and administration is performed by the Consolidated Entity for the direct to market and broker channel whereas the agencies perform these functions independently.

PetSure. The Pet Insurance division distributes insurance products for dogs and cats to their pet owners through its wholly owned subsidiary, PetSure (Australia) Pty Ltd, via multiple distribution partners. The Consolidated Entity pays a commission based on premium revenue to the brand distribution partners in return for marketing and distribution services and a commission based on underwriting performance to PetSure (Australia) Pty Ltd in return for underwriting and administration.

Commercial. The Commercial division distributes commercial insurance primarily through its controlled subsidiary, Hollard Commercial Insurance Pty Ltd (HCl). HCl specialises in business insurance products designed to protect everyday risks for Small to Medium Australian businesses via insurance intermediaries. The Consolidated Entity is the underwriter, and the subsidiary distributes and administers the insurance business on behalf of the Consolidated Entity (including via the intermediaries in accordance with intermediary agreements). Intermediaries are remunerated via commission.

New Zealand. The Consolidated Entity underwrites general insurance products in New Zealand via a permanently established New Zealand branch of The Hollard Insurance Company Pty Ltd. The Consolidated Entity distributes general insurance products through New Zealand based underwriting agencies. The key New Zealand agency is Ando Insurance Group Ltd in which the Consolidated Entity has a 39.95% interest. The Consolidated Entity pays a commission based on premium revenue to the New Zealand agencies in return for marketing, distribution and administration services.

The Consolidated Entity is currently implementing an internal reorganisation which will result in changes to the operating structure including the above divisions. The Hollard Insurance Company Pty Ltd's two market facing channels will be Broker & Direct and Agency & New Zealand. Petsure will operate separately reporting into the Managing Director of the Consolidated Entity.

Strategy

The Consolidated Entity's long-term strategic approach to concentrating investment in key distribution partners has continued to support business growth during the financial year with above market revenue growth and has further reinforced its position in the Australian and New Zealand markets as a top 10 general insurer in the segments it operates.

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2021

Key achievements during the year include:

- In June 2021, the Consolidated Entity announced that it was successful in a bid to secure a significant distribution partnership opportunity with Commonwealth Bank (CBA). On completion, this process will see the Consolidated Entity enter into an exclusive, long term integrated partnership with CBA which includes the Consolidated Entity acquiring CBA's general Insurance arm, Commonwealth Insurance Limited (subject to regulatory approval);
- the pet insurance business continued to deliver strong financial performance with demonstrated resilience reflective of pet ownership increasing;
- further growth in the personal lines broker business through a key broker platform, Steadfast Trading Platform and entry into a multi-year distribution agreement for Real branded home and motor products;
- the New Zealand business is progressively moving from its growth phase to focus on insurance margin and realisation of value of its investment in Ando Insurance Group Limited; and
- the Commercial business performed in line with expectations growing GWP compared to the prior year. Underlying claims experience was favourable mainly from fewer than expected catastrophe events in the year. Operating costs increased largely in response to changes in the regulatory environment and potential business interruption related claims.

Culture and Purpose

During the year the Consolidated Entity continued to implement plans for embedding culture (including risk culture) and work toward embedding its purpose statement for all stakeholders - employees, shareholders customers and communities - Empowering a Resilient Future. Further, the Consolidated Entity pledged and achieved zero Covid-related staff job losses on the basis of mutual shared sacrifice from our shareholders, Board, executive leadership team and people; preserving the Hollard family and their livelihoods.

Environmental, Social and Governance (ESG) risks (and the inherent strategic opportunities they afford when actioned) are considered and controlled through multiple frameworks, policies and processes across the business:

Environmental risks, such as those relating to the impact of climate change, are controlled via dedicated pricing for risks from environmental triggers. We have a presence on the Insurance Council of Australia, where we inform industry discussions on environmental issues and through which we are signatories on the United Nations Principles for Sustainable Insurance. Hollard has also committed to its Environmental Policy Statement and is in active discussion with its staff superannuation provider on issues such as Hollard's intent not to support or invest in fossil fuel projects or investments.

Social risks are controlled primarily through our Diversity & Inclusion policies, as well as our Leadership Gender Balance Strategy, Gender Equality Pledge, Flex Both Ways Policy, and our Modern Slavery Statement which is embedded through a risk assessment for strategic investments and suppliers. We address protection of labour standards and human rights via our Work Health and Safety policies and frameworks.

Governance risks, including management structure, Board diversity, employee relations, conflicts of interest, whistleblower, data security, and tax compliance are controlled by various Board-approved and management policies and related frameworks and response plans.

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2021

Recognition

During the year the Consolidated Entity was recognised as an Employer of Choice by Human Resources Director, also receiving a Silver recognition at Pride in Diversity's Australian Workplace Equality index and was Recipient of the Australian HR Awards Excellence in Diversity and Inclusion award. The Consolidated Entity also received White Ribbon Accreditation as an employer committed to the respectful, safe and inclusive treatment of women in the workplace.

Financial Performance

The Consolidated Entity operating result for the year is \$1,643 million Gross Written Premium (GWP) (2020: \$1,413 million), and a loss after tax of \$11 million (2020: \$1 million profit after tax).

Despite challenges imposed during the financial year by the economic downturn and the COVID-19 global pandemic, the Consolidated Entity experienced above market growth in revenue year on year of 16%. All business divisions experienced growth in GWP with PetSure achieving the highest % growth.

Total assets increased by \$478 million or 21% to \$2,775 million mainly driven by an increase in liquid assets together with higher reinsurance and other recoveries in line with business growth. Total liabilities increased by \$341 million or 17% to \$2,355 million reflecting business growth and offsetting a \$40 million decrease to interest bearing liabilities. Total net assets increased by \$137 million to \$420 million, reflecting both the result for the year and additional equity provided by the shareholder.

Financial performance during the year reflects:

- Gross Written Premium (GWP) increased by 16% for the year to \$1,643 million (2020: \$1,413 million);
- improved underlying loss ratios, excluding COVID-19 impacts, in most divisions, partially offset by higher PetSure expenses due to the costs of servicing higher customer numbers;
- an increase in the provision for potential business interruption related claims arising from the COVID-19 pandemic. This was primarily a response to the judgement from the first test case handed down by the Supreme Court of New South Wales Court of Appeal (NSWCA) on 18 November 2020. It determined that certain pandemic related policy exclusion wordings were ineffective. Further legal review by the industry is ongoing with outcomes to be determined. *Refer note 2.3 in the financial statements;*
- the occurrence of two natural peril events (catastrophes) of severe hailstorms and floods across the eastern states, mitigated to a large extent by a comprehensive reinsurance programme, two other major Australian events below the reinsurance programme retention as well as several flood events in New Zealand;
- a business decision to withdraw from travel insurance market in April 2021 due to the unprecedented flow on impacts of COVID-19 across a range of factors including immediate impact on volumes;
- a one off impairment of intangible brand asset and associated goodwill reflecting a new multi year Real Brand distribution agreement for home and motor products, and related licence and call option agreements; and
- fair value of strategic investments uplift of 91% (2020: -20%) reflecting the resilience and continued growth for some of the underlying investee businesses and reversing significant write downs in FY20 in the face of the then onset of COVID-19.

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2021

Impact of COVID-19 upon operations

COVID-19 was declared a world-wide pandemic by the World Health organisation in March 2020. Immediately following the global outbreak of COVID-19, Hollard enacted its Business Continuity Plan (BCP) and transitioned most of its Australian, Philippines and New Zealand workforce to remote working arrangements. Many of Hollard's business partners, clients, suppliers and banking partners also enacted similar arrangements. These actions, coupled with Hollard's prior investment in systems, processes and people has ensured that there have been minimal disruptions to the operations of any of Hollard's business segments due to the ongoing COVID-19 pandemic.

Hollard's risk management framework continues to be applied across operating segments and management continues to monitor the impact of COVID-19 on Hollard's risk profile. Non-financial risks emerging from the ongoing global movement restrictions, continuing periods of lockdown in certain locations, hybrid and remote working by our staff, counterparties, clients, and suppliers, are being identified, assessed, managed and governed through the timely application of Hollard's risk management framework. The Consolidated Entity is aware of the ongoing physical and emotional impact on its staff and continues to implement and develop programs to help them through this period.

Many business interruption (BI) policies in Australia sought to exclude cover for pandemics through a reference to the Quarantine Act, however the Quarantine Act was repealed in 2015 and replaced by the Biosecurity Act. A test case on whether the Quarantine Act reference should be construed as a reference to the Biosecurity Act was heard in 2020 in the NSW Court of Appeal. The Hollard Insurance Company Pty Ltd was one of two insurers in Australia who appeared as a named party to that industry test case. In October 2020, the Court of Appeal ruled in favour of policyholders and that judgment was upheld in June 2021 when the High Court denied insurers' application for special leave to appeal. However, there are further interpretations of aspects of business interruption policies that need to be resolved to establish whether policyholders will ultimately be covered and so a second industry test case commenced in the Federal Court of Australia on 6 September 2021.

Hollard has considered the impact of the ongoing COVID-19 pandemic and other market volatility in preparing these financial statements. Whilst the specific areas of judgement noted in prior years has not changed, the impact of COVID-19 has resulted in the wider application of judgement within those identified areas. Given the dynamic and evolving nature of the COVID-19 pandemic, the recent experience of the economic and financial impacts of the pandemic, changes to the estimates and outcomes that have been applied in the measurement of the Hollard's assets and liabilities may arise in the future. It should be noted that against a background of relative uncertainty surrounding how COVID-19 and its social and economic consequences will unfold, these estimates represent the Consolidated Entity's views as they existed at 30 June 2021.

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2021

The Consolidated Entity's business and financial performance has been impacted by COVID-19 during the year primarily in the following areas:

- Some pressure on GWP particularly in the travel segment with large reduction of premium income since the beginning of the COVID-19 pandemic, a business decision in April 2021 to cease underwriting of travel business, noting that this product line accounted for 1.6% of total GWP in 2020. Other business lines initially experienced downward pressure on GWP such as lower motor premium through July and August 2020, however this was alleviated particularly in pet insurance in line with increased pet ownership.
- Fair value positive adjustments in associates and other strategic investments reflecting continued growth as well as the reversal of some uncertainties applied in valuations at 30 June 2020 where a number of these investments have proved to be resilient and recover faster than previously anticipated. Refer note 3.4 to the financial statements which accompany this report.
- Claims experience impacted by higher PetSure claims volume, offset by improved motor claims frequency.
- Additional operating expenses primarily related to cost of servicing higher PetSure customer numbers and increased claims frequency in PetSure, partially offset by targeted reduction in operating expenses such as travel and entertainment expenses in line with principles introduced as a result of the COVID-19 pandemic. The Consolidated Entity did not receive any JobKeeper payments during the year.
- For specific potential COVID-19 claim impacts, additional allowances have been included in FY21 for landlord and business interruption (BI) insurance products. As there is a high level of uncertainty associated with the underlying circumstances, these have been estimated exercising significant judgement. In particular, for potential business interruption claims the allowance (the BI Allowance) has been determined on a probability weighted basis. Further provisions at 30 June 2021 have been recognised during the period, primarily as a response to the judgement arising from the first test case, in addition to the amount recognised at 30 June 2020. The adequacy of the provision and exposure continues to be monitored. Refer note 2.3 to the financial statements which accompany this report.
- The Consolidated Entity has identified areas requiring improvement within the product lifecycle governance of insurance risk management as a result of the BI experience.

In response to the impacts of the ongoing COVID-19 pandemic and the increased economic uncertainty the Consolidated Entity has continued to implement and update a range of actions to ensure that the implications arising from future uncertainty are properly considered including increased risk analysis, monitoring and reporting on key factors including liquidity, capital, reinsurance, claims, business continuity, workforce operating model, cyber, compliance and customer service.

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2021

Capital

The Consolidated Entity's capital management strategy is founded on ensuring that there are sufficient capital resources (both economic and regulatory) to maintain and grow business in accordance with risk appetite. The Consolidated Entity's Internal Capital Adequacy Assessment Process (ICAAP) provides the framework to ensure that the Consolidated Entity is sufficiently capitalised to meet future requirements.

Refer note 4 to the financial statements which accompany this report.

The Consolidated Entity's regulatory capital base at 30 June 2021 comprised Common Equity Tier 1 (CET1) of \$296 million with the regulatory capital adequacy multiple during the year within or above the target operating range and at close of financial year was 1.64.

Refer note 4.3 to the financial statements which accompany this report.

Additionally, the Consolidated Entity's capital base includes significant investments in strategic assets (insurance and insurance related assets), the value of which, are largely not included in the regulatory capital base.

During the financial year, the Consolidated Entity's shareholder, Hollard Investments B.V. reinforced its commitment to the business, to support continued growth and business obligations by investing Tier 1 capital of \$148.7 million which included the replacement of existing \$40 million Tier 2 subordinated notes it held issued by the Consolidated Entity.

Investment Activities

The Consolidated Entity has continued to adopt a conservative investment strategy throughout the year with focus on maintaining a high degree of liquid investments supporting insurance activities. During the year the employment of the liquidity management strategy resulted in an increase in liquid assets from \$488 million to \$792 million at 30 June 2021 comprised of cash and cash equivalents \$489 million (2020: \$253 million) and term deposits \$303 million (2020: \$235 million). Liquid assets are predominantly invested with approved APRA Authorised Deposit-Taking Institutions with a minimum credit rating of A (Standard and Poor's).

In addition, in line with its strategic partnership model, the Consolidated Entity has strategic debt and equity investments of \$83 million (2020: \$44 million). This is mainly comprised of longer-term investments in unlisted insurance agencies and other companies involved in insurance related businesses. During the year the Consolidated Entity disposed of all of its interest in Ukawa Pty Ltd and All Parks Pty Ltd, as well as a partial divestment of ListSure Pty Ltd; realising a profit on disposal of investments in the year of \$3 million (2020: \$3 million).

Refer note 3.4 and 7.3 to the financial statements which accompany this report.

Reinsurance

As part of its reinsurance management strategy, during the financial year the Consolidated Entity pro-actively worked to review and renew the components of its reinsurance programme that were expiring. At 30 June 2021, the Consolidated Entity successfully implemented the revised programme. Strategically Hollard has utilised less reinsurance with some terms no longer commercially acceptable as reinsurance markets continue to harden.

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2021

Rating

On 18 February 2021, AM Best affirmed the Financial Strength Rating of A- (Excellent) and the Long-Term Issuer Credit Rating of "a-" with the outlook of these Credit Ratings being stable.

Regulatory

During the financial year, the Consolidated Entity continued to deliver reform across those matters flagged in the APRA self-assessment in 2019. This program of works is across risk governance, culture and accountability. Over this period, to implement these identified reforms, there has been significant investment across risk and compliance resources (principally people) identified to enable the reform plan.

The Australian Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry resulted in significant regulatory change to the Financial Services market including General Insurance. Whilst all reform laws were originally scheduled to commence in April 2021, most laws were postponed by 6 months to October 2021 due to impediments caused by COVID-19. Regulators also agreed to defer most of their regulatory agenda by 6 months.

During the financial year, the Consolidated Entity has systematically actioned a work plan to ensure readiness for changes to laws affecting insurers. A key activity during the financial year was a review and update of policy wordings across the business to ensure compliance with the Unfair Contracts regime which commenced in April 2021. The regulator took active oversight and provided its direct guidance on policy terms. Work streams continued to prepare the business for changes to the General Insurance Code of Practice in July 2021, and 5 additional changes in October 2021, most notably the Product Design and Distribution Obligations (RG 274). An additional workstream has covered additional diligence required on how Hollard delivers claim services. This change comes into effect at the end of 2021.

The work plan will continue to be progressed so as to meet legislative requirements on a timely basis.

