The Hollard Insurance Company Pty Ltd

ABN 78 090 584 473

Annual Financial Report

For the year ended

30 June 2021

Contents

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2021

Directors

The directors present their report together with the financial report of The Hollard Insurance Company Pty Ltd (the Company) for the year ended 30 June 2021 and the auditor's report thereon.

The Hollard Insurance Company Pty Ltd is incorporated in Australia.

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

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

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

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

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

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

Principal activities

The principal activities of the Company during the course of the financial year were the underwriting and sale of general insurance policies and the investment of shareholder and insurance funds in liquid assets and strategic investments in underwriting, insurance related and technology businesses. The Company is a licenced insurer in Australia regulated by the Australian Prudential Regulation Authority (APRA) and in New Zealand by the Reserve Bank of New Zealand (RBNZ).

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

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

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

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2021

Review and results of operations

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

During the year the Company operated via four key divisions:

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

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

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

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

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

Strategy

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

Key achievements during the year include:

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

Culture and Purpose

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

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

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

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

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

Recognition

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

Financial Performance

The Company operating result for the year is $1,643 million Gross Written Premium (GWP) (2020: $1,413 million), and a loss after tax of $18 million (2020: $8 million loss after tax).

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

Total assets increased by $493 million or 21% to $2,793 million mainly driven by an increase in liquid assets together with higher reinsurance and other recoveries in line with business growth. Total liabilities increased by $365 million or 18% to $2,380 million reflecting business growth offseting a $40 million decrease to interest bearing liabilities. Total net assets increased by $128 million to $412 million, reflecting both the result for the year and additional equity provided by the shareholder.

Financial performance during the year reflects:

- Gross Written Premium (GWP) increased by 16% for the year to $1,643 million (2020: $1,413 million);
- improved underlying loss ratios, excluding COVID-19 impacts, in most divisions, partially offset by higher PetSure expenses due to the costs of servicing higher customer numbers;
- an increase in the provision for potential business interruption related claims arising from the COVID-19 pandemic. This was primarily a response to the judgement from the first test case handed down by the Supreme Court of New South Wales Court of Appeal (NSWCA) on 18 November 2020. It determined that certain pandemic related policy exclusion wordings were ineffective. Further legal review by the industry is ongoing with outcomes still to be determined. *Refer note 4.3 to the financial statements which accompany this report.*;
- the occurrence of two natural peril events (catastrophes) of severe hailstorms and floods across the eastern states, mitigated to a large extent by a comprehensive reinsurance programme, two other major Australian events below the reinsurance programme retention as well as several flood events in New Zealand;
- a business decision to withdraw from travel insurance market in April 2021 due to the unprecedented flow on impacts of COVID-19 across a range of factors including immediate impact on volumes;
- a one off impairment of an intangible brand asset and associated goodwill reflecting the new multi year Real branded distribution agreement for home and motor products and related new licence and call option agreement; and
- fair value of strategic investments uplift of 30.7% (2020: -9.4%) reflecting the resilience and continued growth for some of the underlying investee businesses and reversing significant write downs in FY20 in the face of the then onset of COVID-19.

Impact of COVID-19 upon operations

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

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

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

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

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

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

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

Capital

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

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

The Company's regulatory capital base at 30 June 2021 comprised Common Equity Tier 1 (CET1) of $287 million with the regulatory capital adequacy multiple during the year within or above the target operating range and at close of financial year was 1.61.

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

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

During the financial year, the Company's shareholder, Hollard Holdings Australia Pty Ltd reinforced its commitment to the business, to support continued growth and business obligations by investing Tier 1 capital of $148.7 million which included the replacement of existing A$40m Tier 2 subordinated notes it held issued by the Company.

Investment Activities

The Company has continued to adopt a conservative investment strategy throughout the year with focus on maintaining a high degree of liquid investments supporting insurance activities. During the year the employment of the liquidity management strategy reflected in an increase in liquid assets from $440 million to $737 million at 30 June 2021 comprised of cash and cash equivalents $434 million (2020: $205 million) and term deposits $303 million (2020: $235 million). Liquid assets are predominantly invested with approved APRA Authorised Deposit-Taking Institutions with a minimum credit rating of A (Standard and Poor's).

In addition, in line with its strategic partnership model, the Company has strategic debt and equity investments of $169 million (2020: $131 million). This is mainly comprised of longer-term investments in unlisted insurance agencies and other companies involved in insurance related businesses. During the year the Company disposed of all of its interest in Ukawa Pty Ltd and All Parks Pty Ltd; realising a profit on disposal of $3.4 million.

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

Reinsurance

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

Rating

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

Regulatory

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

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

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

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

Significant changes in the State of Affairs

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

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

Dividends

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

Events Subsequent to Balance Date

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

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

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

Refer note 2.3 in the financial statements.

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

Likely Developments

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

Corporate Address

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

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

Auditor's Independence

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

Indemnification of officers and auditors

During the financial year the 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 dishonest or fraudulent act, a wilful breach of duty or improper use of information or position to gain a personal advantage. The directors have not included details of the amount of the premiums paid in respect of the directors' and officers' liability insurance, or details of the premium paid in respect of former directors or individual officers of the 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.

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2021

Rounding off

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

Signed in accordance with a resolution of the directors.

Duncan West
Chairman & Non-executive Director

Richard Enthoven
Executive Director

Dated at Sydney 23 September 2021

Auditor’s Independence Declaration

FOR THE YEAR ENDED 30 JUNE 2021

Deloitte.

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Australia

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23 September 2021

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

Dear Directors

Auditor’s Independence Declaration to The Hollard Insurance Company Pty Ltd

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

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

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

Yours faithfully

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Max Rt Murray

Max Murray
Partner
Chartered Accountants

Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2021

	Notes	2021 $000	2020 $000
Gross written premium		**1,643,200**	1,413,013
Unearned premium movement		**(126,352)**	(96,722)
Gross earned premium revenue	2.1	**1,516,848**	1,316,291
Outward reinsurance premium		**(824,633)**	(760,759)
Deferred reinsurance premium movement		**33,052**	65,520
Outward reinsurance premium expense	2.6	**(791,581)**	(695,239)
Net earned premium		**725,267**	621,052
Gross claims expense	2.2	**(1,009,983)**	(936,216)
Reinsurance and other recoveries revenue	2.1	**510,213**	543,616
Net claims expense		**(499,770)**	(392,600)
Acquisition expenses	2.7	**(411,503)**	(349,456)
Reinsurance commission revenue	2.1	**265,294**	234,737
Net acquisition expense		**(146,209)**	(114,719)
Levies and charges		**(27,263)**	(24,266)
Operating expenses	2.11	**(121,445)**	(106,544)
Underwriting result		**(69,420)**	(17,077)
Net investment income	3.1	**52,884**	(2,471)
Other income		**2,764**	4,106
Finance costs	4.2, b)	**(214)**	(2,009)
Foreign exchange gains (net)		**(241)**	160
Impairment of intangible assets	7.3	**(22,276)**	-
Other fees		**(1,854)**	(750)
Loss before income tax		**(38,357)**	(18,041)
Income tax benefit	6.1	**20,183**	10,510
Loss after income tax		**(18,174)**	**(7,531)**
Other comprehensive income			
Net movement in foreign currency translation reserve		**(100)**	(595)
Income tax relating to these components of other comprehensive income		**30**	179
Other comprehensive loss after income tax		**(70)**	(416)
Total comprehensive loss for the year, net of tax		**(18,244)**	**(7,947)**

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

Statement of Financial Position

AS AT 30 JUNE 2021

	Notes	2021 $000	2020 $000
ASSETS			
Cash and cash equivalents	3.2	**433,837**	205,447
Financial assets	3.3	**303,472**	234,672
Trade and other receivables	2.9	**859,388**	773,863
Reinsurance and other recoveries on outstanding claims	2.4	**264,669**	241,354
Deferred reinsurance expense	2.6	**460,958**	428,197
Deferred acquisition expense	2.7	**216,203**	189,371
Deferred levies and charges		**16,130**	12,264
Strategic Investments	3.4	**169,260**	130,610
Prepayments		**3,878**	2,382
Assets held for sale	7.1	**4,516**	-
Property, plant and equipment	7.2	**2,198**	3,297
Goodwill and intangible assets	7.3	**5,035**	31,793
Right-of-use assets	7.5	**7,165**	10,114
Deferred tax assets	6.2	**46,084**	35,960
Total assets		**2,792,793**	2,299,324
LIABILITIES			
Trade and other payables	2.10	**745,616**	620,623
Outstanding claims liability	2.3	**555,624**	411,888
Unearned premium liability	2.5	**874,714**	748,541
Unearned reinsurance commission	2.8	**141,584**	138,922
Provisions	7.4	**14,024**	10,386
Interest-bearing liabilities	4.2	**-**	40,000
Lease liabilities	7.5	**8,616**	10,036
Deferred tax liabilities	6.2	**40,297**	34,616
Total liabilities		**2,380,475**	2,015,012
Net assets		**412,318**	**284,312**
EQUITY			
Contributed equity	4.1	**361,659**	215,409
Retained earnings		**50,926**	69,100
Other components of equity		**(267)**	(197)
Total equity		**412,318**	**284,312**

