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Hollard Insurance Partners Limited

(Previously known as Commonwealth Insurance Limited)

ABN 96 067 524 216

Annual Financial Report

For the year ended

30 June 2023

Contents

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2023

Directors

The directors present their report together with the financial report of Hollard Insurance Partners Limited, previously known as Commonwealth Insurance Limited (the Company) for the year ended 30 June 2023 and the auditor's report thereon.

Hollard Insurance Partners Limited is incorporated in Australia.

The following directors resigned as part of the Company's acquisition:

Geoffrey Austin	Independent Chair, Resigned 30 September 2022
Simon Birch	Independent Non-executive Director, Resigned 30 September 2022
Shyantika Ford	Executive Director, Resigned 30 September 2022
Brian Greig	Independent Non-executive Director, Resigned 30 September 2022
Anne O'Driscoll	Independent Non-executive Director, Resigned 30 September 2022

The below-named directors were appointed and held office for the remainder of the financial year unless otherwise noted:

Karl Armstrong	Independent Non-executive Director, Appointed: 30 September 2022
Katrina Barry	Independent Non-executive Director, Appointed: 30 September 2022 Resigned 24 March 2023
Gary Dransfield	Independent Non-executive Director, Appointed: 30 September 2022, Chair: Appointed 1 October 2022
Richard Enthoven	Executive Director, Appointed 30 September 2022
Jane Tongs	Independent Non-executive Director, Appointed: 30 September 2022
Noeline Woof	Independent Non-executive Director, Appointed: 30 September 2022

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

Nicholas Mowat	Company Secretary, Resigned: 30 September 2022
David Cantrick-Brooks	Company Secretary, Appointed: 30 September 2022
Su Gunasekara	Company Secretary, Appointed: 30 September 2022
Jenny O'Neill	Company Secretary, Appointed: 30 September 2022
Tamara Vella	Company Secretary, Appointed: 13 July 2023

Principal Activities

The Company's principal activity is general insurance underwriting. There was no significant change in the nature of these activities during the year.

Corporate Governance and Sub-Committees

The Board of Directors oversees the operation of the Company and exercises its power through a delegation framework.

During the year to 30 September 2022, Commonwealth Insurance Limited's (CIL) Board Audit Committee (BAC) and Board Risk Committee (BRC) assisted the Board in the fulfillment of its statutory and fiduciary responsibilities.

From 1 October 2022 to 30 June 2023, the Board Audit Committee (BAC), Board Risk Committee (BRC), Board Remuneration Committee (RemCo), Board Projects and Technology Committee (BPAT) and Board Reinsurance Committee (BRIC) assisted the Company's Board in the fulfilment of its statutory and fiduciary responsibilities for a number of matters.

The BAC assists the Board in the fulfilment of its responsibilities in relation to the effectiveness of the Company's financial reporting and risk management framework.

The BRC assists the Board in the fulfilment of its responsibilities in relation to the Company's risk management framework, within the context of the risk appetite determined by the Board.

The Committees made recommendations to the Board, as applicable and operated according to formal charters.

Review of Operations and Results

The Company's net loss after tax was $57.0 million (2022: loss $32.3 million) for the year. Losses were incurred as a result of severe weather events and increases in average claim costs driven by the price of materials and labour.

The Company's Statement of financial position reflects the financial strength of the business with total assets of $1,806.5 million (2022: $1,597.9 million) exceeding liabilities by $301.7 million (2022: $258.8 million). The Company's capital adequacy multiple of 1.79 (2022: 1.33) continues to be above minimum regulatory requirements.

Dividends

No dividends (2022: nil) were paid during the financial year.

Significant Changes in the State of Affairs

Share capital increased by $100,000,000 (from $153,100,000 to $253,100,000) as a result of the issue on August 2022 and September 2022 of 50,000,000 and 50,000,000 shares, respectively, at a subscription price of $1.00 per share, to the Company's parent, Commonwealth Insurance Holdings Limited. Details of the change in share capital are disclosed in Note 20 to the financial statements.

On 21 June 2021, Commonwealth Bank of Australia (CBA) announced it had entered into an agreement to sell the Company to Hollard Holdings Australia Pty Ltd (Hollard) and establish an exclusive 15-year strategic alliance with Hollard for the distribution of home and motor vehicle insurance products to CBA's retail customers in Australia (the Transaction). The Transaction was completed on 1 October 2022.

The Company's new parent entity is Hollard Holdings Australia Pty Ltd ("HHA") and the ultimate parent entity is IVM Intersurer B.V (incorporated in the Netherlands).

Further information as to likely developments in the operations of the Company and the expected results of those operations in subsequent financial years have not been included in this report because, in the opinion of the Directors, it would prejudice the interests of the Company.

Environmental Reporting

The Company's operations are not subject to any particular or significant environmental regulations under Commonwealth, State or Territory law.

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2023

Indemnification and Insurance of Directors and Officers

Indemnification

The Constitution of the Company provides for the Company to indemnify:

(a) every person who is or has been a Director, Secretary or Executive Officer of the Company out of the property of the Company against any liability (other than for legal costs and expenses) incurred by that person in his or her capacity as a Director, Secretary or Executive Officer of the Company except:

  (i) a liability owed to the Company or a related body corporate; or

  (ii) a liability for which indemnity is prohibited by or not permitted under the *Corporations Act 2001* from time to time.

(b) every person who is or has been a Director, Secretary or Executive Officer of the Company out of the property of the Company against legal costs and expenses incurred in defending an action for a liability incurred by the person in his or her capacity as a Director, Secretary or Executive Officer of the Company except in the circumstances prohibited by or not permitted under the *Corporations Act 2001*.

Insurance

During the first three months of the financial year, CBA paid an insurance premium in respect of an insurance policy for the benefit of CBA and persons defined in the insurance policy who include the Directors, Company Secretaries, Officers and certain employees of the Company and related bodies corporate. The insurance is appropriate pursuant to section 199B of the *Corporations Act 2001 (Cth)*. In accordance with commercial practice, the insurance policy prohibits disclosure of the terms of the policy including the nature of the liability insured against and the amount of the premium.

For the remainder of the financial year, the Company paid an insurance premium in respect of a contract insuring the directors and other officers of the Company and all executive officers of the Company 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 Company and of any related body corporate, in defending proceedings, whether civil or criminal, and other liabilities that may arise from their positions, with the exception of conduct involving any deliberately dishonest or fraudulent act or omission, a wilful breach of duty or improper use of information or position to gain a personal advantage, or any conduct of or contravention to which a prohibition in section 199B of the Corporations Act applies. The directors have not included details of the amount of the premiums paid in respect of the directors' and officers' liability insurance, or details of the premium paid in respect of former directors or individual officers of the Company, as such disclosure is prohibited under the terms of the contract.

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

Interests in shares of the Company

As at the date of this report, no Director has any interests in the shares of the Company.

Events Subsequent to the Balance Sheet Date

The Directors are not aware of any other matters or circumstances that have occurred since the end of the financial year that have significantly affected or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company in subsequent financial years.

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2023

Rounding of Amounts

The amounts contained in this report have been rounded to the nearest hundred thousand dollars (where rounding is applicable) under the option available to the Company under Australian Securities and Investments Commission (ASIC) *Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*. The Company is an entity to which the Instrument applies.

Auditor's Independence

A copy of the Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 5.

This report is signed in accordance with a resolution of the Board of Directors.

Gary Dransfield
Non-executive Director & Chair

Richard Enthoven
Executive Director

Dated at Sydney 21 September 2023

Deloitte Touche Tohmatsu
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Australia

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21 September 2023

The Board of Directors
Hollard Insurance Partners Limited
Level 5, 100 Mount Street
North Sydney, NSW, 2060

Dear Directors

Auditor's Independence Declaration to Hollard Insurance Partners Limited

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 Insurance Partners Limited.

