Hollard Holdings Australia Pty Ltd

ABN 30 154 586 802

Annual Financial Report

For the year ended

30 June 2023

Contents

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2023

Directors

The directors present their report together with the consolidated financial report of Hollard Holdings Australia Pty Ltd (the Company) and its controlled entities (collectively the "Consolidated Entity") for the year ended 30 June 2023 and the auditor's report thereon.

Hollard Holdings Australia Pty Ltd is incorporated in Australia.

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

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

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

David Cantrick-Brooks	Company Secretary
Galia Durbach	Company Secretary, Resigned: 8 May 2023
Surangika Gunasekara	Company Secretary, Appointed: 22 August 2023
Jenny O'Neill	Company Secretary
Tamara Vella	Company Secretary, Appointed: 13 July 2023

The above-named directors and officers held office during the whole of the financial year and since the end of the financial year except as noted above. Katrina Barry held the position of Interim Chair from 24 September 2021 to 1 October 2022. Gary Dransfield, who was appointed as Independent Non-executive Director on 23 September 2021, was appointed Chair on 1 October 2022. Katrina Barry resigned from the Board on the 24 March 2023.

Principal activities

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

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

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

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2023

Hollard Holdings Australia Pty Ltd acquired the general insurance business of Commonwealth Bank of Australia on 30 September 2022 (Commonwealth Insurance Limited “CIL”), now renamed as to Hollard Insurance Partners Limited (“HIP”) for a final purchase price of $605 million. This significantly increased the size of the Consolidated Entity’s Home and Motor insurance business.

Review and results of operations

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

The Consolidated Entity operated in four key areas:

Personal Lines. Personal Lines products are distributed through three main distribution channels; direct to market, through selected insurance agencies and via a broker network. The Consolidated Entity is the underwriter for all white label and agency arrangements and pays commission based on premium revenue. Personal Lines products include home, contents, landlord and motor. All distribution and administration is performed by the Consolidated Entity, or its Partners, for the direct to market and broker channel whereas the agencies perform these functions independently.

Commercial Lines. Commercial Lines products are distributed 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 Consolidated Entity is the underwriter, and the subsidiary distributes and administers the insurance business on behalf of the Consolidated Entity (including via the intermediaries in accordance with intermediary agreements). Intermediaries are remunerated via commission.

Pet Insurance. Pet Insurance distributes insurance products for dogs and cats to their pet owners through PetSure (Australia) Pty Ltd, via multiple distribution partners. The Consolidated Entity pays a commission based on premium revenue to the brand distribution partners in return for marketing and distribution services and a commission based on underwriting performance to PetSure (Australia) Pty Ltd in return for underwriting and administration. The Consolidated entity has an 18.2% interest in PetSure (Australia) Pty Ltd. PetSure (Australia) Pty Ltd obtained a general insurance licence on 15 March 2023. Starting from that date, and in accordance with a phased approach by distribution partner, new pet insurance policies will be underwritten by PetSure (Australia) Pty Ltd insurance while renewal business will continue to be underwritten under The Hollard Insurance Company Pty Ltd insurance licence.

New Zealand. The Consolidated Entity underwrites general insurance products in New Zealand via a permanently established New Zealand branch of The Hollard Insurance Company Pty Ltd. The Consolidated Entity distributes general insurance products through New Zealand based underwriting agencies. The key New Zealand agency is Ando Insurance Group Ltd in which the Consolidated Entity has a 39.65% interest. The Consolidated Entity pays a commission based on premium revenue to the New Zealand agencies in return for marketing, distribution and administration services.

During the period, the Consolidated Entity implemented an internal reorganisation which resulted in changes to the internal operating structure. The Consolidated Entity established market facing channels are Direct, Broker and Agency and New Zealand.

Strategy

Currently, the HHA Group is focused on integration of the HIP business and consolidation of core systems onto a single claims, policy and data platform. This program of work will establish the foundations for greater efficiencies and enhanced control processes across the Consolidated Entity and significantly greater economies of scale in future.

Over the coming years, whilst concurrently navigating the HIP integration and technology program, the Consolidated Entity will also need to navigate considerable challenges including natural peril activity & higher reinsurance costs, claims inflation and continued industry regulatory focus.

Environmental, Social and Governance Risks

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

The Consolidated Entity underwrites a patented 'Pay As You Drive' comprehensive car insurance product encouraging customers who 'drive less, to pay less'. This enables customers to limit the premium paid to the kilometres they plan to drive and limits carbon emissions via product design.

As part of its Environmental Policy Statement the Consolidated Entity has committed to declining to insure or invest in any new or existing thermal coal mines, power plants or thermal coal projects. A responsible investment policy is currently in development with a focus on sustainable investment options.

The Consolidated Entity has become a signatory to the Insurance Council of Australia's Climate Change Roadmap which will provide guidelines for climate related targets on an industry level and allow the Consolidated Entity to inform industry discussions on environmental issues. The Consolidated Entity has been participating in the Insurance Council of Australia's workshops focusing on work to reduce emissions in insurers' claims supply chains. The Consolidated Entity is also taking part in The Insurance Climate Vulnerability Assessment led by APRA. This is an exploratory initiative involving Australia's largest insurers and peak industry bodies, building a shared understanding of how climate change will impact the affordability and availability of household insurance over the longer term.

Social Risk: Social risks are controlled primarily through the Consolidated Entity's Diversity & Inclusion policies, as well as Leadership Gender Balance Strategy, Gender Equality Pledge, Work Where It Works Policy, and Modern Slavery Statement. The Consolidated Entity addresses protection of labour standards and human rights via its HR policies including Work Health and Safety policies and frameworks and staff training modules which must be completed annually. The Consolidated Entity is a proud signatory to the 'Pride Framework' by which its shareholders seek to ensure it operates as a 'Positive Business' (seeking to do well by doing good in the world).

The Consolidated Entity also participates in industry leading conversations on topics such as gender equality, domestic family violence and the redress of workplace sexual harassment by virtue of its founding membership in the Champions of Change Coalition - Insurance Chapter.

The Consolidated Entity promotes intersectionality of lived experience in its customers and people by virtue of the work undertaken within the six realms of diversity and inclusion: accessibility and disability, culture, DFV and workplace sexual harassment, gender equality, LGBTQI+ inclusion and mental health.

The Consolidated Entity makes available a free and confidential Employee Assistance Provider (EAP) to all staff and customers (as well as close family members of staff and customers).

Governance Risk: The Consolidated Entity builds trust and transparency through a clear and robust governance structure. Governance at the Consolidated Entity speaks to its internal policies and procedures created to make effective decisions. Governance risks, including management structure, Board diversity, employee relations, conflicts of interest, whistleblower, data security, and tax compliance are controlled by various Board-approved committee and management policies and related frameworks and response plans. The Board of the Consolidated Entity monitors its corporate strategic initiatives including its sustainability strategy developed by executive management and any material changes to business activities outside of business plans and budgets including proposals to enter into new markets and new strategic opportunities.

Work continues as part of the upcoming requirements of APRA Prudential Standard for Remuneration (CPS 511) to ensure fair, transparent and fit for purpose remuneration practices.

Annual employee compliance training is undertaken to ensure a comprehensive understanding of the Consolidated Entity’s core policies, procedures and processes.

Sustainability

The Consolidated Entity is currently working on its inaugural ESG/Sustainability Roadmap to establish reporting targets and metrics as well as reporting streams and sustainability-specific policies to achieving a pathway to net-zero carbon emissions. These will then be updated or developed and implemented throughout the organisation in compliance with applicable regulatory requirements. In July 2023, the Consolidated Entity moved to offices in 100 Mount St, North Sydney a building that has been designed to achieve a 5-star NABERS Energy rating.

Further, the Consolidated Entity aims to embed sustainability considerations into its risk management approach by updating its Risk Appetite Statement to include a statement on ESG risk.

The Consolidated Entity is focusing on promoting social community-based initiatives as follows:

- partnering with the Create Foundation, who support out of home youths from birth to 21, in paid internships for first nations people in NT, QLD and SA to bridge the gap in skills and capability to support them in securing their first employment; and
- exploring Social Diversity in its Supply Chain - supporting apprenticeships across our strategic builders encouraging diversity and new skills into the industry, with focus on females, first nations people, and other underrepresented people.

Recognition

During the year the Consolidated Entity was again recognized as a finalist for ANZIIF’s 2022 Large General Insurance Company of the Year. It also received ANZIIF’s 2022 Excellence in Workplace Diversity and Inclusion for the second year in a row and after six successive nominations in this category. The combined entity achieved Disability Recruiter Accreditation and maintained White Ribbon Accreditation for Gender-based Violence Protection.

Financial Performance

The Consolidated Entity operating result for the year is $2,790 million Gross Written Premium (GWP) (2022: $1,807 million), and a profit after tax of $8 million (2022: $79 million loss after tax).

The Consolidated Entity experienced above market growth in revenue year on year of 32%. All business divisions experienced growth in GWP with the significant growth arising from the acquisition by Hollard Holdings Australia Pty Ltd of the general insurance business of Commonwealth Bank of Australia on 30 September 2022 (Commonwealth Insurance Limited “CIL” now renamed to Hollard Insurance Partners Limited “HIP”). This acquisition increased gross written premium by $700m for the year ended 30 June 2023.

Total assets increased by $2,415 million or 82% to $5,345 million mainly driven by an increase in liquid assets together with higher reinsurance and other recoveries in line with business growth coupled with the impacts of the acquisition of HIP. Total liabilities increased by $1,815 million or 76% to $4,218 million reflecting business growth coupled with the acquisiton of HIP. Total net assets increased by $601 million to $1,127 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 54% for the year to $2,790 million (2022: $1,807 million) incorporating the HIP acquisition. On a normalised basis, GWP grew by 12% year on year;
- unfavourable underlying loss ratios, excluding impacts from Catastrophe and weather events, particularly in the HIP portfolio due predominantly to higher average claim sizes;
- Reduction in the provision for business interruption related claims was due to certainty in legal treatment and interpretation of policy wordings following the High court decision in October 2022 to not allow an appeal of the Federal Court rulings;
- the occurrence of seven natural peril events (catastrophes) of severe storms and floods across the eastern states in Australia and North island in New Zealand, with a total gross ultimate claims estimate of over $390m, mitigated to a large extent by a comprehensive reinsurance programme resulting in the net impact of these events of $185m;
- costs incurred for separation and integration activities as well as advisory fees for the transaction to acquire HIP of $17 million in 2023;
- amortisation of intangibles of $13m arising from the acquisition of HIP; and
- fair value uplift on strategic investments of $16m as well as investment income on term deposits and bonds of $46m.

Capital

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

The Consolidated Entity’s regulatory capital base at 30 June 2023 comprised Common Equity Tier 1 (CET1) of $699 million with the regulatory capital adequacy multiple (CAM) of 1.51 at the close of the financial year.