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 2021

	Attributable to the shareholder			
	Share Capital	**Retained earnings**	**Foreign currency translation reserve**	**Total equity**
2021	**$000**	**$000**	**$000**	**$000**
As at 1 July 2020	**215,409**	**69,100**	**(197)**	**284,312**
Adjusted balance at the beginning of the financial year	-	-	-	-
Loss for the period	-	(18,174)	-	(18,174)
Other comprehensive income (Note 1)	-	-	(70)	(70)
Total comprehensive loss after tax	-	(18,174)	(70)	(18,244)
Transactions with owners in their capacity as owners:				
Issue of shares (Note 1)	146,250	-	-	146,250
	146,250	-	-	146,250
At 30 June 2021	**361,659**	**50,926**	**(267)**	**412,318**

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

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2021

	Attributable to the shareholder			
	Share Capital	**Retained earnings**	**Foreign currency translation reserve**	**Total equity**
2020	**$000**	**$000**	**$000**	**$000**
As at 1 July 2019	**215,409**	**77,016**	**219**	**292,644**
Impact due to change in accounting standard: AASB 16	-	(385)	-	(385)
Loss for the period	-	(7,531)	-	(7,531)
Other comprehensive income (Note 1)	-	-	(416)	(416)
Total comprehensive loss after tax	-	(7,531)	(416)	(7,947)
At 30 June 2020	**215,409**	**69,100**	**(197)**	**284,312**

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 2021

	Notes	2021 $000	2020 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Premiums received		**1,516,794**	1,269,414
Reinsurance and other recoveries received		**490,535**	405,544
Reinsurance commission received		**228,767**	186,907
Outwards reinsurance paid		**(691,067)**	(550,568)
Claims paid		**(866,247)**	(830,620)
Acquisition costs paid		**(404,528)**	(343,623)
Levies and insurance operating costs paid		**(94,927)**	(116,847)
Interest received		**2,190**	5,326
Dividends received		**6,251**	4,844
Interest paid – lease liabilities		**(285)**	(472)
Net cash flows from operating activities	**8.1, a)**	**187,483**	**29,905**
CASH FLOWS FROM INVESTING ACTIVITIES			
(Payment) / receipt for term deposits		**(69,078)**	12,940
Purchase of investments		**(1,215)**	2,682
Proceeds from sale of investments		**5,424**	2,658
Loans advanced		**-**	(2,120)
Loan repayments received		**5,357**	18,450
Payments for property, plant and equipment		**(453)**	(1,419)
Purchase of intangible assets		**(1,713)**	(1,255)
Net cash flows (used in)/from investing activities		**(61,678)**	**31,936**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**146,250**	-
Loans provided		**-**	937
Repayment of borrowings		**(40,000)**	-
Finance costs paid		**(255)**	(2,055)
Payment of lease liabilities		**(3,410)**	(5,158)
Net cash flows from/(used in) financing activities		**102,585**	**(6,276)**
Net increase in cash held		**228,390**	55,565
Cash and cash equivalents at 1 July		**205,447**	149,882
Cash and cash equivalents at the end of the financial year	**3.2**	**433,837**	**205,447**

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 2021

1. OVERVIEW

1.1. About The Hollard Insurance Company Pty Ltd

The Hollard Insurance Company Pty Ltd (the Company) is a for-profit company domiciled in Australia.

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

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

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

1.2. About these Financial Statements

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

1. Overview contains information that impacts the financial statements as a whole.

2. Insurance activities brings together results and statement of financial position disclosures relevant to the Company’s insurance activities.

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

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

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

6. Tax includes disclosures relating to the Company’s income tax balances.

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

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

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

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

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

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

1.3. Statement of compliance

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

1.4. Basis of preparation

The financial report for the period ended 30 June 2021 has been prepared on the going concern basis that contemplates the continuity of normal business activities and the realisation of assets and extinguishment of liabilities in the ordinary course of business.

For the year ended 30 June 2021, the Company recorded a net loss after tax of $18 million (2020: net loss $8 million) and had net assets of $412 million (2020: $284 million). The Company had available $737 million of cash and other assets to meet day to day obligations as they fall due. The Company has no external borrowings. The Company's regulatory capital base at 30 June 2021 comprised CET1 of $287 million with the regulatory capital adequacy multiple at close of financial year of 1.61.

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

As permitted by AASB 10 *Consolidated Financial Statements*, these financial statements are not presented on a consolidated basis. The Company's immediate parent, Hollard Holdings Australia Pty Ltd, prepares consolidated financial statements in compliance with Australian Accounting Standards.

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

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

Presentation and foreign currency

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

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

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

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

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

1.5. Significant accounting policies adopted

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

1.6. Critical accounting judgements and estimates

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

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

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

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

Critical Accounting judgements and estimates	**Note**
- Outstanding claims liability	2.3
- Reinsurance and other recoveries on outstanding claims	2.4
- Liability adequacy test	2.5.a
- Trade and other receivables	2.9
- Impairment assessment of controlled entities carried at cost	3.5
- Determination of fair value of strategic investments	3.8
- Recognised Deferred Income Tax Balances	6.2
- Intangible assets initial measurement, impairment testing and useful life	7.2

COVID-19 Impact on use of Judgements and Estimates

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

For further detail on the impact of COVID-19 on the Company’s estimates and judgements please refer notes 2.3, 2.5, 2.9, 3.5, 3.8, 7.3.

2. INSURANCE ACTIVITIES

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

2.1. General insurance revenue

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

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

	2021 $000	**2020 $000**
Gross earned premium revenue	**1,516,848**	1,316,291
Other insurance revenue		
Reinsurance and other recoveries revenue	**510,213**	543,616
Reinsurance commission revenue	**265,294**	234,737
Total general insurance revenue	**2,292,355**	**2,094,644**

Recognition and Measurement

Premium Revenue

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

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

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

Reinsurance and Other Recoveries

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

Reinsurance Commission Revenue

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

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

2.2. Claims expense

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

	2021			2020		
	Current period $000	Prior years $000	Total $000	Current period $000	Prior years $000	Total $000
Gross claims expense						
Gross claims - undiscounted	**991,552**	**18,270**	**1,009,822**	954,429	(19,468)	934,961
Discount	**(659)**	**820**	**161**	(730)	1,985	1,255
Gross claims - discounted	**990,893**	**19,090**	**1,009,983**	953,699	(17,483)	936,216
Reinsurance and other recoveries revenue						
Reinsurance and other recoveries - undiscounted	**(522,831)**	**12,672**	**(510,159)**	(546,491)	3,501	(542,990)
Discount	**295**	**(349)**	**(54)**	393	(1,019)	(626)
Reinsurance and other recoveries - discounted	**(522,536)**	**12,323**	**(510,213)**	(546,098)	2,482	(543,616)
Net claims expense	**468,357**	**31,413**	**499,770**	**407,601**	**(15,001)**	**392,600**

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

2.3. Outstanding claims liability

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

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

	2021 $000	2020 $000
Gross undiscounted central estimate	**525,875**	393,424
Plus: Risk margin	**30,555**	19,302
	556,430	412,726
Discount to present value	**(806)**	(838)
Gross outstanding claims liability	**555,624**	**411,888**
Payable within 12 months	**337,117**	311,413
Payable greater than 12 months	**218,507**	100,475
	555,624	**411,888**

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

Recognition and Measurement

Gross central estimate

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

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

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

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

	2021 $000	2020 $000
Balance at beginning of financial year	**411,888**	306,292
Claims expense – prior accident year	**18,270**	(19,468)
Incurred claims recognised in profit or loss	**991,543**	954,429
Discount movement	**365**	333
Claims payments	**(865,626)**	(829,712)
Foreign exchange	**(816)**	15
Balance at end of financial year	**555,624**	**411,889**
Payable within 12 months	**337,117**	311,413
Payable in greater than 12 months	**218,507**	100,475
Balance at end of financial year	**555,624**	**411,888**