Significant changes in the State of Affairs

The economic downturn linked to the ongoing COVID-19 pandemic has had a range of impacts on the Consolidated Entity's business and financial performance during the year as noted earlier.

There is increased uncertainty in the estimates and judgements required in the preparation of the financial statements caused by the unprecedented and ongoing impact of the COVID-19 pandemic.

Dividends

No dividends have been paid or proposed for the 2021 financial year.

Events Subsequent to Balance Date

The directors note that subsequent to the reporting period there has been ongoing business and economic uncertainty caused by COVID-19 developments across Australia with further lockdowns across many Cities, regions and all of NSW with an extended lockdown period across Sydney and Melbourne, the enforcement of interstate border controls by a number of Australian states, re-tightening of social distancing rules, and announcements with regard to State and Federal Government support packages. While the related business impact of this uncertainty remains highly unpredictable, the Consolidated Entity has considered the impact of these developments on its estimates and judgements.

Refer note 1.6 Critical Judgements and Estimates to the financial statements which accompany this report.

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2021

A second industry test case hearing in the Federal Court of Australia, in respect of business interruption policies, concluded on 15 September 2021 with judgment reserved. The Consolidated Entity is not a named party to the second test case but the findings of the case are relevant to the BI coverages in the Consolidated Entity's policies. Final legal positions on BI coverages are expected to be provided by the Federal Court by the end of the calendar year 2021.

Refer note 2.3 in the financial statements.

In the opinion of the directors, there were no events other than those listed above that have arisen since 30 June 2021 that have significantly affected, or may significantly affect, the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in future financial years.

Likely Developments

Information about likely developments in the operations of the Consolidated Entity 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 Consolidated Entity.

Corporate Address

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

Level 12
465 Victoria Avenue
Chatswood NSW 2067
Australia
Tel: (02) 9253 6600
Fax: (02) 9253 6699
www.hollard.com.au

Auditor's Independence

The auditor's independence declaration is set out on page 11 and forms part of the directors' report for the year ended 30 June 2021.

Indemnification of officers and auditors

During the financial year the Consolidated Entity paid an insurance premium in respect of a contract insuring the directors and other officers of the Consolidated Entity and all executive officers of the Consolidated Entity and of any related body corporate against a liability insured as such a director, officer or executive officer to the extent permitted by the Corporations Act 2001. Such insurance relates to any costs, including legal expenses incurred by directors or officers of the Consolidated Entity and of any related body corporate, in defending proceedings, whether civil or criminal, and other liabilities that may arise from their positions, with the exception of conduct involving any dishonest or fraudulent act, a 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 Consolidated Entity, as such disclosure is prohibited under the terms of the contract.

The Consolidated Entity 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 the Consolidated Entity or of any related body corporate against a liability incurred as such an officer or auditor.

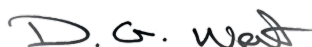
Directors' Report

FOR THE YEAR ENDED 30 JUNE 2021

Rounding off

The Company and the Consolidated Entity is of a kind referred to in ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191 dated 24 March 2016, and in accordance with that Corporations Instrument, amounts in the directors' report and the financial statements are rounded off to the nearest thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of the directors.



Duncan West
Chairman & Non-executive Director



Richard Enthoven
Executive Director

Dated at Sydney 23 September 2021

Auditor's Independence Declaration

FOR THE YEAR ENDED 30 JUNE 2021

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060
Grosvenor Place
225 George Street
Sydney, NSW, 2000
Australia

Phone: +61 2 9322 7000
www.deloitte.com.au

23 September 2021

The Board of Directors
Hollard Holdings Australia Pty Ltd
Level 12, 465 Victoria Avenue
Sydney, NSW, 2067

Dear Directors

Auditor's Independence Declaration to Hollard Holdings Australia Pty Ltd

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the Directors of Hollard Holdings Australia Pty Ltd.

As lead audit partner for the audit of the financial report of Hollard Holdings Australia Pty Ltd for the year ended 30 June 2021, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- The auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- Any applicable code of professional conduct in relation to the audit.

Yours faithfully

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Max R Murray

Max Murray
Partner
Chartered Accountants

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Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2021

	Notes	2021 \$000	2020 \$000
Gross written premium		1,643,200	1,413,012
Unearned premium movement		(126,352)	(96,722)
Gross earned premium revenue	2.1	1,516,848	1,316,290
Outward reinsurance premium		(824,633)	(760,758)
Deferred reinsurance premium movement		33,052	65,520
Outward reinsurance premium expense	2.6	(791,581)	(695,238)
Net earned premium		725,267	621,052
Gross claims expense	2.2	(1,010,265)	(936,900)
Reinsurance and other recoveries revenue	2.1	510,213	543,616
Net claims expense		(500,052)	(393,284)
Acquisition expenses	2.7	(337,613)	(287,620)
Reinsurance commission revenue	2.1	265,294	234,737
Net acquisition expense		(72,319)	(52,883)
Levies and charges		(27,374)	(24,369)
Operating expenses	2.11	(190,757)	(161,575)
Underwriting result		(65,235)	(11,059)
Net investment income	3.1	46,935	(7,100)
Other income	3.8	16,259	13,432
Other expenses		(1,667)	-
Finance costs	4.2, b)	(835)	(2,062)
Foreign exchange gains (net)		(338)	167
Impairment of non-current assets	7.3	(22,276)	(164)
Loss before income tax		(27,157)	(6,786)
Income tax benefit	6.1	16,339	7,586
(Loss)/profit after income tax		(10,818)	800
Other comprehensive income			
Net movement in foreign currency translation reserve		(101)	(595)
Actuarial gain/(loss) on defined benefit plan		(8)	-
Income tax relating to these components of other comprehensive income		30	179
Other comprehensive loss after income tax		(79)	(416)
Total comprehensive income /(loss) after income tax		(10,897)	384
Profit after income tax attributable to:			
Shareholders of the Company		(12,087)	402
Non-controlling interests		1,269	398
		(10,818)	800
Other comprehensive income after income tax attributable to:			
Shareholders of the Company		(79)	(416)
Non-controlling interests		-	-
		(79)	(416)

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

Consolidated Statement of Financial Position

AS AT 30 JUNE 2021

	Notes	2021 \$000	2020 \$000
ASSETS			
Cash and cash equivalents	3.2	488,908	253,060
Financial assets	3.3	303,472	234,672
Trade and other receivables	2.9	819,818	752,537
Reinsurance and other recoveries on outstanding claims	2.4	264,669	241,354
Deferred reinsurance expense	2.6	460,958	428,197
Deferred acquisition expense	2.7	171,252	150,067
Deferred levies and charges		16,130	12,264
Strategic Investments	3.4	82,604	44,061
Prepayments		5,958	4,913
Assets held for sale	7.1	4,516	-
Property, plant and equipment	7.2	5,613	7,470
Goodwill and intangible assets	7.3	97,459	125,237
Right-of-use assets	7.5	9,838	14,450
Deferred tax assets	6.2	40,483	26,762
Current tax assets		3,347	2,053
Total assets		2,775,025	2,297,097
LIABILITIES			
Trade and other payables	2.10	719,525	615,308
Outstanding claims liability	2.3	558,490	414,472
Unearned premium liability	2.5	874,714	748,541
Unearned reinsurance commission	2.8	141,584	138,922
Provisions	7.4	22,633	12,856
Interest-bearing liabilities	4.2	-	40,000
Lease liabilities	7.5	11,198	14,753
Deferred tax liabilities	6.2	26,963	29,145
Total liabilities		2,355,107	2,013,997
Net assets		419,918	283,100
EQUITY			
Contributed equity	4.1	371,755	224,040
Reserves		(405)	(326)
Retained earnings		45,185	57,272
Total equity attributable to equity holders of the Company		416,535	280,986
Non-controlling interests		3,383	2,114
Total equity		419,918	283,100

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

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2021

	Attributable to the shareholder					
	Share Capital	Reserves	Retained earnings	Total	Non- controlling interests	Total equity
2021	\$000	\$000	\$000	\$000	\$000	\$000
As at 1 July 2020	224,040	(326)	57,272	280,986	2,114	283,100
Adjusted balance at the beginning of the financial year	-	-	-	-	-	-
(Loss)/profit for the period	-	-	(12,087)	(12,087)	1,269	(10,818)
Other comprehensive income (Note 1)	-	(79)	-	(79)	-	(79)
Total comprehensive income/(loss)	-	(79)	(12,087)	(12,166)	1,269	(10,897)
<i>Transactions with owners in their capacity as owners:</i>						
Issue of shares (Note 1)	147,715	-	-	147,715	-	147,715
	147,715	-	-	147,715	-	147,715
At 30 June 2021	371,755	(405)	45,185	416,535	3,383	419,918

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

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2021

	Attributable to the shareholder					
	Share Capital (Note 1)	Reserves (Note 1)	Retained earnings	Total	Non- controlling interests	Total equity
2020	\$000	\$000	\$000	\$000	\$000	\$000
As at 1 July 2019	220,880	90	56,809	277,779	1,681	279,460
Impact due to change in accounting standard: AASB 16	-	-	61	61	-	61
Adjusted balance at the beginning of the financial year	-	-	61	61	-	61
Profit for the period	-	-	402	402	398	800
Other comprehensive income (Note 1)	-	(416)	-	(416)	35	(381)
Total comprehensive income/(loss)	-	(416)	402	(14)	433	419
<i>Transactions with owners in their capacity as owners:</i>						
Issue of shares (Note 1)	3,160	-	-	3,160	-	3,160
	3,160	-	-	3,160	-	3,160
At 30 June 2020	224,040	(326)	57,272	280,986	2,114	283,100

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

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2021

	Notes	2021 \$000	2020 \$000
CASH FLOWS FROM OPERATING ACTIVITIES			
Premiums received		1,525,702	1,275,831
Reinsurance and other recoveries received		493,939	459,533
Reinsurance commission received		285,307	218,416
Interest received		1,544	2,586
Dividends received		251	345
Other income received		(422)	469
Outwards reinsurance paid		(751,011)	(636,066)
Claims paid		(866,248)	(830,620)
Acquisition costs paid		(338,164)	(277,209)
Levies and insurance operating costs paid		(148,397)	(145,131)
Income tax paid		243	(6,187)
Interest paid – lease liabilities		(293)	(669)
Net cash flows from operating activities	9.1, a)	202,451	61,298
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments		(1,253)	2,658
Payment for term deposits		(68,505)	11,258
Receipts from sale of investments		5,724	2,184
Loans advanced		(390)	(4,100)
Loan repayments received		1,101	17,717
Payments for property, plant and equipment		(1,203)	(5,336)
Purchase of intangible assets		(4,487)	(4,155)
Net cash flows (used in)/from investing activities		(69,013)	20,226
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		147,715	3,191
Proceeds from borrowings		699	937
Finance costs paid		(848)	(2,062)
Repayment of borrowings		(40,000)	-
Payment of lease liabilities		(5,156)	(5,340)
Net cash flows from/(used in) financing activities		102,410	(3,274)
Net increase in cash held		235,848	78,250
Cash and cash equivalents at 1 July		253,060	174,810
Cash and cash equivalents at the end of the financial year	3.2	488,908	253,060

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

1. OVERVIEW

1.1. About Hollard Holdings Australia Pty Ltd

Hollard Holdings Australia Pty Ltd (the Company) is a for-profit company domiciled in Australia. The consolidated financial statements as at and for the year ended 30 June 2021 include the Company and its controlled entities (together referred to as “the Consolidated Entity”).

The principal activity of the Consolidated Entity during the course of the financial year was the underwriting and sale of general insurance policies and the investment of shareholders' and insurance funds. Underwriting of general insurance policies occurs in Australia as well as New Zealand, via a permanently established New Zealand branch of the subsidiary entity.

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

The Consolidated Entity's immediate parent company is Hollard Investments B.V. and ultimate parent company is IVM Intersurer B.V. (both incorporated in the Netherlands).

1.2. About these Financial Statements

The financial statements comprise the Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Equity, Consolidated 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 Consolidated Entity's insurance activities.

3. Investment activities and other income includes results and statement of financial position disclosures relevant to the Consolidated Entity's investments as well as the significant components of other income.

4. Capital structure provides information about the debt and equity components as well as the capital management practices of the Consolidated Entity.

5. Risk management provides commentary on the Consolidated Entity's exposure to various risks, explaining the potential impact on the results and statement of financial position and how the Consolidated Entity manages these risks.

6. Tax includes disclosures relating to the Consolidated Entity's income tax balances.

7. Other includes statement of financial position items such as property, plant and equipment as well as goodwill and intangible assets.

8. Group disclosures includes a listing of the entities comprising the Consolidated Entity, as well as summarised information in respect of the Company.

9. Additional disclosures includes disclosures required to comply with Australian Accounting Standards.

10. Events Subsequent To Balance Date includes report on events subsequent to balance date.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

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 Australian Accounting Standards.
- 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 consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) and Interpretations adopted by the Australian Accounting Standards Board (AASB), the Corporations Act 2001 and comply with other requirements of law. Compliance with Australian Accounting Standards ensures that the financial statements comply with International Financial Reporting Standards (IFRSs) adopted by the International Accounting Standards Board. The financial statements were authorised for issue by the directors on the 23 September 2021.

1.4. Basis of preparation

The financial report for the period ended 30 June 2021 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 2021, the Consolidated Entity recorded a net loss after tax of \$11 million (2020: net profit \$1 million) and had net assets of \$361 million (2020: \$215 million). The Consolidated Entity had available \$792 million of cash and other assets to meet day to day obligations as they fall due. The Consolidated Entity has no external borrowings. The Consolidated Entity's regulatory capital base at 30 June 2021 comprised CET1 of \$296 million with the regulatory capital adequacy multiple at close of financial year of 1.64.

The financial statements are prepared on the basis of historical costs except for financial assets and strategic investments that are stated at their fair value through profit or loss and outstanding claims and related reinsurance recoveries that are discounted to present value using a risk-free rate.

The Company is a company of the kind referred to in ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191 dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the directors' report and financial statements have been rounded off to the nearest one thousand dollars unless otherwise stated.

The consolidated 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).

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

Basis of consolidation

The consolidated financial statements of the economic entity incorporate the financial statements of the Consolidated Entity, being the Company, entities controlled by the Company and subsidiaries. Control is achieved when the Consolidated Entity:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Consolidated Entity reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above. When the Consolidated Entity has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Consolidated Entity considers all relevant facts and circumstances in assessing whether or not the Consolidated Entity's voting rights in an investee are sufficient to give it power, including:

- the size of the Consolidated Entity's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Consolidated Entity, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Consolidated Entity has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Consolidated Entity obtains control over the subsidiary and ceases when the Consolidated Entity loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Consolidated Entity gains control until the date when the Consolidated Entity ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Consolidated Entity and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Consolidated Entity and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Consolidated Entity's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Consolidated Entity are eliminated in full on consolidation.

Changes in ownership interests in existing subsidiaries

Changes in ownership interests in subsidiaries that do not result in the Consolidated Entity losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Consolidated Entity's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

When the Consolidated Entity loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Consolidated Entity had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable AASBs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under AASB 139, when applicable, and the cost on initial recognition of an investment in an associate or a joint venture.

Presentation and foreign currency

The financial statements are presented in Australian dollars, which is the presentation currency of the Consolidated Entity. Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at reporting date are translated to Australian dollars using reporting date exchange rates. Resulting exchange differences are recognised in profit or loss.

The results and statement of financial positions of foreign operations that have a functional currency different from the Consolidated Entity's presentation currency of Australian dollars are translated as follows:

- income, expenses and other current period movements in comprehensive income are translated using monthly average rates of exchange; and
- statement of financial position items are translated at the closing balance date rates of exchange.