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

At September 2022, HIBV injected Tier 1 capital of $532.15 million into the Consolidated Entity via subscription of Ordinary Shares. At the same time, Hollard Insurance Company Pty Ltd (HIC) declared and paid a dividend of $38.73m to the Consolidated Entity. The dividend and capital injection combined funded the Commonwealth Insurance Limited (CIL) acquisition. The acquisition is a Share Purchase Agreement (SPA), approved by the Board in June 2021, between the Commonwealth Bank of Australia, CIL and the Consolidated Entity. In June 2023, HIBV reinforced its commitment to the business, injecting a further $60m of Tier 1 capital into the Consolidated Entity to support continued growth and business obligations.

Investment Activities

The Consolidated Entity has continued to adopt a conservative investment strategy throughout the year with predominate exposure to cash, through operating holdings, term or notice deposits. A newly implemented Strategic Asset Allocation, enabled exposure to fixed interest (Government & Corporate bonds), managed by a specialised fixed interest manager and held with an independent custodian.

The investment objectives remain focused on investment grade investments, high liquidity to support insurance activities and appropriate yield to meet the benchmark range of a rolling 5-year CPI +0% to 0.5%.

In addition, in line with its strategic partnership model, the Consolidated Entity has strategic debt and equity investments of $139 million (2022: $122 million). This is mainly comprised of longer-term investments in unlisted insurance agencies and other companies involved in insurance related businesses. During the year the Consolidated Entity participated in a capital raise by PetSure. PetSure obtained a general insurance licence in March 2023 resulting in recognition of $10m in fair value uplift on the Consolidated Entity's investment in PetSure.

Reinsurance

As part of its reinsurance management strategy, during the financial year the Consolidated Entity pro-actively worked to review and renew the components of its reinsurance programme that were expiring. At 30 June 2023, the Consolidated Entity successfully implemented the revised programmes. Strategically the Consolidated Entity has purchased new multi-year Whole of Account Quota Share placement and merged the expiring reinsurance programmes of both HIC and HIP entities into combines Excess of Loss (XOL) Per Risk and Event reinsurance arrangements.

Rating

On 30 March 2023, AM Best affirmed the Financial Strength Rating of A- (Excellent) and the Long-Term Issuer Credit Rating of "a-" (Excellent) with the outlook of these Credit Ratings being stable.

Regulatory

During the financial year, the Consolidated Entity has systematically actioned a work plan to ensure readiness for changes to laws affecting insurers and responded to regulatory requests. These included:

Consumer Remediation: ASIC Regulatory Guide 277 commenced on 27 September 2022, setting out the minimum requirements for managing misconduct and compliance failures and remediating customers who suffered losses. An internal review was undertaken, and the Customer Remediation Framework was updated in October 2022 to reflect the new requirements.

Remuneration: APRA CPS 511 Remuneration commenced on 1 July 2023 to ensure remuneration arrangements were maintained to incentivise individuals to manage risks prudently, with remuneration outcomes commensurate with performance and risk outcomes. A project was established mid-2022 to implement CPS 511 and the Financial Accountability Regime. The project is overseen by the Consolidated Entity's legal function with support from external experts for advice where required.

Cyclone Reinsurance Pool (CRP): The Australian Reinsurance Pool Corporation launched the CRP on 1 July 2022 to lower insurance premiums for properties with high cyclone and related flood damage risk. The Consolidated Entity joined the CRP on 1 July 2023. The ACCC has engaged the Consolidated Entity and HIP to collect premium data to monitor the prices, costs and profits of products covered by the CRP by collecting applicable data and providing at least one report each calendar year.

Complaints: ASIC finalised reporting requirements for internal dispute resolution (IDR) data in the form of an IDR data reporting handbook. From 31 August 2023, the Consolidated Entity is required to report IDR Data to ASIC on a bi-annual basis.

ASIC Pricing Review Update: HIC continues to respond to all queries from ASIC stemming from the ASIC Pricing Review which commenced in October 2021 to review pricing systems and controls to prevent consumer harm, and to find, fix, to repay the difference between the pricing promise and the price delivered to the customer Several breaches have been reported to ASIC in the find phase for which a separate provision has been recognised in the financial statements. HIC will commence remediating customers in the first quarter of Financial Year 2024.

Code Governance Committee (CGC) Thematic Inquiry into Making Better Claims Decisions: The Consolidated Entity was selected as one of the six large insurers required to participate in CGC's Thematic Inquiry into Making Better Claims Decisions in November 2022. This review is to determine if insurers are sufficiently utilising complaints outcomes of overturned claim decline decisions. CGC expects insurers to identify insights from complaints data to improve business processes, practices and products to enhance compliance with the General Insurance Code of Practice. CGC's report of the Thematic Inquiry was released in July 2023, containing aggregated findings and recommendations for the industry.

Significant changes in the State of Affairs

The continued economic pressure and impact of the climate related events has had a range of impacts on the Consolidated Entity's business and financial performance during the year.

Dividends

No dividends have been paid or proposed for the 2023 financial year.

Events Subsequent to Balance Date

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

Likely Developments

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

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2023

Corporate Address

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

Level 5
100 Mount Street
North Sydney NSW 2060
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 10 and forms part of the directors' report for the year ended 30 June 2023.

Indemnification of officers and auditors

During the financial year the Consolidated Entity paid an insurance premium in respect of a contract insuring the directors and other officers of the Consolidated Entity and all executive officers of the Consolidated Entity and of any related body corporate against a liability insured as such a director, officer or executive officer to the extent permitted by the Corporations Act 2001. Such insurance relates to any costs, including legal expenses incurred by directors or officers of the Consolidated Entity and of any related body corporate, in defending proceedings, whether civil or criminal, and other liabilities that may arise from their positions, with the exception of conduct involving any deliberately dishonest or fraudulent act or omission, a wilful breach of duty or improper use of information or position to gain a personal advantage, or any conduct of or contravention to which a prohibition in section 199B of the Corporations Act applies. The directors have not included details of the amount of the premiums paid in respect of the directors' and officers' liability insurance, or details of the premium paid in respect of former directors or individual officers of the Consolidated Entity, as such disclosure is prohibited under the terms of the contract.

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

Rounding off

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

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2023

Signed in accordance with a resolution of the directors.

Gary Dransfield
Independent Non-executive Director & Chair

Richard Enthoven
Executive Director

Dated at Sydney 21 September 2023

Deloitte.

Deloitte Touche Tohmatsu
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21 September 2023

The Board of Directors
Hollard Holdings Australia Pty Ltd
Level 5, 100 Mount Street
North Sydney, NSW, 2060

Dear Directors

Auditor's Independence Declaration to Hollard Holdings Australia Pty Ltd

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

As lead audit partner for the audit of the financial report of Hollard Holdings Australia Pty Ltd for the year ended 30 June 2023, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours faithfully

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Max Rt Murray

Max Murray
Partner
Chartered Accountants

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2023

	Notes	2023 $000	2022 $000
Gross written premium		**2,789,710**	1,806,775
Unearned premium movement		**(160,233)**	(78,186)
Gross earned premium revenue	2.1	**2,629,477**	1,728,589
Outward reinsurance premium		**(894,479)**	(611,058)
Deferred reinsurance premium movement		**393,916**	(210,363)
Outward reinsurance premium expense	2.6	**(500,563)**	(821,421)
Net earned premium		**2,128,914**	907,168
Gross claims expense	2.2	**(1,915,154)**	(1,199,506)
Reinsurance and other recoveries revenue	2.1	**522,980**	648,240
Net claims expense		**(1,392,174)**	(551,266)
Acquisition expenses	2.7	**(546,665)**	(387,001)
Reinsurance commission revenue	2.1	**121,079**	275,016
Net acquisition expense		**(425,586)**	(111,985)
Levies and charges		**(54,162)**	(31,655)
Operating expenses	2.11	**(320,917)**	(173,125)
Underwriting result		**(63,925)**	39,137
Net investment income	3.1	**62,909**	14,596
Other income	3.8	**9,662**	8,646
Finance costs	4.2, a)	**(170)**	(101)
Foreign exchange gains (net)		**(74)**	(588)
Profit before income tax from continuing operations		**8,402**	61,690
Income tax (expense)	7.1	**(604)**	(2,129)
Profit after income tax from continuing operations		**7,798**	**59,561**
Discontinued operations			
Profit after tax for the year from discontinued operations	9.2	**-**	19,348
Profit for the year		**7,798**	**78,909**
Other comprehensive income/(loss)			
Net movement in foreign currency translation reserve		**648**	(579)
Actuarial gain/(loss) on defined benefit plan		**-**	-
Other comprehensive income/(loss) after income tax		**648**	(579)
Total comprehensive income/(loss) after income tax		**8,446**	**78,330**
Profit after income tax attributable to:			
Shareholders of the Company		**7,798**	77,819
Non-controlling interests		**-**	1,090
		7,798	78,909
Other comprehensive income after income tax attributable to:			
Shareholders of the Company		**648**	(579)
Non-controlling interests		**-**	-
		648	**(579)**

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

Consolidated Statement of Financial Position

AS AT 30 JUNE 2023

	Notes	2023 $000	2022 $000
ASSETS			
Cash and cash equivalents	3.2	**325,301**	423,786
Financial assets	3.3	**1,290,154**	502,068
Trade and other receivables	2.9	**1,683,959**	942,383
Reinsurance and other recoveries on outstanding claims	2.4	**445,406**	385,528
Deferred reinsurance expense	2.6	**643,336**	247,642
Deferred acquisition expense	2.7	**287,892**	228,369
Deferred levies and charges		**31,882**	12,842
Strategic Investments	3.4	**139,123**	121,856
Prepayments		**10,163**	5,136
Property, plant and equipment	8.1	**3,611**	2,136
Intangible Assets	8.2	**314,452**	17,983
Goodwill	8.3	**97,898**	-
Right-of-use assets	8.5	**1,855**	3,439
Deferred tax assets	7.2	**69,822**	36,375
Total assets		**5,344,854**	2,929,543
LIABILITIES			
Trade and other payables	2.10	**1,014,553**	613,720
Current tax liabilities		**3,665**	-
Outstanding claims liability	2.3	**1,311,255**	721,769
Unearned premium liability	2.5	**1,580,550**	947,545
Unearned reinsurance commission	2.8	**142,259**	57,549
Provisions	8.4	**46,487**	28,079
Lease liabilities	8.5	**1,814**	4,241
Deferred tax liabilities	7.2	**117,302**	30,267
Total liabilities		**4,217,885**	2,403,170
Net assets		**1,126,969**	**526,373**
EQUITY			
Contributed equity	4.1	**989,159**	397,009
Reserves		**82**	(566)
Retained earnings		**137,728**	129,930
Total equity attributable to equity holders of the Company		**1,126,969**	526,373
Total equity		**1,126,969**	**526,373**

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

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2023

	Attributable to the shareholder					
	Share Capital	Reserves	Retained earnings	Total	Non-controlling interests	Total equity
2023	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**
As at 1 July 2022	**397,009**	**(566)**	**129,930**	**526,373**	**-**	**526,373**
Profit for the period	-	-	7,798	7,798	-	7,798
Other comprehensive income	-	648	-	648	-	648
Total comprehensive income/(loss)	-	648	7,798	8,446	-	8,446
Transactions with owners in their capacity as owners:						
Issue of shares	592,150	-	-	592,150	-	592,150
	592,150	-	-	592,150	-	592,150
At 30 June 2023	**989,159**	**82**	**137,728**	**1,126,969**	**-**	**1,126,969**