Risk margin

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

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

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

	2021	2020
Net overall risk margin applied	**12.1%**	13.5%

Critical Accounting Estimates and Judgements

Gross central estimate

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

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

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

COVID-19 Impact on use of Judgements and Estimates

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

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

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

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

Key Assumptions

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

	2021				2020			
	Personal Lines	**Pet**	**Commercial**	**New Zealand**	**Personal Lines**	**Pet**	**Commercial**	**New Zealand**
Discounted mean term	**0.51**	**0.35**	**2.01**	**0.55**	0.57	0.37	2.88	0.57
Discount rate	**0.15%**	**0.04%**	**0.28%**	**0.44%**	0.32%	0.24%	0.41%	0.28%
Inflation rate	**2.54%**	**2.50%**	**3.18%**	**2.50%**	3.25%	3.25%	4.43%	3.48%
Claims handling expense rate	**3.06%**	**0.60%**	**2.76%**	**0.40%**	2.81%	0.60%	0.90%	0.40%

Discounted mean term of claims

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

Discount rate

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

Inflation rate

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

Claims handling expense rate

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

Sensitivity Analysis

The movement in any of the above key actuarial assumptions will impact the performance and equity of the Company. The table below describes how a change in each of the assumptions will affect the Company. Each change has been calculated in isolation of the other changes, and without regard to other changes to balance date amounts that may occur simultaneously. The movements are stated in absolute terms where the base assumption is a percentage or average term.

	Sensitivity	**Impact on claims liability**	**2021 $'000**	**2020 $'000**
Discounted mean term	+ 6 mths	Increase claims liability	**3,668**	2,714
	- 6 mths	Reduce claims liability	**(3,622)**	(2,670)
Discount rate	+ 1% p.a.	Increase claims liability	**(3,601)**	(2,480)
	- 1% p.a.	Reduce claims liability	**3,684**	2,544
Inflation rate	+ 1% p.a.	Increase claims liability	**3,555**	2,436
	- 1% p.a.	Reduce claims liability	**(3,545)**	(2,423)
Claims handling expense rate	+ 1% p.a.	Increase claims liability	**5,441**	4,147
	- 1% p.a.	Reduce claims liability	**(5,441)**	(4,147)

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

a) Claims development

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

	Earlier	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
Projected net ultimate claims cost for long tail claims at:												
Earlier	12,143	3,389	2,475	3,740	2,866	2,950	5,615	8,737	17,596	17,956	21,201	
Year 1	11,645	3,558	3,236	3,587	2,568	2,425	5,972	7,911	17,987	16,873	-	
Year 2	14,520	3,048	3,403	3,368	2,056	2,319	5,773	9,694	17,103	-	-	
Year 3	20,188	3,585	3,491	2,827	2,454	2,236	5,726	11,051	-	-	-	51,558
Year 4	22,708	4,337	4,508	2,878	2,818	2,322	5,787	-	-	-	-	
Year 5	24,310	4,054	4,732	2,903	2,968	2,102	-	-	-	-	-	
Year 6	26,097	3,879	4,487	2,847	2,542	-	-	-	-	-	-	
Year 7	27,222	3,659	4,397	2,783	-	-	-	-	-	-	-	
Year 8	27,427	3,346	4,558	-	-	-	-	-	-	-	-	
Year 9	26,693	3,129	-	-	-	-	-	-	-	-	-	
Year 10	26,670	-	-	-	-	-	-	-	-	-	-	
Current estimate of net ultimate claims payments	26,670	3,129	4,558	2,783	2,542	2,102	5,787	11,051	17,103	16,873	21,201	113,799
Cumulative net payments to date	25,974	3,129	3,898	2,780	2,509	1,813	4,023	6,046	7,808	4,786	2,579	65,345
Net undiscounted central estimate - long tail	695	-	660	3	33	289	1,764	5,004	9,295	12,087	18,622	48,452
Net undiscounted central estimate - short tail	2	-	28	10	-	105	1,690	519	2,514	69,091	124,166	198,125
Total undiscounted net outstanding claim payments	697	-	688	13	33	394	3,454	5,523	11,809	81,178	142,788	246,577
Discount to present value	(9)	(13)	(12)	(89)	(1)	(1)	(6)	(28)	(88)	(181)	(380)	(808)
Net discounted central estimate	688	(13)	676	(76)	32	393	3,448	5,495	11,721	80,997	142,408	245,769
Claims settlement costs		-	-	-	-	-	-	-	-	-	-	11,864
Risk margin		-	-	-	-	-	-	-	-	-	-	30,555
Total net outstanding future claim payments												288,188
Stabilisation reserve		-	-	-	-	-	-	-	-	-	-	2,767
Reinsurance and other recoveries		-	-	-	-	-	-	-	-	-	-	264,669
Gross outstanding claims liability												**555,624**

2.4. Reinsurance and other recoveries on outstanding claims

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

	2021 $000	2020 $000
Reinsurance and other recoveries on outstanding claims - undiscounted	**265,129**	241,868
Discount to present value	**(460)**	(514)
Balance at end of financial year	**264,669**	**241,354**
Receivable within 12 months	**197,460**	195,498
Receivable in greater than 12 months	**67,209**	45,856
	264,669	**241,354**

Recognition and Measurement

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

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

2.5. Unearned premium liability

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

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

Recognition and Measurement

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

COVID-19 Impact on use of Judgements and Estimates

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

a) Liability Adequacy Test

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

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

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

	2021	**2020**
Net overall risk margin applied	**6.1%**	7.9%

The application of the LAT in respect of net unearned premium liabilities has identified a deficit at a divisional level for the Company at 30 June 2021 resulting in a write down of deferred acquisition costs. A surplus was identified at all divisional levels at 30 June 2020, a net liability surplus was identified at all divisional levels and therefore no write down of deferred acquisition costs was required and therefore there was no requirement for disclosure in the table below. Set out below are the amounts reflecting the LAT deficiency test at the divisional level:

Divisional LAT	**2021** **$000**
Net unearned premium liabilities per IFRS	**32,137**
less:	
Net present value of expected future cash flows for future claims before risk margin	**(29,469)**
Net discounted risk margin	**(3,953)**
Deficiency at balance date	**1,285**
Deferred acquisition expense adjustment	**(1,285)**

2.6. Deferred reinsurance premium

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

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

Recognition and Measurement

Premiums ceded to reinsurers under reinsurance contracts held by the 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.

2.7. Deferred acquisition costs

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

	2021 $000	2020 $000
Balance at beginning of financial year	**189,371**	166,157
Costs deferred in financial year	**438,337**	372,670
Costs expensed during the year	**(410,225)**	(354,228)
Liability Adequacy Test deficiency	**(1,280)**	4,772
Balance at end of financial year	**216,203**	**189,371**
To be expensed within 12 months	**215,820**	187,489
To be expensed in greater than 12 months	**383**	1,882
	216,203	**189,371**

Recognition and Measurement

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

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

2.8. Unearned reinsurance commission

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

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

Recognition and Measurement

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

2.9. Trade and other receivables

	2021 $000	2020 $000
Receivables from third-party customers	**770,455**	669,691
Provision for impairment of receivables	**(5,587)**	(4,757)
Net premium receivable	**764,868**	664,934
Reinsurance and other recoveries receivable on paid claims	**71,195**	75,574
Reinsurance commissions receivable	**73**	20,086
Other receivables	**2,201**	3,996
Interest receivables	**1,578**	1,221
Net related party receivables	**560**	2,500
Receivable from head entity under tax contribution agreement	**18,913**	5,552
Trade and other receivables	**859,388**	**773,863**
Receivable within 12 months	**859,388**	773,863
Receivable in greater than 12 months	**-**	-
Trade and other receivables	**859,388**	**773,863**

Recognition and Measurement

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

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

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

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

Critical accounting judgements and estimates

COVID-19 Impact on use of Judgements and Estimates

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

2.10. Trade and other payables

	2021 $000	2020 $000
Reinsurance premiums payable	**409,123**	335,792
Acquisition costs payables	**214,691**	180,931
Trade payables	**19,056**	16,916
Other payables and accruals	**100,156**	86,984
Related parties	**2,590**	-
Trade and other payables	**745,616**	**620,623**
Payable within 12 months	**745,616**	619,686
Payable greater than 12 months	**-**	937
Trade and other payables	**745,616**	**620,623**

Recognition and Measurement

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

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

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

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

2.11. Insurance operating expenses

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

	Notes	2021 $000	2020 $000
Employee benefits costs	7.4, a)	**69,143**	62,803
Professional fees		**3,268**	8,555
Outsourced insurance services		**24,241**	16,041
Occupancy costs		**1,937**	1,741
Amortisation		**6,970**	6,257
Depreciation		**1,562**	1,327
Interest unwind on operating lease liabilities	7.5	**285**	472
Corporate expenses		**14,039**	9,348
Total insurance expenses		**121,445**	**106,544**

3. INVESTMENT ACTIVITIES

The assets backing general insurance liabilities are those assets required to cover the insurance liabilities plus an allowance for solvency equal to the minimum regulatory capital prescribed by APRA. Insurance liabilities include outstanding claims, unearned premium liabilities, unexpired risk liability, unearned reinsurance commissions and payables associated with insurance operations. The Company has determined that all assets are held to support insurance liabilities.