As lead audit partner for the audit of the financial report of Hollard Insurance Partners Limited for the year ended 30 June 2023, 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 Rt Murray

Max Murray
Partner
Chartered Accountants

Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2023

	Notes	2023 $000	2022 $000
Premium revenue		**912,811**	842,931
Outwards reinsurance premium		**(128,640)**	(108,135)
Net premium revenue		**784,171**	734,796
Direct claims expense		**(835,008)**	(931,784)
Reinsurance and other recoveries revenue		**129,984**	307,563
Net claims incurred	4	**(705,024)**	(624,221)
Acquisition costs	9	**(91,817)**	(87,380)
Other underwriting expenses	5	**(81,602)**	(61,636)
Underwriting result		**(94,272)**	(38,441)
Investment revenue/(loss)	3	**18,221**	(2,575)
General and administration expenses	6	**(5,424)**	(5,069)
Loss before income tax		**(81,475)**	(46,085)
Income tax benefit	7	**24,426**	13,804
Loss after income tax		**(57,049)**	(32,281)
Other comprehensive income		**-**	-
Other comprehensive loss for the year, net of tax		**-**	-
Total comprehensive loss for the year, net of tax		**(57,049)**	(32,281)

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

Statement of Financial Position

AS AT 30 JUNE 2023

	Note	2023 $000	2022 $000
Assets			
Cash and cash equivalents		**122,846**	80,654
Premium receivable		**472,513**	427,252
Financial assets	14	**600,160**	510,277
Reinsurance and other recoveries receivable	8	**175,121**	387,109
Deferred reinsurance expense [1]	9	**362,730**	128,640
Deferred acquisition costs	10	**8,175**	25,565
Current tax asset		**2,482**	6,909
Property, plant and equipment	11	**214**	-
Right-of-use assets	12	**451**	-
Other assets	13	**38,427**	19,215
Deferred tax assets	6	**23,339**	12,234
Total assets		**1,806,458**	1,597,855
Liabilities			
Payables [1]	15	**395,269**	159,419
Provisions	16	**17,132**	8,904
Lease liabilities		**457**	-
Unearned premium liabilities	18	**503,784**	457,817
Unearned reinsurance commission	19	**37,694**	-
Outstanding claims liability	17	**550,413**	712,957
Total liabilities		**1,504,749**	1,339,097
Net assets		**301,709**	258,758
Equity			
Contributed equity	20	**253,100**	153,100
Shareholder retained earnings		**48,609**	105,658
Total equity		**301,709**	258,758

1. The prior period comparatives have been restated to reflect the change in disclosing deferred reinsurance expense as at the end of the financial year. See Note 9 and 15.

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

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2023

	Note	Contributed Equity $000	Shareholder Retained Earnings $000	Total Equity $000
Balance as at 1 July 2021		128,100	137,939	266,039
Issue of share capital	20	25,000		25,000
Loss for the year		-	(32,281)	(32,281)
Balance as at 30 June 2022		**153,100**	**105,658**	**258,758**
Issue of share capital	20	**100,000**		**100,000**
Loss for the year		**-**	**(57,049)**	**(57,049)**
Balance as at 30 June 2023		**253,100**	**48,609**	**301,709**

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

Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2023

	Note	2023 $000	2022 $000
Cash flows from operating activities			
Premiums received		**913,331**	843,729
Reinsurance and other recoveries received		**283,379**	55,486
Income tax received/(paid)		**17,748**	(8,969)
Outwards reinsurance premium paid		**(131,291)**	(105,028)
Claims paid		**(937,947)**	(640,337)
Acquisition costs paid		**(74,427)**	(74,066)
General and administration expenses paid		**(4,853)**	(5,764)
Underwriting expenses paid		**(51,307)**	(61,911)
Net cash flows provided by operating activities	24	**14,633**	3,140
Cash flows from investing activities			
Interest received		**7,474**	3,302
Purchase of financial assets		**(877,844)**	(960,487)
Redemption of financial assets		**798,708**	939,705
Purchase of property, plant and equipment		**(292)**	-
Net cash flows used in investing activities		**(71,954)**	(17,480)
Cash flows from financing activities			
Proceeds from issue of share capital	20	**100,000**	25,000
Payment of lease liabilities		**(487)**	-
Net cash flows provided by financing activities		**99,513**	25,000
Net increase in cash and cash equivalents		**42,192**	10,660
Cash and cash equivalents at the beginning of the financial year		**80,654**	69,994
Cash and cash equivalents at the end of the financial year		**122,846**	80,654

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

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2023

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.1. General Information

The General Purpose Financial Statements (the Financial Statements) of Hollard Insurance Partners Limited (the Company), previously known as Commonwealth Insurance Limited, for the year ended 30 June 2023 were approved and authorised for issue by the Board of Directors on 21 September 2023.

The Company is incorporated and domiciled in Australia, and is a company limited by shares. The address of its registered office is Level 5, 100 Mount Street, North Sydney, New South Wales 2060, Australia.

Its parent entity is Hollard Holdings Australia Pty Ltd ("HHA") and the ultimate parent entity is IVM Intersurer B.V (incorporated in the Netherlands).

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented unless otherwise stated. The financial statements cover the Company as an individual entity.

The Company holds an Australian Financial Services licence (AFSL) (licence no. 235030).

1.2. Basis of Preparation

The Financial Statements have been prepared in accordance with Australian Accounting Standards and Australian Interpretations issued by the Australian Accounting Standards Board (AASB), and the *Corporations Act 2001*. The Company is a for-profit entity for the purpose of preparing the Financial Statements.

The Financial Statements of the Company also comply with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The amounts contained in the Financial Statements have been rounded to the nearest hundred thousand dollars (where rounding is applicable) under the option available to the Company under ASIC *Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*. The Company is an entity to which the Instrument applies.

The functional and presentation currency of the Company has been determined to be Australian Dollars (AUD) as this currency best reflects the economic substance of the underlying events and circumstances relevant to the Company.

The Financial Statements have been prepared on a going concern basis and on the basis of historical cost, except for the following assets and liabilities stated at their fair value: financial assets and net outstanding claims, which are discounted in accordance with Australian Accounting Standards. The Statement of financial position is presented in order of liquidity.

1.3. Significant Accounting Judgements, Estimates and Assumptions

The application of the Company's accounting policies requires the use of judgement, estimates and assumptions. If different assumptions or estimates were applied, the resulting values would change, impacting the net assets and income of the Company.

The accounting policies, which are sensitive to the use of judgement, estimates and assumptions, are discussed with Management and approved by the Board of Directors of the Company.

General insurance contract liabilities

Actuarial assumptions made in determining the value of outstanding claim liabilities are detailed in Note 2 Critical Accounting Estimates and Judgements.

1.4. New accounting standards and future Accounting Developments

New and amended standards not yet adopted

There are a number of new accounting standards and amendments issued, but not yet effective, none of which have been early adopted by the Company. The Company 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 Company, except where noted below.

	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 Accounting Estimates	1 January 2023	30 June 2024
- AASB 2021-5 Amendments to Australian Accounting Standards – Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023	30 June 2024

AASB 17 Insurance contracts

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

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

The Company continues to make progress towards implementation of the AASB 17 standard with an implementation program in place that includes changes to systems, data and processes which are required in order to adhere to the Standard for financial statement reporting for June 2024. Below are some of the key accounting changes applicable to the Company in applying the new accounting Standard.

Measurement of insurance contracts/reinsurance contracts

Measurement models

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

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

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

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

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

Onerous contracts

AASB 17 requires the identification of 'groups' of onerous contracts which will be determined at a more granular level of aggregation, at initial recognition of the groups of contracts, than the level at which the liability adequacy test is performed under AASB 1023 at each reporting period end. Contracts that are measured using the premium allocation approach are assumed not to be onerous unless the facts and circumstances indicate otherwise.

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

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

Risk adjustment for non-financial risk

AASB 17 requires the estimated present value of future cash flows to be adjusted by a Risk Adjustment, which reflects the compensation an entity requires for bearing the uncertainty around the amount and timing of the cash flows that arises from non-financial risk.

AASB 17 is a principles-based standard, and the Company has discretion to determine a methodology to calculate the Risk Adjustment. The Company will adopt the cost of capital approach for estimating the risk adjustment for all classes of business. This will allow a clear link between the Company's risk appetite, compensation for risk and resulting risk adjustment.

