



# General Purpose Financial Report 2019



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# Table of Contents

<b>GENERAL PURPOSE FINANCIAL REPORT 2019 .....</b>	<b>1</b>
<b>DIRECTORS REPORT.....</b>	<b>3</b>
<b>AUDITOR'S INDEPENDENCE DECLARATION .....</b>	<b>8</b>
<b>STATEMENT OF COMPREHENSIVE INCOME .....</b>	<b>9</b>
<b>STATEMENT OF FINANCIAL POSITION .....</b>	<b>10</b>
<b>STATEMENT OF CHANGES IN EQUITY.....</b>	<b>11</b>
<b>STATEMENT OF CASH FLOWS .....</b>	<b>12</b>
<b>NOTES TO THE FINANCIAL STATEMENTS .....</b>	<b>13</b>
<b>DIRECTORS DECLARATION .....</b>	<b>42</b>
<b>INDEPENDENT AUDITORS REPORT .....</b>	<b>43</b>

# Directors Report

The Board of Directors of Aioi Nissay Dowa Insurance Company Australia Pty Ltd (the Company) have the pleasure of presenting the financial reports of the Company for the 12 months ended 31 December 2019.

## Board of Directors

The Directors of the Company during the financial year, and until the date of this report, are



### **Mr P E Daly AM – Chairman and Non-Executive Director**

Mr P E Daly was appointed as the Chairman of the Board on 25 August 2008. Mr Daly was the inaugural Chairman of the Financial Ombudsman Service Limited retiring on 1 June 2009, the Chairman of HDI-Gerling Australia Insurance Co Limited retiring on 31 December 2010 and the Chairman of Australian Landscape Trust.

Mr Daly came to Australia in 1980 from South Africa and was appointed the Chief Executive and Managing Director of Norwich Winterthur Group in 1983. He has held a number of Directorships since then, was President of the Insurance Council of Australia from 1986 to 1987 and Chief Executive Officer from 1991 to 1997. He was previously the Deputy Chairman of the Zoological Parks and Gardens Board.

On 14 March 2004 he was awarded the Order of Australia for services to the insurance industry and to the community, particularly through the advancement of external dispute resolution and consumer protection. Mr Daly is the Chairman of the Remuneration & Nomination and Investment Committees and a member of the Audit and Risk & Compliance Committees.



### **Mr A Durakovic MBA – Director and Chief Executive Officer**

Mr A Durakovic has extensive insurance knowledge gained from working in the insurance industry for over 20 years. He joined AAMI in 1994 and held a number of operational roles over the next 15 years culminating to his final appointment as Chief Executive Officer.

Mr Durakovic commenced at the Company as Chief Operating Officer on 1 October 2010. On 1 April 2014, he was appointed Chief Executive Officer of the Company and was also appointed to the Board of Aioi Nissay Dowa Insurance Company Australia Pty Ltd and to the Board of Aioi Nissay Dowa Management New Zealand Ltd as Chairman. He is also currently on the committee of the Moonee Valley Racing Club in Melbourne having been elected to that position in November 2017. Mr Durakovic holds a Master of Business Administration (MBA) from the University of Melbourne and has also held previous roles within the entertainment industry as well as having held a teaching position within the Victorian Education Department.



### **Mr K M Forder B.Ec. C.A. – Non-Executive Director**

Mr K M Forder joined the Board as a non-executive director on 23 July 2009. He is also a non-executive director of the AFTA Insolvency Chargeback Scheme Limited and is a director of insurance specialist advisory and services companies INSEVO Pty. Ltd. and Littlewoods Services Pty. Ltd. Mr Forder is a qualified Chartered Accountant and has over 25 years' experience in the general insurance industry including previous roles at Ernst & Young, Gerling Global Reinsurance Company of Australia and Littlewoods Services. Mr Forder is the Chairman of the Audit and Risk & Compliance Committees, and also a member of the Investment and Remuneration & Nomination Committees.


**Mr T Kobayashi – Executive Director and Chief Co-Ordinator Executive**

Mr T Kobayashi joined the Board as an executive director on 1 April 2018.

Mr Kobayashi is the Chief Co-ordinator Executive of Aioi Nissay Dowa Insurance Company Ltd.


**Mr S Ogura – Non-Executive Director and SOOA**

Mr S Ogura joined the board as a non-executive director on 1 April 2018.

Mr Ogura is the incumbent general manager of Global Business Department of ADICA's sole parent, Aioi Nissay Dowa Insurance Company Limited, domiciled in Tokyo, Japan. and in charge of development and administration of businesses outside Japan. He is the Senior Officer Outside Australia (SOOA) for Aioi Nissay Dowa Insurance Company Limited.