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

The Company's investments comprise Cash and Cash Equivalents, Financial assets (including term deposits) and other Investments (controlled entities and strategic investments in unlisted insurance agencies and other companies involved in insurance related businesses).

3.1. Investment income

	2021 $000	2020 $000
Interest income	**2,539**	5,819
Dividend income	**6,774**	5,049
Fair value gain/(loss) on investments	**40,214**	(15,523)
Gain on disposal of investments	**3,357**	2,684
Loss on forgiveness of investment loans	**-**	(500)
Total investment and other income	**52,884**	(2,471)

Recognition and Measurement

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

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

3.2. Cash & Cash Equivalents

	2021 $000	2020 $000
Cash held for operational purposes	**433,837**	205,447
	433,837	**205,447**

3.3. Financial assets

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

Recognition and Measurement

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

3.4. Strategic Investments

	2021 $000	2020 $000
Controlled entities	**87,767**	87,767
Associates	**80,869**	39,893
Other strategic investments	**624**	2,950
Total strategic investment assets	**169,260**	**130,610**

Recognition and Measurement

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

A number of strategic (associate and other financial) investments have been impacted by COVID-19 and accordingly, the Company has adjusted its fair valuations to reflect certain assumptions based on the economic outlook of the businesses.

Acquisitions and Disposals of Investments

Controlled entites: Current Year & Prior Year

- There were no acquisitions and disposals of controlled entities during the current or prior financial years.

Associates: Current Year

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

Associates: Prior Year

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

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

3.5. Controlled Entities

2021	Place of incorporation	Principal Activity	Interest held %	Equity $'000	Loan $'000	Cost $'000	Impairment Adj. $'000	Carrying Value $'000
Firma Insurance Services Pty Ltd	**Australia**	**Underwriting Agency**	**100%**	**132**	**-**	**132**	**(132)**	**-**
Hollard Commercial Insurance Pty Ltd	**Australia**	**Underwriting Agency**	**99.95%**	**2,000**	**-**	**2,000**	**-**	**2,000**
Holiday Rescue Limited	**New Zealand**	**Underwriting Agency**	**49%**	**522**	**-**	**522**	**(522)**	**-**
PetSure (Australia) Pty Ltd	**Australia**	**Underwriting Agency**	**100%**	**85,767**	**-**	**85,767**	**-**	**85,767**
				88,421	**-**	**88,421**	**(654)**	**87,767**

2020	Place of incorporation	Principal Activity	Interest held %	Equity $'000	Loan $'000	Cost $'000	Impairment Adj. $'000	Carrying Value $'000
Firma Insurance Services Pty Ltd	Australia	Underwriting Agency	100%	132	-	132	(132)	-
Hollard Commercial Insurance Pty Ltd	Australia	Underwriting Agency	99.95%	2,000	-	2,000	-	2,000
Holiday Rescue Limited	New Zealand	Underwriting Agency	49%	522	-	522	(522)	-
PetSure (Australia) Pty Ltd	Australia	Underwriting Agency	100%	85,767	-	85,767	-	85,767
				88,421	**-**	**88,421**	**(654)**	**87,767**

Impairment

At the end of each reporting period, the Company reviews the carrying amounts of its investment in controlled entities to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Recoverable amount is the higher of fair value less costs to sell and value in use. In determining fair value, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the business for which the estimates of future cash flows have not been adjusted. In the current year the effects of the COVID 19 pandemic on the economy and our investments were considered in the assessment of the fair values of all investments.

Critical Accounting Estimates and Judgements

An impairment assessment was performed by estimating the fair value less costs to sell off the controlled entities. The result of the most current assessment was that there was no indication of impairment and the directors are confident that the carrying amount of the assets are recoverable in full.

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

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

Discount rates reflect an equity risk premium appropriate to the controlled entities, incorporating risk adjustments where applicable.

In performing the impairment test at 30 June 2021, the Company has revised its future forecast cash flow estimates accordingly. Whilst no impairment has been identified at the balance date, future changes in local economic conditions and the broader operating environment have the potential to materially impact key assumptions.

COVID-19 Impact on use of Judgements and Estimates

The Company's investments in controlled entities are carried at cost. In undertaking the impairment assessment on these assets and determining the recoverable value, the fair value is estimated. The fair value is determined based on a discounted cash flow analysis and observable market data. This measurement basis has not changed as a result of COVID-19 noting that the assumptions within the analysis have changed to incorporate a measure to reflect the economic downturn and impact on individual investments. When using models to conduct analysis, judgement is required in the inputs used. Refer note 1.6 for further details on judgements and estimates used related to impact of COVID-19.

	2021	2020
Terminal growth rate	**2.5%**	2.5% - 3.0%
Discount rate - pre-tax	**15.4% - 19.7%**	10.6% - 24.6%

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Sensitivity Analysis

	Sensitivity %	Impact on impairment assessment	2021 $'000
Terminal growth rate	+ 1% p.a.	Increase headroom	20,498
	- 1% p.a.	Reduce headroom, no impairment	(16,271)
Discount rate	+ 1% p.a.	Reduce headroom, no impairment	(20,506)
	- 1% p.a.	Increase headroom	25,818

3.6. Associates

2021	Place of incorporation	Principal Activity	Interest held %	Equity $'000	Loan $'000	Cost $'000	Fair Value Adj. $'000	Fair Value $'000
Ando Insurance Group Limited	**New Zealand**	**Underwriting Agency**	**39.95%**	**8,043**	**2,173**	**10,216**	**30,491**	**40,707**
ATL Holdings Group Ltd	**Australia**	**Underwriting Agency**	**27.22%**	**1,766**	**-**	**1,766**	**782**	**2,548**
Grappler.io	**New Zealand**	**InsurTech**	**25.25%**	**1,385**	**-**	**1,385**	**-**	**1,385**
Insured by Us Pty Ltd	**Australia**	**Underwriting Agency**	**50.00%**	**1**	**10**	**11**	**(1)**	**10**
Insuret Pty Ltd	**Australia**	**Underwriting Agency**	**50.00%**	**668**	**1,193**	**1,861**	**2,988**	**4,849**
Open Money Group Pty Ltd	**Australia**	**Underwriting Agency**	**37.40%**	**6,750**	**3,015**	**9,765**	**17,040**	**26,805**
TwoThreeBird Holdings Ltd	**UK**	**Underwriting Agency**	**27.19%**	**^**	**568**	**568**	**3,995**	**4,563**
				18,613	**6,959**	**25,572**	**55,295**	**80,867**

2020	Place of incorporation	Principal Activity	Interest held %	Equity $'000	Loan $'000	Cost $'000	Fair Value Adj. $'000	Fair Value $'000
Ando Insurance Group Ltd	New Zealand	Underwriting Agency	39.95%	8,043	2,288	10,331	10,529	20,860
ATL Holdings Group Pty Ltd	Australia	Underwriting Agency	24.92%	1,550	-	1,550	84	1,634
Attvest Finance Pty Ltd*	Australia	Premium Funding	0.00%	^	-	-	-	-
Grappler.io Limited*	New Zealand	InsurTech	25.00%	1,385	-	1,385	-	1,385
Insured By Us Pty Ltd	Australia	Underwriting Agency	50.00%	1	-	1	(1)	-
Insuret Pty Ltd	Australia	Underwriting Agency	50.00%	668	1,688	2,356	1,259	3,615
ListSure Pty Ltd	Australia	Underwriting Agency	28.01%	999	-	999	(999)	-
Open Money Group Pty Ltd	Australia	Underwriting Agency	38.24%	5,750	3,153	8,903	-	8,903
PD Insurance Agency Pty Ltd	Australia	Underwriting Agency	0.00%	-	-	-	-	-
TwoThreeBird Holdings Ltd*	UK	Underwriting Agency	27.19%	^	541	541	1,952	2,493
Ukawa Pty Ltd	Australia	Underwriting Agency	40.00%	1,268	-	1,268	(265)	1,003
				19,664	**7,670**	**27,334**	**12,559**	**39,893**