Discount Rates

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

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

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

Transition

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

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

Presentation and disclosure

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

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

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

1.5. Premium Revenue

Direct premium comprises amounts charged to the policyholders, including emergency services levy, but excludes taxes collected on behalf of third parties. The earned portion of premiums received, and receivable is recognised as premium revenue.

Premium revenue is earned from the date of attachment of risk and over the term of the policies written, based on the assessment of the likely pattern in which risk will emerge. A daily pro rata basis is used to recognise revenue.

The portion not earned, as determined by the above method, is classified on the Statement of financial position as unearned premium (see Note 1.20) Unearned Premium Liabilities).

1.6. Claims Expenses

Claims expense and liability for outstanding claims are recognised in respect of all business. The liability covers claims reported but not paid (RBNP), claims incurred but not reported (IBNR), claims incurred but not enough reported (IBNER) and the anticipated direct and indirect costs of settling those claims.

The liability for outstanding claims is determined by the Directors having regard to the advice of the Appointed Actuary. The liability is measured as the central estimate of the present value of the expected future payments against claims incurred at the reporting date under general insurance contracts issued by the Company. A risk margin is added to the outstanding claims provision, net of reinsurance and other recoveries, to allow for the net liability being adequate at a sufficiency level deemed appropriate by the Directors. The expected future payments are discounted to present value at balance date using a risk-free rate implied by the yield curve on Commonwealth Government bonds at balance date.

1.7. Investment Revenue

All investment income is recognised on an accrual basis.

Interest income is recognised using the effective interest method.

Consistent with the principles of fair value accounting, movements in the fair value of investment assets are recognised in the Statement of Comprehensive Income.

1.8. Acquisition Costs

Acquisition costs include commissions and other selling and underwriting costs incurred in obtaining general insurance premiums. A portion of acquisition costs relating to unearned premium revenue is recognised as an asset where it is probable they will give rise to premium revenue that will be recognised in the Statement of Comprehensive Income in subsequent periods. Deferred acquisition costs are amortised over the financial years expected to benefit from the expenditure and are stated at the lower of cost or recoverable value.

1.9. Income Tax

The income tax expense or benefit for the year is the tax payable (or benefit receivable) on the current year's taxable income (or loss) based on the applicable income tax rate for Australia adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Income tax is recognised in the Statement of Comprehensive Income, except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date and which are expected to apply when the deferred tax asset is realised, or the deferred tax liability is settled.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the Company has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Tax consolidation

Effective 1 October 2022, the Company became a wholly owned subsidiary of HHA. On that date, the Company joined the HHA multiple entry consolidated (MEC) tax group as a subsidiary member. Immediately before the joining time, the Company was a member of the Commonwealth Bank of Australia tax consolidated group from which it exited.

The current and deferred tax amounts for the MEC group are allocated among entities in the group using a modified "standalone taxpayer" approach, whereby each entity in the MEC 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 Company's statement of financial position and its tax base applied 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 MEC group.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses assumed by the head entity from the subsidiary in the MEC 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 MEC group to the extent that it is probable that future taxable profits of the MEC 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 Company is a member of the tax funding agreement of the MEC group which sets out the funding obligations of members of the MEC 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 from the amounts initially recognised by the Company 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.

1.10. Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the Statement of financial position.

Commitments and contingencies are disclosed net of any amount of GST recoverable from, or payable to, the taxation authority.

1.11. Other Taxes

Stamp duty is a tax that is levied by Australian State and Territory governments (except Australian Capital Territory) on the underwriting of insurance policies. The stamp duty payable is the total amount of stamp duty for each written policy calculated as a percentage of the premium paid on the policy, whereby the percentage applied varies depending on the State or Territory within which the policy is written. On a monthly basis, the Company is liable to pay to the authorities the duties collected in the preceding month.

1.12. Emergency Services Levy and Other Charges

A liability for emergency services levy and other charges is recognised on business written to the balance date. Emergency Services Levies are applicable to premiums received from policy-holders in New South Wales only. 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 deferred emergency services levy and included in Other Assets.

1.13. Financial Instruments

Financial assets

The Company classifies its financial assets as financial assets at fair value through the Profit and Loss. Management determines the classification of its financial assets at initial recognition.

Purchases and sales of financial assets are recognised on trade date, when the Company commits to purchase or sell the asset. Financial assets are recognised initially at fair value.

Financial assets are derecognised either when sold, or when the rights to receive cash flows from the financial asset have expired or have been transferred, or when the Company has transferred substantially all the risks and rewards of ownership.

Financial assets include assets held for trading and assets that, upon initial recognition, are designated by Management as at fair value through Profit and Loss. Designation is made when it reduces significant accounting mismatches between assets and related liabilities; or the group of financial assets are managed, and their performance is evaluated on a fair value basis; or where the asset is a contract which contains an embedded derivative.

These assets are recognized on trade date at fair value, with transaction costs including brokerage, commissions and fees expensed through the Statement of Comprehensive Income. Subsequent to initial recognition, where an active market exists, fair value is measured using quoted market exit prices.

Non-market quoted assets are valued using valuation techniques based on market observable inputs. In a limited number of instances, valuation techniques are based on non-market observable inputs.

1.14. Cash and Cash Equivalents

Cash and cash equivalents as presented in the Financial Report comprise cash at bank and short-term deposits with original maturity less than three months that are held for the purpose of short-term cash commitments. Cash at bank earns interest at a floating rate based on daily deposit rates. For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

1.15. Receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

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.

1.16. Right-of-use assets

The Company has a number of lease contracts for premises and motor vehicles used in its operations. Lease contracts are recognised on the Statement of financial position 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 Company 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.

The Company 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 Company 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.

As at 30 June 2023 the Company has not contractually committed to any leases that were yet to commence.

1.17. Property, plant and equipment

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.

1.18. Deferred reinsurance expense

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

Premiums ceded to reinsurers under reinsurance contracts held by the Company 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

1.19. Reinsurance and Other Recoveries Receivable

Reinsurance receivables are estimated based on the total cost of claims, which comprises claim payments to date, case estimates, claims incurred but not reported (IBNR) and claims incurred but not enough reported (IBNER). Other recoveries receivable are assessed in a manner similar to the assessment of outstanding claims and are measured at the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

1.20. Assets Backing General Insurance Liabilities

As part of its investment strategy, the Company actively manages its investment portfolio to ensure that investments mature broadly in accordance with the expected pattern of future cash flows arising from general insurance liabilities.

The Company has determined that cash and cash equivalents and financial assets are held to back general insurance liabilities.

The assets backing the general insurance contract liabilities are designated at fair value through Profit and Loss, which eliminates or significantly reduces the potential measurement inconsistency which would arise if the assets were classified as available for sale or measured at amortised cost. Initial recognition is at fair value prevailing on the date of transaction on the Balance Sheet and any resultant unrealised gains or losses are recognised in the Statement of Comprehensive Income.

Notes to the Financial Statements

1.21. Unearned Premium Liabilities

The adequacy of the unearned premium liability is assessed by considering current estimates of all expected future cash flows relating to future claims covered by current insurance contracts.

If the present value of the expected future cash flows relating to future claims, plus the additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned premium liability less related deferred acquisition costs, then the unearned premium liability is deemed deficient.

Any deficiency is recognised immediately in the Statement of Comprehensive Income as an expense, both gross and net of reinsurance. The deficiency is recognised by writing down any deferred acquisition costs. If following the write down of the deferred acquisition costs a deficiency remains the amount is recorded on the Statement of financial position as an unexpired risk liability.

1.22. Outstanding Claims Liability

The Company's estimation of its claims liabilities includes the expected future cost of claims notified to the Company as at reporting date as well as IBNR and IBNER. Projected payments are discounted to present value and an estimate of direct and indirect expenses expected to be incurred in settling these claims is determined. Details are provided in Note 2.1.

1.23. Liabilities

Accounts payable

Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Company. These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year which are unpaid. They are recognised initially at cost, being the invoice amounts due or the face value.

Other liabilities

Other liabilities of the Company are initially accounted for at fair value and subsequently at amortised cost.