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

	2021		2020	
	Profit or loss	Statement of financial position	Profit or loss	Statement of financial position
AUD/NZD	1.07	1.07	1.07	1.07

1.5. Significant accounting policies adopted

The principal accounting policies adopted in the preparation of the financial statements have been applied consistently to all periods presented, unless stated otherwise. The significant accounting policies adopted in the preparation of these financial statements are set out within the relevant note to the financial statements.

1.6. Critical accounting judgements and estimates

The preparation of financial statements in conformity with Australian Accounting Standards 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.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

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

Critical Accounting judgements and estimates	Note
- Outstanding claims liability	2.3
- Reinsurance and other recoveries on outstanding claims	2.4
- Liability adequacy test	2.5.a
- Trade and other receivables	2.9
- Determination of fair value of strategic investments	3.7
- Recognised Deferred Income Tax Balances	6.2
- Intangible assets initial measurement, impairment testing and useful life	7.2

COVID-19 Impact on use of Judgements and Estimates

There is increased judgement and estimation uncertainty in the preparation of the financial statements and related note disclosures caused by the unprecedented and ongoing impact of COVID-19. Accounting estimates in these financial statements have been based on projections of economic and operating conditions that reflect expectations and assumptions about future events that the Directors believe are reasonable in the circumstances and at the time of finalisation of the financial statements. In preparing these projections there is a considerable degree of judgement and the underlying assumptions are also subject to uncertainties that may be outside the control of the Consolidated Entity. Where actual economic and operating conditions in the future differ from those projected, accounting estimates included in these financial statements may be significantly impacted. The significant accounting estimates that are impacted by the uncertainties caused by the economic downturn and COVID-19 predominantly relate to the valuation of outstanding claim liabilities, unearned premium liabilities, potential credit losses for both insurance and non insurance related receivables, fair valuation measurement on investments and recoverable amount assessments.

For further detail on the impact of COVID-19 on the Consolidated Entity's estimates and judgements please refer notes 2.3, 2.5, 2.9, 3.7, 7.3.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

2. INSURANCE ACTIVITIES

Contracts under which the Consolidated Entity 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.

2.1. General insurance revenue

Premium revenue from general insurance business relates to amounts charged to policyholders for the provision of insurance cover. Premium revenue includes fire service levies but excludes stamp duties, goods and services tax (GST) and other amounts collected on behalf of third parties. Premiums are disclosed net of premium refunds and discounts.

To mitigate the Consolidated Entity's insurance risk profile, the Consolidated Entity passes some of its underwriting exposure to reinsurance companies. The premiums paid to reinsurers are an expense to the Consolidated Entity, whereas recoveries under the reinsurance contracts are recognised as revenue. These recoveries can either be in relation to operating costs (reinsurance commission) or underwriting risk (reinsurance recoveries).

	2021	2020
	\$000	\$000
Gross earned premium revenue	1,516,848	1,316,290
Other insurance revenue		
Reinsurance and other recoveries revenue	510,213	543,616
Reinsurance commission revenue	265,294	234,737
Total general insurance revenue	2,292,355	2,094,643

Recognition and Measurement

Premium Revenue

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

The proportion of premium received, or receivable not earned in the statement of comprehensive income at the reporting date is recognised in the statement of financial position as an unearned premium liability.

Premiums on unclosed business are brought to account using estimates based on information provided by the different intermediaries and allowing for any changes in the pattern of new business and renewals.

Reinsurance and Other Recoveries

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

Reinsurance Commission Revenue

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

Where applicable, the reinsurance commission revenue also includes income which is based on the expected profitability of the covered business ceded to the reinsurer. The final value of the variable commission revenue recognised is subject to the achievement of a specified underlying profitability hurdle rate over time. This variable revenue is recognised over the term of the reinsurance contract on a straight line, or other systematic basis, in accordance with the terms of the contract, and is reassessed at each reporting date.

2.2. Claims expense

The gross claims expense in the statement of comprehensive income comprises claims paid and the change in the liability for outstanding claims, both reported and unreported, including a risk margin and claims handling expenses.

	2021			2020		
	Current period \$000	Prior years \$000	Total \$000	Current period \$000	Prior years \$000	Total \$000
Gross claims expense						
Gross claims - undiscounted	993,221	16,886	1,010,107	956,268	(20,626)	935,642
Discount	(658)	816	158	(727)	1,985	1,258
Gross claims - discounted	992,563	17,702	1,010,265	955,541	(18,641)	936,900
Reinsurance and other recoveries revenue						
Reinsurance and other recoveries - undiscounted	(522,831)	12,672	(510,159)	(546,491)	3,501	(542,990)
Discount	295	(349)	(54)	393	(1,019)	(626)
Reinsurance and other recoveries - discounted	(522,536)	12,323	(510,213)	(546,098)	2,482	(543,616)
Net claims expense	470,027	30,025	500,052	409,443	(16,159)	393,284

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

2.3. Outstanding claims liability

A liability is recorded at the end of the year for the estimated cost of claims incurred but not settled at the reporting date. The determination of the outstanding claims liabilities involves two steps:

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

	2021 \$000	2020 \$000
Gross undiscounted central estimate	528,454	395,795
Plus: Risk margin	30,842	19,515
	559,296	415,310
Discount to present value	(806)	(838)
Gross outstanding claims liability	558,490	414,472
Payable within 12 months	338,487	313,095
Payable greater than 12 months	220,003	101,377
	558,490	414,472

A stabilisation reserve of \$2.8 million (2020: \$5.1 million) is included in the outstanding claims liability which represents a provision held for certain partners in the Personal lines, Pet and Commercial division where a component of the profit share payable is withheld as a buffer against adverse claims development.

Recognition and Measurement

Gross central estimate

The liability for outstanding claims is measured as the central estimate of the present value of expected future payments against claims incurred at the reporting date under general insurance contracts issued by the Consolidated Entity, with an additional risk margin to allow for the inherent uncertainty in the central estimate. Under the Institute of Actuaries of Australia Professional Standard 300 "Valuations of General Insurance Claims", the central estimate is the best estimate of the expected liabilities for outstanding claims based on information currently available and exhibits no bias either towards a pessimistic or an optimistic outcome.

The expected future payments include those in relation to claims reported but not yet paid, claims incurred but not yet reported, claims incurred but not enough reported and anticipated claims handling expenses. The expected future payments are discounted to present value using a risk-free rate.

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

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

	2021 \$000	2020 \$000
Balance at beginning of financial year	414,472	308,192
Claims expense – prior accident year	16,886	(20,626)
Incurred claims recognised in profit or loss	993,221	956,269
Discount movement	31	334
Claims payments	(865,626)	(829,712)
Foreign exchange	(494)	15
Balance at end of financial year	558,490	414,472

Risk margin

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

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

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

	2021	2020
Net overall risk margin applied	12.1%	13.4%

Critical Accounting Estimates and Judgements

Gross central estimate

The estimation of claims incurred but not reported (IBNR) is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Consolidated Entity, 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 Consolidated Entity uses a variety of estimation techniques, generally based upon statistical analyses of historical Consolidated Entity and general industry experience that assumes that the development pattern of the current claims will be consistent with past Consolidated Entity 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 Outstanding Claims and Premium Liabilities at the reporting date can be estimated.

COVID-19 Impact on use of Judgements and Estimates

The Consolidated Entity's insurance portfolio has continued to experience several impacts due to the ongoing COVID-19 pandemic. As a result of the current unprecedented environment, there is a risk that the associated economic factors are more or less severe than estimated and allowed for in the outstanding claim liabilities established at the balance date. As a result, the development of claims over time could result in a higher or lower than estimated ultimate claim cost.

It is expected that the impact of COVID-19 on claims experience will materially differ depending on the class of business and may impact more than one financial year. The motor portfolio has continued to be impacted through favourable claim frequency due to various periods of restrictions imposed in different parts of Australia and New Zealand which consequentially reduced vehicle usage. In respect of other classes of business, where the effect of COVID-19 on insurance liabilities is quantifiable and reflected in the data, the impact has been appropriately captured within the outstanding claim liabilities. Where claim cost calculations are highly uncertain as a result of COVID-19 or the current economic downturn being experienced, the Consolidated Entity has recognised a separate net outstanding claim provision in relation to its Australian business. This provision has been estimated exercising significant judgement on a probability-weighted basis on a range of variables and relates to potential claims made on business interruption and landlord insurance policies.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

Many business interruption policies in Australia sought to exclude cover for pandemics through a reference to the Quarantine Act, however the Quarantine Act was repealed in 2015 and replaced by the Biosecurity Act. A test case on whether the Quarantine Act reference should be construed as a reference to the Biosecurity Act was heard in 2020 in the NSW Court of Appeal. The Consolidated Entity was one of two insurers in Australia who appeared as a named party to that industry test case. In October 2020, the Court of Appeal ruled in favour of policyholders and that judgment was upheld in June 2021 when the High Court denied insurers' application for special leave to appeal. However, there are further interpretations of aspects of business interruption policies that need to be resolved to establish whether policyholders will ultimately be covered. A second industry test case hearing in the Federal Court of Australia concluded on 15 September 2021 with judgment reserved. The Consolidated Entity is not a named party to the second test case but the findings of the case are relevant to the BI coverages in the Consolidated Entity's policies. Final legal positions on these matters are expected to be provided by the Federal Court by the end of calendar year 2021.

In particular, in determining the estimate for the COVID-19 specific element relating to business interruption coverage, and the relevant allowance, significant judgement has been exercised. The key areas where judgement has been exercised include the policy exposure period, the estimation of potential economic loss, related key macroeconomic variables (including unemployment and nature and extent of impacted industries), the impact of government grants and subsidies, reinsurance coverage and legal outcomes. There is a large degree of uncertainty related to the judgement areas used in the estimation and therefore the range of potential financial outcomes in relation to these matters is abnormally wide. Consequently, the associated estimated allowance reflects a substantial risk margin. Refer note 1.6 for further details on judgements and estimates used related to impact of COVID 19.

Key Assumptions

The outstanding claims liabilities included in the reported results are calculated based on the key actuarial assumptions as disclosed below:

	2021				2020			
	Personal Lines	Pet	Commercial	New Zealand	Personal Lines	Pet	Commercial	New Zealand
Discounted mean term	0.51	0.35	2.01	0.55	0.57	0.37	2.88	0.57
Discount rate	0.15%	0.04%	0.28%	0.44%	0.32%	0.24%	0.41%	0.28%
Inflation rate	2.54%	2.50%	3.18%	2.50%	3.25%	3.25%	4.43%	3.48%
Claims handling expense rate	3.06%	2.25%	3.89%	0.40%	2.81%	2.25%	2.60%	0.40%

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

Inflation rate

For most valuation methods an implicit allowance for future claims inflation is incorporated to the extent that it is present in the claims experience analysed. For one valuation method, which does not have a material bearing on the valuation outcomes, an explicit inflation assumption is required. For short tail valuation portfolios, the only portfolios for which this method is used, the inflation assumption is 2.87% (2020: 3.77%).

Claims handling expense rate

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

Sensitivity Analysis

The movement in any of the above key actuarial assumptions will impact the performance and equity of the Consolidated Entity. The table below describes how a change in each of the assumptions will affect the Consolidated Entity. 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.

	Sensitivity	Impact on claims liability	2021	2020
			\$'000	\$'000
Discounted mean term	+ 6 mths	Increase claims liability	3,705	2,758
	- 6 mths	Reduce claims liability	(3,658)	(2,713)
Discount rate	+ 1% p.a.	Increase claims liability	(3,638)	(2,520)
	- 1% p.a.	Reduce claims liability	3,722	2,585
Inflation rate	+ 1% p.a.	Increase claims liability	3,591	2,475
	- 1% p.a.	Reduce claims liability	(3,581)	(2,462)
Claims handling expense rate	+ 1% p.a.	Increase claims liability	5,441	4,145
	- 1% p.a.	Reduce claims liability	(5,441)	(4,145)

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

a) Claims development

Claims development tables are disclosed in order to put the claims estimates included in the financial statements into context, allowing comparison of those claims estimates with the claims results seen in previous years. In effect, the table highlights the Consolidated Entity's ability to provide an estimate of the total value of claims. The top part of the table provides a review of current estimates of cumulative claims and demonstrates how the estimated claims have changed at subsequent reporting or accident year-ends. The lower part of the table provides a reconciliation of the total reserve included in the statement of financial position and the estimates of cumulative claims.

	Earlier	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Projected net ultimate claims cost for long tail claims at:												
Earlier	12,143	3,389	2,475	3,740	2,866	2,950	5,615	8,737	17,596	17,956	21,201	98,668
Year 1	11,645	3,558	3,236	3,587	2,568	2,425	5,972	7,911	17,987	16,873	-	75,762
Year 2	14,520	3,048	3,403	3,368	2,056	2,319	5,773	9,694	17,103	-	-	61,284
Year 3	20,188	3,585	3,491	2,827	2,454	2,236	5,726	11,051	-	-	-	51,558
Year 4	22,708	4,337	4,508	2,878	2,818	2,322	5,787	-	-	-	-	45,358
Year 5	24,310	4,054	4,732	2,903	2,968	2,102	-	-	-	-	-	41,069
Year 6	26,097	3,879	4,487	2,847	2,542	-	-	-	-	-	-	39,852
Year 7	27,222	3,659	4,397	2,783	-	-	-	-	-	-	-	38,061
Year 8	27,427	3,346	4,558	-	-	-	-	-	-	-	-	35,331
Year 9	26,693	3,129	-	-	-	-	-	-	-	-	-	29,822
Year 10	26,670	-	-	-	-	-	-	-	-	-	-	26,670
Current estimate of net ultimate claims payments	26,670	3,129	4,558	2,783	2,542	2,102	5,787	11,051	17,103	16,873	21,201	113,799
Cumulative net payments to date	25,974	3,129	3,898	2,780	2,509	1,813	4,023	6,046	7,808	4,786	2,579	65,345
Net undiscounted central estimate - long tail	695	-	660	3	33	289	1,764	5,004	9,295	12,087	18,622	48,452
Net undiscounted central estimate - short tail	2	-	28	10	-	105	1,690	519	2,514	69,091	124,166	198,125
Total undiscounted net outstanding claim payments	697	-	688	13	33	394	3,454	5,523	11,809	81,178	142,788	246,577
Discount to present value	(9)	(13)	(12)	(89)	(1)	(1)	(6)	(28)	(88)	(179)	(380)	(806)
Net discounted central estimate	688	(13)	676	(76)	32	393	3,448	5,495	11,721	80,999	142,408	245,771
Claims settlement costs												14,444
Risk margin												30,842
Total net outstanding future claim payments												291,057
Stabilisation reserve												2,764
Reinsurance and other recoveries												264,669
Gross outstanding claims liability	313,407	(13)	676	(76)	32	393	3,448	5,495	11,721	80,999	142,408	558,490

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

2.4. Reinsurance and other recoveries on outstanding claims

To mitigate the Consolidated Entity's insurance risk profile, the Consolidated Entity passes some of its underwriting exposure to reinsurance companies. Recoveries under these reinsurance contracts relate to underwriting risk.

	2021 \$000	2020 \$000
Reinsurance and other recoveries on outstanding claims - undiscounted	265,127	241,868
Discount to present value	(458)	(514)
Balance at end of financial year	264,669	241,354
Receivable within 12 months	197,460	195,498
Receivable in greater than 12 months	67,209	45,856
	264,669	241,354

Recognition and Measurement

Estimates of reinsurance and other recoveries are assessed in a manner similar to the assessment of outstanding claims. Refer note 2.3. Recoveries are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

The recoverability of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as counterparty credit risk. Impairment is recognised where there is objective evidence that the Consolidated Entity may not receive amounts due and these amounts can be reliably measured.