**Mr J C Richardson OAM – Non-Executive Director**

Mr Richardson joined the Board as a non-executive director on 1 October 2013. He is also a director of Aioi Nissay Dowa Management New Zealand Ltd. Mr Richardson has worked in the insurance industry for over 40 years, holding senior roles within Marsh, Guy Carpenter and other Marsh & McLennan Companies entities.

On 9 June 2014 Mr Richardson was awarded the Order of Australia for services to the insurance industry and to the community. Mr Richardson is a member of the Audit & Compliance, Remuneration & Nomination and Risk Management Committees.


**Mr R Phillips FCCA – Company Secretary and Chief Risk Officer**

Mr R Phillips has been the Company Secretary since August 2008 and was appointed as the Chief Risk Officer on 1 January 2015. Prior to this, he was the Chief Financial Officer.

Mr Phillips has over 25 years of experience in the insurance industry in Australia and the United Kingdom.

## Meetings of Directors

The number of meetings of the Board of Directors and Board Committees during the year, and attendance by directors at those meetings, are listed below.

<i>Director</i>	Board	Audit & Compliance*	Remuneration & Nomination	Risk Management	Investment	Audit	Risk & Compliance
<i>Held</i>	7	5*	5	3*	4	1*	1*
<i>Attended</i>							
<i>Mr P E Daly AM</i>	7	5*	5	3*	4	1*	1*
<i>Mr K Forder</i>	7	5*	5	3*	4	1*	1*
<i>Mr J Richardson OAM</i>	7	5*	5	3*	4	1*	1*
<i>Mr S Ogura</i>	7	5*	5	3*	4	1*	1*
<i>Mr A Durakovic</i>	7	**	**	**	**	**	**
<i>Mr T Kobayashi</i>	7	**	**	**	**	**	**

\* Compliance function was moved from the Audit and Compliance Committee to the Risk Management Committee leaving Audit Committee and the Risk and Compliance Committee for meetings post 23 August 2019

\*\* Not a member of the committee

### Directors' benefits

Since the end of the previous financial year, no director of the Company has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors as shown in Note 34).

### Principal activities

The Company's principal activities during the year were underwriting general insurance and managing the Australian branch of Aioi Nissay Dowa Insurance Co., Ltd, a licensed general insurer incorporated in Japan.

### Dividend

No dividends were declared or paid during the year.



## Review of operations

The Company generated a profit before tax of \$12,630,015 (2018: \$133,058), which includes management fee income of \$345,165 (2018: \$383,880). After allowing for a tax benefit of \$3,566,227 (2018: a tax benefit of \$309,724), the Company generated an after tax profit of \$16,196,242 for the year ended 31 December 2019 (2018: \$443,782).

## Significant changes in the state of affairs

There were no significant changes in the Company's state of affairs other than those referred to in the financial statements or attached notes.

## Subsequent events after the balance date

There has not been any other matter or circumstance, other than that referred to in Note 36, that has arisen since the end of the financial year that has significantly affected, or may significantly affect the operations of the consolidated entity, the results of those operations, or state of affairs of the consolidated entity in future financial years.

## Likely developments and future results

Further information on likely developments in the operations of the Company have not been included in this report because the Directors believe it would be likely to result in unreasonable prejudice to the Company.

## Outstanding claims provision

The provision for outstanding claims is determined after consultation with the Appointed Actuary. The outstanding claims assessment takes into account the statistical analysis of past claims, allowance for claims incurred but not reported, recoveries and future interest and inflation factors. The directors consider that adequate risk margins are required in addition to actuarial central estimates to cover uncertainties such as changes in interest rates and superimposed inflation. The Australian Prudential Regulation Authority (APRA) standards provide that outstanding claims reserves must be set with a minimum probability of sufficiency of 75% (which means that there must be a 75% probability that the estimate will be adequate). The directors are satisfied that the Company's outstanding claims provision fulfils this requirement.



## Capital adequacy of the Company

	2019 \$'000	2018 \$'000
<b>A. Common Equity Tier 1 Capital</b>		
Paid-up ordinary shares	87,800	87,800
Retained earnings	(43,745)	(44,188)
Undistributed current year earnings	16,196	443
Net surplus / (deficit) relating to insurance liabilities	20,260	22,790
Less: Regulatory adjustments to Common Equity Tier 1 Capital	(11,755)	(8,189)
<b>Total Common Equity Tier 1 capital (CET1 capital)</b>	<b>68,756</b>	<b>58,656</b>
<b>B. Additional Tier 1 Capital</b>	-	-
<b>Total Tier 1 Capital</b>	<b>68,756</b>	<b>58,656</b>
<b>C. Tier 2 Capital</b>	-	-
<b>Total Regulatory Capital</b>	<b>68,756</b>	<b>58,656</b>
<b>D. Prescribed Capital Requirement (PCR)</b>		
Insurance risk charge	14,628	16,948
Insurance concentration risk charge	2,000	2,000
Asset risk charge	5,727	7,234
Asset concentration risk charge	-	-
Operational risk charge	5,823	6,088
Aggregation benefit	(3,717)	(4,591)
<b>Total PCR</b>	<b>24,461</b>	<b>27,679</b>
<b>PCR Coverage</b>	<b>2.81</b>	<b>2.12</b>