1.24. Provisions

A provision is recognised in the Statement of financial position when the Company has a present obligation (legal, equitable or constructive) as a result of a past event, and where it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably measured.

Provisions for employee entitlements (such as long service leave, annual leave, restitution and other employee benefits, and fringe benefits tax thereon) are calculated based on expected payments. Where the payments are expected to be more than one year in the future, it factors in the expected period of service by employees, as well as salary increases. These future obligations are discounted using a market observable rate.

1.25. Outwards Reinsurance

Premiums ceded to reinsurers are recognised as an expense from the attachment date over the period of indemnity of the reinsurance contract, in accordance with the pattern of reinsurance service received. Accordingly, a portion of outwards reinsurance premiums may be treated at balance date as deferred reinsurance.

1.26. Reinsurance Commission

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.

Under quota share reinsurance treaty agreements, the Company has a right to 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 commissions income receivable, on a treaty basis.

1.27. Contributed Equity

Issued and paid up capital is classified as equity and recognised at the fair value of the consideration received by the Company.

Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

1.28. Contingent Liabilities

The Company discloses a contingent liability when it has a possible obligation arising from past events, which will be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the Company's control. A contingent liability is also disclosed when a present obligation is not recognised because it is not reasonably certain that an outflow of resources will be required to settle an obligation, or the amount of the obligation cannot be measured with sufficient reliability.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Company makes estimates and assumptions in respect of certain key assets and liabilities. Estimates and judgements are regularly evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key areas in which critical estimates and judgements are applied are described below.

2.1. The Outstanding Claims Liability arising from claims made under insurance contracts

Provision is made at year end for the estimated future cost of claims incurred but not settled at balance date, including the cost of claims incurred but not reported to the Company. The estimated future cost of claims is discounted to present value and includes an estimate of the direct and indirect expenses to be incurred in settling claims.

The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures, with estimates and judgements being evaluated based on historical experience and other factors. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of the cost of unreported claims is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about the claim event is generally available. In particular, long-tail claims may not be adequately reported to the insurer until many years after the events giving rise to the claims. Therefore, the Liability component of the Home business will typically display greater variation between initial estimates and final outcomes.

Catastrophe event claims impacting each relevant business class are generally assessed separately, in order to avoid the possible distorting effect of the development of catastrophe claims, which may develop differently from non-event claims. The estimation of the cost of catastrophe event claims is also subject to a high degree of uncertainty due to the unique nature of individual events.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2023

2.2. Assets arising from Reinsurance Contracts and Other Recoveries

Assets arising from reinsurance contracts are calculated in accordance with the relevant reinsurance contracts. Other recoveries are estimated using actuarial methods similar to those used for the outstanding claims liability. In addition, the recoverability of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that are ultimately expected to be received, taking into consideration factors such as counterparty and credit risk.

Where practical, the Company adopts multiple techniques to estimate the required level of provisions with consideration of a wide range of factors, including claims experience, exposure mix, legal and economic factors, and industry benchmarks. This assists in providing a greater understanding of the trends inherent in the data being projected. The projections given by the various methodologies also assist in predicting a range of outcomes. The most appropriate estimation technique or blend of techniques is selected taking into account the characteristics of the class of business and the extent of the development of claims in relation to each accident period.

The Company underwrites two main classes of business: Home (Building and Contents including public liability) and Motor insurance.

Actuarial assumptions

The following assumptions have been made in determining the direct outstanding claims liabilities.

	2023 Buildings	**2023 Contents**	**2023 Liability**	**2023 Motor**
Average weighted term to settlement from reporting date (years)	**0.7**	**0.6**	**2.2**	**0.3**
Claims handling expense rate %	**5.92%**	**5.92%**	**5.92%**	**5.82%**
Discount rate %	**3.66%**	**4.19%**	**3.93%**	**4.36%**
Inflation and superimposed inflation rate %	**5.00%**	**5.00%**	**7.00%**	**5.00%**

	2022 Buildings	2022 Contents	2022 Liability	2022 Motor
Average weighted term to settlement from reporting date (years)	0.6	0.5	2.1	0.5
Claims handling expense rate %	6.70%	6.70%	6.70%	7.10%
Discount rate %	2.52%	2.19%	3.02%	2.24%
Inflation and superimposed inflation rate %	4.25%	4.25%	6.25%	4.25%

Process used to determine assumptions

A description of the processes used to determine these assumptions is provided below:

Average weighted term to payment from reporting date

The average weighted term to payment is calculated separately by class of business based on historic payment patterns.

Expense rate

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

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2023

Discount rate

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

Inflation and superimposed inflation

Economic inflation assumptions are selected after reference to current economic indicators including Consumer Price Index (CPI) and Australian Weekly Earnings. Superimposed inflation occurs due to non-economic effects such as court settlements increasing at a faster rate than wages or CPI inflation. An allowance for superimposed inflation was made for the Liability class of business, after considering both the portfolio experience and industry trends.

Sensitivity Analysis – Insurance Contracts

The Company conducts sensitivity analysis to quantify the exposure to risk of changes in the key underlying actuarial assumptions.

The table below summarises how a change in each assumption while holding all other assumptions constant will affect the profit/(loss) before tax.

2023	Movement in Assumptions	Buildings $'000	Contents $'000	Liability $'000	Motor $'000
Average weighted term to	+0.5 years	**(2,205)**	**(187)**	**(290)**	**(116)**
settlement	-0.5 years	**2,191**	**186**	**286**	**115**
Claims handling expense rate %	+1%	**(3,253)**	**(459)**	**(198)**	**(479)**
	-1%	**3,253**	**459**	**198**	**479**
Discount rate %	+1%	**2,161**	**258**	**410**	**114**
	-1%	**(2,196)**	**(262)**	**(423)**	**(115)**
Inflation and superimposed	+1%	**(2,147)**	**(257)**	**(407)**	**(114)**
inflation rate %	-1%	**2,154**	**258**	**402**	**114**

2022 (Restated)	Movement in Assumptions	Buildings $'000	Contents $'000	Liability $'000	Motor $'000
Average weighted term to	+0.5 years	(2,449)	(241)	(286)	(356)
settlement	-0.5 years	2,429	239	282	352
Claims handling expense rate %	+1%	(2,735)	(212)	(202)	(437)
	-1%	2,735	212	202	437
Discount rate %	+1%	1,488	103	340	134
	-1%	(1,520)	(105)	(353)	(136)
Inflation and superimposed	+1%	(1,540)	(107)	(360)	(138)
inflation rate %	-1%	1,192	107	354	138

The prior period assumptions have been restated to reflect the assumptions used by the parent and related entities.

2.3. Liability Adequacy Test

The Liability Adequacy Test (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.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2023

A 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 (DAC).

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 lines of business level.

3. INVESTMENT REVENUE

	2023	**2022**
	$000	**$000**
Interest income	**19,074**	3,302
Unrealised losses	**(853)**	(5,877)
Total investment revenue	**18,221**	(2,575)

4. NET CLAIMS INCURRED

4.1. Claims analysis

	2023		
	Current Year	**Prior Years**	**Total**
	$000	**$000**	**$000**
Gross claims incurred and related expenses - undiscounted	**729,125**	**109,302**	**838,427**
Reinsurance and other recoveries - undiscounted	**(28,764)**	**(99,045)**	**(127,809)**
Net claims incurred - undiscounted	**700,361**	**10,257**	**710,618**
Discount movement:			
Gross claims incurred	**(7,265)**	**3,846**	**(3,419)**
Reinsurance and other recoveries	**346**	**(2,521)**	**(2,175)**
Net discount movement	**(6,919)**	**1,325**	**(5,594)**
Net claims incurred	**693,442**	**11,582**	**705,024**

	2022		
	Current Year	Prior Years	Total
	$000	$000	$000
Gross claims incurred and related expenses - undiscounted	953,813	(14,952)	938,861
Reinsurance and other recoveries - undiscounted	(305,132)	(5,141)	(310,273)
Net claims incurred - undiscounted	648,681	(20,093)	628,588
Discount movement:			
Gross claims incurred	(5,745)	(1,332)	(7,077)
Reinsurance and other recoveries	2,487	223	2,710
Net discount movement	(3,258)	(1,109)	(4,367)
Net claims incurred	645,423	(21,202)	624,221

Current year claims relate to risks in the current financial year. Prior year claims relate to the run-off of risks borne in all previous financial periods.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2023

4.2. Reconciliation of net claims incurred to claims development table

The development of the net undiscounted central estimate of outstanding claims for the six most recent accident years is shown in Note 17.4 Claims development table. This note is a reconciliation of the amounts included in the table above and the current financial year movements in the claims development table.