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

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2023

	Attributable to the shareholder					
	Share Capital (Note 1)	**Reserves (Note 1)**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
2022	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**
As at 1 July 2021	**371,755**	**(405)**	**45,185**	**416,535**	**3,383**	**419,918**
Profit for the period	-	-	77,819	77,819	1,090	78,909
Dividends paid to non-controlling interest	-	-	-	-	(1,293)	(1,293)
Reclassification	-	-	212	212	(212)	-
Other comprehensive income	-	(579)	-	(579)	-	(579)
Total comprehensive income/(loss)	-	(579)	78,031	77,452	(415)	77,037
Discontinued operations (Note 2)	-	418	6,714	7,132	(2,968)	4,164
Transactions with owners in their capacity as owners:						
Issue of shares	25,254	-	-	25,254	-	25,254
	25,254	-	-	25,254	-	25,254
At 30 June 2022	**397,009**	**(566)**	**129,930**	**526,373**	**-**	**526,373**

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

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2023

	Notes	2023 $000	2022 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Premiums received		**2,564,490**	1,702,549
Reinsurance and other recoveries received		**388,469**	454,642
Reinsurance commission received		**138,125**	262,882
Interest received		**34,816**	7,555
Dividends received		**1,624**	632
Other income received		**9,480**	8,048
Outwards reinsurance paid		**(592,620)**	(766,951)
Claims paid		**(1,325,759)**	(1,036,228)
Acquisition costs paid		**(511,765)**	(393,626)
Levies and insurance operating costs paid		**(253,749)**	(227,256)
Income tax paid		**56,649**	(1,192)
Interest paid – lease liabilities		**(269)**	(161)
Net cash flows from operating activities	**10.1, a)**	**509,491**	**10,894**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments		**(2,099)**	(3,000)
(Payment)/receipt for term deposits and bonds		**(781,846)**	(198,508)
Receipts from sale of investments		**(412)**	323
Loans advanced		**-**	(1,477)
Loan repayments received		**554**	3,715
Payments for property, plant and equipment		**(2,512)**	(1,714)
Purchase of intangible assets		**(46,492)**	(16,986)
Acquisition of a subsidiary, net of cash acquired	9.4	**(362,549)**	-
Disposal of a subsidiary net of cash		**-**	121,761
Net cash flows used in investing activities		**(1,195,356)**	**(95,886)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**592,150**	25,254
Proceeds from borrowings		**11**	(160)
Finance costs paid		**-**	(101)
Payment of lease liabilities		**(4,781)**	(5,123)
Net cash flows from financing activities		**587,380**	**19,870**
Net (decrease) in cash held		**(98,485)**	(65,122)
Cash and cash equivalents at 1 July		**423,786**	488,908
Cash and cash equivalents at the end of the financial year	**3.2**	**325,301**	**423,786**

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2023

1. OVERVIEW

1.1. About Hollard Holdings Australia Pty Ltd

Hollard Holdings Australia Pty Ltd (the Company) is a for-profit company domiciled in Australia. The consolidated financial statements as at and for the year ended 30 June 2023 include the Company and its controlled entities (together referred to as “the Consolidated Entity”).

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

Hollard Holdings Australia Pty Ltd acquired the general insurance business of Commonwealth Bank of Australia on 30 September 2022 (Commonwealth Insurance Limited “CIL”), now renamed as to Hollard Insurance Partners Limited (“HIP”) for a final purchase price of $605 million. This significantly increased the size of the Consolidated Entity’s Home and Motor insurance business.

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

1.2. About these Financial Statements

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

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

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

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

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

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

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

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

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

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

10. Events subsequent to balance date includes report on events subsequent to balance date.

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

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

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

1.3. Statement of compliance

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) and Interpretations adopted by the Australian Accounting Standards Board (AASB), the Corporations Act 2001 and comply with other requirements of law. Compliance with Australian Accounting Standards ensures that the financial statements comply with International Financial Reporting Standards (IFRSs) adopted by the International Accounting Standards Board. The financial statements were authorised for issue by the directors on 21 September 2023.

1.4. Basis of preparation

The financial report for the period ended 30 June 2023 has been prepared on a 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 2023, the Consolidated Entity recorded a net profit after tax of $8 million (2022: net profit $79 million) and had net assets of $1,127 million (2022: $526 million). The Consolidated Entity had available $1,615 million of cash and other assets to meet day to day obligations as they fall due. The Consolidated Entity's regulatory capital base at 30 June 2023 comprised CET1 of $699 million (2022: $457 million) with the regulatory capital adequacy multiple at close of financial year of 1.51 (2022: 1.98).

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

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

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

Basis of consolidation

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

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

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

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

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

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

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

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

Changes in ownership interests in existing subsidiaries

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

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

Presentation and foreign currency

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

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

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

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

	2023		2022	
	Profit or loss	**Statement of financial position**	**Profit or loss**	**Statement of financial position**
AUD/NZD	**1.09**	**1.09**	1.06	1.11

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.

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

Critical Accounting judgements and estimates	**Note**
- Outstanding claims liability	2.3
- Reinsurance and other recoveries on outstanding claims	2.4
- Liability adequacy test	2.5.a
- Trade and other receivables	2.9
- Determination of fair value of strategic investments	3.7
- Recognised deferred income tax balances	6.2
- Intangible assets initial measurement, impairment testing and useful life	7.3

2. INSURANCE ACTIVITIES

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

2.1. General insurance revenue

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

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

	2023 $000	**2022 $000**
Gross earned premium revenue	**2,629,477**	1,728,589
Other insurance revenue		
Reinsurance and other recoveries revenue	**522,980**	648,240
Reinsurance commission revenue	**121,079**	275,016
Total general insurance revenue	**3,273,536**	**2,651,845**

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.

	2023			2022		
	Current period $000	**Prior years $000**	**Total $000**	**Current period $000**	**Prior years $000**	**Total $000**
Gross claims expense						
Gross claims - undiscounted	**1,990,276**	**(62,688)**	**1,927,588**	1,246,636	(33,988)	1,212,648
Discount	**(20,520)**	**8,086**	**(12,434)**	(8,097)	(5,045)	(13,142)
Gross claims - discounted	**1,969,756**	**(54,602)**	**1,915,154**	1,238,539	(39,033)	1,199,506
Reinsurance and other recoveries revenue						
Reinsurance and other recoveries - undiscounted	**(492,836)**	**(33,939)**	**(526,775)**	(655,510)	1,555	(653,955)
Discount	**6,560**	**(2,765)**	**3,795**	4,331	1,384	5,715
Reinsurance and other recoveries - discounted	**(486,276)**	**(36,704)**	**(522,980)**	(651,179)	2,939	(648,240)
Net claims expense	**1,483,480**	**(91,306)**	**1,392,174**	**587,360**	**(36,094)**	**551,266**

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.

	2023 $000	2022 $000
Gross undiscounted central estimate	**1,286,189**	701,981
Discount to present value	**(33,029)**	(13,199)
	1,253,160	688,782
Plus: Risk margin	**58,095**	32,987
Gross outstanding claims liability	**1,311,255**	**721,769**
Payable within 12 months	**1,023,522**	542,440
Payable greater than 12 months	**287,733**	179,329
	1,311,255	**721,769**

Recognition and Measurement

Gross central estimate

The liability for outstanding claims is measured as the central estimate of the present value of expected future payments against claims incurred at the reporting date under general insurance contracts issued by the Consolidated Entity, with an additional risk margin to allow for the inherent uncertainty in the central estimate. Under the Institute of Actuaries of Australia Professional Standard 302 "Valuations of General Insurance Claims", the central estimate is the best estimate of the expected liabilities for outstanding claims based on information currently available and exhibits no bias either towards a pessimistic or an optimistic outcome.

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

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

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

	2023 $000	2022 $000
Balance at beginning of financial year	**721,769**	558,490
Acquisition of HIP	**654,019**	-
Claims expense – prior accident year	**(62,688)**	(33,988)
Incurred claims recognised in profit or loss	**1,990,276**	1,246,636
Discount movement	**(19,830)**	(13,142)
Claims payments	**(1,995,925)**	(1,033,336)
Foreign exchange	**23,634**	(2,891)
Balance at end of financial year	**1,311,255**	**721,769**

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.

	2023	**2022**
Net overall risk margin applied	**7.3%**	11.2%

Critical Accounting Estimates and Judgements

Gross central estimate

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

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

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2023

Key Assumptions

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

	2023					2022			
	Personal Lines	**Pet**	**Commercial**	**New Zealand**	**HIP**	**Personal Lines**	**Pet**	**Commercial**	**New Zealand**
Discounted mean term	**0.50**	**0.42**	**1.55**	**0.46**	**0.68**	0.49	0.36	1.34	0.51
Discount rate	**4.28%**	**4.26%**	**4.00%**	**5.45%**	**3.76%**	2.44%	2.35%	2.82%	3.15%
Inflation rate	**5.04%**	**5.00%**	**6.02%**	**5.00%**	**5.07%**	3.30%	3.25%	3.90%	3.25%
Claims handling expense rate	**3.39%**	**0.05%**	**3.94%**	**0.07%**	**5.91%**	2.26%	0.60%	3.25%	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

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

Claims handling expense rate

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

Sensitivity Analysis

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

	Sensitivity	Impact on claims liability	2023 $'000	2022 $'000
Discounted mean term	+ 6 mths	Increase claims liability	**4,923**	1,331
	- 6 mths	Reduce claims liability	**(4,895)**	(1,326)
Discount rate	+ 1% p.a.	Reduce claims liability	**(6,044)**	(2,834)
	- 1% p.a.	Increase claims liability	**6,146**	2,886
Inflation rate	+ 1% p.a.	Increase claims liability	**6,018**	2,835
	- 1% p.a.	Reduce claims liability	**(6,033)**	(2,838)
Claims handling expense rate	+ 1% p.a.	Increase claims liability	**10,798**	7,116
	- 1% p.a.	Reduce claims liability	**(10,798)**	(7,116)

a) Claims development

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

	Earlier	2013	2014	2015	2016	2017	2018	2019	2020	2022	2023	Total
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
Projected net ultimate claims cost for long tail claims at:												
Earlier	18,007	3,740	2,866	2,950	5,615	8,737	17,596	17,956	21,201	24,580	41,529	
Year 1	18,439	3,587	2,568	2,425	5,972	7,911	17,987	16,873	18,172	21,720	-	
Year 2	20,971	3,368	2,056	2,319	5,773	9,694	17,103	14,506	15,980	-	-	
Year 3	27,263	2,827	2,454	2,236	5,726	11,051	17,436	13,649	-	-	-	
Year 4	31,553	2,878	2,818	2,322	5,787	10,977	16,954	-	-	-	-	
Year 5	33,096	2,903	2,968	2,102	5,617	10,620	-	-	-	-	-	
Year 6	34,464	2,847	2,542	2,063	5,610	-	-	-	-	-	-	
Year 7	35,279	2,783	2,533	2,004	-	-	-	-	-	-	-	
Year 8	35,331	2,781	2,532	-	-	-	-	-	-	-	-	
Year 9	34,671	3,014	-	-	-	-	-	-	-	-	-	
Year 10	34,034	-	-	-	-	-	-	-	-	-	-	
Current estimate of net ultimate claims payments	34,034	3,014	2,532	2,004	5,610	10,620	16,954	13,649	15,980	21,720	41,529	167,646
Cumulative net payments to date	33,255	2,780	2,510	1,893	5,133	9,085	12,608	7,222	7,420	6,283	12,237	100,426
Net undiscounted central estimate - long tail	778	233	23	110	477	1,535	4,346	6,427	8,561	15,437	33,041	70,968
Net undiscounted central estimate - short tail	519	(233)	-	-	488	6	1,218	11,210	4,106	19,167	278,639	315,120
Undiscounted net outstanding claim payments - HIP	3,275	-	-	-	-	1,245	2,114	5,320	16,126	70,011	301,489	399,580
Total undiscounted net outstanding claim payments	4,572	-	23	110	965	2,786	7,678	22,957	28,793	104,615	613,169	785,668
Discount to present value	(440)	(21)	-	(174)	(96)	(260)	(823)	(1,608)	(2,746)	(6,175)	(10,732)	(23,075)
Net discounted central estimate	4,132	(21)	23	(64)	869	2,526	6,855	21,349	26,047	98,440	602,437	762,593
Claims settlement costs												44,046
Risk margin												58,095
Total net outstanding future claim payments												864,734
Stabilisation reserve												1,115
Reinsurance and other recoveries												445,406
Gross outstanding claims liability												1,311,255