2.5. Unearned premium liability

Gross written premium is earned in profit or loss in accordance with the pattern of incidence of risk of the related business. The unearned premium liability is that portion of gross written premium that has not yet been earned in profit or loss as it represents insurance coverage to be provided to policyholders after balance date.

	2021 \$000	2020 \$000
Balance at beginning of financial year	748,541	654,028
Deferral of unearned premium on contracts written in the financial year	1,643,022	1,410,803
Earning of premium written in current and previous financial years	(1,516,849)	(1,316,290)
Balance at end of financial year	874,714	748,541
To be earned within 12 months	873,373	745,075
To be earned in greater than 12 months	1,341	3,466
	874,714	748,541

Recognition and Measurement

The proportion of premium received, or receivable not earned in the statement of comprehensive income at the reporting date is recognised in the statement of financial position as an unearned premium liability.

COVID-19 Impact on use of Judgements and Estimates

In addition to the element reflected in the net outstanding claim liability, any COVID-19 underwriting exposure related to unexpired risk has been incorporated within the estimation of premium liabilities and, as a result, in the calculation of the Consolidated Entity's regulatory capital position and that of its controlled entity, The Hollard Insurance Company Pty Ltd. Refer note 1.6 for further details on judgements and estimates used related to impact of COVID-19.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

a) Liability Adequacy Test

Provision is made for unexpired risks arising from general insurance business where the expected value of claims and expenses attributed to the unexpired periods of policies in force at the reporting date exceeds the unearned premiums liability in relation to such policies after the deduction of any related deferred acquisition costs (LAT). The LAT is an area of critical judgement. Refer note 2.3 for more detail on underlying assumptions.

The provision for unexpired risk is calculated separately for each group of contracts subject to broadly similar risks and managed together as a single portfolio. LAT is currently performed at the divisional level.

The LAT assesses whether the net unearned premium liability is sufficient to cover future claims costs for in-force policies. Future claims are calculated as the present value of the expected cash flows relating to future claims and includes a risk margin to increase the statistical probability that the estimate is adequate. A 75% probability of adequacy is a recognised industry benchmark in Australia, being the minimum required by APRA for Australian licensed insurers.

	2021	2020
Net overall risk margin applied	6.0%	7.8%

The application of the LAT in respect of net unearned premium liabilities has identified a surplus for the Consolidated Entity at 30 June 2021 (2020: Surplus). A surplus was identified at all divisional levels when intergroup commissions are eliminated and therefore no write down of deferred acquisition costs has been required.

2.6. Deferred reinsurance premium

The deferred reinsurance premium asset is that portion of the reinsurance premium that represents reinsurance coverage to be received after the balance date.

	2021	2020
	\$000	\$000
Balance at beginning of financial year	428,197	365,223
Premiums deferred in financial year	824,342	758,213
Amortisation of premiums deferred	(791,581)	(695,239)
Balance at end of financial year	460,958	428,197
To be expensed within 12 months	458,555	427,141
To be expensed in greater than 12 months	2,403	1,056
	460,958	428,197

Recognition and Measurement

Premiums ceded to reinsurers under reinsurance contracts held by the Consolidated Entity are recorded as a reinsurance premium expense and are recognised in the statement of comprehensive income from the attachment date over the period of indemnity of the reinsurance contract in accordance with the pattern of the incidence of risk ceded.

Accordingly, a proportion of reinsurance premium expense is treated as prepaid and disclosed as deferred reinsurance expense in the statement of financial position.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

2.7. Deferred acquisition costs

Acquisition costs include commission or brokerage paid to agents or brokers for obtaining business, selling and underwriting costs such as advertising and risk assessment, the administrative costs of recording policy information and premium collection cost.

	2021 \$000	2020 \$000
Balance at beginning of financial year	150,067	132,557
Costs deferred in financial year	358,797	300,358
Costs expensed during the year	(337,612)	(287,620)
Liability Adequacy Test deficiency	-	4,772
Balance at end of financial year	171,252	150,067
To be expensed within 12 months	170,869	148,185
To be expensed in greater than 12 months	383	1,882
	171,252	150,067

Recognition and Measurement

Acquisition costs are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the statement of comprehensive income in subsequent reporting periods.

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

2.8. Unearned reinsurance commission

The unearned reinsurance commission is that portion recognised in line with the reinsurance premium, representing reinsurance coverage to be received after balance date.

	2021 \$000	2020 \$000
Balance at beginning of financial year	138,922	117,239
Commission earned in financial year	267,956	256,420
Earning of commission written in previous financial years	(265,294)	(234,737)
Balance at end of financial year	141,584	138,922
To be expensed within 12 months	141,425	138,520
To be expensed in greater than 12 months	159	402
	141,584	138,922

Recognition and Measurement

Reinsurance commission revenue is earned over the period of indemnity of the reinsurance contract in accordance with the pattern of the incidence of risks ceded. The unearned reinsurance commission represents the portion to be earned after balance date.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

2.9. Trade and other receivables

	2021	2020
	\$000	\$000
Receivables from third-party customers	745,939	654,083
Provision for impairment of receivables	(5,587)	(4,757)
Net premium receivable	740,352	649,326
Reinsurance and other recoveries receivable on paid claims	71,195	75,574
Reinsurance commissions receivable	73	20,086
Other receivables	4,596	6,330
Interest receivables	1,578	1,221
Net related party receivables	2,024	-
Trade and other receivables	819,818	752,537
Receivable within 12 months	819,607	752,335
Receivable in greater than 12 months	211	202
Trade and other receivables	819,818	752,537

Recognition and Measurement

Premium receivable is recognised as the amount due and is normally settled between 30 days and 12 months. The recoverability of premium receivable is assessed, and provision is made for expected credit loss based on past default experience as well as other economic factors.

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

Reinsurance recoveries receivable and reinsurance commissions receivable are set off against reinsurance payables where applicable. Refer note 2.10.

Other than the loan to a related party, 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.

Critical accounting judgements and estimates

COVID-19 Impact on use of Judgements and Estimates

The recoverability of receivables from insurance, reinsurance and non-insurance contracts in the context of the ongoing economic impacts have been considered. While the methodologies applied in the base expected credit loss (ECL) calculations remained unchanged from those applied in the prior financial year, the Consolidated Entity has incorporated estimates, assumptions and judgements specific to the impact of the COVID-19 pandemic and the associated customer support packages provided. Whilst no material recoverability issues have been identified, there is a risk that the economic impacts of COVID-19 could be of greater magnitude or more prolonged than anticipated, which could result in higher credit losses than those derived by use of the model assumptions underlying the amounts included in the financial statements. Refer note 1.6 for further details on judgements and estimates used related to impact of COVID-19.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

2.10. Trade and other payables

	2021	2020
	\$000	\$000
Reinsurance premiums payable	409,123	335,792
Acquisition costs payables	178,765	158,181
Trade payables	24,417	30,310
Other payables and accruals	101,032	85,795
Accrued expenses	401	117
Share based payments - cash settled	5,787	5,113
Trade and other payables	719,525	615,308
Payable within 12 months	719,524	614,371
Payable greater than 12 months	-	937
Trade and other payables	719,524	615,308

Recognition and Measurement

Trade and other payables are stated at amortised cost, representing liabilities for goods and services provided to the Consolidated Entity prior to the end of the financial year and which are unpaid at that date, including a liability for fire services levy and other charges recognised on business written to the balance date. Levies and charges payable are expensed on the same basis as the recognition of premium revenue, with the portion relating to unearned premium being recorded as a prepayment and disclosed as deferred levies and charges in the statement of financial position.

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

Other than a claims discount, trade and other payables are unsecured, non-interest bearing and are normally settled within 30 days to 12 months. The balance has not been discounted as the effect of the time value of money is not material.

The carrying amount of payables is a reasonable approximation of the fair value of the liabilities because of the short-term nature of the liabilities.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

2.11. Insurance operating expenses

The insurance expense disclosed in the statement of comprehensive income includes the following key expense items:

	Notes	2021 \$000	2020 \$000
Employee benefits costs	7.4, a)	117,886	99,026
Professional fees		11,540	10,096
Outsourced insurance services		17,524	16,041
Occupancy costs		1,984	1,825
Amortisation		5,713	5,736
Depreciation		2,807	2,368
Depreciation right-of-use asset	7.5	6,325	5,349
Interest unwind on operating lease liabilities	7.5	293	669
Corporate expenses		26,685	20,465
Total insurance expenses		190,757	161,575

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

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 liabilities include outstanding claims, unearned premium liabilities, unexpired risk liability, unearned reinsurance commissions and payables associated with insurance operations. The Consolidated Entity has determined that all assets are held to support insurance liabilities.

As part of its investment strategy, the Consolidated Entity 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.

3.1. Investment income

	2021	2020
	\$000	\$000
Interest income	2,601	5,690
Dividend income	774	549
Fair value gain/(loss) on investments	40,214	(15,522)
Loss on forgiveness of investment loans	(11)	(500)
Gain on disposal of investments	3,357	2,683
Total investment and other income	46,935	(7,100)

Recognition and Measurement

Interest income is recognised in the statement of comprehensive income as it accrues, using the effective interest method. Dividend income is recognised in the statement of comprehensive income on the date that the Consolidated Entity has a right to receive payments.

Investment income includes realised and unrealised gains or losses on financial assets and strategic investments which are reported on a combined basis as fair value gains or losses on financial assets and strategic investments.

3.2. Cash & Cash Equivalents

	2021	2020
	\$000	\$000
Cash held for operational purposes	488,908	253,060
	488,908	253,060

3.3. Financial assets

	2021	2020
	\$000	\$000
Term deposits	303,472	234,672
Total financial assets	303,472	234,672

Recognition and Measurement

Financial assets are designated at fair value through profit and loss. Initial recognition is at fair value in the statement of financial position and subsequent measurement is at fair value with any resultant unrealised gains or losses recognised in the statement of comprehensive income.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

3.4. Strategic Investments

	2021	2020
	\$000	\$000
Associates	80,869	39,893
Other strategic investments	1,735	4,168
Total strategic investment assets	82,604	44,061

Recognition and Measurement

Investments in strategic investments are designated at fair value through profit or loss upon initial recognition, with the exception of investments in subsidiaries. This is permitted by AASB 1023 - General Insurance Contracts. Subsequent measurements are at fair value, with any adjustments for impairment recognised through profit or loss. All investments in subsidiaries are initially valued at cost. Where the subsidiary is acquired in stages the fair value at the date of control arising is the deemed cost.

A number of strategic (associate and other financial) investments continue to be impacted by COVID-19 and accordingly, the Consolidated Entity has adjusted its fair valuations to reflect certain assumptions based on the economic outlook of the businesses. In addition a number of the investments have seen a significant recovery and continued growth notwithstanding the current economic situation.

Acquisitions and disposals

2021

- In February 2021, the Consolidated Entity disposed of its entire holding in All Parks Pty Ltd for \$2.475 million. The Consolidated Entity also increased its shareholding in ATL Holdings Pty Ltd from 24.92% to 27.22%.
- In March 2021, the Consolidated Entity disposed of its entire holding in Ukawa Pty Ltd for \$2.15 million.
- In June 2021, the Consolidated Entity disposed of 80% of its interest in ListSure Pty Ltd, taking its interest down to 5%. The Consolidated Entity has reclassified its interest in ListSure Pty Ltd from an Associate to an Equity Investment.

2020

- In May 2020, the Consolidated Entity disposed of its 40% interest in a premium funding business, Attvest Finance Pty Ltd for \$8 million. A loan facility of \$13 million was repaid in full in March 2020.
- In June 2020, the Consolidated Entity's interest in ATL Holdings Pty Ltd decreased from 27.68% to 24.92%.
- In November 2019, the Consolidated Entity acquired a 25% interest (partly funded by conversion of debt to equity), in Grappler.io Limited a business providing machine learning business process automation services and the investment was re-classified from other strategic investments to Associate.
- In December 2019, underwriting Agency Velosure Pty Ltd underwent a restructure, whereby it was acquired by TwoThreeBird Holdings Ltd, the holding company of the Velosure Group. Under this restructure, Hollard swapped its shares in Velosure Pty Ltd for 27.19% shareholding in TwoThreeBird Holdings Ltd.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

3.5. Associates

2021	Place of incorporation	Principal Activity	Interest held %	Equity \$'000	Loan \$'000	Cost \$'000	Fair Value Adj. \$'000	Fair Value \$'000
Ando Insurance Group Ltd	New Zealand	Underwriting Agency	39.95%	8,043	2,173	10,216	30,491	40,707
ATL Holdings Group Pty Ltd	Australia	Underwriting Agency	27.22%	1,766	-	1,766	782	2,548
Grappler.io Limited	New Zealand	InsurTech	25.25%	1,384	-	1,385	-	1,385
Insured By Us Pty Ltd	Australia	Underwriting Agency	50.00%	1	10	11	(1)	10
Insuret Pty Ltd	Australia	Underwriting Agency	50.00%	668	1,193	1,861	2,988	4,849
Open Money Group Pty Ltd	Australia	Underwriting Agency / InsurTech	37.40%	6,750	3,015	9,765	17,041	26,806
TwoThreeBird Holdings Ltd	UK	Underwriting Agency	27.19%	^	568	568	3,995	4,563
				18,612	6,959	25,572	55,296	80,869

2020	Place of incorporation	Principal Activity	Interest held %	Equity \$'000	Loan \$'000	Cost \$'000	Fair Value Adj. \$'000	Fair Value \$'000
Ando Insurance Group Ltd	New Zealand	Underwriting Agency	39.95%	8,043	2,288	10,331	10,529	20,860
ATL Holdings Group Pty Ltd	Australia	Underwriting Agency	24.92%	1,550	-	1,550	84	1,634
Attvest Finance Pty Ltd*	Australia	Premium Funding	0%	^	-	-	-	-
Grappler.io Limited*	New Zealand	Premium Funding	25%	1,385	-	1,385	-	1,385
Insured By Us Pty Ltd	Australia	Underwriting Agency	50%	1	-	1	(1)	-
Insuret Pty Ltd	Australia	Underwriting Agency	50%	668	1,688	2,356	1,259	3,615
ListSure Pty Ltd	Australia	Underwriting Agency	28.01%	999	-	999	(999)	-
Open Money Group Pty Ltd	Australia	Underwriting Agency / InsurTech	38.24%	5,750	3,153	8,903	-	8,903
PD Insurance Agency Pty Ltd	Australia	Underwriting Agency	0%	-	-	-	-	-
TwoThreeBird Holdings Ltd*	UK	Underwriting Agency	27.19%	^	541	541	1,952	2,493
Ukawa Pty Ltd	Australia	Underwriting Agency	40%	1,268	-	1,268	(265)	1,003
				19,664	7,670	27,334	12,559	39,893

* see note 3.4 above

^ Low value due to rounding

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

Summarised Financial Information of Material Associates

The summarised financial information for the year ended 30 June 2021 of the material associates is unaudited:

Summarised statement of financial position as at 30 June 2021

	Open Money Group	Ando
	\$000	\$000
Total assets	44,481	70,218
Total liabilities	(46,803)	(66,511)
Net assets	(2,322)	3,707

In August 2021, Open Money Group issued new shares to new and existing shareholders to support its future growth strategy. The Consolidated Entity participated in the share issue and Open Money Group was able to repay the loan owed to the Consolidated Entity in full.