	2023		
	Current Year	**Prior Years**	**Total**
	\$000	**\$000**	**\$000**
Net undiscounted claims development - central estimate	**627,944**	**20,434**	**648,378**
Movement in claims handling cost	**18,741**	**(21,321)**	**(2,580)**
Discount movement	**(6,919)**	**1,325**	**(5,594)**
Movement in risk margin	**22,495**	**(14,810)**	**7,685**
Claims administration expense paid	**31,181**	**25,954**	**57,135**
Net claims incurred - discounted	**693,442**	**11,582**	**705,024**

	2022		
	Current Year	Prior Years	Total
	\$000	\$000	\$000
Net undiscounted claims development - central estimate	569,107	(15,263)	553,844
Movement in claims handling cost	24,263	(14,118)	10,145
Discount movement	(3,259)	(1,110)	(4,369)
Movement in risk margin	18,864	(14,272)	4,592
Claims administration expense paid	36,450	23,559	60,009
Net claims incurred - discounted	645,425	(21,204)	624,221

5. OTHER UNDERWRITING EXPENSES

	2023	**2022**
	\$000	**\$000**
Management fees	**52,010**	34,023
Emergency services levy	**29,592**	27,613
Total other underwriting expenses	**81,602**	61,636

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2023

6. GENERAL AND ADMINISTRATION EXPENSES

	2023	2022
	$000	$000
Employee benefit expense	**-**	236
Bank fees	**1,920**	1,774
Management fees	**2,237**	2,767
Audit fees	**348**	-
Levies, taxes and other	**387**	272
Directors fees	**287**	-
Brokerage fees	**51**	-
Depreciation	**78**	-
Other (income)/expense	**116**	20
Total general and administration expenses	**5,424**	5,069

7. INCOME TAX EXPENSE

7.1. Analysis of income tax benefit

	2023	2022
	$000	$000
Current tax (benefit)/expense	**(15,908)**	(6,906)
Deferred tax credit	**(8,518)**	(6,919)
Under provision of prior year tax	**-**	21
Income tax (benefit)/expense	**(24,426)**	(13,804)

7.2. Reconciliation between income tax (benefit)/expense and accounting (loss)/profit

	2023	2022
	$000	$000
(Loss)/Profit before income tax	**(81,475)**	(46,085)
Prima facie tax at 30% (2022: 30%)	**(24,443)**	(13,825)
Non-temporary differences	**17**	-
Under provision of prior year tax	**-**	21
Total income tax (benefit)/expense	**(24,426)**	(13,804)

7.3. Analysis of deferred tax assets

	2023 $000	2022 $000
Deferred Tax Asset		
Claims handling cost	**7,874**	8,647
Deferred acquisition cost write-down	**7,828**	3,480
Employee entitlement provisions	**5,145**	2,549
Accruals and other provisions	**2,492**	144
Total deferred tax assets	**23,339**	14,820
Deferred Tax Liability		
Receivable from ultimate parent [1]	**-**	(2,586)
Total deferred tax liability	**-**	(2,586)
Net deferred tax assets (non-current)	**23,339**	12,234

[1] The 2022 deferred tax liability of $2.5m in respect of Receivable from ultimate parent was settled when the Company left the CBA tax consolidation group on acquisition.

8. REINSURANCE AND OTHER RECOVERIES RECEIVABLE

	2023 $000	2022 $000
Expected future reinsurance and other recoveries (undiscounted)		
- on claims paid	**72,345**	43,815
- on outstanding claims	**103,401**	346,798
Expected future reinsurance and other recoveries (undiscounted)	**175,746**	390,613
Discount to present value	**(625)**	(3,503)
Total reinsurance and other recoveries receivable on incurred claims	**175,121**	387,109
Maturity distribution of reinsurance and other recoveries receivable on incurred claims:		
Receivable within 12 months	**136,087**	343,088
Receivable in more than 12 months	**39,034**	44,021
Total reinsurance and other recoveries receivable on incurred claims	**175,121**	387,109

9. DEFERRED REINSURANCE EXPENSE

	2023 $000	2022 $000
Balance at beginning of the year	**128,640**	108,135
Premiums deferred in financial year	**362,730**	128,640
Amortisation of premiums deferred	**(128,640)**	(108,135)
Balance at end of financial year [1]	**362,730**	128,640
To be expensed within 12 months	**362,730**	128,640
To be expensed in greater than 12 months	**-**	-
	362,730	128,640

[1] The prior period comparatives have been restated to reflect the change in disclosing deferred reinsurance expense as at end of the financial year to align with the parent and related entities.

10. DEFERRED ACQUISITION COSTS

	2023 $000	2022 $000
Balance at the beginning of the year	**25,565**	38,879
Acquisition costs deferred during the year	**74,427**	74,066
Amortisation recognised in Income Statement	**(66,017)**	(75,780)
Deferred acquisition cost (DAC) write-down	**(25,800)**	(11,600)
Balance at the end of the year	**8,175**	25,565

DAC are all amortised over 12 months, with the exception of the write-down. Refer to the table below regarding write-down of DAC.

In assessing the adequacy of net premium liabilities, management performs a prospective assessment of the net present value of claims that are expected to be paid for future events insured under existing policies. In addition, a risk adjustment is required to be applied to premium liabilities.

	2023 $000	2022 $000
Unearned premium liability relating to insurance contracts issued	**486,741**	443,823
Related reinsurance asset (deferred reinsurance expenses)	**(210,346)**	(62,325)
Related DAC (pre write-down)	**(33,975)**	(37,164)
Net unearned premium liability as at end of the period	**242,420**	344,334
Net central estimate of present value of expected future cash flows arising from future claims on insurance contracts issued	**244,055**	315,845
Plus: Risk margin	**24,153**	39,967
Total expected cash flows for future claims	**268,208**	355,812
Net unearned premium liability deficiency recognised	**(25,788)**	(11,478)

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2023

For the purposes of the liability adequacy test, the present value of the expected future cash flows of future claims including the risk margin for the Company is $268.2m (2022: $355.8m) comprising the discounted central estimate of $244.1m (2022: $315.8m) and a risk margin of $24.1m (2022: $40.0m). A write-down of DAC of $25.8m was recognized.

11. PROPERTY, PLANT AND EQUIPMENT

2023	Leasehold Improvements $000	Total $000
Cost		
At 1 July	-	-
Additions	**292**	**292**
End of the financial year	**292**	**292**
Depreciation		
At 1 July	-	-
Additions	**(78)**	**(78)**
End of the financial year	**(78)**	**(78)**
Carrying amount		
End of the financial year	**214**	**214**

12. RIGHT-OF-USE ASSETS

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

	2023 $000
At the beginning of the year	-
Additions	**914**
Total right-of-use asset at the end of the year	**914**
Depreciation Expense	**(463)**
Impairment	-
Net carrying value at the end of the year	**451**

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	2023 $000
As at 1 July	
Additions	**914**
Accretion of Interest	**30**
Payments	**(486)**
At 30 June	**458**

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2023

Below is a maturity analysis of the Company's undiscounted lease commitments:

	2023
	$000
Within one year	**297**
Between one year and five years	**184**
Minimum lease payments	**481**

Set out in the table below are the amounts recognised during the period in profit or loss resulting from the Company's leases:

	2023
	$000
Amortisation expense of right-of-use assets	**(463)**
Interest expense on lease liabilities	**(30)**
Total amount recognised in profit or loss	**(493)**

13. OTHER ASSETS

	2023	2022
	$000	$000
Deferred emergency services levy and charges	**17,044**	13,996
Interest receivable	**-**	17
Receivable from parent entity	**17,522**	-
Emergency services levy receivable	**2,734**	2,943
Goods and services tax receivable	**-**	1,426
Other	**1,127**	833
Total other assets (current)	**38,427**	19,215