2.4. Reinsurance and other recoveries on outstanding claims

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

	2023 $000	2022 $000
Reinsurance and other recoveries on outstanding claims - undiscounted	**455,524**	391,400
Discount to present value	**(10,118)**	(5,872)
Balance at end of financial year	**445,406**	**385,528**
Receivable within 12 months	**362,967**	316,532
Receivable in greater than 12 months	**82,439**	68,996
	445,406	**385,528**

Recognition and Measurement

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

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

2.5. Unearned premium liability

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

	2023 $000	2022 $000
Balance at beginning of financial year	**947,545**	874,714
Acquisition of HIP	**457,817**	-
Deferral of unearned premium on contracts written in the financial year	**2,789,709**	1,806,775
Earning of premium written in current and previous financial years	**(2,629,476)**	(1,728,589)
Foreign exchange impact	**14,955**	(5,355)
Balance at end of financial year	**1,580,550**	**947,545**
To be earned within 12 months	**1,579,682**	946,427
To be earned in greater than 12 months	**868**	1,118
	1,580,550	**947,545**

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.

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.

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 distribution channel level for intermediated business and line of business level for non-intermediated.

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.

	2023	2022
Net overall risk margin applied	**7.7%**	5.9%

The application of the LAT in respect of net unearned premium liabilities has identified a deficit for the Consolidated Entity at 30 June 2023 (FY22: Surplus). Set out below are the amounts reflecting the LAT deficiency test at the line of business level:

Divisional LAT	2023 $000	2022 $000
Net unearned premium liabilities per IFRS	**430,828**	-
Less:		
Net present value of expected future cash flows for future claims before risk margin	**(420,158)**	-
Net discounted risk margin	**(35,335)**	-
Deficiency at balance date	**24,665**	-
Deferred acquisition expense adjustment	**(24,482)**	-

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.

	2023 $000	2022 $000
Balance at beginning of financial year	**247,642**	460,958
Acquisition of HIP	**128,640**	-
Premiums deferred in financial year	**765,839**	611,058
Amortisation of premiums deferred	**(500,563)**	(821,421)
Foreign exchange impact	**1,778**	(2,953)
Balance at end of financial year	**643,336**	**247,642**
To be expensed within 12 months	**643,245**	247,530
To be expensed in greater than 12 months	**91**	112
	643,336	**247,642**

Recognition and Measurement

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

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

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.

	2023 $000	2022 $000
Balance at beginning of financial year	**228,369**	171,252
Acquisition of HIP	**25,565**	-
Costs deferred in financial year	**580,623**	457,903
Costs expensed during the year	**(522,183)**	(400,786)
Liability Adequacy Test deficiency	**(24,482)**	-
Balance at end of financial year	**287,892**	**228,369**
To be expensed within 12 months	**287,702**	228,084
To be expensed in greater than 12 months	**190**	285
	287,892	**228,369**

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.

	2023 $000	2022 $000
Balance at beginning of financial year	**57,549**	141,584
Commission earned in financial year	**205,789**	190,981
Earning of commission written in previous financial years	**(121,079)**	(275,016)
Balance at end of financial year	**142,259**	**57,549**
To be expensed within 12 months	**142,212**	57,496
To be expensed in greater than 12 months	**47**	53
	142,259	**57,549**

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

	2023 $000	2022 $000
Receivables from third-party customers	**1,468,929**	819,968
Provision for impairment of receivables	**(6,961)**	(7,532)
Net premium receivable	**1,461,968**	812,436
Reinsurance and other recoveries receivable on paid claims	**173,401**	78,327
Reinsurance commissions receivable	**1,649**	4,341
Other receivables	**26,781**	14,597
Interest receivables	**-**	1,432
Deposit in connection with proposed acquisition	**-**	31,250
HIP acquisition receivable	**20,160**	-
Trade and other receivables	**1,683,959**	**942,383**
Receivable within 12 months	**1,683,959**	942,383
Trade and other receivables	**1,683,959**	**942,383**

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.

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.

2.10. Trade and other payables

	2023 $000	2022 $000
Reinsurance premiums payable	**516,991**	255,790
Acquisition costs payable	**348,347**	233,743
Trade payables	**33,124**	29,472
Other payables and accruals	**116,091**	94,715
Trade and other payables	**1,014,553**	**613,720**
Payable within 12 months	**1,014,553**	613,720
Trade and other payables	**1,014,553**	**613,720**

Recognition and Measurement

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

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

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

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

2.11. Insurance operating expenses

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

	Notes	2023 $000	2022 $000
Employee benefits costs	8.4, a)	**182,225**	120,486
Professional fees		**10,144**	7,322
Outsourced insurance services		**56,522**	41,831
Occupancy costs		**6,184**	2,042
Amortisation		**14,674**	4,469
Depreciation		**1,232**	2,700
Depreciation right-of-use asset	8.5	**3,937**	4,615
Interest unwind on operating lease liabilities	8.5	**99**	161
Corporate expenses		**45,900**	35,480
Total insurance expenses		**320,917**	**219,106**
Attributable to:			
Continuing operations		**320,917**	173,125
Discontinued operation		**-**	45,981
Total insurance expenses		**320,917**	**219,106**

3. INVESTMENT ACTIVITIES

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

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

3.1. Investment income

	2023 $000	2022 $000
Interest income	**46,109**	8,501
Dividend income	**1,624**	632
Fair value gain on investments	**15,588**	5,180
(Loss)/Gain on disposal of investments	**(412)**	283
Total investment and other income	**62,909**	14,596

Recognition and Measurement

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

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

3.2. Cash & cash equivalents

	2023 $000	2022 $000
Cash held for operational purposes	**325,301**	423,786
	325,301	**423,786**

3.3. Financial assets

	2023 $000	2022 $000
Term deposits	**920,278**	502,068
Corporate Bonds	**154,823**	-
Government and semi-government bonds	**215,053**	-
Total financial assets	**1,290,154**	**502,068**

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

	Notes	2023 $000	2022 $000
Associates	3.5	**88,874**	86,850
Other strategic investments	3.6	**50,249**	35,006
Total strategic investment assets		**139,123**	**121,856**

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.

Acquisitions and disposals

2023

- On 28 September 2022, the Company exchanged its shareholding in Petsure Australia Pty Ltd for 34,709,069 fully paid ordinary shares in Petsure Holdings Pty Ltd (ACN 606 792 509). On October 2022, the Company participated in a capital raise by subscribing to 5.64m ordinary shares in PetSure with total amount of $5.64m.
- In July 2022, the Consolidated Entity disposed of its entire holding in ATL Holdings Group Pty Ltd for $3.54 million.

2022

- In March 2022, the Consolidated Entity disposed of 81.8% of its interest in PetSure (Australia) Pty Ltd to a subsidiary of the ultimate parent for $156 million, taking its interest down to 18.2%. The Consolidated Entity has reclassified its interest from a controlled entity to an equity investment. Refer note 9.2.
- In January 2022, the Consolidated Entity disposed of its entire holding in Car Next Door Australia Pty Ltd for $0.61 million.
- In August 2021, the Consolidated Entity participated in Open Money Group Pty Ltd's capital raise to the value of $3 million.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2023

3.5. Associates

2023	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**	**39.65%**	**8,043**	**1,872**	**9,915**	**33,524**	**43,439**
Grappler.io Limited	**New Zealand**	**InsurTech**	**25.25%**	**1,385**	**374**	**1,759**	**(476)**	**1,283**
Insured By Us Pty Ltd	**Australia**	**Underwriting Agency**	**50.00%**	**-**	**21**	**21**	**-**	**21**
Insuret Pty Ltd	**Australia**	**Underwriting Agency**	**50.00%**	**668**	**242**	**910**	**8,598**	**9,508**
Open Insurance Technologies Pty Ltd	**Australia**	**Underwriting Agency / InsurTech**	**28.69%**					
(Previously Open Money Group Pty Ltd)				**9,750**	**-**	**9,750**	**17,551**	**27,301**
TwoThreeBird Holdings Ltd	**UK**	**Underwriting Agency**	**27.19%**	**-**	**1,831**	**1,831**	**5,491**	**7,322**
				19,846	**4,340**	**24,186**	**64,688**	**88,874**

*Ando Insurance Group Limited issued 1,449 new shares to a new shareholder and the Consolidated Entity's shareholding in Ando reduced from 39.95% to 39.65%.