Summarised statement of financial position as at 30 June 2020

	Open Money Group	Ando
	\$000	\$000
Total assets	3,603	47,307
Total liabilities	(5,732)	(48,148)
Net assets	(2,129)	(841)

Summarised statement of comprehensive income for 2021:

	Open Money Group	Ando
	\$000	\$000
Revenue	8,217	32,973
Profit/(loss) after tax	(3,245)	4,541
Other comprehensive income	-	-
Total comprehensive income	(3,245)	4,541

Summarised statement of comprehensive income for 2020:

	Open Money Group	Ando
	\$000	\$000
Revenue	2,753	28,557
Profit/(loss) after tax	(8,414)	979
Total comprehensive income	(8,414)	979

As at 30 June 2021, the Consolidated Entity revalued its investment in Open Money Group Pty Ltd to reflect the anticipation of improved future cash flows supported by the businesses growth strategy. Open Money Group Pty Ltd was successful in raising equity from new and existing shareholders in August 2021 to support its growth strategy.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

3.6. Other Investments

2021	Place of incorporation	Principal Activity	Interest held %	Equity \$'000	Loan \$'000	Cost \$'000	Fair Value Adj. \$'000	Fair Value \$'000
Car Next Door Pty Ltd	Australia	Car sharing company	0.53%	200	-	200	127	327
Expense Check Pty Ltd	Australia	Insurtech	6.45%	1,000	-	1,000	(903)	97
FitBark Inc	USA	Pet health monitoring	4.46%	750	-	750	362	1,112
ListSure Pty Ltd	Australia	Underwriting Agency	5.11%	200	-	200	-	200
Starts at 60 Pty Ltd	Australia	Underwriting Agency	1.13%	200	-	200	(200)	-
Wild Goose Holdings Pty Ltd	Australia	Underwriting Agency	18.40%	3,375	-	3,375	(3,375)	-
				5,725	-	5,725	(3,989)	1,735

2020	Place of incorporation	Principal Activity	Interest held %	Equity \$'000	Loan \$'000	Cost \$'000	Fair Value Adj. \$'000	Fair Value \$'000
All Parks Insurance Pty Ltd	Australia	Underwriting Agency	30.00%	-	-	-	1,621	1,621
Car Next Door Pty Ltd	Australia	Car sharing company	0.53%	200	-	200	127	327
Expense Check Pty Ltd	Australia	InsurTech	6.45%	1,000	-	1,000	-	1,000
FitBark Inc	USA	Pet health monitoring	4.46%	713	-	713	506	1,219
Starts at 60 Pty Ltd	Australia	Underwriting Agency	1.13%	200	-	200	(200)	-
Wild Goose Holdings Pty Ltd	Australia	Underwriting Agency	18.40%	3,375	-	3,375	(3,375)	-
				5,488	-	5,488	(1,321)	4,168

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

3.7. 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).

	2021	2020
	\$000	\$000
Investment assets - term deposits	303,472	234,672
Investment assets - strategic investments	82,604	44,061
Investments designated as fair value through profit and loss	386,076	278,733
less:		
Total level 1 investment assets - term deposits	(303,472)	(234,672)
Total level 2 investment assets - strategic investment loans	(6,958)	(7,670)
Total level 3 investment assets	75,646	36,391

Reconciliation of level 3 investments

Balance at beginning of financial year	36,391	55,818
Acquisitions	1,253	1,411
Disposals	(2,067)	(8,000)
Fair value adjustments	40,069	(15,522)
Transfers in/out	-	2,684
Balance at end of financial year	75,646	36,391

Critical accounting judgements and estimates

There is inherent uncertainty when estimating the value of any unlisted shares because there may be no open market to determine their fair value, therefore an appropriate method between cost, market value and discounted cash flows has been applied to estimate their values. The accuracy of forecasts used to estimate the value of the investee, discount rates and general market conditions are factors that cause uncertainty. The Consolidated Entity uses the best information available to estimate the value, with no conservatism or optimism employed. During the valuation process for the current year the impacts on the economy and the investments related to COVID-19 have been assessed and considered in arriving at values.

COVID-19 Impact on use of Judgements and Estimates

The Consolidated Entity's investments in strategic investments (associates and other strategic investments) are designated at fair value through profit and loss. The fair value is determined based on a discounted cash flow analysis and observable market data. This measurement basis has not changed as a result of COVID-19 noting that the assumptions within the analysis have changed to incorporate a measure to reflect the economic downturn and impact on individual investments. When using models to conduct analysis, judgement is required in the inputs used. The investments which are subject to valuation using unobservable inputs are disclosed in the Consolidated Entity's fair value hierarchy. Refer note 1.6 for further details on judgements and estimates used related to impact of COVID-19.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

The value of the Level 3 investments is determined using a discounted cash flow methodology. Future cash flows are estimated based on past performance and information received from the investee. Discount rates and terminal value set by management are disclosed below:

Level 3 investment valuation key inputs

	2021	2020
Terminal growth rates	2% - 2.5%	0% - 3%
Discount rate - post tax	12.8% - 22.8%	11.6% - 14.6%

Sensitivity Analysis

The table below describes how a change in each of the key assumptions set out above will affect the fair value of level 3 investments.

	Sensitivity %	Impact	2021 Equity/Profit or (Loss) before tax \$'000
Terminal growth rate	+ 1% p.a.	Increase	3,556
	- 1% p.a.	Decrease	(2,986)
Discount rate	+ 1% p.a.	Increase	(4,247)
	- 1% p.a.	Decrease	5,120

3.8. Other income

The other income disclosed in the statement of comprehensive income includes the following key items:

	2021 \$000	2020 \$000
Agency commission and policy fees	16,502	12,975
Miscellaneous other income items	(243)	457
Total other income	16,259	13,432

Agency commission and policy fee income is recognised on an earned basis having regard to costs incurred at the time of acquisition and subsequent costs associated with policy administration and claims.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

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. Contributed Equity

	2021		2020	
	Number	\$000	Number	\$000
Ordinary shares fully paid	2,247,466	341,755	1,699,137	194,040
M Class shares fully paid	127,508	-	112,355	-
Other equity arising under reverse acquisition accounting	-	30,000	-	30,000
At end of the financial year	2,374,974	371,755	1,811,492	224,040
Issued ordinary shares, fully paid:	Number	\$000	Number	\$000
At beginning of financial year	1,699,137	194,040	1,677,468	190,880
Issued during the year	548,329	147,715	21,669	3,160
At end of the financial year	2,247,466	341,755	1,699,137	194,040

All ordinary shares on issue are fully paid and have no par value. Ordinary shares entitle the holder to a vote at a general meeting of the Consolidated Entity and to participate in the dividends and the proceeds on winding up of the Consolidated Entity in proportion to the number of, and amounts paid on, the shares held. In the event that the Consolidated Entity is wound up, shareholders rank after all other creditors and are entitled to any proceeds on liquidation.

	2021		2020	
	Number	\$000	Number	\$000
M Class shares:				
At beginning of financial year	112,355	-	129,980	-
Issued during the year	20,590	-	4,044	-
Forfeited during the year	(5,437)	-	(21,669)	-
At end of the financial year	127,508	-	112,355	-
Average forfeited price during the year	\$269.39	-	-	-
Average issue price during the year	\$269.39	-	\$269.99	-

M Class shares, issued under an employee loan funded share plan, entitle the holder to all the rights of ordinary shares with the exception of voting rights. In the event that the Consolidated Entity is wound up, shareholders rank after all other creditors and are entitled to any proceeds on liquidation.

During the year there were movements in participants in the loan funded share plan. 5,437 shares were forfeited, and 5,437 new ordinary shares were issued to the same value.

a) Share-based payments

The Consolidated Entity has established an employee loan funded share plan to align, incentivise and retain key management. The plan was established on 31 December 2014.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

Under the plan the Consolidated Entity issues fully paid Class M shares to participants funded by a limited recourse loan. The loan accrues interest annually at the FBT Benchmark rate as published by the ATO. The issue price is the market value of the Consolidated Entity as at the commencement date. The term of the plan is 7 years and the shares held by the participants vest on the 4th anniversary of commencement, with the ability to receive 25% of the market value of shares held per year from years four through seven on termination of employment, or on exercise of a put option whilst remaining employed.

A share-based expense is only recognised where the expected market value exceeds the accrued value of the loan. The share-based payment expense recognised in the statement of comprehensive income is disclosed in note 7.4.a.

b) Franking Credits

	2021	2020
	\$000	\$000
Franking credits available for subsequent financial periods based on a tax rate of 30%	15,763	24,212

The consolidated amounts above are calculated from the balance of the franking account as at the end of the reporting period, adjusted for franking credits that will arise from the settlement, after the end of the reporting date, of liabilities or receivables for income tax and, where applicable, dividends and the franking credits that will be utilised for dividends determined but not recognised at the reporting date.

4.2. Interest bearing liabilities

	2021	2020
	\$000	\$000
Tier 2 Regulatory capital - Subordinated Notes		
At beginning of financial year	40,000	40,000
Total interest-bearing debt	40,000	40,000
Maturing greater than 12 months	-	40,000
Total interest-bearing debt	-	40,000

Recognition and Measurement

Interest bearing liabilities are initially measured at fair value net of transaction costs directly attributable to the transaction and are subsequently measured at amortised cost. Any difference between the proceeds and the redemption amount is recognised through profit or loss over the period of the financial liability using the effective interest method.

a) Subordinated Notes

The subordinated notes were issued on 29 June 2018 to the immediate parent entity, Hollard Investments B.V. The subordinated notes had a term of 10 years, maturing on 29 June 2028, and were subject to a fixed interest rate. The holder did not have a right of conversion but did have the ability, subject to certain conditions, to transfer.

The subordinated notes had to be converted into a variable number of ordinary shares if APRA determines the Consolidated Entity was non-viable or written off if not converted within five days from notification of non viability. In September 2020, the Company redeemed the subordinated notes from its Parent and replaced with the issue of ordinary share capital.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

b) Finance costs

	2021	2020
	\$000	\$000
Finance costs	835	2,062

Finance costs include interest on interest-bearing debt as well as sundry interest on overdue payables.

4.3. Capital management

Capital management plays a central role in ensuring adequate capital is maintained over time and for monitoring compliance with regulatory capital requirements and targets. A key component of capital management is the Internal Capital Adequacy Process (ICAAP) - as articulated in the Consolidated Entity's ICAAP Summary Statement - and includes:

- specific capital targets set in context of the Consolidated Entity's approach for ensuring adequate capital is maintained over time;
- plans for how target levels of capital are met; and
- potential sources of additional capital, if required.

The Hollard Insurance Company Pty Ltd is a licensed insurer (level 1) regulated by the APRA. Hollard Holdings Australia Pty Ltd is the parent entity of the APRA regulated level 2 insurance group. The Company was authorised as a level 2 insurance group on 21 August 2013. Licensed entities and level 2 insurance groups are subject to APRA's prudential standards and a Prudential Capital Amount (PCA), being the minimum level of capital that the APRA deems necessary to meet policyholder obligations. The Consolidated Entity uses APRA's prescribed method to calculate its minimum prudential capital requirement (level 2). The prescribed method uses a risk-based approach. The Consolidated Entity's policy is to hold capital in excess of the minimum prudential capital requirement.

Capital calculations for regulatory purposes are based on the premium liabilities model which is different to the deferral and matching model which underpins the measurement of assets and liabilities in the consolidated financial statements. The premium liabilities model assesses future claims payments arising from future events insured under existing policies. This differs to the measurement of the outstanding claims liability on the consolidated statement of financial position which considers claims relating to events that occur only up to and including the reporting date.

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

- setting of triggers to alert management to potential breaches of targets;
- actions to avert and rectify potential breaches of these requirements;
- setting the target levels of regulatory capital - in line with the consolidated entity's risk appetite

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

	2021	2020
	\$000	\$000
Capital Adequacy Level 2		
Common Equity Tier 1 Capital		
Paid up ordinary shares	341,756	194,040
Other equity arising under reverse acquisition accounting (Note 10)	30,000	30,000
Retained income	45,186	57,272
Other reserves	(405)	(326)
Non-controlling interest	3,383	2,114
Net surplus relating to insurance liabilities	46,752	40,788
Regulatory adjustments to common equity tier 1	(170,385)	(140,782)
Total Common Equity Tier 1 Capital	296,287	183,106
Tier 2 Capital		
Subordinated notes (Note 4.2)	-	40,000
Total Tier 2 Capital	-	40,000
Regulatory capital base	296,287	223,106
Insurance risk charge	78,641	55,802
Insurance concentration risk charge	28,866	17,443
Asset risk charge	57,744	50,581
Operational risk charge	49,032	42,065
Less: aggregation benefit	(33,436)	(26,846)
Prescribed Capital Amount (PCA)	180,847	139,045
Capital Adequacy Multiple (CAM)	1.64	1.60

The Hollard Insurance Company Pty Ltd has been externally rated by A.M. Best since 2016. On 18 February 2021, AM Best affirmed the Financial Strength Rating of A- (Excellent) and the Long-Term Issuer Credit Rating of "a-" with the outlook of these Credit Ratings being stable.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

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 Consolidated Entity's business objectives.

In accordance with the 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 a Group Risk Management Framework (RMF). Key documents within the RMF are:

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

Ultimately the Board is responsible for the establishment and maintenance of an effective RMF.

There are four formal Board committees with delegated responsibilities that assist with risk management monitoring including the Board Risk Committee, Board Audit Committee, Board Remuneration Committee, Board Investment 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.

RMS

The RMS describes the group wide RMF and is reviewed and approved by the Board annually and consists of complementary elements that are embedded throughout the business management cycle and culture. Key aspects include:

- A documented risk management strategy including a defined risk appetite statement (RAS) that links to strategic business (business plan) and capital plans (as documented in the annual ICAAP Report)
- Risk Management Processes including policies, procedures, risk assessments, controls, management information systems, modelling and stress testing, 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 of effectiveness of the RMF including strategies and processes for managing financial and non-financial risk

RAS

The RAS outlines the clear boundaries for the Consolidated Entity's material risks with clear links to risk tolerances and limits that are captured in the RMS, Business Plan and ICAAP and Recovery Plan. The RAS sets out the degree of risk the Consolidated Entity is prepared to accept in pursuit of its strategic objectives and business plans and is reviewed annually by the Board. A variety of changes were made to the RAS in FY21, including introducing new risk sub-categories (e.g. Models and Financial Processes) in the Operational Risk material risk category, refinement of risk category definitions across most material risk categories (particularly financial risk categories) and adjustment to appetite levels across a number of sub-categories.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

ReMS

The Board's annually approved ReMS outlines the Consolidated Entity's management of reinsurance risk. The Consolidated Entity 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) as well as a means for providing capital support.

On behalf of the Board, the Board Reinsurance Committee (comprising a majority of independent non executive directors), 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.

ICAAP

The Board's annually approved ICAAP covers the Consolidated Entity's approach to, and processes around capital management including principles aimed at having robust processes in place to ensure that sufficient capital is available to meet current and future policyholder obligations.

Recovery Plan

The Board's approved Recovery plan covers the Consolidated Entity's approach to, and processes around capital management that are designed to restore capital. The Recovery plan is intended to be used in severe or extreme circumstances where the ongoing viability of a company is threatened. The Recovery Plan fits in the crisis continuum with business as usual risk management (stable environment), ICAAP (stress environment), recovery planning (recovery environment) and resolution planning. The Recovery Plan, therefore, forms an important component of the overall RMF.

Business Continuity Plan and Crisis Management (BCP)

The Board's approved Business Continuity Management plan (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 and there is alignment between the BCMP and the Recovery Plan in communication protocol and the personnel involved in key decision making.