14. FINANCIAL ASSETS

	2023	2022
	$000	$000
Term deposit	**402,836**	202,206
Term deposit - intragroup	**-**	90,211
Government and semi-government bonds	**114,659**	217,860
Corporate bonds	**82,665**	-
Financial assets	**600,160**	510,277
Maturity distribution of financial assets		
Maturity within 12 months	**338,536**	292,417
Maturity in more than 12 months	**261,624**	217,860
Total financial assets	**600,160**	510,277

15. PAYABLES

	2023 $000	2022 $000
Stamp duty payable	**8,397**	7,705
Commissions payable	**38,003**	-
Reinsurance premium payable [3, 4]	**332,929**	139,184
Payables to ultimate parent [1]	**-**	8,656
Payables to related party [2]	**884**	-
Goods and services tax payable	**1,233**	-
Other payables	**13,823**	3,874
Total payables (current)	**395,269**	159,419

1. The prior period comparatives for 'Payable to ultimate parent' relates to CBA. The amount is a net result inclusive of payable of $17.3m partially offset by a receivable of $8.6m.
2. The amount is a net result inclusive of payable of $1.1m offset by a receivable of $0.2m.
3. The amount is a net result inclusive of reinsurance premiums payable of $370.6m offset by reinsurance commissions receivable of $37.7m.
4. The prior period comparatives have been restated to reflect the reinsurance payable at the end of the financial year to align with the parent and related entities.

16. PROVISIONS

	2023 $000	2022 $000
Provisions for employee entitlements	**17,132**	8,497
Other provisions	**-**	407
Total Provisions	**17,132**	8,904

Provisions for employee entitlements		
Current	**15,714**	7,390
Non-current	**1,418**	1,108
Total provisions for employee entitlements	**17,132**	8,497

	2023 $000	2022 $000
Movement in other provisions		
Balance at the beginning of the year	**407**	115
Additional provisions recognised	**-**	5,319
Reductions from settlement or reassessment	**(407)**	(5,027)
Total other provisions	**-**	407

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FOR THE YEAR ENDED 30 JUNE 2023

17. OUTSTANDING CLAIMS LIABILITY

17.1. Outstanding claims liability

	2023 $000	2022 $000
Gross central estimates - undiscounted	**503,779**	667,831
Discount to present value	**(11,486)**	(7,890)
Risk margin - discounted	**31,876**	24,192
Claims handling costs - discounted	**26,244**	28,825
Gross outstanding claims liability	**550,413**	712,957
Maturity distribution of outstanding claims liability:		
Payable within 12 months	**412,640**	590,851
Payable in more than 12 months	**137,773**	122,106
Gross outstanding claims liability	**550,413**	712,957

17.2. Reconciliation of movement in net outstanding claims

	2023 $000	2022 $000
Net outstanding claims liabilities at 1 July	**369,662**	300,111
Net claims incurred in current accident year	**693,442**	645,423
Movement in prior year claims provision	**11,582**	(21,202)
Net claim payments	**(627,049)**	(554,670)
Net outstanding claims liabilities at 30 June	**447,637**	369,662
Reinsurance and other recoveries on outstanding claims liabilities	**102,776**	343,295
Gross outstanding claims liabilities - discounted at 30 June	**550,413**	712,957

17.3. Risk margin

The risk margins for outstanding claims were determined by considering the relative uncertainty of the liability estimates for each class of business and allowing for the impact of diversification between the different risk classes. Uncertainty was analysed for each risk class, taking into account items such as the underlying variability in claims experience, actuarial models and assumptions, the quality and sufficiency of the data used in the models, and general market conditions.

The outstanding claims provisions adopted include risk margins estimated to achieve a 75% level of sufficiency as determined by the Board. This is consistent with the prior year. The risk margins applied, after allowance for diversification discount, are as follows:

	2023 Outstanding Claims Risk Margin	2022 Outstanding Claims Risk Margin
Risk Class		
Buildings	**7.4%**	6.8%
Contents	**7.4%**	7.5%
Liability	**30.6%**	12.5%
Motor	**7.2%**	8.5%

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FOR THE YEAR ENDED 30 JUNE 2023

17.4. Claims development table

The following table shows the development of net undiscounted central estimate of outstanding claims relative to the ultimate expected claims for the six most recent accident years. Amounts are net of reinsurance and third party recoveries.

Accident year ending 30 June $000	2018	2019	2020	2021	2022	2023	Total
Ultimate net claims cost estimate							
At end of accident year	399,602	481,767	518,872	501,301	569,107	627,944	
One year later	400,180	473,311	508,051	487,332	585,286		
Two years later	398,965	472,019	506,008	488,829			
Three years later	400,124	471,605	507,091				
Four years later	400,081	472,354					
Five years later	401,257						
Current estimate of cumulative claims cost	401,258	472,354	507,091	488,829	585,286	627,944	3,082,762
Cumulative payments	(400,012)	(470,239)	(501,771)	(472,703)	(515,275)	(326,455)	(2,686,455)
Outstanding claims - undiscounted	**1,246**	**2,115**	**5,320**	**16,126**	**70,011**	**301,489**	**396,307**
Claims handling expenses - discounted							26,244
Discount							(10,065)
Six years ago and prior outstanding claims							3,275
Total net outstanding claims - central estimate							415,761
Risk Margin - Discounted							31,876
Total net outstanding claims - provision							447,637
Reinsurance and other recoveries							102,776
Gross outstanding claim liability							**550,413**

	2016 & Prior	2018	2019	2020	2021	2022	2023	Total
Net undiscounted central estimate development								
(Increase/decrease in the year - current year minus prior year)	(250)	1,176	749	1,083	1,497	16,179	627,944	648,378

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2023

18. UNEARNED PREMIUM LIABILITIES AND LIABILITY ADEQUACY TEST

18.1. Unearned premium liabilities

	2023 $000	2022 $000
Balance at the beginning of the financial year	**457,817**	432,401
Premiums written during the year	**958,778**	868,347
Premiums earned during the year	**(912,811)**	(842,931)
Balance at the end of the financial year	**503,784**	457,817

18.2. Liability adequacy test

The unearned premium liability is subject to a liability adequacy test as described in Note 1.21 Unearned Premium Liabilities. See Note 10 regarding the write-down of DAC.

19. UNEARED REINSURANCE COMMISSION

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

	2023 $000
Balance at beginning of the year	-
Commissions deferred in financial year	**37,694**
Amortisation of commissions deferred	-
Balance at end of financial year	**37,694**
To be expensed within 12 months	**37,694**
To be expensed in greater than 12 months	-
	37,694

20. CONTRIBUTED EQUITY

	2023 $000	2022 $000
(a) Issued and paid up capital		
Ordinary shares fully paid	**253,100**	153,100

	2023 Number of shares	2022 Number of shares	2023 $000	2022 $000
(b) Movement in shares on issue				
Balance at the beginning of the year	**153,100,000**	153,100,000	**153,100**	128,100
Capital issued during the year	**100,000,000**	-	**100,000**	25,000
Balance at the end of the year	**253,100,000**	153,100,000	**253,100**	153,100

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 Company and to participate in the dividends and the proceeds on winding up of the Company in proportion to the number of, and amounts paid on, the shares held. In the event that the Company is wound up, shareholders rank after all other creditors and are entitled to any proceeds on liquidation.

21. KEY MANAGEMENT PERSONNEL

	2023 $000	2022 $000
Short-Term Benefits	**1,645**	319
Post-Employment Benefits	**-**	32
Total	**1,645**	351

The benefits above were expensed in the financial year in relation to key management personnel. None of the non-executive directors, executive directors or other key management personnel hold shares in the Company nor any share options against the issued and un-issued shares.

The prior period comparatives relate to the period of ownership under CBA.

22. RELATED PARTY DISCLOSURES

Key Management Personnel

Disclosures relating to KMP are set out in Note 21.

Related party transactions

Set out below is a summary of related party transactions. This includes balances, income and expenses by transaction type.