* see note 3.4 above

^ Low value due to rounding

Notes to the Financial Statements

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Summarised Financial Information of Material Associates

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

Summarised statement of financial position as at 30 June 2021

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

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

Summarised statement of financial position as at 30 June 2020

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

Summarised statement of comprehensive income for 2021:

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

Summarised statement of comprehensive income for 2020:

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

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3.7. Other Investments

2021	Place of incorporation	Principal Activity	Interest held %	Equity $'000	Loan $'000	Cost $'000	Fair Value Adj. $'000	Fair Value $'000
Car Next Door Pty Ltd	**Australia**	**Car Sharing Company**	**0.53%**	200	-	200	127	327
Expense Check Pty Ltd	**Australia**	**InsurTech**	**6.45%**	1,000	-	1,000	(903)	97
ListSure Pty Ltd	**Australia**	**Underwriting Agency**	**5.00%**	200	-	200	-	200
Starts at 60 Pty Ltd	**Australia**	**Underwriting Agency**	**1.13%**	200	-	200	(200)	-
Wild Goose Holdings Pty Ltd	**Australia**	**Underwriting Agency**	**18.4%**	3,375	-	3,375	(3,375)	-
				4,975	**-**	**4,975**	**(4,351)**	**624**

2020	Place of incorporation	Principal Activity	Interest held %	Equity $'000	Loan $'000	Cost $'000	Fair Value Adj. $'000	Fair Value $'000
All Parks Insurance Pty Ltd	Australia	Underwriting Agency	30.00%	-	-	-	1,621	1,621
Car Next Door Pty Ltd	Australia	Car sharing company	0.53%	200	-	200	127	327
Expense Check Pty Ltd	Australia	InsurTech	6.45%	1,000	-	1,000	-	1,000
Starts at 60 Pty Ltd	Australia	Underwriting Agency	1.13%	200	-	200	(200)	-
Wild Goose Holdings Pty Ltd	Australia	Underwriting Agency	18.40%	3,375	-	3,375	(3,375)	-
				4,775	**-**	**4,775**	**(1,827)**	**2,948**

3.8. Fair value hierarchy

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

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

	2021 $000	2020 $000
Investment assets - term deposits	**303,472**	234,672
Investment assets - strategic investments	**169,260**	130,608
Total investment assets	**472,732**	365,280
Less controlled entities carried at cost	**(87,767)**	(87,767)
Investments designated as fair value through profit and loss	**384,965**	**277,513**
less:		
Total level 1 investment assets - term deposits	**(303,472)**	(234,672)
Total level 2 investment assets - strategic investment loans	**(6,960)**	(7,670)
Total level 3 investment assets	**74,533**	**35,171**

Reconciliation of level 3 investments		
Balance at beginning of financial year	**35,171**	54,625
Acquisitions	**1,215**	1,384
Disposals	**(2,067)**	(8,000)
Fair value adjustments	**40,214**	(15,522)
Profit on sale of investments	**-**	2,684
Balance at end of financial year	**74,533**	**35,171**

Critical accounting judgements and estimates

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

COVID-19 Impact on use of Judgements and Estimates

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

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

Level 3 investment valuation key inputs

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

Sensitivity Analysis

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

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

4. CAPITAL STRUCTURE

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

4.1. Contributed Equity

	2021		2020	
	Number	**$000**	**Number**	**$000**
At beginning of financial year	**215,408,575**	**215,409**	215,408,575	215,409
Issued during the year	**146,250,188**	**146,250**	-	-
At end of the financial year	**361,658,763**	**361,659**	215,408,575	215,409

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.

4.2. Interest bearing liabilities

Tier 2 Regulatory capital - Subordinated Notes	**2021 $000**	**2020 $000**
At beginning of financial year	**40,000**	40,000
Repaid during the year	**(40,000)**	-
At end of the financial year	**-**	40,000
Maturing greater than 12 months	**-**	40,000
Total interest-bearing debt	**-**	**40,000**

Recognition and Measurement

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

a) Subordinated Notes

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

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

b) Finance costs

	2021 $000	2020 $000
Finance costs	**214**	2,009

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

4.3. Capital management

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

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

The Company is a licensed insurer regulated by the APRA and is subject to APRA's prudential standards. Licensed insurers are subject to a Prescribed Capital Amount (PCA), being the minimum level of capital that the regulator deems necessary to meet policyholder obligations. The prescribed method uses a risk-based approach. The Company's policy is to hold capital in excess of the minimum prudential capital requirement.

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

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

- setting of triggers to alert management to potential breaches of targets;
- actions to avert and rectify potential breaches of these requirements; and
- setting the target levels of regulatory capital, in line with the Company's risk appetite, being 1.40 to 1.75 times the PCA at the balance date.

Capital Adequacy	2021 $000	2020 $000
Common Equity Tier 1 Capital		
Paid up ordinary shares	**361,659**	215,409
Retained income	**50,927**	69,100
Other reserves	**(268)**	(197)
Net surplus relating to insurance liabilities	**23,326**	19,758
Regulatory adjustments to common equity tier 1	**(148,186)**	(133,113)
Total Common Equity Tier 1 Capital	**287,458**	**170,957**
Tier 2 Capital		
Subordinated notes (Note 4.2)	**-**	40,000
Total Tier 2 Capital	**-**	40,000
Regulatory capital base	**287,458**	**210,957**
Insurance risk charge	**76,646**	54,117
Insurance concentration risk charge	**28,866**	17,443
Asset risk charge	**56,498**	49,660
Operational risk charge	**49,032**	42,077
Less: aggregation benefit	**(32,746)**	(26,307)
Prescribed Capital Amount (PCA)	**178,296**	136,990
Capital Adequacy Multiple (CAM)	**1.61**	1.54

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

5. RISK MANAGEMENT

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

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

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

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

There are four formal Board committees with delegated responsibilities that assist with risk management monitoring including the Board Risk Committee, Board Audit Committee, Board Remuneration Committee and Board Reinsurance Committee. Cross membership on committees allows effective communication between committees ensuring that all risk related matters are appropriately considered.

The Board annually submits a Risk Management Declaration to APRA.

RMS

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

- A documented risk management strategy including a defined risk appetite statement (RAS) that links to strategic business (business plan) and capital plans (as documented in the annual ICAAP Report);
- Risk Management Processes including policies, procedures, risk assessments, controls, management information systems, modelling and stress testing, monitoring and reporting;
- Accountabilities and governance arrangements for the management of risk across the organisation.

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

RAS

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

ReMS

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

On behalf of the Board, the Board Reinsurance Committee (comprising a majority of independent non executive directors), monitors the adequacy and effectiveness of the ReMS ensuring the reinsurance programs are adequate to protect policyholder's interest within Board approved risk tolerance levels as defined in the RAS.

ICAAP

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

Recovery Plan

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

Business Continuity Plan and Crisis Management (BCP)

The Board's approved Business Continuity Management plan (BCMP) is designed to restore operational effectiveness after a significant interruption and includes a crisis management component. There may be circumstances where the BCMP and Recovery Plan are activated concurrently and there is alignment between the BCMP and the Recovery Plan in communication protocol and the personnel involved in key decision making.

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

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

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

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

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

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

COVID-19 Impact

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

The impacts on the Company during the year have varied significantly by class of business, e.g. reductions in premium income (Travel Insurance which in FY21 accounted for 0.1% (FY20 2% of total GWP)), cessation of tenant default cover (Landlord Insurance), increases in insurance liabilities and even improved experience (e.g. lower motor claim frequency and increased prevalence of Pet owners and, consequently, pet insurance), as well as the associated uncertainties which flow from the industry litigation process (business interruption Insurance) in the form of two industry 'Test Cases'. The first test case found in favour of insureds, creating certainty around exclusions that referred to outdated legislation. This resulted in an increase in provisions held by most insurers, including the Company. The second test case is ongoing. As the pandemic and economic impact evolved during FY21, response strategies were implemented and continue to be refined to respond to emerging issues. The associated risks also continue to evolve and remain subject to close monitoring so that management and mitigation actions can be undertaken where possible.

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

Strategic Risk

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

Insurance risk

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

Credit Risk

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

Market risk (including Capital)

At 30 June 2021, the Company had a regulatory capital adequacy multiple of 1.61 (2020:1.54). COVID-19 continues to drive increased levels of market volatility. Business performance and impact on capital levels are monitored regularly. The Company has maintained a conservative and liquid investment strategy throughout the period. Refer note 3 and note 4.