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

During 2021, the Consolidated Entity has initiated a revision to its risk management framework to reflect the new operating model that the business will transition to in FY22. This model, and the associated roles and responsibilities, have been formally described in the RMS and, going into FY22, the RMS will be updated to reflect the new operating model. Under the 3 lines of defence model the key divisions and business wide service groups (1st line of defence) are accountable for managing risk and compliance within risk appetite, in accordance with frameworks and policies. Monitoring, review and challenge is undertaken by a dedicated risk and compliance team (2nd line of defence). The CRO and group risk function provide regular reports to the Board Risk Committee. Independent assurance is conducted by the internal and external audit team (3rd line of defence). The Internal Audit team reports to the Board Audit Committee (comprising solely of independent non-executive directors). Additionally, in FY21 a comprehensive triennial review was undertaken by an independent external firm, as is required by CPS220.

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 general observations on the management of risk by the Consolidated Entity. The FCR is submitted to APRA and to the RBNZ.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

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

- **Strategic Risk (note 5.2)** - The risk of not meeting financial and other objectives arising from poor strategic decisions, underperforming strategic investments, 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 (including counterparty risk note 5.3)** - The risk that a person or institution with whom the Consolidated Entity has entered a financial contract, who is a counterparty to the contract, will partially or fully default on the obligation, or be subject to a downgrade in their assessed credit quality. This excludes exposures to strategic debt such as loans which are included in strategic investments.
- **Market Risk (note 5.4)** - 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.
- **Operational Risk (note 5.5)** - The risk of an incident occurring which leads or could lead to the actual outcome of a business process to differ from expected outcomes due to inadequate or failed process, people, systems or external factors.
- **Customer and Community Expectations Risk (note 5.6)** - The risk of delivering unfair outcomes to customers or not meeting community expectations.
- **Compliance Risk (note 5.7)** - The risk of loss arising from either the current (or future) regulatory framework under which the Consolidated Entity operates including risks associated with breaching the law, taxation obligations and requirements of a financial services licence holder and general insurer in the Australian and New Zealand markets.

The Consolidated Entity has adopted an environmental policy statement and will in future revisit the RAS in light of impending regulatory guidance around the management of climate risks.

COVID-19 Impact

Financial, economic and social impacts of COVID-19 have been ongoing during the year and will continue to manifest and evolve over the coming year. The extent and tenure of these impacts are difficult to forecast and remain dependent on many factors. These include the extent to which the pandemic persists including the effect of ongoing outbreaks, the pace of the vaccination programme, the efficacy of continuing government and central bank responses (both locally and globally) including control restrictions and incentive programs, and the impact that extended uncertainty and volatility has on consumer and business sentiment.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

The immediate impacts on the Consolidated Entity during the year have varied significantly by class of business, e.g. reductions in premium income (Travel Insurance which in FY21 accounted for 0.1% (FY20 1.6% of total GWP)), cessation of tenant default cover (Landlord Insurance), increases in insurance liabilities and even improved experience (e.g. lower motor claim frequency and increased prevalence of Pet owners and, consequently, pet insurance), as well as the associated uncertainties which flow from the industry litigation process (business interruption Insurance) in the form of two industry 'Test Cases'. The first test case found in favour of insureds, creating certainty around exclusions that referred to outdated legislation. This resulted in an increase in provisions held by most insurers, including Hollard. The second test case is ongoing. As the pandemic and economic impact evolved during FY21, response strategies were implemented and continue to be refined to respond to emerging issues. The associated risks also continue to evolve and remain subject to close monitoring so that management and mitigation actions can be undertaken where possible.

Some of the key specific risks and the Consolidated Entity's response to them are as follows:

Strategic Risk

The level of uncertainty in the ability of Consolidated Entity to achieve its strategic objectives continues to be heightened beyond the usual level of uncertainty due to the impact of unpredictable external factors that are difficult, if not impossible, to mitigate. These risks relate directly to the pace and trajectory of any economic recovery and its impact on our customers and partners.

Insurance risk

The impacts on the Consolidated Entity in this category include changes in insurance liabilities across impacted classes of business, unexpected underwriting exposures and accumulations, potential supply chain impacts, ongoing responses to customer financial hardships, and the impacts of stronger product governance. Refer to note 1.6 and note 2.3.

Credit Risk

As a result of COVID-19 we have continued with close monitoring of credit exposures, including strategic investment loans and reinsurer and other counterparty credit ratings. Refer note 3.

Market risk (including Capital)

At 30 June 2021, the Consolidated Entity had a regulatory capital adequacy multiple of 1.64 (2020:1.54). COVID-19 continues to drive increased levels of market volatility. Business performance and impact on capital levels are monitored regularly. The Consolidated Entity has maintained a conservative and liquid investment strategy throughout the period. Refer note 3 and note 4.

Operational risk

The ongoing approach of the majority of the Consolidated Entity's employees having moved from an office-based work environment to working from home has successfully continued but some risks remain heightened, including workplace health and safety. These risks include technology and cyber related risk as well as fraud and employee health and wellbeing. Planning for the safe and effective transition back to a hybrid environment also has attendant risks. Acknowledging that heightened risk in these areas is unavoidable in these times, the Consolidated Entity is of the view that attendant risks are well understood with policies and protocols in place to manage and mitigate them.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

Customer and Community risk

The Consolidated Entity understands the difficulties many of its partners and customers are facing and the risks this presents to the business. Consequently, a range of support measures have been made available to our personal and small business customers who are experiencing financial stress, including:

- access to shorter policy renewal terms for small business customers;
- access to a dedicated financial hardship team for personal customers;
- opportunity to delay monthly payments for up to 60 days for personal customers;
- easing certain policy coverage clauses in support of small business customers;
- financial hardship packages for pet insurance customers;
- flexibility regarding application of excess amounts for all customers; and
- opportunity to shift to change coverage product where appropriate e.g. from Comprehensive Motor to availability of “Pay as you Drive”.

While these support measures have been put in place for a defined period, the Consolidated Entity will continue to reassess as needed. Additional customer contact centre resources have also been made available to manage the increased number of customers requiring assistance.

Compliance Risk

Regulators have been kept informed of the Consolidated Entity’s ongoing response to COVID-19. Sector-wide regulatory engagement remains heightened, particularly around operational resilience, capital management, and customer impacts. The Consolidated Entity is engaging with its regulators as regularly as required and will continue its aligned and proactive approach to supporting customers, business resilience and continuity measures. While the regulatory agenda emanating from the Royal Commission into Financial Services was deferred or reduced by regulators for much of FY21, activity has resumed, including preparation for impending regulatory change.

Further discussions on the application of the Consolidated Entity’s general risk management practices are presented in the following sections, while details, policies and frameworks are more fully described in the RMS.

5.1 Strategic risk

The Consolidated Entity seeks to manage Strategic risk as part of its annual strategic planning process. The Business Plan is a requirement of the RMS and is reviewed and approved by the Board annually. Subsequent regular monitoring of these risks is undertaken by the Board Risk Committee. Development of the Business Plan includes consideration of the internal and external environment by senior management, identifying material risks with overall review and challenge by the Group risk function to form an aggregate view of the Consolidated Entity’s exposure to strategic risk.

5.2 Insurance risk

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

The Consolidated Entity has an objective to manage insurance risk volatility to within its medium appetite levels through a conservative underwriting strategy and a series of predefined risk limits for each sub-category to achieve the appropriate management of risks in each these processes.

This means the Consolidated Entity underwrites risks within its areas of core competence (short tail personal, commercial and pet insurance lines) and avoids areas of accumulation or concentration by risk class, industry, geography that cannot be readily measured, quantified and reinsured and generally avoids long tail insurance classes. This is supported by actively diversifying risks and strict rules-based underwriting in Personal Lines and PetSure and a conservative risk selection strategy in HCI and NZ. Exceptions are considered under tightly controlled circumstances.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

5.3 Credit risk

Counterparty risk (or credit risk) is the risk that a person or institution with whom the Consolidated Entity 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.

The Consolidated Entity's credit/counterparty risk arises predominantly from investment in financial instruments, receivables from distribution partners or customers, and receivables for claims payments on reinsurance contracts. The Consolidated Entity provides loans as part of its strategic investment portfolio. It has credit risk exposure indicated by the carrying amounts of these loans.

Investments

The Investment and Liquidity Policy contains minimum requirements for counterparties for liquid investment portfolio (size of investments, concentrations, minimum ratings). The Consolidated Entity seeks to limit its exposure to credit risk by investing cash with counterparties that are APRA regulated authorised deposit taking institutions.

As part of its approach to investing in strategic insurance related businesses, the Consolidated Entity may provide loans to investment entities (where in some cases the Consolidated Entity 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 requirements of the Strategic Investment Framework.

Reinsurance Receivables

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 Consolidated Entity by classifying major classes of investment assets according to Standard and Poor's short-term credit ratings of the counterparties. Where an amount relates to a long-term exposure the relevant amount has been included in the equivalent short-term rating.

2021	A-1 \$000	A-2 \$000	A-3 \$000	Not Rated \$000	Total \$000
Cash	488,908	-	-	-	488,908
Financial assets	298,245	-	5,227	-	303,472
Investments	-	-	-	82,604	82,604
Receivables	5,247	63,365	-	751,206	819,818
Reinsurance and other recoveries	158,162	85,457	597	20,453	264,669
Total investment assets	950,562	148,822	5,824	854,263	1,959,471

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

2020	A-1 \$000	A-2 \$000	A-3 \$000	Not Rated \$000	Total \$000
Cash	253,060	-	-	-	253,060
Financial assets	228,085	-	6,587	-	234,672
Investments	-	-	-	44,061	44,061
Receivables	1,221	27,769	44,762	678,785	752,537
Reinsurance and other recoveries	90,460	52,090	-	98,804	241,354
Total investment assets	572,826	79,859	51,349	821,650	1,525,684

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

2021	Not past due \$000	Past due			Total \$000
		Up to 30 days \$000	31-120 days \$000	120+ days \$000	
Cash	488,908	-	-	-	488,908
Financial assets	303,472	-	-	-	303,472
Investments	82,604	-	-	-	82,604
Receivables	565,432	168,343	72,870	13,173	819,818
Reinsurance and other recoveries	264,669	-	-	-	264,669
Total risk exposure	1,705,085	168,343	72,870	13,173	1,959,471

2020	Not past due \$000	Past due			Total \$000
		Up to 30 days \$000	31-120 days \$000	120+ days \$000	
Cash	253,060	-	-	-	253,060
Financial assets	234,672	-	-	-	234,672
Investments	44,061	-	-	-	44,061
Receivables	500,977	185,560	66,000	-	752,537
Reinsurance and other recoveries	241,354	-	-	-	241,354
Total risk exposure	1,274,124	185,560	66,000	-	1,525,684

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

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 Consolidated Entity is appropriately capitalised to meet its current and future policyholder obligations.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

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 Consolidated Entity to cash flow interest risk, and the Consolidated Entity 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 Consolidated Entity through the use of derivative financial instruments. As at 30 June 2021 the Consolidated Entity 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.

	Sensitivity	2021 Equity/Profit or Loss before tax \$'000	2020 Equity/Profit or Loss before tax \$'000
Impact of interest movement	+ 1% p.a.	7,890	4,829
	- 1% p.a.	(7,890)	(4,829)

Liquidity risk

Liquidity risk is the risk that the Consolidated Entity will not be able to meet its financial obligations as they fall due. The key objective of the Consolidated Entity'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 Consolidated Entity's reputation.

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

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

Maturity profiles

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

2021	Up to a year \$000	1-3 years \$000	3 + years \$000	Total \$000
Payables	719,525	-	-	719,525
Outstanding claims	338,487	190,806	29,197	558,490
Provisions	16,380	3,248	3,005	22,633
	1,074,392	194,054	32,202	1,300,648

2020	Up to a year \$000	1-3 years \$000	3 + years \$000	Total \$000
Payables	614,371	937	-	615,308
Outstanding claims	313,095	65,846	35,531	414,472
Provisions	7,050	3,086	2,720	12,856
Interest bearing liabilities	-	-	40,000	40,000
	934,516	69,869	78,251	1,082,636

The Consolidated Entity'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.

Foreign Currency Risk

The Consolidated Entity undertakes transactions denominated in a foreign currency, New Zealand Dollars, and to a lesser extent Philippine Pesos and US Dollars and consequently is exposed to exchange rate fluctuations. The Board has imposed a limit on the Consolidated Entity's monetary asset exposure to foreign currency to be a maximum % of the Consolidated Entity's regulated capital base. Active monitoring of foreign currency exposure is undertaken. Currently no hedging strategy is in place.

The following table details the Consolidated Entity's sensitivity to a 10% variation in the Australian dollar against the relevant foreign currency. A 10% variation represents management's assessment of a reasonable change in foreign exchange rates. The analysis is based on outstanding foreign currency denominated monetary items and adjusts their translation at the year-end for a 10% change in foreign currency rates. A positive number below indicates an increase in profit where the Australian dollar weakens 10% against the relevant currency. For a 10% strengthening of the Australian dollar against the relevant currency, there would be a comparable impact on the profit, and the movements below are negative.

Currency Exposure	2021			2020		
	Net Asset exposure	Profit (Loss)		Net Asset exposure	Profit (Loss)	
	\$'000	Sensitivity \$'000	NZD \$'000	\$'000	Sensitivity \$'000	NZD \$'000
New Zealand dollar	31,410	+10%	3,141	15,771	+10%	1,577
		-10%	(3,141)		-10%	(1,577)

The table above includes both monetary and non-monetary assets exposed to foreign currency fluctuations.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

5.5 Operational risk

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

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

5.6 Customer and Community Expectation Risk

The risk of delivering unfair outcomes to customers or not meeting community expectations comprises both conduct risk and reputational risk. The Consolidated Entity seeks to manage Customer and Community Expectation risk through risk management processes that avoid inappropriate or unethical behaviour, remuneration models and practices, product features, sales practices or service standards including claims management and complaints processes, that deliver unfair customer outcomes or imbalanced rewards between the insurer or its partners and the customer. The Consolidated Entity avoids reputational risk that generate a loss of trust in the business and in the insurance industry and financial services industry more generally. This is achieved through various means through adoption of industry codes of practice, monitoring of remuneration of incentives through the Board Remuneration Committee, managements of conflicts of interest, training, complaints monitoring and reporting, etc.

5.7 Compliance Risk

Compliance Risk subcategories include non-compliance with the law, non-compliance with internal policies and voluntary industry codes and standards, partner non-compliance with contractual requirements, taxation. The Consolidated Entity seeks to manage Compliance Risk through implementation and monitoring of a formal Compliance Framework and application of the principles of the framework to distribution partners/intermediaries, maintaining and reviewing an incident and breach framework, and maintaining visibility and currency on compliance obligations via obligations data reports and participation in Industry committees, forums and seminars. The Board Risk Committee monitors the performance of the Consolidated Entity in meeting its compliance obligations. A Board approved Tax Risk Management and Governance Framework is in place and monitored by the Board Audit Committee.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

6. TAXATION

6.1. Income tax expense

	2021	2020
	\$000	\$000
Reconciliation of prima facie tax to income tax expense		
(Loss) / Profit before income tax	(27,158)	(6,786)
Prima facie tax benefit / (expense) at 30%	8,148	2,036
<i>Tax effect of non-temporary differences:</i>		
Net non-assessable income	6,473	2,668
Foreign branch differences in tax rates	(48)	76
Foreign branch deferred tax balances not recognised	-	2,322
Current year income tax loss not brought to account	1,016	1,079
Research & Development tax offset prior year	63	57
Over provision in prior	718	(652)
Income tax (expense)/benefit	16,370	7,586
Current tax	-	(2,905)
Deferred tax	15,587	11,806
Over/(under) provision in prior years	783	(1,315)
Income tax (expense)/benefit	16,370	7,586

Recognition and Measurement

Income tax on the profit or loss for the year comprises current and deferred tax.