	2023 $000	2022 $000
Receipts and payments during the year:		
Interest income received from ultimate parent [1]	**-**	344
Fees and commission expenses paid to ultimate parent [1]	**-**	157,369
Intragroup tax paid to ultimate parent [1]	**-**	8,967
Balances at year end:		
Investments with related parties	**-**	90,211
Cash and investments with ultimate parent [1]	**-**	80,671
Intragroup current tax asset with ultimate parent [1]	**-**	6,909
Intragroup goods and services tax asset with ultimate parent [1]	**-**	1,426
Payables to ultimate parent [1, 2]	**-**	8,656
Receivable from parent entity	**17,522**	-
Intragroup payables	**(884)**	-
Reinsurance premiums payable to related party	**(121,000)**	-

1. The prior period ultimate parent relates to CBA.
2. The 'Payables to ultimate parent' is a net result inclusive of payable of $17.3m partially offset by a receivable of $8.6m.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2023

23. AUDITOR'S REMUNERATION

	2023 $000	2022 $000
Fees to the auditor of the statutory financial report	**278**	-
Fees to other statutory assurance services required by legislation	**70**	-
	348	-

The auditor of Hollard Insurance Partners Limited for FY23 is Deloitte Touche Tohmatsu. The previous auditor was remunerated by CBA in 2022.

24. NOTES TO THE STATEMENT OF CASH FLOWS

Reconciliation of net (loss)/profit after income tax to net cash provided by operating activities

	2023 $'000	2022 $'000
Loss after income tax	**(57,049)**	(32,281)
Non-operating and non-cash items		
Interest income	**(7,474)**	(3,302)
Change on revaluation of financial assets	**(10,747)**	5,877
Depreciation	**78**	-
Amortisation - right-of-use asset	**463**	-
Finance cost	**30**	-
Changes in assets and liabilities		
Increase in premiums receivable	**(45,261)**	(24,618)
Decrease/(Increase) in reinsurance and other recoveries receivable	**211,988**	(279,895)
Decrease in deferred acquisition costs	**17,390**	13,314
Increase in deferred reinsurance costs	**(234,090)**	-
(Increase)/Decrease in other assets	**(19,212)**	396
Decrease/(Increase) in current tax asset	**4,427**	(6,909)
Increase in deferred tax assets	**(11,105)**	(6,919)
Increase/(Decrease) in payables	**235,850**	(1,028)
Increase in provisions	**8,228**	93
(Decrease)/Increase in outstanding claims liability	**(162,544)**	321,941
Increase in unearned premium liabilities	**45,967**	25,416
Increase in unearned reinsurance commission	**37,694**	-
Decrease in intragroup current tax liability	**-**	(8,945)
Net cash provided by operating activities	**14,633**	3,140

25. CONTINGENT LIABILITIES AND COMMITMENTS

Estimated maximum liabilities under legal action pending

Except for litigation in respect of insurance policies in the ordinary course of business, the Company is not aware of any action that may result in legal claims (2022: Nil).

Commitments

The Company has not entered into any commitments other than as disclosed elsewhere in the report.

26. RISK MANAGEMENT

The Board and management recognise that effective risk management is a critical component of sound business practice and integral to achieving the Company's business objectives.

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

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

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

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

Risk Management Strategy (RMS)

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

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

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

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2023

Risk Appetite Statement (RAS)

The Board, in annually approving the RAS, is responsible for setting the Company's risk appetite and for oversight of its operation by management.

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

Risk Appetite is described in terms of quantitative and qualitative risk measures, which are then used as part of the risk measurement process to assess the risk, relative to the agreed appetite for each material risk category in the Company's defined components of the RMF.

Business Plan

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

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

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

Reinsurance Management Strategy (ReMS)

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

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

Internal Capital Adequacy Assessment Process (ICAAP)

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

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

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2023

Recovery Plan

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

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

Business Continuity Plan and Crisis Management

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

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

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

Risk Management Framework

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

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

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

- **Strategic Risk** *(Note 26.1)* The risk of not meeting financial and other objectives arising from poor strategic business decisions, failed implementation of strategic projects, risks from the impacts of competitors, emerging strategic risks and other fundamental strategic issues that impact the Company or the insurance industry in Australia.
- **Insurance Risk** *(Note 26.2)* 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 26.3)* The risk, that a person or institution with whom the Company has entered a financial contract, who is a counterparty to the contract, will partially or fully default on the obligation, or be subject to a downgrade in their assessed credit quality. This excludes exposures to strategic debt such as loans which are included in strategic investments.
- **Market, Liquidity and Capital Risk** *(Note 26.4, 26.5)* The risk of a lower-than-expected return on investments or losses from asset liability mismatches, due to adverse movements in interest rates, inflation, equity markets, currencies, and other economic factors. This category includes other market risks impacting on the balance sheet and capital adequacy, including liquidity and access to capital.
- **Operational Risk** *(Note 26.6)* The risk of an incident occurring which leads or could lead to the actual outcome of a business process differing from the expected outcome due to inadequate or failed processes, people, systems, or external factors.
- **Compliance Risk** *(Note 26.7)* The Risk of loss arising from either the current (or future) regulatory framework under which the Company operates, including risks associated with breaching the law, taxation obligations and requirements of a financial services licence holder and general insurer in Australia.

ESG (Sustainability) Strategy

During financial year 2023, the Company has been working towards developing a clear, concise, and actionable ESG (Sustainability) Strategy and 3-Year Roadmap. The strategy is scheduled to be launched in FY24.

Further discussions on the application of the Company's general risk management practices are presented in the following sections, while details, policies and frameworks are more fully described in the RMS. Notable features of the risk management environment in each of the risk categories are also included.

26.1. Strategic Risk

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

The primary focus in managing strategic risk during the year has been centered on achieving business plan and major change initiatives such as implementation of the new Policy Admin System (PAS), introduction of new Claims management system, and the Financial Transformation project (AASB 17 Insurance Contracts).

Significant change effort also has been placed on integration of HIP with Hollard with migration from, and replacement of, two sets of key operational systems and procedures, leadership teams and organisational structures having been implemented.

26.2. Insurance Risk

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

The Company in managing the risk:

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

26.3. Credit Risk (or Counterparty Risk)

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

Investments

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

The Company seeks to limit its exposure to credit risk by investing cash with counterparties that are APRA regulated authorised deposit taking institutions.

Reinsurance Receivables

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

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

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Credit exposure

The table below provides information regarding the credit risk exposure of the Company by classifying major classes of financial assets according to Standard and Poor's / AM Best'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.

	AAA	**AA**	**A**	**BBB**	**NR**	**Total**
30 June 2023	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**
Cash and cash equivalents	**-**	**122,846**	**-**	**-**	**-**	**122,846**
Financial assets	**106,891**	**483,152**	**-**	**10,117**	**-**	**600,160**
Premium receivables	**-**	**-**	**-**	**-**	**472,513**	**472,513**
Reinsurance and other recoveries receivable	**-**	**44,746**	**114,724**	**605**	**15,046**	**175,121**
Other assets (excluding ESL)	**-**	**-**	**-**	**-**	**18,648**	**18,648**

	AAA	AA	A	BBB	NR	Total
30 June 2022	$000	$000	$000	$000	$000	$000
Cash and cash equivalents	-	80,654	-	-	-	80,654
Financial assets	-	510,277	-	-	-	510,277
Premium receivables	-	-	-	-	427,252	427,252
Reinsurance and other recoveries receivable	58,938	69,138	241,911	1,066	16,056	387,109
Other assets (excluding ESL)	1,426	-	-	-	833	2,259

The following table provides information regarding the carrying value of the Company's financial assets that have been impaired (if any) and the ageing of those that are past due but not impaired at the balance dates.

		Past due but not impaired				
	Neither past due nor impaired	**0 to 1 Months**	**1 to 3 Months**	**Greater than 3 Months**	**Impaired**	**Total**
30 June 2023	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**
Premium receivables	**399,313**	**72,645**	**555**	**-**	**-**	**472,513**
Other assets (excluding ESL)	**17,522**	**-**	**-**	**1,126**	**-**	**18,648**

		Past due but not impaired				
	Neither past due nor impaired	0 to 1 Months	1 to 3 Months	eater than 3 months	Impaired	Total
30 June 2022	$000	$000	$000	$000	$000	$000
Premium receivables	361,308	65,516	398	30	-	427,252
Other assets (excluding ESL)	1,426	-	-	833	-	2,259

26.4. Market Risk

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

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

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. 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.