Operational risk

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

Customer and Community risk

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

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

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

Compliance Risk

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

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

5.1 Strategic risk

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

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

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

5.3 Credit risk

Credit risk (or counterparty risk) is 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.

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. The Company provides loans as part of its strategic investment portfolio. It has credit risk exposure indicated by the carrying amounts of these loans.

Investments

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

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

Reinsurance Receivables

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

Credit exposure

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

2021	**A-1 $000**	**A-2 $000**	**A-3 $000**	**Not Rated $000**	**Total $000**
Cash	**433,837**	**-**	**-**	**-**	**433,837**
Financial assets	**298,245**	**-**	**5,227**	**-**	**303,472**
Investments	**-**	**-**	**-**	**169,260**	**169,260**
Receivables	**5,247**	**63,365**	**-**	**790,776**	**859,388**
Reinsurance and other recoveries	**158,162**	**85,457**	**597**	**20,453**	**264,669**
Total investment assets	**895,491**	**148,822**	**5,824**	**980,489**	**2,030,626**

2020	A-1 $000	A-2 $000	A-3 $000	Not Rated $000	Total $000
Cash	205,447	-	-	-	205,447
Financial assets	228,085	-	6,587	-	234,672
Investments	-	-	-	130,608	130,608
Receivables	1,221	27,769	44,762	700,111	773,863
Reinsurance and other recoveries	91,870	66,768	87	82,629	241,354
Total investment assets	**526,623**	**94,537**	**51,436**	**913,348**	**1,585,944**

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

2021		Past due			
	Not past due $000	Up to 30 days $000	31-120 days $000	120+ days $'000	Total $'000
Cash	**433,837**	**-**	**-**	**-**	**433,837**
Financial assets	**303,472**	**-**	**-**	**-**	**303,472**
Investments	**169,260**	**-**	**-**	**-**	**169,260**
Receivables	**605,002**	**168,343**	**72,870**	**13,173**	**859,388**
Reinsurance and other recoveries	**264,669**	**-**	**-**	**-**	**264,669**
Total risk exposure	**1,776,240**	**168,343**	**72,870**	**13,173**	**2,030,626**

2020		Past due			
	Not past due $000	Up to 30 days $000	31-120 days $000	120+ days $'000	Total $'000
Cash	205,447	-	-	**-**	**205,447**
Financial assets	234,672	-	-	**-**	**234,672**
Investments	130,608	-	-	**-**	**130,608**
Receivables	522,302	185,560	57,739	**8,262**	**773,863**
Reinsurance and other recoveries	241,354	-	-	**-**	**241,354**
Total risk exposure	**1,334,383**	**185,560**	**57,739**	**8,262**	**1,585,944**

For assets to be classified as ‘past due’, contractual payments in arrears are more than 90 days. An expected credit loss adjustment is recorded in the statement of comprehensive income for these assets. When credit exposure is adequately secured, arrears more than 90 days might be classified as ‘past due’, with no expected credit loss recorded. The Company operates mainly on a ‘nor past due basis’ and sufficient collateral will be obtained for ‘past due’ assets. An assessment of expected credit loss will also be performed if applicable.

5.4 Market risk

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

The Board annually reviews risk appetite with regard to the investment strategy in relation to policyholder funds and shareholder funds with specific risk limits set in regard to liquid assets and in regard to strategic investments.

The Management Investment Committee and the Board Investment Committee monitor the application of the Investment and Liquidity Policy that sets out the key parameters such as liquidity limits, target duration matching and foreign exchange exposure limits, as well as reviewing application of the fair value process related to the Strategic Investment portfolio.

Cash flow and fair value interest rate risk

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

Floating rate instruments expose the Company to cash flow interest risk, and the Company manages interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments. The Board approved Investment and Liquidity policy also requires it to manage the maturities of interest bearing liabilities. Any gap between fixed and variable rate instruments and their maturities can also be managed by the Company through the use of derivative financial instruments. As at 30 June 2021 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.

	Sensitivity	2021 Equity/Profit or Loss before tax $'000	2020 Equity/Profit or Loss before tax $'000
Impact of interest movement	+ 1% p.a.	**7,339**	4,829
	- 1% p.a.	**(7,339)**	(4,829)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The key objective of the Company’s liquidity management is to ensure it has sufficient available liquidity to meet current and future obligations to policy holders under both normal and stressed liquidity environments without incurring unacceptable losses or risking damage to the Company’s reputation.

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

- A Board approved Investment and Liquidity Policy and monitored by the Board Investment 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.

2021	Up to a year $000	1-3 years $000	3 + years $000	Total $000
Payables	**745,616**	**-**	**-**	**745,616**
Outstanding claims	**337,117**	**189,952**	**28,555**	**555,624**
Provisions	**8,291**	**3,248**	**2,485**	**14,024**
	1,091,024	**193,200**	**31,040**	**1,315,264**

2020	Up to a year $000	1-3 years $000	3 + years $000	Total $000
Payables	620,623	-	-	620,623
Outstanding claims	311,412	65,037	35,439	411,888
Provisions	4,894	3,086	2,406	10,386
Interest bearing liabilities	-	-	40,000	40,000
	936,929	**68,123**	**77,845**	**1,082,897**

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.

Foreign Currency Risk

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

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

	2021			2020		
Currency Exposure	Net Asset exposure $'000	Sensitivity $'000	Profit (Loss) NZD $'000	Net Asset exposure $'000	Sensitivity $'000	Profit (Loss) NZD $'000
New Zealand dollar	**29,350**	**+10%**	**2,935**	15,771	+10%	1,577
		-10%	**(2,935)**		-10%	(1,577)

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

5.5 Operational risk

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

The Company manages this risk by employing a range of risk management processes, including documented critical processes, the identification of key risks and the design and implementation of effective controls within those processes. Operational risk reviews and assessments, incident and breach reporting, policies, procedures and frameworks, business case due diligence, control development including segregation of duties, performance management and training, and reporting and monitoring all further support the management of these risks. Numerous operational procedures, frameworks and policies are relevant to the management of this risk, included functional operating frameworks (e.g. Finance), Business Continuity Frameworks and related crisis managements plans (such as the Crisis and Incident Management Plan and Pandemic Response Plan that were followed at the onset of COVID-19), various IT and Cybersecurity Policies, HR and other policies.

5.6 Customer and Community Expectation Risk

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

5.7 Compliance Risk

Compliance Risk subcategories include non-compliance with the law, non-compliance with internal policies and voluntary industry codes and standards, partner non-compliance with contractual requirements, taxation. The 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.

6. TAXATION

6.1. Income tax expense

Reconciliation of prima facie tax to income tax expense	2021 $000	2020 $000
(Loss)/before income tax	**(38,357)**	(18,041)
Prima facie tax (benefit)/expense	**(11,507)**	(5,412)
Tax effect of non-temporary differences:		
Net non-assessable income	**(6,203)**	(1,548)
Foreign branch differences in tax rates	**48**	(76)
Foreign branch deferred tax balances not recognised	**-**	(2,322)
Non-taxable income	**(1,800)**	(1,350)
Over provision in prior years	**(721)**	199
Income tax (benefit)/expense	**(20,183)**	**(10,509)**
Current tax	**(15,165)**	(330)
Deferred tax	**(4,298)**	(10,379)
(Over) / under provision in prior years	**(720)**	199
Income tax (benefit)/expense	**(20,183)**	**(10,510)**

Recognition and Measurement

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

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

6.2. Recognised deferred income tax balances

	2021 $000	2020 $000
Deferred tax assets	**46,084**	35,960
Deferred tax liabilities	**(40,297)**	(34,616)
	5,787	**1,344**

Movement in temporary differences

	2021			2020		
	Opening $000	Profit or loss $000	Closing $000	Opening $000	Profit or loss $000	Closing $000
Employee benefits	**2,141**	**1,114**	**3,255**	2,645	(504)	2,141
Outstanding claims	**3,292**	**1,251**	**4,543**	2,371	921	3,292
Provisions	**1,184**	**238**	**1,422**	875	309	1,184
Other items	**18,942**	**23**	**18,965**	1,368	17,574	18,942
Property plant and equipment	**7**	**443**	**450**	100	(93)	7
Deferred tax asset before set-off	**25,566**	**3,069**	**28,635**	7,359	18,207	25,566
Investments	**(13,424)**	**(11,806)**	**(25,230)**	(19,900)	6,476	(13,424)
Intangible assets	**(6,173)**	**5,729**	**(444)**	(6,757)	584	(6,173)
Other assets	**(15,026)**	**402**	**(14,624)**	-	(15,026)	(15,026)
Deferred tax liability before set-off	**(34,623)**	**(5,675)**	**(40,298)**	(26,657)	(7,966)	(34,623)
Unrecognised temporary differences	**10,401**	**7,048**	**17,449**	10,263	138	10,401
Net deferred tax assets/(liabilities)	**1,344**	**4,442**	**5,786**	**(9,035)**	**10,379**	**1,344**