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

	2021	2020
	\$000	\$000
Deferred tax assets	40,483	26,762
Deferred tax liabilities	(26,963)	(29,145)
	13,520	(2,383)

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

Movement in temporary differences

	2021			2020		
	Opening \$000	Profit or loss \$000	Closing \$000	Opening \$000	Profit or loss \$000	Closing \$000
Employee benefits	2,614	2,610	5,224	3,709	(1,095)	2,614
Outstanding claims	4,018	1,791	5,809	2,371	1,647	4,018
Provisions	1,184	238	1,422	875	309	1,184
Other items	18,946	9,082	28,028	985	17,961	18,946
Deferred tax asset before set-off	26,762	13,721	40,483	7,940	18,822	26,762
Investments	(3,160)	(4,767)	(7,927)	(9,912)	6,752	(3,160)
Intangible assets	(10,407)	6,014	(4,393)	(11,442)	1,035	(10,407)
Property plant and equipment	(3,332)	1,505	(1,827)	100	(3,432)	(3,332)
Other assets	(12,246)	(570)	(12,816)	(155)	(12,091)	(12,246)
Deferred tax liability before set-off	(29,145)	2,182	(26,963)	(21,409)	(7,736)	(29,145)
Net deferred tax (liabilities)/assets	(2,383)	15,903	13,520	(13,469)	11,086	(2,383)

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 Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

6.3. Deferred Tax Balances Not Recognised

Unrecognised deductible temporary differences, unused tax losses and unused tax credits

	2021	2020
	\$000	\$000
Subsidiary tax losses (revenue in nature)	1,213	2,175
	1,213	2,175

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 (See note 6.2). 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.

Tax Consolidation Regime

Since 1 January 2015 the Company is the head entity of a tax-consolidated group.

The current and deferred tax amounts for the tax consolidated group are allocated among entities in the group using a “standalone taxpayer” approach whereby each entity in the tax-consolidated group calculates its current tax and deferred taxes as if it continued to be a separate taxable entity in its own right.

Deferred tax assets and deferred tax liabilities are measured by reference to the carrying amounts of the assets and liabilities in the Consolidated Entity’s statement of financial position and its tax base applying under tax consolidation. Companies in the tax group assess the expected recoverability of unused tax losses and tax credits only in the period in which they arise and before assumption by the head entity, in accordance with AASB 112, applied in its own circumstances, without regard to the circumstances of the tax-consolidated group.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses assumed by the head entity from the subsidiaries in the tax-consolidated group are recognised in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised by the head entity as an equity contribution to or distribution from the subsidiary.

The head entity recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses assumed from subsidiaries are recognised by the head entity only.

The members of the tax consolidated group have entered into a tax funding agreement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding arrangements require payments equal to the current tax liability (asset) assumed by the head entity and any deferred tax asset arising from tax losses assumed by the head entity. Where the amounts arising for the period under the tax funding arrangement differ to the amounts initially recognised by the Consolidated Entity for its current taxes and deferred tax assets (related to losses or tax credits) it will result in a net contribution from or a distribution to the head entity and be recognised in equity.

The Consolidated Entity, in conjunction with other members of the tax-consolidated group, has entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as the likelihood of payment of any amounts under the tax sharing agreement is considered remote.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

7. OTHER

This section provides disclosures on components of the Consolidated Entity's statement of financial position not disclosed previously in the financial statements, including:

- Assets classified as held for sale
- Property, plant and equipment
- Goodwill and intangible assets
- Provisions, including employee benefits liability and expense
- Lease liabilities, right-of-use assets and lease expense

7.1. Assets classified as held for sale

	2021 \$000	2020 \$000
Assets held for sale:		
Real brand	4,516	-
Total Assets held for sale	4,516	-

During the financial year, the Consolidated Entity progressed discussions with a related party, Greenstone Financial Services Pty Ltd, to enter into a licence and call option agreement for the Real brand. In July 2021, the Consolidated Entity executed agreements granting a call option to the related party to acquire the brand at any time post 1 July 2021. In addition, as part of the arrangements, the Consolidated Entity entered into a new 10 year distribution agreement with the related party effective 25 October 2020, which is expected to generate significant value for the Consolidated Entity. As at 30 June 2021, the Consolidated Entity classified the Real brand as held for sale and impaired the carrying amount to the brand's recoverable amount under the licence and call option agreements.

The agreements include additional consideration payable based on certain hurdles. As at 30 June 2021, these additional consideration payments are considered to be unlikely to be received and have therefore not been included in the recoverable amount of the Real brand.

7.2. Property, plant and equipment

2021	Leasehold Improvements \$'000	Office Equipment \$'000	Motor Vehicles \$'000	Total \$'000
Cost				
At 1 July	6,139	12,679	465	19,283
Additions	10	877	59	946
Disposals	-	-	(22)	(22)
End of the financial year	6,149	13,556	502	20,207
Depreciation				
At 1 July	(3,843)	(7,680)	(290)	(11,813)
Depreciation	(997)	(1,718)	(92)	(2,807)
Disposals	-	4	22	26
End of the financial year	(4,840)	(9,394)	(360)	(14,594)
Carrying amount				
Beginning of the financial year	2,296	4,999	175	7,470
End of the financial year	1,309	4,162	142	5,613

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

2020	Leasehold Improvements \$'000	Office Equipment \$'000	Motor Vehicles \$'000	Total \$'000
Cost				
At 1 July	7,703	8,136	438	16,277
Additions	1,903	6,277	27	8,207
Disposals	(3,467)	(1,734)	-	(5,201)
End of the financial year	6,139	12,679	465	19,283
Depreciation				
At 1 July	(3,827)	(6,332)	(195)	(10,354)
Depreciation	(884)	(1,389)	(95)	(2,368)
Disposals	868	41	-	909
End of the financial year	(3,843)	(7,680)	(290)	(11,813)
Carrying amount				
Beginning of the financial year	3,876	1,804	243	5,923
End of the financial year	2,296	4,999	175	7,470

Recognition and Measurement

Property, plant and equipment are stated at cost, depreciated over their useful lives and are subject to impairment testing. All costs for repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful lives of each item of property and equipment. The rates used for this purpose are:

	2021	2020
Leasehold improvements	5 yrs - 7 yrs	5 yrs - 7 yrs
Office equipment	3 yrs - 10 yrs	3 yrs - 10 yrs
Motor vehicles	4 yrs	4 yrs

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

7.3. Goodwill and intangible assets

Intangible assets are assets with no physical substance. These assets support the generation of future earnings and are subject to impairment testing, with finite useful life intangible assets also subject to amortisation over the useful life.

	Identifiable Intangibles				
	Goodwill \$000	Software \$000	Rights & Other \$000	Brand Names \$000	Total \$000
2021					
Cost					
At 1 July	76,517	42,674	10,588	30,666	160,445
Additions	-	3,754	220	741	4,715
Written-off	-	-	(230)	-	(230)
End of the financial year	76,517	46,428	10,578	31,407	164,930
Amortisation					
At 1 July	(161)	(29,049)	(5,998)	-	(35,208)
Amortisation	-	(2,511)	(2,529)	(671)	(5,711)
Impairment	(6,127)	-	-	(15,909)	(22,036)
Assets held for sale	-	-	-	(4,516)	(4,516)
End of the financial year	(6,288)	(31,560)	(8,527)	(21,096)	(67,471)
Carrying amount					
Start of the financial year	76,356	13,625	4,590	30,666	125,237
End of the financial year	70,229	14,868	2,051	10,311	97,459

	Identifiable Intangibles				
	Goodwill \$000	Software \$000	Rights & Other \$000	Brand Names \$000	Total \$000
2020					
Cost					
At 1 July	76,517	37,388	10,621	30,666	155,192
Additions	-	5,286	-	-	5,286
Written-off	-	-	(33)	-	(33)
End of the financial year	76,517	42,674	10,588	30,666	160,445
Amortisation					
At 1 July	(161)	(24,750)	(4,714)	-	(29,625)
Amortisation	-	(4,299)	(1,284)	-	(5,583)
End of the financial year	(161)	(29,049)	(5,998)	-	(35,208)
Carrying amount					
Start of the financial year	76,356	12,638	5,907	30,666	125,567
End of the financial year	76,356	13,625	4,590	30,666	125,237

Goodwill and brand assets were acquired by the Consolidated Entity during the 2014 financial year via the reorganisation of Real Insurance Pty Ltd. The Real Brand is used to market and distribute the Consolidated Entity's Personal Lines insurance products and was reclassified as a Held for Sale asset as at 30 June 2021. Additional goodwill arose on acquisition of PetSure (Australia) Pty Ltd in prior years.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

Recognition and Measurement

Intangible assets with finite lives

Intangible assets with finite lives that are acquired separately are carried at cost, those acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

The amount initially recognised for internally generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria set out in accounting standards. Where no internally generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, intangible assets with finite lives are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Amortisation is recognised on a straight-line over the estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. The useful lives for each category of intangible assets are:

	2021	2020
Software	3 yrs - 5 yrs	3 yrs - 5 yrs
Rights & Other	7 yrs	7 yrs

Intangible assets with indefinite lives

Brand names recognised by the Consolidated Entity have an indefinite useful life and are not amortised. Brand names have been assessed as having indefinite lives on the basis of strong brand health, ongoing expected profitability and continuing support. Each period, the useful lives of these assets are reviewed to determine whether events and circumstances continue to support an indefinite useful life assessment for the asset. Such assets are tested for impairment in accordance with the "Impairment" accounting policy included within this note.

Impairment

At the end of each reporting period, the Consolidated Entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Consolidated Entity estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Critical Accounting Estimates and Judgements

An impairment assessment was performed by estimating the value in use of the cash generating units to which intangible assets have been allocated. The result of the most current assessment was that there was an indication of impairment of the Brand Names due to a licence and call option agreement which were executed post year end and reduced the recoverable amount. The directors are confident that the current carrying amount of the asset is recoverable in full.

Cash flow forecasts are prepared, including investment returns, based on the latest three-year business plan, extended to year five based on forecasted growth. These forecasts are based on a combination of historical performance and management's expectations of future performance based on prevailing and anticipated market factors.

Terminal value is calculated using a perpetuity growth formula based on the cash flow forecast at the end of year five. Terminal growth rates and insurance margins are based on past performance and management's expectations for future performance.

Discount rates reflect a beta and equity risk premium appropriate to the Consolidated Entity, with risk adjustments where applicable.

	2021	2020
Terminal growth rate	2.5%	2.5%
Discount rate - pre-tax	15.4%	13.5% - 18%

Sensitivity Analysis

The table below describes how a change in each of the key assumptions set out above will affect the impairment testing of intangible assets:

	Sensitivity %	Impact on impairment assessment	2021 \$'000	2020 \$'000
Terminal growth rate	+ 1% p.a.	Increase headroom	17,132	5,624
	- 1% p.a.	Reduce headroom, no impairment	(13,452)	(4,686)
Discount rate - pre-tax	+ 1% p.a.	Reduce headroom, no impairment	(16,944)	(6,582)
	- 1% p.a.	Increase headroom	21,580	7,919

COVID-19 Impact on use of judgements and estimates

The assumptions underpinning the value-in-use calculations used to evaluate the supportability of goodwill and intangible assets were adjusted to reflect reasonable estimates of the impact of the economic downturn and the ongoing COVID-19 pandemic and the increased risks associated with the estimated cash flows. Whilst there was an impairment of goodwill and an associated intangible asset in the year, this was not a result of any deteriorating cash-generating units at 30 June 2021. However, in the current environment there is a heightened level of uncertainty pertaining to key assumptions. Future changes in local economic conditions and the broader operating environment have the potential to materially impact key assumptions. This has the potential to materially impact the value-in-use assessment moving forward and potentially the carrying value of the respective intangible assets and goodwill. Refer note 1.6 for further details on judgements and estimates used related to impact of COVID-19.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

7.4. Provisions

	2021	2020
	\$000	\$000
Employee benefits:		
Annual leave	7,256	6,513
Long service leave	3,646	3,316
Other entitlements	8,565	45
	19,467	9,874
Other provisions:		
Make good provision	3,166	2,982
Total Provisions	22,633	12,856
Payable within 12 months	16,380	7,051
Payable in greater than 12 months	6,253	5,805
Total Provisions	22,633	12,856

The make good provision represents an estimate for the make good obligations required for the office premises leased by the Consolidated Entity. The liability at the reporting date is expected to be settled at the end of the lease period.

a) Employee benefit expense

	2021	2020
	\$000	\$000
Superannuation	8,228	7,962
Salaries and other employee benefits expense	97,970	79,858
Movement in share-based payments	660	(2,747)
Other employee related expenses	11,028	13,953
	117,886	99,026

7.5. Leases

CONSOLIDATED ENTITY AS A LESSEE

The Consolidated Entity has a number of lease contracts for premises used in its operations of up to eight years, with the option to extend some lease terms for periods of up to four years. Lease contracts for premises are recognised on the balance sheet at the commencement of the lease, with the exception of those leases not exceeding 12 months (short-term leases) and leases of low value assets, which are expensed on a straight-line-basis and presented within Operating Expenses on the face of the Statement of Comprehensive Income.

The Consolidated Entity recognises substantially all of its lease commitments in the statement of financial position as right-of-use assets and lease liabilities in the amount of the present value of the remaining lease payments. Subsequent to initial measurement, the right-of-use asset is depreciated on a straight-line basis over the lease term, while lease payments are separated into a principal and interest portion to wind up the lease liability over the lease term.

Pursuant to some of its lease agreements, the Consolidated Entity has the option to renew the lease for a period of up to four years. The Consolidated Entity applies judgement and considers all relevant factors in assessing whether it is reasonably certain to exercise an option. This assessment is performed periodically, and when the Consolidated Entity is reasonably certain to exercise an option to extend the duration of a lease, that option is then included when calculating or re-calculating the right-of-use asset and lease liability.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

The Consolidated Entity also has certain leases of machinery with lease terms of 12 months or less and leases of office equipment with low value. The Consolidated Entity applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

As at 30 June 2021, the Consolidated Entity has not contractually committed to any leases that were yet to commence.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

	Premises 2021 \$000	Premises 2020 \$000
The movement in the Consolidated Entity's right-of-use assets at their net carrying values:		
Opening Balance	14,450	14,722
Additions	1,255	4,344
Sublease	-	405
Total right-of-use asset at the end of the year	15,705	19,471
Depreciation expense	(5,661)	(5,349)
Foreign currency movement	35	328
Impairment	(241)	-
Net carrying value at the end of the year	9,838	14,450

Set out below are the carrying amounts of lease liabilities (included under interest-bearing loans and borrowings) and the movements during the period:

	2021 \$000	2020 \$000
As at 1 July	14,753	18,521
Additions	2,018	751
Accretion of interest	293	669
Payments	(5,866)	(5,188)
At 30 June	11,198	14,753

Below is the maturity of the Consolidated Entity's undiscounted lease commitments (as lessee)

Within one year	5,647	6,583
Between one year and five years	5,921	9,497
Later than five years	-	-
Minimum lease payments	11,568	16,080

The following are the amounts recognised in profit or loss:

	2021 \$000	2020 \$000
Depreciation expense of right-of-use assets	6,325	5,349
Interest expense on lease liabilities	293	669
Expense relating to short-term leases (included in cost of sales)	40	109
Other lease income or expenses (included in cost of sales)	(175)	(189)
Total amount recognised in profit or loss	6,483	5,938

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

8. GROUP DISCLOSURES

This section provides disclosures on the Consolidated Entity structure, including controlled entity investments and transactions as well as parent entity disclosures.