2022	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	1,828	9,871	30,491	40,362
ATL Holdings Group Pty Ltd	Australia	Underwriting Agency	27.22%	1,766	-	1,766	1,776	3,542
Grappler.io Limited	New Zealand	Premium Funding	25.25%	1,385	352	1,737	-	1,737
Insured By Us Pty Ltd	Australia	Underwriting Agency	50.00%	1	21	22	(1)	21
Insuret Pty Ltd	Australia	Underwriting Agency	50.00%	668	838	1,506	3,832	5,338
Open Money Group Pty Ltd	Australia	Underwriting Agency / InsurTech	28.69%	9,750	-	9,750	18,888	28,638
TwoThreeBird Holdings Ltd	UK	Underwriting Agency	27.19%	-	1,721	1,721	5,490	7,211
				21,613	**4,760**	**26,373**	**60,476**	**86,850**

Summarised Financial Information of Material Associates

The summarised financial information for the year ended 30 June 2023 of the material associates is presented below:

Summarised statement of financial position as at 30 June 2023

	Open Insurance	Ando
	$000	$000
Total assets	**15,469**	**87,457**
Total liabilities	**(21,218)**	**(94,522)**
Net assets	**(5,749)**	**(7,065)**

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

Summarised statement of financial position as at 30 June 2022

	Open Insurance	Ando
	$000	$000
Total assets	**20,276**	**83,972**
Total liabilities	**(6,304)**	**(82,578)**
Net assets	**13,972**	**1,394**

Summarised statement of comprehensive income for 2023:

	Open Insurance	Ando
	$000	$000
Revenue	**22,621**	**40,660**
Profit/(loss) after tax	**(18,986)**	**(10,402)**
Total comprehensive income	**(18,986)**	**(10,402)**

Summarised statement of comprehensive income for 2022:

	Open Insurance	Ando
	$000	$000
Revenue	**10,398**	**38,997**
Profit/(loss) after tax	**(9,303)**	**(1,562)**
Total comprehensive income	**(9,303)**	**(1,562)**

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2023

3.6. Other Investments

2023	**Place of incorporation**	**Principal Activity**	**Interest held %**	**Equity $'000**	**Cost $'000**	**Fair Value Adj. $'000**	**Fair Value $'000**
PetSure Holdings Pty Ltd	**Australia**	**Underwriting Agency**	**18.20%**	21,251	21,251	28,701	49,952
Expense Check Pty Ltd	**Australia**	**Insurtech**	**6.33%**	1,000	1,000	(903)	97
ListSure Pty Ltd	**Australia**	**Underwriting Agency**	**5.00%**	200	200	-	200
				22,451	**22,451**	**27,798**	**50,249**

2022	**Place of incorporation**	**Principal Activity**	**Interest held %**	**Equity $'000**	**Cost $'000**	**Fair Value Adj. $'000**	**Fair Value $'000**
PetSure (Australia) Pty Ltd	Australia	Underwriting Agency	18.20%	15,610	15,610	19,099	34,709
Expense Check Pty Ltd	Australia	InsurTech	6.45%	1,000	1,000	(903)	97
ListSure Pty Ltd	Australia	Underwriting Agency	5.07%	200	200	-	200
Starts at 60 Pty Ltd	Australia	Underwriting Agency	0.97%	200	200	(200)	-
Wild Goose Holdings Pty Ltd	Australia	Underwriting Agency	18.40%	3,375	3,375	(3,375)	-
				20,385	**20,385**	**14,621**	**35,006**

3.7. Fair value hierarchy

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

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

	2023 $000	2022 $000
Investment assets - term deposits	**920,278**	502,068
Investment assets - government and semi-government bonds	**215,053**	-
Investment assets - corporate bonds	**154,823**	-
Investment assets - strategic investments	**139,123**	121,856
Investments designated as fair value through profit and loss	**1,429,277**	623,924
Total level 1 investment assets - term deposits	**920,278**	502,068
Total level 1 investment assets - government and semi-government bonds	**215,053**	-
Total level 1 investment assets - corporate bonds	**154,823**	-
Total level 2 investment assets - strategic investment loans	**4,340**	4,760
Total level 3 investment assets	**134,782**	117,095
Total investment assets	**1,429,277**	**623,924**

Reconciliation of level 3 investments

Balance at beginning of financial year	**117,095**	75,646
Acquisitions	**5,642**	3,000
Disposals	**(1,766)**	(327)
Fair value adjustments	**13,811**	24,280
Reclassification	**-**	15,610
Discontinued	**-**	(1,114)
Balance at end of financial year	**134,782**	**117,095**

Critical accounting judgements and estimates

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

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

Level 3 investment valuation key inputs

	2023	2022
Terminal growth rates	**2.5%**	2.5% - 4.0%
Discount rate - post tax	**14.0% - 29.1%**	13.7% - 21.7%

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	2023 Equity/Profit or (Loss) before tax $'000
Terminal growth rate	**+ 1% p.a.**	**Increase**	**5,449**
	- 1% p.a.	**Decrease**	**(5,888)**
Discount rate	**+ 1% p.a.**	**Increase**	**(10,162)**
	- 1% p.a.	**Decrease**	**10,343**

3.8. Other income

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

	2023 $000	2022 $000
Agency commission and policy fees	**9,467**	15,101
Miscellaneous other income items	**195**	191
Total other income	**9,662**	**15,292**
Attributable to:		
Continuing operations	**9,662**	8,646
Discontinued operation	**-**	6,646
	9,662	**15,292**

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

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

	2023		2022	
	Number	**$000**	**Number**	**$000**
Ordinary shares fully paid	**1,795,197**	**592,150**	2,374,974	367,009
Other equity arising under reverse acquisition accounting	**-**	**-**	-	30,000
At end of the financial year	**1,795,197**	**592,150**	2,374,974	397,009

Issued ordinary shares, fully paid:	**Number**	**$000**	**Number**	**$000**
At beginning of financial year	**2,374,974**	397,009	2,247,466	341,755
Issued during the year	**1,795,197**	592,150	127,508	25,254
At end of the financial year	**4,170,171**	**989,159**	**2,374,974**	**367,009**

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

Last year the M Class shares were converted into ordinary shares at the original issue value of the M Class shares.

	2023		2022	
M Class shares:	**Number**	**$000**	**Number**	**$000**
At beginning of financial year	**-**	**-**	127,508	-
Converted during the year	**-**	**-**	(127,508)	-
At end of the financial year	**-**	**-**	-	-

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

During the year the loan funded share plan was retired with the immediate parent entity, Hollard Investments B.V. acquiring all of the M Shares from participants at market value and converting these to ordinary shares.

a) Share-based payments

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

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

A share-based expense is only recognised where the expected market value exceeds the accrued value of the loan. The share-based payment expense recognised in the statement of comprehensive income is disclosed in note 8.4.a.

b) Franking Credits

	2023 $000	2022 $000
Franking credits available for subsequent financial periods based on a tax rate of 30%	**28,976**	25,649

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

4.2. Interest bearing liabilities

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) Finance costs

	2023 $000	2022 $000
Finance costs	**170**	101

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

4.3. Capital management

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

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

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

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

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

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

Capital Adequacy Level 2	2023 $000	2022 $000
Common Equity Tier 1 Capital		
Paid up ordinary shares	**959,159**	367,009
Other equity arising under reverse acquisition accounting (Note 10)	**30,000**	30,000
Retained income	**137,729**	129,930
Other reserves	**82**	(566)
Net surplus relating to insurance liabilities	**14,536**	33,887
Regulatory adjustments to common equity tier 1	**(442,563)**	(103,418)
Total Common Equity Tier 1 Capital	**698,943**	**456,842**
Regulatory capital base	**698,943**	**456,842**
Insurance risk charge	**202,233**	107,745
Insurance concentration risk charge	**97,790**	35,000
Asset risk charge	**149,857**	78,671
Operational risk charge	**102,482**	54,549
Less: aggregation benefit	**(88,694)**	(45,185)
Prescribed Capital Amount (PCA)	**463,668**	230,780
Capital Adequacy Multiple (CAM)	**1.51**	1.98

The Hollard Insurance Company Pty Ltd has been externally rated by AM Best since 2016. On 30 March 2023, AM Best affirmed the Financial Strength Rating of A- (Excellent) and the Long-Term Issuer Credit Rating of “a-” (Excellent) with the outlook of these Credit Ratings being stable.

The increase in regulatory adjustments in FY 2023 arises for the Intangible assets and Goodwill relating to the acquisition of HIP (See Note 8.4).

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2023

5. 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.

5.1. Contributed Equity

	2023		2022	
	Number	**$000**	**Number**	**$000**
Ordinary shares fully paid	**1,795,197**	**592,150**	2,374,974	367,009
Other equity arising under reverse acquisition accounting	**-**	**-**	-	30,000
At end of the financial year	**1,795,197**	**592,150**	2,374,974	397,009

Issued ordinary shares, fully paid:	**Number**	**$000**	**Number**	**$000**
At beginning of financial year	**2,374,974**	397,009	2,247,466	341,755
Issued during the year	**1,795,197**	592,150	127,508	25,254
At end of the financial year	**4,170,171**	**989,159**	**2,374,974**	**367,009**

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

Last year the M Class shares were converted into ordinary shares at the original issue value of the M Class shares.

	2023		2022	
M Class shares:	**Number**	**$000**	**Number**	**$000**
At beginning of financial year	**-**	**-**	127,508	-
Converted during the year	**-**	**-**	(127,508)	-
At end of the financial year	**-**	**-**	-	-

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

During the year the loan funded share plan was retired with the immediate parent entity, Hollard Investments B.V. acquiring all of the M Shares from participants at market value and converting these to ordinary shares.

a) Share-based payments

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

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

A share-based expense is only recognised where the expected market value exceeds the accrued value of the loan. The share-based payment expense recognised in the statement of comprehensive income is disclosed in note 8.4.a.

b) Franking Credits

	2023 $000	2022 $000
Franking credits available for subsequent financial periods based on a tax rate of 30%	**28,976**	25,649

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

5.2. Financial liabilities: Interest-bearing loans and borrowings

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) Finance costs

	2023 $000	2022 $000
Finance costs	**170**	101

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

5.3. Capital management

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

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

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

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

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

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

Capital Adequacy Level 2	2023 $000	2022 $000
Common Equity Tier 1 Capital		
Paid up ordinary shares	**959,159**	367,009
Other equity arising under reverse acquisition accounting (Note 10)	**30,000**	30,000
Retained income	**137,729**	129,930
Other reserves	**82**	(566)
Net surplus relating to insurance liabilities	**14,536**	33,887
Regulatory adjustments to common equity tier 1	**(442,563)**	(103,418)
Total Common Equity Tier 1 Capital	**698,943**	**456,842**
Regulatory capital base	**698,943**	**456,842**
Insurance risk charge	**202,233**	107,745
Insurance concentration risk charge	**97,790**	35,000
Asset risk charge	**149,857**	78,671
Operational risk charge	**102,482**	54,549
Less: aggregation benefit	**(88,694)**	(45,185)
Prescribed Capital Amount (PCA)	**463,668**	230,780
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The Hollard Insurance Company Pty Ltd has been externally rated by AM Best since 2016. On 30 March 2023, AM Best affirmed the Financial Strength Rating of A- (Excellent) and the Long-Term Issuer Credit Rating of “a-” (Excellent) with the outlook of these Credit Ratings being stable.

The increase in regulatory adjustments in FY 2023 arises for the Intangible assets and Goodwill relating to the acquisition of HIP (See Note 8.4).

6. RISK MANAGEMENT

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

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

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

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

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

Risk Management Strategy (RMS)

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

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

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

Risk Appetite Statement (RAS)

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

Business Plan

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

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

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

Reinsurance Management Strategy (ReMS)

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

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

Internal Capital Adequacy Assessment Process (ICAAP)

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

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

Recovery Plan

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

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

Business Continuity Plan and Crisis Management

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

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

Risk Management Framework

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

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

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

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

- Strategic Risk (note 6.1) The risk of not meeting financial and other objectives arising from poor strategic business decisions, failed implementation of strategic projects, risks from the impacts of competitors, emerging strategic risks and other fundamental strategic issues that impact the Group or the insurance industry in Australia and NZ.
- Insurance Risk (note 6.2) 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 6.3) The risk that a person or institution with whom the Consolidated Entity has entered a financial contract, who is a counterparty to the contract, will partially or fully default on the obligation, or be subject to a downgrade in their assessed credit quality. This excludes exposures to strategic debt such as loans which are included in strategic investments.
- Market, Liquidity and Capital Risk (note 6.4, 6.5) The risk of a lower-than-expected return on investments or losses from asset liability mismatches, due to adverse movements in interest rates, inflation, equity markets, currencies and other economic factors. This category includes other market risks impacting on the balance sheet and capital adequacy, including liquidity and access to capital.