Recognition and Measurement

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

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

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

Critical Accounting Estimates and Judgements

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

6.3. Deferred Tax Balances Not Recognised

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

	2021 $000	2020 $000
Foreign branch tax losses (revenue in nature)	-	2,142
Foreign branch deductible temporary differences	-	1,275
	-	**3,417**

Unrecognised taxable temporary differences associated with investments:

	2021 $000	2020 $000
Investment in controlled entity revalued in accordance with AASB3 for which no deferred tax liability recognised	**10,401**	10,401
Unrecognised taxable temporary difference associated with an investment due to its applicable exemption	**7,048**	-
	17,449	**10,401**

Tax Consolidation Regime

Since 1 January 2015 the Company is a wholly owned subsidiary in a tax-consolidated group with Hollard Holdings Australia Pty Ltd as the head entity.

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

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

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

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

The members of the tax consolidated group have entered into a tax funding agreement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding arrangements require payments equal to the current tax liability (asset) assumed by the head entity and any deferred tax asset arising from tax losses assumed by the head entity. Where the amounts arising for the period under the tax funding arrangement differ to the amounts initially recognised by the 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.

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

7. OTHER

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

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

7.1. Assets classified as held for sale

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

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

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

7.2. Property, plant and equipment

2021	Leasehold Improvements $'000	Office Equipment $'000	Motor Vehicles $'000	Total $'000
Cost				
At 1 July	**6,139**	**6,212**	**465**	**12,816**
Additions	**10**	**390**	**59**	**459**
Disposals	**-**	**-**	**(22)**	**(22)**
End of the financial year	**6,149**	**6,602**	**502**	**13,253**
Depreciation				
At 1 July	**(3,843)**	**(5,386)**	**(290)**	**(9,519)**
Depreciation	**(997)**	**(473)**	**(92)**	**(1,562)**
Disposals	**-**	**4**	**22**	**26**
End of the financial year	**(4,840)**	**(5,855)**	**(360)**	**(11,055)**
Carrying amount				
End of the financial year	**1,309**	**747**	**142**	**2,198**

2020	Leasehold Improvements $'000	Office Equipment $'000	Motor Vehicles $'000	Total $'000
Cost				
At 1 July	**7,703**	**5,640**	**438**	**13,781**
Additions	**1,903**	**2,306**	**27**	**4,236**
Disposals	**(3,467)**	**(1,734)**	**-**	**(5,201)**
End of the financial year	**6,139**	**6,212**	**465**	**12,816**
Depreciation				
At 1 July	**(3,827)**	**(5,079)**	**(195)**	**(9,101)**
Depreciation	**(884)**	**(348)**	**(95)**	**(1,327)**
Disposals	**868**	**41**	**-**	**909**
End of the financial year	**(3,843)**	**(5,386)**	**(290)**	**(9,519)**
Carrying amount				
End of the financial year	**2,296**	**826**	**175**	**3,297**

Recognition and Measurement

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

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

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

7.3. Goodwill and intangible assets

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

		Identifiable Intangibles			
2021	**Goodwill $000**	**Software $000**	**Rights& Other $000**	**Brand Names $000**	**Total $000**
Cost					
At 1 July	**6,127**	**26,342**	**2,097**	**20,425**	**54,991**
Additions	**-**	**1,712**	**-**	**-**	**1,712**
End of the financial year	**6,127**	**28,054**	**2,097**	**20,425**	**56,703**
Amortisation					
At 1 July	**-**	**(21,550)**	**(1,648)**	**-**	**(23,198)**
Amortisation	**-**	**(1,470)**	**(449)**	**-**	**(1,919)**
Impairment	**(6,127)**	**-**	**-**	**(15,909)**	**(22,036)**
Assets held for sale	**-**	**-**	**-**	**(4,516)**	**(4,516)**
End of the financial year	**(6,127)**	**(23,020)**	**(2,097)**	**(20,425)**	**(51,669)**
Carrying amount					
End of the financial year	**-**	**5,034**	**-**	**-**	**5,034**

		Identifiable Intangibles			
2020	**Goodwill $000**	**Software $000**	**Rights& Other $000**	**Brand Names $000**	**Total $000**
Cost					
At 1 July	**6,127**	**23,642**	**2,097**	**20,425**	**52,291**
Additions	**-**	**2,701**	**-**	**-**	**2,701**
End of the financial year	**6,127**	**26,343**	**2,097**	**20,425**	**54,992**
Amortisation					
At 1 July	**-**	**(19,808)**	**(1,348)**	**-**	**(21,156)**
Amortisation	**-**	**(1,742)**	**(300)**	**-**	**(2,042)**
End of the financial year	**-**	**(21,550)**	**(1,648)**	**-**	**(23,198)**
Carrying amount					
End of the financial year	**6,127**	**4,793**	**449**	**20,425**	**31,794**

Goodwill and brand assets were acquired by the Company during the 2014 financial year via the reorganisation of Real Insurance Pty Ltd. The brand is used to market and distribute the Company's Personal Lines insurance products.

Recognition and Measurement

Intangible assets with finite lives

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

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

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

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

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

Intangible assets with indefinite lives

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

Impairment

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

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

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

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

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FOR THE YEAR ENDED 30 JUNE 2021

Critical Accounting Estimates and Judgements

An impairment assessment was performed by estimating the value in use of the cash generating units to which intangible assets have been allocated. Although the cash generating unit does not indicate an impairment, the result of the most current assessment was that there was an indication of impairment of the Brand Name and associated goodwill due to a licence and call option agreement which were executed post year end and reduced the recoverable amount. The directors are confident that the current carrying amount of the asset is recoverable in full. Furthermore, the Brand was reclassified as a Held for sale asset as at 30 June 2021. Refer note 1 to the Financial Statements.

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

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

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

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

Sensitivity Analysis

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

	Sensitivity %	**Impact on impairment assessment**	**2021 $'000**	**2020 $'000**
Terminal growth rate	+ 1% p.a.	Increase headroom	**-**	5,624
	- 1% p.a.	Reduce headroom, no impairment	**-**	(4,686)
Discount rate - pre-tax	+ 1% p.a.	Reduce headroom, no impairment	**-**	(6,582)
	- 1% p.a.	Increase headroom	**-**	7,919

COVID-19 Impact on use of judgements and estimates

The assumptions underpinning the value-in-use calculations used to evaluate the supportability of goodwill and intangible assets were adjusted to reflect reasonable estimates of the impact of the economic downturn and COVID-19 and the increased risks associated with the estimated cash flows. Whilst there is no impairment in relation to any of the cash-generating units at 30 June 2021, in the current environment there is a heightened level of uncertainty pertaining to key assumptions. Future changes in local economic conditions and the broader operating environment have the potential to materially impact key assumptions. This has the potential to materially impact the value-in-use assessment moving forward and potentially the carrying value of the respective intangible assets and goodwill. Refer note 1.6 for further details on judgements and estimates used related to impact of COVID-19.

7.4. Provisions

	2021 $000	2020 $000
Employee benefits:		
Annual leave	**4,760**	4,868
Long service leave	**2,571**	2,519
Other entitlements	**3,527**	17
	10,858	7,404
Other provisions:		
Make good provision	**3,166**	2,982
Total Provisions	**14,024**	**10,386**

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

a) Employee benefit expense

	2021 $000	2020 $000
Superannuation	**4,805**	4,789
Salaries and other employee benefits expense	**59,254**	49,969
Movement in share-based payments	**(72)**	(783)
Other employee related expenses	**5,156**	8,828
	69,143	**62,803**

7.5. Leases

THE COMPANY AS A LESSEE

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

The 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.

Pursuant to some of its lease agreements, the Company has the option to renew the lease for a period of up to four years. 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.