8.1. Controlled Entities

Name	Principal Activities	Place of incorporation	2021 Interest held	2020 Interest held
Deemed parent entity				
The Hollard Insurance Company Pty Ltd	Insurance	Australia	-%	-%
Controlled entities				
Hollard Holdings Australia Pty Ltd	Investment entity	Australia	100.00%	100.00%
PetSure (Australia) Pty Ltd	Underwriting Agency	Australia	100.00%	100.00%
Hollard Commercial Insurance Pty Ltd	Underwriting Agency	Australia	99.95%	99.95%
Firma Insurance Services Pty Ltd	Dormant	Australia	100.00%	100.00%
Hollard Distribution Services Pty Ltd	Marketing	Australia	100.00%	100.00%
Petsure Insurance Pty Ltd	Marketing	Australia	100.00%	100.00%
Petsure Services Inc.	Administration	Philippines	50.01%	50.01%
Real Insurance Pty Ltd	Dormant	Australia	100.00%	100.00%
Envest Investments Pty Ltd	Dormant	Australia	100.00%	100.00%
Envest Strategic Investments Pty Ltd	Dormant	Australia	100.00%	100.00%
Petsecure Pty Ltd	Dormant	Australia	100.00%	100.00%
Holiday Rescue Limited	Underwriting Agency	New Zealand	49.00%	49.00%
Pet Services South Africa Pty Ltd	Administration	New Zealand	100.00%	100.00%

a) Deemed Parent Entity

Hollard Holdings Australia Pty Ltd acquired The Hollard Insurance Company Pty Ltd on 30 August 2012. In accordance with AASB 3 Business Combinations, the acquisition was accounted for as a reverse acquisition. Under this scenario, The Hollard Insurance Company Pty Ltd is deemed to be the acquirer of the Company.

As a result of the reverse acquisition methodology outlined above, the consolidated financial statements represent The Hollard Insurance Company Pty Ltd and its controlled entities on a continuation basis and the deemed acquisition of the Company.

Acquisitions and disposals

2021

- There were no changes to controlled entities in the year.

2020

- At the end of the financial year, Pet Services South Africa Pty Ltd was registered to potentially provide support services to PetSure (Australia) Pty Ltd.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

8.2. Summarised Financial Information of Hollard Holdings Australia Pty Ltd (Legal parent entity)

	2021	2020
	\$000	\$000
<i>i. Summarised statement of financial position</i>		
Assets	367,220	263,345
Liabilities	(5,729)	(48,498)
Net assets	361,491	214,847
<i>ii. Summarised statement of comprehensive income</i>		
Profit/(loss) after tax	(1,069)	1,403
Total comprehensive income	(1,069)	1,403
<i>iii. Summarised statement of equity</i>		
Issued capital	373,115	225,400
Retained earnings	(10,554)	(11,958)
Profit/(loss)	(1,069)	1,403
Total equity	361,492	214,845

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

9. ADDITIONAL DISCLOSURES

This section includes other information that must be disclosed to comply with Australian Accounting Standards, including:

- Cash flow disclosures;
- Related party transactions and balances;
- Key management personnel;
- Commitments for expenditure;
- Auditors' remuneration; and
- Accounting policy changes for the current year as well as for future years.

9.1. 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. Cash as at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

a) Reconciliation of Profit After Income Tax to Cash Flows from Operating Activities

	2021	2020
	\$000	\$000
(Loss) / profit from ordinary activities after income tax	(10,818)	800
<i>Adjustments for:</i>		
Depreciation	2,807	2,368
Amortisation	5,713	5,583
Amortisation - right-of-use asset	6,325	5,384
(Gain)/loss on fair value of investments	(40,214)	12,839
Finance costs	835	2,062
Interest paid - lease liabilities	-	(669)
Interest capitalised on investment loans	(378)	(571)
Net foreign exchange (gains) losses	(71)	(166)
Net (gain)/loss on sale of investments	(3,357)	1,748
Net (gain)/loss on sale of assets	253	5
Impairment of intangible assets	22,276	-
Actuarial (gain)/loss on defined benefit plan	(8)	-
<i>Change in assets and liabilities, excluding net assets acquired:</i>		
(Increase)/decrease in receivables	(67,281)	(151,625)
(Increase)/decrease in deferred reinsurance expense	(32,761)	(62,974)
(Increase)/decrease in deferred acquisition costs	(21,185)	(17,510)
(Increase)/decrease in reinsurance and other recoveries on claims	(23,315)	(79,839)
(Increase)/decrease in other assets	(4,911)	(4,199)
(Increase)/decrease in deferred tax asset	(13,721)	(18,822)
Increase/(decrease) in payables	103,107	146,003
Increase/(decrease) in outstanding claims	144,018	106,280
Increase/(decrease) in unearned premium liability	126,173	94,513
Increase/(decrease) in unearned reinsurance commissions	2,663	21,684
Increase (decrease) in income tax payable	(1,294)	(5,969)
Increase/(decrease) in deferred tax liability	(2,182)	7,736
Increase/(decrease) in employee entitlements and provisions	9,777	(4,673)
Increase/(decrease) in other provisions	-	331
Cash flows from/(used in) operating activities	202,451	60,319

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

9.2. Related Party Disclosures

Set out below is a summary of related party transactions by nature of transaction. The summary includes balances, income and expenses, cash, and non-cash components related to each transaction type and classification of related party:

a) Transactions with Related Parties

	2021	2020
	\$000	\$000
Dividend income		
Associates	456	384
Other related parties	255	165
Interest income		
Subsidiaries	-	2,400
Associates	469	1,035
Interest expense		
Other related parties	(593)	(2,400)
Other expense		
Other related parties	-	(381)
Loan forgiveness		
Associates	-	(500)
Acquisition costs expensed		
Associates	(80,294)	(74,275)
Other related parties	(48,890)	(46,342)

Commission and profit share arrangements (classified as acquisition costs) are generally comparable with terms and conditions offered to unrelated agencies and brokers, with the exception of the advance commission payments made to associates. Advance commission outstanding at balance date was \$4.96 million (2020: \$2.55 million).

b) Outstanding Balances with Related Parties

	2021	2020
	\$000	\$000
Acquisition costs payable		
Associates	45,897	42,931
Other related parties	10,825	24,088

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

c) Loans Provided to Related Parties

	Associates		Other	
	2021	2020	2021	2020
	\$	\$	\$	\$
Loan facilities made available*	8,083,000	8,877,638	-	-
Facility unutilised at end of financial year^	(1,650,000)	(1,206,080)	-	-
Facility used at end of financial year	6,433,000	7,671,558	-	-
Average interest rate	5.3%	5.1%	-%	-%
Movement during the year:				
Facility used at beginning of financial year	7,671,558	21,288,981	-	-
Loans advanced	-	4,100,000	-	-
Loans repaid	(1,101,771)	(17,788,196)	-	-
Loans forgiven	-	(500,000)	-	-
Capitalised interest	390,260	570,773	-	-
Facility used at end of financial year	6,960,047	7,671,558	-	-
Secured	6,391,847	7,035,418	-	-
Unsecured	568,200	636,140	-	-

* This limit refers to capital facilities provided during the year and refers to the principal amount of loans.

^ This limit refers to capital utilised and includes interest capitalised on loans from time to time.

The loans to associates are generally for terms not exceeding three years from drawdown of the facility. The security comprises a charge over the assets and liabilities of the associate or conversion to equity rights.

d) Loans Provided by Parent Entity

	Subordinated notes	
	2021	2020
	\$	\$
At beginning of financial year	40,000,000	40,000,000
Loans repaid	(40,000,000)	-
At end of financial year	-	40,000,000
Fixed interest rate	6.0%	6.0%

Information on the subordinated notes is contained in note 4.2.a).

9.3. Key Management Personnel

	2021	2020
	\$	\$
Short-term benefits	4,024,128	3,789,434
Long-term benefits	440,000	1,888,115
	4,464,128	5,677,549

The benefits above were expensed in the financial year in relation to key management personnel. The long term benefits relate to the accrual for buy-back of issued M class shares per note 4.1. None of the non executive directors, executive directors or other key management personnel hold share options against the issued and un-issued shares of the Company.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

9.4. Commitments

Expenditure

Certain properties, motor vehicles and computer equipment are leased under non-cancellable operating leases. The amount of the commitment at year end is set out below:

	2021 \$000	2020 \$000
Within one year	36	405
Between one year and five years	36	17
Later than five years	-	-
	72	422

There are no options to purchase the relevant assets on expiry of the lease.

The 2020 numbers were adjusted to remove those leases which are now disclosed as lease liabilities under AASB 16.

9.5. Auditors' remuneration

	2021 \$	2020 \$
Fees to the auditor of the statutory financial report	565,104	535,000
Fees for other statutory assurance services required by legislation	133,696	125,000
Fees for other services	425,000	76,759
	1,123,800	736,759

Other services during the financial year comprised consulting services with regard to transaction services. In the prior year, the other services related to the Hollard Staff Superannuation Plan and risk related assessments.

9.6. Other Accounting Policy Disclosures

a) Accounting Policies Adopted During the Financial Year

The Consolidated Entity adopted the following new or revised accounting standards as applicable which became effective for the annual reporting period commencing on 1 July 2020, none of which had a material impact on the Consolidated Entity.

- AASB 2020-5 Amendment to Australian Accounting Standards - Insurance Contracts
- AASB 2018-6 Amendment to Australian Accounting Standards - Definition of a Business
- AASB 2018-7 Amendment to Australian Accounting Standards - Definition of Material
- AASB 2019-1 Amendment to Australian Accounting Standards - References to the Conceptual Framework

b) 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 Consolidated Entity.

The Consolidated Entity 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 Consolidated Entity, except where noted below.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

	Effective date	Operative year ending
- AASB 17 Insurance Contracts	1 January 2023	30 June 2024
- AASB 2020-1 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current	1 January 2022	30 June 2023
- AASB 2020-3 Amendments to Australian Accounting Standards – Annual Improvements 2018–2020 and Other Amendments	1 January 2022	30 June 2023
- AASB 2021-2 Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of	1 January 2023	30 June 2024
- AASB 2021-5 Amendments to Australian Accounting Deferred Tax related to Assets and Liabilities arising	1 January 2023	30 June 2024

AASB 17 Insurance Contracts (AASB 17)

AASB 17 is a new accounting standard for all types of insurance contracts and replaces, as it relates to The Hollard Insurance Company Pty Ltd, AASB 1023 General Insurance Contracts. AASB 17 incorporates International Financial Reporting Standard 17 (IFRS 17) Insurance Contracts including relevant amendments made up to and including May 2019 by the International Accounting Standards Board (IASB). IASB approved amendments to IFRS 17 in June 2020 addressing identified implementation issues. The effective date of IFRS 17 was revised to have an effective application date for reporting periods beginning on or after 1 January 2023.

The amendments have been adopted in AASB 2020-5 Amendments to Australian Accounting Standards - Insurance Contracts, and the new standard is mandatory for the Consolidated Entity's financial statements for the financial reporting period commencing from 1 July 2023.

The adoption of AASB 17 is a significant initiative for the Consolidated Entity supported by a formal project plan and dedicated resources. After initiating the project in 2019, to assess the impact of AASB 17 on both the financial statements and the broader business, the Consolidated Entity has since completed a technical and operational impact assessment. A AASB 17 sub ledger and calculation engine has been selected and configuration and implementation activities have commenced. An additional project to uplift finance data infrastructure, including the implementation of new systems, has also commenced to facilitate AASB 17 data and reporting requirements.

AASB 17 sets out the requirements for the recognition, measurement, presentation and disclosures of insurance contracts a company issues and reinsurance contracts that it holds. AASB 17 introduces three measurement models depending on the nature of the insurance contract: the General Measurement Model, the Premium Allocation Approach and Variable Fee Approach. It is anticipated that the simplified Premium Allocation Approach (PAA), which can be applied to contracts with a duration of one year or less, will be the approach adopted by the Consolidated Entity .

AASB 17 will affect how the Consolidated Entity accounts for its insurance contracts and how it reports financial performance in the Statement of profit and loss, in particular the timings of earnings recognition for insurance contracts.

In accordance with the classifications under AABS 17, the face of the Consolidated Entity's Statement of financial position will provide less detail as a number of insurance items will be offset against each other. It is also expected that some assets will be reclassified as liabilities under AABS 17, while some liabilities will be reclassified as assets. This in itself is not expected to have a material impact to the Consolidated Entity's net asset position.

Given the complexity of AASB 17 the impact of the standard on the Consolidated Entity's financial statements is still being determined.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

10. EVENTS SUBSEQUENT TO BALANCE DATE

Information is included on non-adjusting events, favourable and unfavourable that occurred between the balance date and the date the financial statements are authorised for issue. Details of matters subsequent to the end of the financial year are set out below.

The Consolidated Entity notes that subsequent to the reporting period there has been ongoing business and economic uncertainty caused by COVID-19 developments across Australia and New Zealand with further lockdowns across many cities, regions and all of NSW, with an extended lockdown period across Sydney and Melbourne, the enforcement of interstate border controls and re-tightening of social distancing rules, and announcements with regard to State and Federal Government support packages. While the related business impact of this uncertainty remains highly unpredictable, the Consolidated Entity has considered the impact of these developments on its estimates and judgements.

A second industry test case hearing in the Federal Court of Australia, in respect of business interruption policies, concluded on 15 September 2021 with judgment reserved. The Consolidated Entity is not a named party to the second test case but the findings of the case are relevant to the BI coverages in the Consolidated Entity's policies. Final legal positions on these matters are expected to be provided by the Federal Court by the end of calendar year 2021. Refer note 1.6 and 2.3.

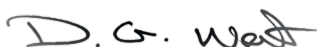
Directors' Declaration

FOR THE YEAR ENDED 30 JUNE 2021

1. In the opinion of the directors of The Hollard Holdings Australia Pty Ltd (Consolidated Entity)
 - (a) the consolidated financial statements and notes that are set out on pages 12 to 73, are in accordance with the *Corporations Act 2001*, including compliance with accounting standards, and giving a true and fair view of the Consolidated Entity and Consolidated Entity's financial position as at 30 June 2021 and of their performance for the financial year ended on that date; and
 - (b) there are reasonable grounds to believe that the Consolidated Entity and Consolidated Entity will be able to pay their debts as and when they become due and payable.
2. The directors draw attention to note 1.3 to the financial statements, which includes a statement of compliance with International Financial Reporting Standards and to note 1.6 which provides information in relation to the impact of COVID-19 on the Consolidated Entity's use of estimates and judgements.

Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the board



Duncan West
Chairman & Non-executive Director



Richard Enthoven
Executive Director

Dated at Sydney 23 September 2021

Independent Auditor's Report

FOR THE YEAR ENDED 30 JUNE 2021



Deloitte Touche Tohmatsu
ABN 74 490 121 060
Grosvenor Place
225 George Street
Sydney, NSW, 2000
Australia

Phone: +61 2 9322 7000
www.deloitte.com.au

Independent Auditor's Report to the Members of Hollard Holdings Australia Pty Ltd

Opinion

We have audited the financial report of Hollard Holdings Australia Pty Ltd and its controlled entities (the "Group") which comprises the consolidated statement of financial position as at 30 June 2021, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- Giving a true and fair view of the Group's financial position as at 30 June 2021 and of its financial performance for the year then ended; and
- Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Other Information

The directors are responsible for the other information. The other information comprises the Directors' Report for the year ended 30 June 2021, but does not include the financial report and our auditor's report thereon.

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

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Asia Pacific Limited and the Deloitte organisation.

Independent Auditor's Report

FOR THE YEAR ENDED 30 JUNE 2021



In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report 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 Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is 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 the Australian Auditing Standards 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 this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, 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 Group'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 Group'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 report 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 Group to cease to continue as a going concern.

Independent Auditor's Report

FOR THE YEAR ENDED 30 JUNE 2021

Deloitte.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

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.

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU

Max R Murray

Max Murray
Partner
Chartered Accountants
Sydney, 23 September 2021