- Operational Risk (note 6.6) The risk of an incident occurring which leads or could lead to the actual outcome of a business-process differing from the expected outcome due to inadequate or failed processes, people, systems or external factors.
- Compliance Risk (note 6.7) 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.

ESG (Sustainability) Strategy

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

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

6.1 Strategic risk

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

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

Significant change effort also has been placed on integration of HIP with the Consolidated Entity with migration from, and replacement of, two sets of key operational systems and procedures, leadership teams and organisational structures having been implemented. Apart from the transformational projects, there has also been a major project in progress around Partner Monitoring and Oversight.

6.2 Insurance risk

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

The Consolidated Entity in managing the risk:

- employs a conservative underwriting strategy, utilising experienced and qualified teams, and using fit for purpose pricing processes and controls and advanced pricing tools. Significant increases in premiums were implemented across all our portfolios; consistent with the industry at large, to manage insurance risk during the year.
- is willing to accept medium level of risks on variability of underlying claims performance, unmanaged claims cost drivers and insufficiency of claims and premium liabilities, appropriate with the level of risk assumed in pricing and underwriting. Higher than average claims inflation during the year impacted claims costs adversely, particularly in the home and commercial space.

- has low appetite risks arising from inappropriate policy wording, reinsurance failure and accumulations that are not mitigated in catastrophes, and inadequate reinsurance or inappropriate reinsurance program design and exposure to large accumulations and event losses from any peril. A series of weather events in both Australia and New Zealand during the year resulted in significant losses that were partially offset by our reinsurance arrangements.

6.3 Credit risk (or Counterparty risk)

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

Investments

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

The Consolidated Entity seeks to limit its exposure to credit risk by investing cash with counterparties that are APRA regulated authorised deposit taking institutions. A newly implemented Strategic Asset Allocation, determined with support by expert asset management consultants, enabled exposure to fixed interest (Government & Corporate bonds), managed by a specialised fixed interest manager and held with an independent custodian. As part of its approach to investing in strategic insurance related businesses, the Consolidated Entity may provide loans to investment entities (where in some cases the Consolidated Entity mitigates its credit exposure by securing the loans over the assets of the investment entities). The associated credit risk exposure is indicated by the carrying amount of these loans and is monitored on a regular basis via the Management Investment Committee in compliance also with the requirements of the Strategic Investment Framework.

Reinsurance Receivables

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

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

Credit exposure

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

2023	A-1 $000	A-2 $000	A-3 $000	Not Rated $000	Total $000
Cash	**325,301**	**-**	**-**	**-**	**325,301**
Financial assets	**1,234,286**	**35,715**	**20,153**	**-**	**1,290,154**
Investments	**-**	**-**	**-**	**139,123**	**139,123**
Receivables	**37,164**	**126,879**	**-**	**1,519,916**	**1,683,959**
Reinsurance and other recoveries	**175,198**	**224,438**	**620**	**45,150**	**445,406**
Total investment assets	**1,771,949**	**387,032**	**20,773**	**1,704,189**	**3,883,943**

2022	A-1 $000	A-2 $000	A-3 $000	Not Rated $000	Total $000
Cash	423,786	-	-	-	423,786
Financial assets	493,736	8,332	-	-	502,068
Investments	-	-	-	121,856	121,856
Receivables	4,130	49,481	-	888,772	942,383
Reinsurance and other recoveries	179,873	182,062	579	23,014	385,528
Total investment assets	**1,101,525**	**239,875**	**579**	**1,033,642**	**2,375,621**

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

2023		Past due			
	Not past due $000	Up to 30 days $000	31-120 days $000	120+ days $000	Total $000
Cash	**325,301**	**-**	**-**	**-**	**325,301**
Financial assets	**1,290,154**	**-**	**-**	**-**	**1,290,154**
Investments	**139,123**	**-**	**-**	**-**	**139,123**
Receivables	**1,285,113**	**268,912**	**56,126**	**73,808**	**1,683,959**
Reinsurance and other recoveries	**445,406**	**-**	**-**	**-**	**445,406**
Total risk exposure	**3,485,097**	**268,912**	**56,126**	**73,808**	**3,883,943**

2022		Past due			
	Not past due $000	Up to 30 days $000	31-120 days $000	120+ days $000	Total $000
Cash	423,786	-	-	-	423,786
Financial assets	502,068	-	-	-	502,068
Investments	121,856	-	-	-	121,856
Receivables	650,379	186,599	54,085	51,320	942,383
Reinsurance and other recoveries	385,528	-	-	-	385,528
Total risk exposure	**2,083,617**	**186,599**	**54,085**	**51,320**	**2,375,621**

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

6.4 Market risk

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

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

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

Cash flow and fair value interest rate risk

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

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

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

	Sensitivity	2023 Equity/Profit or Loss before tax $'000	2022 Equity/Profit or Loss before tax $'000
Impact of interest movement	+ 1% p.a.	**16,155**	9,259
	- 1% p.a.	**(16,155)**	(9,259)

Liquidity risk

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

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

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

Maturity profiles

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

2023	Up to a year $000	1-3 years $000	3 + years $000	Total $000
Payables	**1,014,553**	**-**	**-**	**1,014,553**
Outstanding claims	**1,023,522**	**242,759**	**44,974**	**1,311,255**
Provisions	**43,289**	**1,252**	**1,946**	**46,487**
	2,081,364	**244,011**	**46,920**	**2,372,295**

2022	Up to a year $000	1-3 years $000	3 + years $000	Total $000
Payables	613,721	-	-	613,721
Outstanding claims	542,440	149,672	29,657	721,769
Provisions	26,695	431	953	28,079
	1,182,856	**150,103**	**30,610**	**1,363,569**

The Consolidated Entity's financial liabilities are carried in the Statement of Financial Position at amounts that approximate fair value. The carrying amounts of all financial assets and liabilities are reviewed to ensure they are not in excess of the net fair value.

Foreign Currency Risk

The Consolidated Entity has foreign currency exposure predominantly to New Zealand Dollars and to a much lesser extent South African Rand (ZAR). New Zealand Dollar exposure is resultant primarily by underwriting insurance via the Company's branch in New Zealand. ZAR exposure is via Hollard Australia Services South Africa (HASSA).

The Board has imposed a limit on the Consolidated Entity's monetary asset exposure to foreign currency to be a maximum % of the Consolidated Entity's regulated capital base. Active monitoring of foreign currency exposure is undertaken. Currently no hedging strategy is in place.

The following tables demonstrate the sensitivity to a reasonably possible change in USD and GBP exchange rates, with all other variables held constant. The impact on the Group's profit before tax is due to changes in the fair value of monetary assets and liabilities including non-designated foreign currency derivatives and embedded derivatives. The impact on the Group's pre-tax equity is due to changes in the fair value of forward exchange contracts designated as cash flow hedges and net investment hedges. The Group's exposure to foreign currency changes for all other currencies is not material.

	2023			2022		
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	**15,973**	**+10%**	**1,597**	19,550	+10%	1,955
		-10%	**(1,597)**		-10%	(1,955)

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

6.5 Capital risk

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

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

6.6 Operational risk

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

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

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

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

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

6.7 Compliance Risk

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

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

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

During the year, the Consolidated Entity continues to prepare for and implement regulatory changes, including CPS 511 - Remuneration, and the introduction of inclusion of insurance assets in the Security of Critical Infrastructure Act 2023. The Consolidated Entity also continued to participate in the industry wide ASIC Pricing Review, with remediation to customers planned in FY24. Heightened focus on partner monitoring & oversight has also led to the implementation of ongoing Partner Compliance Reviews.

7. TAXATION

7.1. Income tax expense

Reconciliation of prima facie tax to income tax expense	2023 $000	2022 $000
Profit / (Loss) before income tax	**8,402**	87,057
Prima facie tax benefit / (expense) at 30%	**(2,521)**	(26,117)
Tax effect of non-temporary differences:		
Non-deductible expenses	**(1,538)**	-
Non-taxable income	**802**	19,057
Foreign branch differences in tax rates	**(602)**	5
Current year income tax loss not brought to account	**-**	550
Research & Development tax offset prior year	**-**	54
(Under)/Over provision in prior period	**3,255**	(1,697)
Income tax (expense)/benefit	**(604)**	**(8,148)**
Current tax	**(8,126)**	(5,112)
Deferred tax	**7,994**	(1,393)
(Under)/Over provision in prior period	**(472)**	(1,643)
Income tax (expense)/benefit	**(604)**	**(8,148)**
Attributable to:		
Continuing operations	**(604)**	(2,129)
Discontinued operation	**-**	(6,019)
	(604)	**(8,148)**

Recognition and Measurement

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

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

7.2. Recognised deferred income tax balances

	2023 $000	2022 $000
Deferred tax assets	**69,822**	36,375
Deferred tax liabilities	**(117,302)**	(30,267)
	(47,480)	**6,108**

Movement in temporary differences

	2023				2022		
	Opening $000	**Profit or loss $000**	**Acquired $000**	**Closing $000**	**Opening $000**	**Profit or loss $000**	**Closing $000**
Employee benefits	**4,982**	**2,048**	**3,509**	**10,539**	5,224	(242)	4,982
Outstanding claims	**7,444**	**(7,254)**	**20,667**	**20,857**	5,809	1,635	7,444
Provisions	**4,255**	**4,444**	**190**	**8,889**	1,422	2,833	4,255
Other items	**19,694**	**9,366**	**-**	**29,060**	28,028	(8,334)	19,694
Financial Assets	**-**	**477**	**-**	**477**	-	-	-
Deferred tax asset before set-off	**36,375**	**9,081**	**24,366**	**69,822**	40,483	(4,108)	36,375
Investments	**(14,643)**	**(4,929)**	**-**	**(19,572)**	(7,927)	(6,716)	(14,643)
Intangible assets	**-**	**3,986**	**(83,381)**	**(79,395)**	(4,393)	4,393	-
Property plant and equipment	**(533)**	**590**	**-**	**57**	(1,827)	1,294	(533)
Other items	**(15,091)**	**(3,301)**	**-**	**(18,392)**	(12,816)	(2,275)	(15,091)
Deferred tax liability before set-off	**(30,267)**	**(3,654)**	**(83,381)**	**(117,302)**	(26,963)	(3,304)	(30,267)
Net deferred tax assets/(liabilities)	**6,108**	**5,427**	**(59,015)**	**(47,480)**	**13,520**	**(7,412)**	**6,108**

The Company acquired an intangible asset as part of the CIL acquisition and an initial deferred tax liability recognition of $83m is recognised against Goodwill under AASB 3 Business Combinations and AASB 112 Income Taxes. Subsequent movement of the deferred tax liability is recognised through profit or loss. During the period ended 30 June 2023, the deferred tax liability movement was a decrease of $3.9m.