Cash flow and fair value interest rate risk

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

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

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

The sensitivity of the Company's profit after income tax and equity to a 1% (2022: 2%) movement in interest rates is shown in the table below. This is believed to be the reasonably possible change at the reporting date in this variable.

		Financial Impact:			
	Movement in Variable	**Profit 2023 $000**	**Equity 2023 $000**	Profit 2022 $000	Equity 2022 $000
Interest rate movement - interest	+1%	**498**	**498**	(1,570)	(1,570)
bearing financial assets [1]	-1%	**(498)**	**(498)**	1,638	1,638

[1] The prior period comparative is based on 2% interest rate movement.

Liquidity risk

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

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

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

Maturity profiles

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

30 June 2023	**Up to 1 year $000**	**1 to 5 years $000**	**No term $000**	**Total $000**
Reinsurance premiums payable	**332,929**	**-**	**-**	**332,929**
Payables to related party	**884**	**-**	**-**	**884**
Provisions	**15,714**	**1,418**	**-**	**17,132**
Goods and services tax	**1,233**	**-**	**-**	**1,233**
Stamp duty	**8,397**	**-**	**-**	**8,397**
Commission payable	**38,003**	**-**	**-**	**38,003**
Other payables	**13,823**	**-**	**-**	**13,823**

30 June 2022	Up to 1 year $000	1 to 5 years $000	No term $000	Total $000
Reinsurance premiums payable	139,184			139,184
Payables to ultimate parent	8,656			8,656
Provisions	8,904			8,904
Stamp duty	7,705			7,705
Other payables	3,874			3,874

The Company'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.

Fair Values

The fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, in an orderly transaction between knowledgeable, willing parties at the measurement date.

Valuation Methodology

The best evidence of fair value is a quoted market price in an active market. Therefore, where possible, fair value is based on quoted market prices. Where no quoted market price for an instrument is available, the fair value is based on present value estimates or other valuation techniques based on current market conditions. These valuation techniques rely on market observable inputs wherever possible, or in a limited number of instances, rely on inputs which are reasonable assumptions based on market conditions.

The Company utilises various valuation techniques and applies a hierarchy for valuation inputs that maximise the use of observable market data, if available.

The table below presents the Company's assets measured and recognised at fair value according to the following valuation hierarchy.

Valuation Inputs

Quoted prices in active markets – Level 1

The valuation of Level 1 financial instruments are determined by reference to unadjusted quoted prices for identical assets or liabilities in active markets, where the quoted price is readily available, and the price represents actual and regularly occurring market transactions on an arm's length basis.

An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

Financial instruments held by the Company included in this category are government bonds.

Valuation technique using observable inputs – Level 2

Level 2 financial instruments are valued using inputs other than quoted prices as described for Level 1, but which are observable for the asset or liability, either directly or indirectly. The valuation techniques include the use of discounted cash flow analysis, option pricing models and other market accepted valuation models.

Financial instruments held by the Company included in this category are internally and externally held fixed interest deposits.

Valuation technique using significant unobservable inputs – Level 3

The valuation of Level 3 financial instruments incorporates a significant input for the asset or liability that is not based on observable market data (unobservable input). Unobservable inputs are those not readily available in an active market due to market illiquidity or complexity of the product. These inputs are generally derived and extrapolated from observable inputs to match the risk profile of the financial instrument, and are calibrated against current market assumptions, historic transactions and economic models, where available. These inputs may include the timing and amount of future cash flows, rates of estimated credit losses, discount rates and volatility.

The Company does not hold any financial instruments in this category.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2023

The following table presents the Company's assets and liabilities measured and recognised at fair value, at the balance dates.

30 June 2023	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Term deposits	**-**	**402,837**	**-**	**402,837**
Government and semi-government bonds	**114,659**	**-**	**-**	**114,659**
Corporate bonds	**82,665**	**-**	**-**	**82,665**
Financial assets	**197,324**	**402,837**	**-**	**600,161**

30 June 2022	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Term deposits	-	292,418	-	292,418
Government and semi-government bonds	217,860	-	-	217,860
Financial asset	217,860	292,418	-	510,278

26.5. Capital Risk

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

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

The Company maintains a level of eligible regulatory capital that exceeds requirements, with the capital target set at a multiple of 1.95 times the Prescribed Capital Amount (PCA).

26.6. Operational Risk

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

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

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

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

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

26.7. Compliance Risk

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

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

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

During the year, Hollard continued to prepare for and implement regulatory changes, including CPS 511 – Remuneration, and the introduction of inclusion of insurance assets in the Security of Critical Infrastructure Act 2023. Hollard participated in the industry wide ASIC Pricing Review, with remediation to customers in FY23.

27. APRA CAPITAL ADEQUACY MULTIPLE

APRA's Prudential Standard GPS 110 *'Capital Adequacy for General Insurers'* requires that the Company maintain a capital base in excess of its minimum capital requirement as defined under this Prudential Standard.

A Board-approved Internal Capital Adequacy Assessment Process (ICAAP) has been in place in accordance with the General Insurance Capital standards. The ICAAP ensures the Company's capital is managed adequately, in line with its risk profile, and target capital requirements.

The Company manages its capital to achieve the following objectives:

- continuation as a going concern;
- ongoing compliance with APRA prudential framework and the applicable Australian Accounting Standards;
- the provision of benefits to policyholders in accordance with the terms of their policies;
- remaining within the Company's risk appetite boundaries as set out in the RAS, including the capital boundary;
- compliance with the financial requirements of the Australian Financial Services Licence issued by the Australian Securities and Investments Commission; and
- compliance with the capital management framework and strategy of the Hollard.

Management monitors the Company's capital position regularly and reports the capital position to the Board. The Company complied with its capital and regulatory requirements throughout the financial year.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2023

The following table shows the capital adequacy calculated in accordance with APRA prudential framework.

	2023 $000	2022 $000
Eligible Tier 1 Capital as defined by APRA		
Contributed equity [1]	**253,100**	153,100
Retained profits [2, 3]	**48,609**	105,652
Insurance liability surplus	**3**	91
Total equity	**301,712**	258,843
Less: APRA deductions	**(23,339)**	(12,234)
Total APRA capital base	**278,373**	246,609
APRA prudential capital requirement	**155,432**	185,053
APRA capital adequacy multiple	**1.79**	1.33

1. Additional capital of $100m was raised during the year (2022: $25m).
2. Retained profits are in accordance with APRA Prudential Standards.
3. Nil dividends were paid during the year (2022: Nil).

28. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

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

Director’s Declaration

FOR THE YEAR ENDED 30 JUNE 2023

In the opinion of the directors of Hollard Insurance Partners Limited (Company)

a) the financial statements and notes that are set out on pages 6 to 46, are in accordance with the Corporations Act 2001, including compliance with accounting standards, and giving a true and fair view of the Company and Company’s financial position as at 30 June 2023 and of their performance for the financial year ended on that date; and
b) there are reasonable grounds to believe that the Company will be able to pay their debts as and when they become due and payable.

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

Gary Dransfield
Non-executive Director & Chair

Richard Enthoven
Executive Director

Dated at Sydney 21 September 2023

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Independent Auditor's Report to the Members of Hollard Insurance Partners Limited

Opinion

We have audited the financial report of Hollard Insurance Partners Limited (the "Company") which comprises the statement of financial position as at 30 June 2023, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and the directors' declaration.

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

- Giving a true and fair view of the Company's financial position as at 30 June 2023 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 Company 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 2023 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.

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.

Deloitte.

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 Company 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 Company or to cease operations, or has 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 skepticism 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 Company'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 Company'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 Company to cease to continue as a going concern.
- 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.

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 Rt Murray

Max Murray
Partner
Chartered Accountants

Sydney, 21 September 2023