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

Notes to the Financial Statements

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

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

	Premises 2021	Premises 2020
	$000	**$000**
At the beginning of the year	**10,114**	**12,643**
Additions	**1,069**	1,656
Total right-of-use asset at the end of the year	**11,183**	**14,299**
Depreciation expense	**(3,778)**	(4,185)
Impairment	**(240)**	-
Net carrying value at the end of the year	**7,165**	**10,114**

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

	2021	2020
	$000	**$000**
As at 1 July	**10,037**	**13,215**
Additions	**2,410**	353
Accretion of interest	**285**	472
Payments	**(4,116)**	(4,002)
At 30 June	**8,616**	**10,038**
Below is a maturity analysis of the Company's undiscounted lease commitments (as lessee).		
Within one year	**4,536**	4,972
Between one year and five years	**4,311**	6,652
Later than five years	**-**	-
Minimum lease payments	**8,847**	**11,624**

Set out in the table below are the amounts recognised during the period in profit or loss resulting from the Company's leases (as lessee).

	2021	2020
	$000	**$000**
Depreciation expense of right-of-use assets	**(3,778)**	(4,185)
Interest expense on lease liabilities	**(240)**	(472)
Expense relating to short-term leases (included in cost of sales)	**(40)**	(109)
Variable lease payments (included in cost of sales)	**-**	189
Total amount recognised in profit or loss	**(4,058)**	**(4,577)**

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

8. ADDITIONAL DISCLOSURES

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

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

8.1. Cash Flow Disclosures

For the purposes of the statement of cash flows, cash includes cash on hand and at bank and short term deposits at call, net of outstanding bank overdrafts. Cash as at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

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

	2021 $000	2020 $000
(Loss) / Profit from ordinary activities after income tax	**(18,174)**	**(7,531)**
Adjustments for:		
Depreciation	**1,562**	**1,328**
Amortisation	**1,919**	**2,042**
Amortisation - right-of-use asset	**5,061**	**4,185**
(Gain)/loss on fair value of investments	**(40,214)**	**12,066**
Impairment of investment loan	**-**	**500**
Finance costs	**255**	**2,009**
Interest paid - lease liabilities	**-**	**(472)**
Interest capitalised on investment loans	**(390)**	**(579)**
Net foreign exchange (gains) losses	**(70)**	**(417)**
Impairment of intangible assets	**22,277**	**-**
Net (gain)/loss on sale of investments	**(3,357)**	**773**
Net (gain)/loss on sale of assets	**(10)**	**4,214**
Change in assets and liabilities, excluding net assets acquired:		
(Increase)/decrease in receivables	**(90,798)**	**(162,842)**
(Increase)/decrease in deferred reinsurance expense	**(32,761)**	**(62,974)**
(Increase)/decrease in deferred acquisition costs	**(26,832)**	**(23,214)**
(Increase)/decrease in reinsurance and other recoveries on claims	**(23,315)**	**(79,839)**
(Increase)/decrease in other assets	**(5,362)**	**(3,154)**
(Increase)/decrease in deferred tax asset	**(10,124)**	**(18,438)**
Increase/(decrease) in payables	**125,926**	**134,492**
Increase/(decrease) in outstanding claims	**143,736**	**105,595**
Increase/(decrease) in unearned premium liability	**126,173**	**94,513**
Increase/(decrease) in unearned reinsurance commissions	**2,662**	**21,683**
Increase/(decrease) in deferred tax liability	**5,681**	**8,059**
Increase/(decrease) in employee entitlements and provisions	**3,638**	**(1,942)**
Increase/(decrease) in unrealised foreign exchange loss	**-**	**(152)**
Cash flows from/(used in) operating activities	**187,483**	**29,905**

8.2. Related Party Disclosures

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

a) Transactions with Related Parties

	2021 $000	2020 $000
Dividend income		
Subsidiaries	**6,000**	**4,500**
Associates	**456**	**384**
Other related parties	**255**	**165**
Interest income		
Other related parties	**-**	**309**
Associates	**469**	**1,035**
Interest expense		
Other related parties	**-**	**(2,200)**
Other expense		
Other related parties	**-**	**(381)**
Loan forgiveness		
Associates	**-**	**(500)**
Acquisition costs expensed		
Subsidiaries	**(144,554)**	**(121,520)**
Associates	**(80,294)**	**(74,275)**
Other related parties	**(48,890)**	**(46,342)**

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

b) Outstanding Balances with Related Parties

	2021 $000	2020 $000
Acquisition costs payable		
Subsidiaries	**79,750**	60,900
Associates	**45,897**	42,931
Other related parties	**10,825**	24,329
Tax Group (payable) receivable		
Parent entity	**18,913**	(5,552)

c) Loans Provided to Related Parties

	Associates		Other	
	2021	**2020**	**2021**	**2020**
	$	**$**	**$**	**$**
Loan facilities made available*	**8,877,600**	8,877,638	**-**	10,000,000
Facility unutilised at end of financial year^	**(1,917,600)**	(1,206,080)	**-**	(7,500,000)
Facility used at end of financial year	**6,960,000**	**7,671,558**	**-**	**2,500,000**
Average interest rate	**5.3%**	5.1%	**-%**	4.1%
Movement during the year:				
Facility used at beginning of financial year	**7,837,700**	21,288,981	**-**	5,500,000
Loans advanced	**10,400**	4,100,000	**-**	-
Loans repaid	**(913,500)**	(17,788,196)	**-**	(3,308,674)
Loans forgiven	**-**	(500,000)	**-**	-
Capitalised interest	**25,400**	570,773	**-**	308,674
Facility used at end of financial year	**6,960,000**	**7,671,558**	**-**	**2,500,000**

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

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

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

The loan to Other is repayable on 31 July 2022 and is secured by a charge over all assets and all liabilities of the related company.

d) Loans Provided by Parent Entity

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

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

8.3. Key Management Personnel

	2021	**2020**
	$	**$**
Short-term benefits	**3,524,128**	3,179,434
	3,524,128	**3,179,434**

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.

8.4. Commitments

Expenditure

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

	2021	**2020**
	$000	**$000**
Within one year	**29**	399
Between one year and five years	**26**	-
	55	**399**

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

The 2020 numbers were adjusted to remove those leases which are now disclosed under leases after the adoption of AASB 16.

8.5. Auditors' remuneration

	2021	**2020**
	$	**$**
Fees to the auditor of the statutory financial report	**397,882**	375,000
Fees for other statutory assurance services required by legislation	**85,918**	80,000
Fees for other services	**-**	76,759
	483,800	531,759

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

8.6. Other Accounting Policy Disclosures

a) Accounting Policies Adopted During the Financial Year

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

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

b) Accounting Standards and Interpretations Issued But Not Yet Effective

There are a number of new accounting standards and amendments issued, but not yet effective, none of which have been early adopted by the 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 (AASB 17)

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

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

The adoption of AASB 17 is a significant initiative for the Company supported by a formal project plan and dedicated resources. A AASB 17 sub ledger and calculation engine has been selected and configuration and implementation activities have commenced. An additional project to uplift finance data infrastructure, including the implementation of new systems, has also commenced to facilitate AASB 17 data and reporting requirements.

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

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

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

Given the complexity of AASB 17 the impact of the standard on the Company’s financial statements is still being determined.

9. EVENTS SUBSEQUENT TO BALANCE DATE

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

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

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

Directors' Declaration

FOR THE YEAR ENDED 30 JUNE 2021

1. In the opinion of the directors of The The Hollard Insurance Company Pty Ltd (Company)

   (a) the financial statements and notes that are set out on pages 12 to 73, are in accordance with the *Corporations Act 2001*, including compliance with accounting standards, and giving a true and fair view of the Company and Company's financial position as at 30 June 2021 and of their performance for the financial year ended on that date; and

   (b) there are reasonable grounds to believe that the Company and Company will be able to pay their debts as and when they become due and payable.

2. The directors draw attention to note 1.3 to the financial statements, which includes a statement of compliance with International Financial Reporting Standards and to note 1.6 which provides information in relation to the impact of COVID-19 on the Company's use of estimates and judgements.

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

On behalf of the board

Duncan West
Chairman & Non-executive Director

Richard Enthoven
Executive Director

Dated at Sydney 23 September 2021

Deloitte.

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Independent Auditor's Report to the Members of The Hollard Insurance Company Pty Ltd

Opinion

We have audited the financial report of The Hollard Insurance Company Pty Ltd (the "Company") which comprises the statement of financial position as at 30 June 2021, 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 2021 and of its financial performance for the year then ended; and
- Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the 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 2021, but does not include the financial report and our auditor's report thereon.

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

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

Responsibilities of the Directors for the Financial Report

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

In preparing the financial report, the directors are responsible for assessing the ability of the 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 have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

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

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

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

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

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- 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, 23 September 2021