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 judgements and estimates

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.

7.3. Deferred tax balances not recognised

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

	2023 $000	**2022 $000**
Subsidiary tax losses (revenue in nature)	-	1,213
	-	**1,213**

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised (See note 7.2). Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Tax Consolidation Regime

Since 1 January 2015 the Company is the head entity of an income tax consolidated group. On 30 March 2022, the Company elected to convert the income tax consolidated group into a multiple entry consolidated group (MEC group) and continues to be the head entity.

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

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

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

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

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

The members of the MEC group have entered into a tax funding agreement which sets out the funding obligations of members of the MEC group in respect of tax amounts. The tax funding arrangements require payments equal to the current tax liability (asset) assumed by the head entity and any deferred tax asset arising from tax losses assumed by the head entity. Where the amounts arising for the period under the tax funding arrangement differ 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 MEC 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. The acquisition of HIP, formerly Commonwealth Insurance Limited (CIL) was completed on 30 September 2022. On 1 Oct 2022, HIP left the CBA tax consolidated group and then immediately joined the HHA MEC group, resulting from the acquisition of 100% of its issued capital. Any tax attributes such as tax losses and franking credits generated by HIP remain with CBA.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2023

8. OTHER

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

- Property, plant and equipment
- Intangible assets
- Provisions, including employee benefits liability and expense
- Lease liabilities, right-of-use assets and lease expense

8.1. Property, plant and equipment

2023	Leasehold Improvements $'000	Office Equipment $'000	Motor Vehicles $'000	Total $'000
Cost				
At 1 July	**6,167**	**9,013**	**529**	**15,709**
Additions	**5,516**	**133**	**-**	**5,649**
Disposals	**(2,365)**	**(776)**	**-**	**(3,141)**
End of the financial year	**9,318**	**8,370**	**529**	**18,217**
Depreciation				
At 1 July	**(5,791)**	**(7,333)**	**(450)**	**(13,574)**
Depreciation	**(483)**	**(620)**	**(38)**	**(1,141)**
Disposals	**3**	**106**	**-**	**109**
End of the financial year	**(6,271)**	**(7,847)**	**(488)**	**(14,606)**
Carrying amount				
Beginning of the financial year	**376**	**1,680**	**79**	**2,135**
End of the financial year	**3,047**	**523**	**41**	**3,611**

2022	Leasehold Improvements $'000	Office Equipment $'000	Motor Vehicles $'000	Total $'000
Cost				
At 1 July	6,149	13,556	502	20,207
Additions	18	1,669	27	1,714
Disposals	-	(6,140)	-	(6,140)
Written off	-	(72)	-	(72)
End of the financial year	**6,167**	**9,013**	**529**	**15,709**
Depreciation				
At 1 July	(4,840)	(9,394)	(360)	(14,594)
Depreciation	(951)	(1,659)	(90)	(2,700)
Disposals	-	3,869	-	3,869
Reclassifications	-	(220)	-	(220)
Written off	-	72	-	72
End of the financial year	**(5,791)**	**(7,332)**	**(450)**	**(13,573)**
Carrying amount				
Beginning of the financial year	1,309	4,162	142	5,613
End of the financial year	**376**	**1,681**	**79**	**2,136**

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:

	2023	2022
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

8.2. 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		
2023	**Intangible Asset - SAA* $000**	**Software $000**	**Total $000**
Cost			
At 1 July	**-**	**42,547**	**42,547**
Additions	**277,936**	**33,120**	**311,056**
End of the financial year	**277,936**	**75,667**	**353,603**
Amortisation			
At 1 July	**-**	**(24,564)**	**(24,564)**
Amortisation	**(13,285)**	**(1,302)**	**(14,587)**
End of the financial year	**(13,285)**	**(25,866)**	**(39,151)**
Carrying amount			
Start of the financial year	**-**	**17,983**	**17,983**
End of the financial year	**264,651**	**49,801**	**314,452**

* Strategic Alliance Agreement.

Notes to the Consolidated Financial Statements
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2022	Identifiable Intangibles Brand Names $000	Software $000	Rights& Other $000	Total $000
Cost				
At 1 July	10,982	46,428	10,578	67,988
Additions	-	16,986	-	16,986
Disposals	(10,982)	(20,799)	(8,481)	(40,262)
Written-off	-	(68)	(2,097)	(2,165)
End of the financial year	**-**	**42,547**	**-**	**42,547**
At 1 July	(671)	(31,560)	(8,527)	(40,758)
Amortisation	-	(3,755)	(714)	(4,469)
Disposals	671	10,683	7,144	18,498
Written-off	-	68	2,097	2,165
End of the financial year	**-**	**(24,564)**	**-**	**(24,564)**
Carrying amount				
Start of the financial year	10,311	14,868	2,051	27,230
End of the financial year	**-**	**17,983**	**-**	**17,983**

Recognition and Measurement

Intangible assets with finite lives

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

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

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

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

	2023	2022
Intangible Asset - SAA	**15 yrs**	15 yrs
Software	**3 yrs - 5 yrs**	3 yrs - 5 yrs
Rights & Other	**7 yrs**	7 yrs

Impairment

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

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

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

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.

8.3. Goodwill

Goodwill is an intangible asset with no physical substance. This asset supports the generation of future earnings and is subject to impairment testing.

2023	**Goodwill $000**	**Total $000**
Cost		
At 1 July	-	-
Additions	**97,898**	**97,898**
End of the financial year	**97,898**	**97,898**
Amortisation		
At 1 July	-	-
End of the financial year	-	-
Carrying Amount		
Start of the financial year	-	-
End of the financial year	**97,898**	**97,898**

2022	Goodwill $000	Total $000
Cost		
At 1 July	76,517	76,517
Disposals	(76,517)	(76,517)
End of the financial year	-	-
Amortisation		
At 1 July	(6,288)	(6,288)
Disposals	6,288	6,288
End of the financial year	-	-
Carrying Amount		
Start of the financial year	70,229	70,229
End of the financial year	-	-

Goodwill in the current year arose on the acquisition of 100% shareholding in Hollard Insurance Partners Limited.

Goodwill disposed of in 2022 arose on the acquisition of PetSure (Australia) Pty Ltd. The Consolidated Entity sold an 81.8% interest in PetSure on 31 March 2022 resulting in loss of control. Goodwill was realised on disposal.

Recognition and Measurement

Goodwill

Goodwill represents the excess of the cost of an acquisition of subsidiaries, joint ventures or associated companies over the fair value at the date of acquisition of the Company's share of their identifiable net assets. (Refer to Note 8.4 for details regarding the acquisition of HIP). Goodwill for acquisitions is determined after deducting the company's share of the identifiable net assets and contingent liabilities and is tested for impairment annually.

	2023	2022
Goodwill	**Indefinite**	Indefinite

Impairment

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

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

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

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.

8.4. Provisions

	2023 $000	2022 $000
Employee benefits:		
Annual leave	**12,736**	6,738
Long service leave	**9,420**	3,326
Other entitlements	**13,862**	7,351
	36,018	17,415
Other provisions:		
Make good provision	**3,069**	3,264
Regulatory	**7,400**	7,400
Total Provisions	**46,487**	**28,079**
Payable within 12 months	**43,289**	26,567
Payable in greater than 12 months	**3,198**	1,512
Total Provisions	**46,487**	**28,079**

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

Regulatory provisions represents the estimate of the net impact of premium refunds and remediation costs that may be payable to policyholders as a result of an industry wide ASIC Pricing Promise review. The liability is based on management's estimate of those costs less estimated commission repayments and reinsurance recoveries and includes an interest charge. The amount by its nature is uncertain.

a) Employee benefit expense

	2023 $000	2022 $000
Superannuation	**14,693**	10,036
Salaries and other employee benefits expense	**149,310**	106,169
Movement in share-based payments	**400**	(5,803)
Other employee related expenses	**17,822**	10,084
	182,225	**120,486**

8.5. Leases

CONSOLIDATED ENTITY AS A LESSEE

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

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

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

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

On 9 September 2022, the Company entered into a 10 year lease agreement for new premises at 100 Mount Street North Sydney, commencing 1 July 2023 and resulting in the recognition of an Asset of $48.1m and a corresponding liability of $48.1m.

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

	Premises 2023 $000	Premises 2022 $000
The movement in the Consolidated Entity's right-of-use assets at their net carrying values:		
Opening Balance	**3,439**	9,838
Additions	**2,353**	-
Disposals	**-**	(1,784)
Total right-of-use asset at the end of the year	**5,792**	**8,054**
Depreciation expense	**(3,937)**	(4,615)
Net carrying value at the end of the year	**1,855**	**3,439**

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

	2023 $000	2022 $000
As at 1 July	**4,241**	**11,198**
Additions	**1,793**	-
Accretion of interest	**99**	161
Payments	**(4,319)**	(5,449)
Disposals	**-**	(1,669)
At 30 June	**1,814**	**4,241**
Below is the maturity of the Consolidated Entity's undiscounted lease commitments (as lessee)		
Within one year	**7,515**	3,316
Between one year and five years	**24,285**	995
Later than five years	**33,320**	-
Minimum lease payments	**65,120**	**4,311**

The following are the amounts recognised in the statement of comprehensive income:

	2023 $000	2022 $000
Depreciation expense of right-of-use assets	**3,937**	4,615
Interest expense on lease liabilities	**99**	161
Total amount recognised in profit or loss	**4,036**	**4,776**

Notes to the Consolidated Financial Statements
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9. GROUP DISCLOSURES

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

9.1. Controlled Entities

Name	Principal Activities	Place of incorporation	2023 Interest held	2022 Interest held
Deemed parent entity				
The Hollard Insurance Company Pty Ltd	Insurance	Australia	**-%**	-%
Controlled entities				
Hollard Holdings Australia Pty Ltd	Investment entity	Australia	**100.00%**	100.00%
Hollard Commercial Insurance Pty Ltd	Underwriting Agency	Australia	**99.95%**	99.95%
Firma Insurance Services Pty Ltd	Dormant	Australia	**100.00%**	100.00%
Hollard Distribution Services Pty Ltd	Marketing	Australia	**100.00%**	100.00%
Hollard Insurance Partners Limited	Insurance	Australia	**100.00%**	-%
Real Insurance Pty Ltd	Dormant	Australia	**100.00%**	100.00%
Envest Investments Pty Ltd	Dormant	Australia	**100.00%**	100.00%
Holiday Rescue Limited	Dormant	New Zealand	**-%**	100.00%
Hollard Australia Services South Africa Pty Ltd	Service entity	South Africa	**100.00%**	100.00%

a) Deemed Parent Entity

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

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

b) Acquisitions and disposals

Current Period

- As referred to in note 9.4, the consolidated entity entered into a share purchase agreement to acquire 100% of the issued share capital of Commonwealth Insurance Limited (CIL).

Prior Period

- As referred to in note 9.2 the Consolidated Entity disposed of an 81.8% interest in PetSure (Australia) Pty Ltd and its subsidiaries.
- The Consolidated Entity disposed of its entire interest in Envest Strategic Investments Pty Ltd for a consideration of $100 in March 2022 as part of the PetSure Australia (Pty) Ltd disposal.
- The Consolidated Entity launched Hollard Australia Services South Africa Pty Ltd, a services company, during the period.

9.2. Discontinued operations

On 31 March 2022 the Group entered into an agreement to sell 81.8% of its interest in PetSure (Australia) Pty Ltd (PetSure), which was the sole underwriting agency for pet insurance business, to a related party. On the same date control of PetSure passed to the acquirer. The disposal was effected in order to simplify the Consolidated Entity's business and allow the Consolidated Entity to focus on its core products of Home, Commercial and Motor. Details of assets and liabilities disposed of, and the calculation of the profit or loss on disposal are disclosed below. The results of discontinued operations, which have been included in the Consolidated Statement of Comprehensive Income were as follows:

Financial performance

Presented in the tables below is the financial performance of the discontinued operation for the 9 months ended 31 March 2022.

	2023 $000	2022 $000
Discontinued operation		
Net investment income	-	**78,486**
Other income	-	**6,646**
Acquisition costs	-	**(13,784)**
Operating expenses	-	**(45,981)**
Profit/(Loss) before tax	-	25,367
Income tax expense	-	**(6,019)**
Profit/(Loss) after tax	-	**19,348**

	2022 $000
Consideration received - cash	**156,000**
Carrying amount of net assets sold	**(29,549)**
Acquisition goodwill realised	**(70,229)**
Acquisition intangibles realised	**(12,445)**
Recognition of residual investment	**15,610**
Fair value uplift on residual investment	**19,099**
Gain on sale before tax	**78,486**

At the disposal date the subsidiary had net assets of **$29.5** million.

The net investment income of $78.5m represents the gain on sale and fair value uplift of the residual shareholding. Income of the Pet Agency is not included in the above disclosure as it was from another entity within the Consolidated Entity. Accordingly, the disclosure in the Consolidated Statement of Comprehensive Income does not reflect this, resulting in a presentation between continuing and discontinued operations that does not reflect the underlying performance of the business.

Financial position

Financial position below is presented at 31 March 2022.

	2023 $000	31 March 2022 $000
Assets		
Current assets		
Cash and cash equivalents	-	34,239
Trade and other receivables	-	8,204
Deferred Acquisitions Costs	-	13,760
Other assets	-	4,753
Investments	-	1,115
Net deferred tax assets /(liabilities)	-	933
Non-current assets		
Property, plant and equipment	-	11,588
Current liabilities		
Income tax payable	-	(6,021)
Lease liabilities	-	(2,227)
Employee benefits	-	(7,117)
Trade and other payables	-	(29,679)
Net assets disposed of	-	**(29,548)**
Net cash inflow arising on disposal:	-	121,761
Consideration received in cash	-	156,000
Less: cash and cash equivalents disposed of	-	(34,239)

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

	2023 $000	2022 $000
i. Summarised statement of financial position		
Assets	**1,037,003**	396,493
Liabilities	**(9,632)**	(3,945)
Net assets	**1,027,371**	**392,548**
ii. Summarised statement of comprehensive income		
Profit/(loss) after tax	**42,673**	5,801
Total comprehensive income	**42,673**	**5,801**
iii. Summarised statement of equity		
Issued capital	**990,519**	398,369
Retained earnings	**(5,821)**	(11,623)
Profit/(loss)	**42,673**	5,801
Total equity	**1,027,371**	**392,547**

9.4. Acquisition of Subsidiary

During the year under review, the Consolidated Entity acquired Commonwealth Insurance Limited (CIL) from CBA, and entered into a strategic alliance agreement (SAA), whereby the Consolidated Entity agreed to provide insurance products to CBA customers for a term of 15 years. The SAA entitles the Consolidated Entity to all current and future revenue and qualifies as a business as defined in IFRS 3 Business Combinations.

The strategic rationale for the acquisition include a) CBA customers having access, through the CBA network to market-leading home and car insurance products; b) To ensure CBA customers continue to benefit from CBA's digital innovation channel and high quality customer service; c) To create long-term reciprocal strategic alliance that supports and facilitates a successful relationship; d) To use CBA's distribution channels and existing customer base to promote and sell the Consolidated Entity's insurance products and to actively grow the customer base in relation to these products.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are as set out in the table below:

	$000
Trade and other receivables	850,800
Cash and cash equivalents	575,300
Other non-current assets	114,100
Deferred tax assets	21,900
Trade and other payables	(1,241,400)
Non-current liabilities	(8,400)
Total net assets	312,200
Total consideration	**604,800**

An intangible asset pertaining to the 15-year strategic alliance agreement SAA concluded has been recognised in the current year's financial statements. This has been modelled on cash flow projections over the 15-year contract term. The net present value of future cash flows for the 15-year period amount to $605m with an IRR (internal rate of return) of 9.9%. which is in line with external market post-tax discount rates ranges of 9.4% and 11.0%.

The goodwill of $98 million arising from the acquisition consists of deferred tax raised on the SAA intangible asset plus the fair value of the acquired workforce which do not qualify as a separate identifiable intangible asset under AASB3. None of the goodwill is expected to be deductible for income tax purposes.

10. 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.

10.1. 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

	2023 $000	2022 $000
(Loss) / profit from ordinary activities after income tax	**7,798**	78,909
Adjustments for:		
Depreciation	**1,232**	2,700
Amortisation	**14,674**	4,469
Amortisation - right-of-use asset	**3,937**	4,615
Gain on fair value of investments	**(15,588)**	(5,180)
Finance costs	**-**	101
Net foreign exchange (gains) losses	**-**	189
Net (gain)/loss on sale of investments	**412**	(78,371)
Net (gain)/loss on sale of assets	**(195)**	(182)
Change in assets and liabilities, excluding net assets acquired:		
Increase in receivables	**(747,352)**	(127,220)
Decrease/(Increase) in deferred reinsurance expense	**(395,694)**	213,316
Increase in deferred acquisition costs	**(59,523)**	(70,877)
Increase in reinsurance and other recoveries on claims	**(59,878)**	(120,859)
Decrease/(Increase) in other assets	**(24,068)**	4,110
Decrease/(Increase) in deferred tax asset	**(33,447)**	4,108
(Decrease)/Increase in payables	**400,873**	(68,212)
Increase in outstanding claims	**589,487**	163,279
Increase in unearned premium liability	**633,005**	72,831
(Decrease)/Increase in unearned reinsurance commissions	**84,709**	(84,035)
Increase (decrease) in income tax payable	**3,666**	3,347
Increase/(decrease) in deferred tax liability	**87,035**	2,392
Increase in employee entitlements and provisions	**18,408**	11,464
Cash flows from/(used in) operating activities	**509,491**	**10,894**

10.2. 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

	2023 $000	2022 $000
Dividend income		
Associates	**1,051**	631
Interest income		
Other related parties	**-**	5,496
Associates	**274**	208
Interest expense		
Other expense		
Loan forgiveness		
Acquisition costs expensed		
Associates	**(120,912)**	(90,029)
Other related parties	**(195,453)**	(50,592)

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 $15.9 million (2022: $13.3 million).

b) Outstanding balances with related parties

	2023 $000	2022 $000
Acquisition costs payable		
Associates	**59,880**	52,464
Other related parties	**111,969**	95,042
Tax Group receivable Parent entity	**2,667**	(10,918)

c) Loans Provided to Related Parties

	Associates	
	2023	**2022**
	$000	**$000**
Loan facilities made available*	**4,341**	4,760
Facility used at end of financial year	**4,341**	**4,760**
Movement during the year:		
Facility used at beginning of financial year	**4,760**	6,960
Loans advanced	**44**	1,474
Loans repaid	**(597)**	(3,713)
Capitalised interest	**134**	39
Facility used at end of financial year	**4,341**	**4,760**
Secured	**2,509**	4,192
Unsecured	**1,832**	568

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

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

10.3. Key Management Personnel

	2023	**2022**
	$000	**$000**
Short-term benefits	**7,134**	6,684
	7,134	**6,684**

The benefits above were expensed in the financial year in relation to key management personnel. The increase arises from an increase in the number of key management personnel following the functional restructure in 2022. None of the non executive directors, executive directors or other key management personnel hold share options against the issued and un-issued shares of the Company.

10.4. 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:

	2023	**2022**
	$000	**$000**
Within one year	**488**	26
Between one year and five years	**738**	-
Later than five years	**-**	-
	1,226	**26**

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

10.5. Auditors' remuneration

	2023 $000	2022 $000
Fees to the auditor of the statutory financial report	**1,062**	581
Fees for statutory and other assurance services required by legislation	**917**	138
Fees for other services	**25**	102
	2,004	821

Other services during the financial year related to accounting advice provided and consulting services including IFRS 17 training. In the prior year, the other services related to accounting advice and a data analytics tool for the use of internal audit.

10.6. Other Accounting Policy Disclosures

a) Accounting policies adopted during the financial year

The Consolidated Entity adopted the following new or revised accounting standards as applicable which became effective for the annual reporting period commencing on 1 July 2021, none of which had a material impact on the Consolidated Entity.

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

b) Accounting standards issued but not yet effective

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

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

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

AASB 17 Insurance Contracts

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

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

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

Below are some of the key accounting changes applicable to the Consolidated Entity in applying the new accounting Standard.

Measurement of insurance contracts/reinsurance contracts

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

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

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

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

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

Onerous contracts

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

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

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

Risk Adjustment for non-financial risk

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

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

Discount Rates

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

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

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

Transition

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

The Consolidated Entity is proposing to apply a "full retrospective approach" which entails presenting the financial statements as if AASB 17 has always been on issue.

Presentation and disclosure

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

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

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

11. EVENTS SUBSEQUENT TO BALANCE DATE

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

Directors' Declaration

FOR THE YEAR ENDED 30 June 2023

In the opinion of the directors of Hollard Holdings Australia Pty Ltd (Consolidated Entity)

(a) the consolidated financial statements and notes that are set out on pages 11 to 82, are in accordance with the *Corporations Act 2001*, including compliance with accounting standards, and giving a true and fair view of the Consolidated Entity and Consolidated Entity's financial position as at 30 June 2023 and of their performance for the financial year ended on that date; and

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

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

On behalf of the board

Gary Dransfield
Independent Non-executive Director & Chair

Richard Enthoven
Executive Director

Dated at Sydney 21 September 2023

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

Opinion

We have audited the financial report of Hollard Holdings Australia Pty Ltd (the "Company") and its controlled entities (the "Group") which comprises the consolidated statement of financial position as at 30 June 2023, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

- Giving a true and fair view of the Group's financial position as at 30 June 2023 and of its financial performance for the year then ended; and
- Complying with Australian Accounting Standards and the *Corporations Regulations 2001.*

Basis for Opinion

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

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

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

Other Information

The directors are responsible for the other information. The other information comprises the Directors' Report for the year ended 30 June 2023, but does not include the financial report and our auditor's report thereon.

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

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

Deloitte.

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

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

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

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Max Rt Murray

Max Murray
Partner
Chartered Accountants

Sydney, 21 September 2023