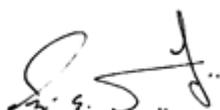
### Rounding amounts

The Company meets the criteria set out in Class Order 98/100 issued by the Australian Securities and Investments Commission, and in accordance with that Class Order, amounts in the Financial Report and the Directors' Report have been rounded off to the nearest thousand dollars (\$'000) unless otherwise stated.

### Declaration from auditors

The directors have received a declaration from the auditor of the Company as required under section 307C of the Corporations Act 2001 as attached after the Directors' Report.

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



.....  
**Mr P E Daly AM**

Chairman and Non-Executive Director

Signed in Melbourne this 26th day of March 2020

# Auditor's independence declaration



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## Auditor's Independence Declaration to the Directors of Aioi Nissay Dowa Insurance Company Australia Pty Ltd

As lead auditor for the audit of the financial report of Aioi Nissay Dowa Insurance Company Australia Pty Ltd for the financial year ended 31 December 2019, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

A handwritten signature in black ink that reads 'Ernst &amp; Young'.

Ernst & Young

A handwritten signature in black ink that appears to be 'T M Dring'.

T M Dring  
Partner  
Melbourne

27 March 2020

# Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2019

	NOTE	2019 \$'000	2018 \$'000
Premium revenue	7a	220,127	209,820
Outwards reinsurance premium expense	7b	<u>(23,249)</u>	<u>(17,058)</u>
<b>Net premium revenue</b>		<b><u>196,878</u></b>	<b><u>192,762</u></b>
Gross claims expense	8a	(183,086)	(228,907)
Reinsurance and other recoveries revenue	8b	<u>64,603</u>	<u>94,746</u>
<b>Net claims expense</b>		<b><u>(118,483)</u></b>	<b><u>(134,161)</u></b>
Acquisition costs	9	(40,887)	(36,161)
Levies and charges	10	<u>(791)</u>	<u>(723)</u>
<b>Underwriting expenses</b>		<b><u>(41,678)</u></b>	<b><u>(36,884)</u></b>
<b>Underwriting profit/(loss)</b>		<b><u>36,717</u></b>	<b><u>21,717</u></b>
Investment income	11	2,918	3,409
Fee and other income	12	393	430
Other operating and administrative expenses	13	<u>(25,610)</u>	<u>(24,941)</u>
<b>Profit/(loss) before interest, tax, depreciation and amortisation</b>		<b><u>14,418</u></b>	<b><u>615</u></b>
Depreciation of property, plant and equipment		(466)	(482)
Depreciation of right-of-use leased assets		(1,145)	-
Finance costs	14	<u>(177)</u>	<u>-</u>
<b>Profit/(loss) before income tax</b>		<b><u>12,630</u></b>	<b><u>133</u></b>
Income tax benefit/(expense)	15	<u>3,566</u>	<u>310</u>
<b>Net profit/(loss) for the period</b>		<b><u>16,196</u></b>	<b><u>443</u></b>
Other comprehensive income		-	-
<b>Total Comprehensive Income/(Loss)</b>		<b><u>16,196</u></b>	<b><u>443</u></b>

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

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year.

# Statement of Financial Position

AS AT 31 DECEMBER 2019

	NOTE	2019 \$'000	2018 \$'000
<b>ASSETS</b>			
Cash and cash equivalents	16	126,404	8,783
Trade and other receivables	17	62,978	61,176
Reinsurance and other recoveries receivable	18	33,287	65,871
Investments	19	24,000	146,000
Deferred acquisition costs	20(a)	38,056	50,738
Deferred outwards reinsurance expense	20(b)	5,857	4,027
Property, plant and equipment	21	1,905	1,500
Right-of-use assets	22	7,997	-
Deferred tax assets	15	11,755	8,189
<b>Total assets</b>		<b>312,239</b>	<b>346,284</b>
<b>LIABILITIES</b>			
Trade and other payables	23	28,995	23,312
Unearned premium liability and unexpired risk liability	24	149,326	175,620
Unearned reinsurance commission	25	380	266
Lease liabilities	26	8,217	-
Employee benefits provision	27	4,296	3,685
Outstanding claims liability	28	56,380	93,280
Provisions for premium refunds	29	4,394	6,066
<b>Total liabilities</b>		<b>251,988</b>	<b>302,229</b>
<b>Net assets</b>		<b>60,251</b>	<b>44,055</b>
<b>EQUITY</b>			
Contributed equity	30	87,800	87,800
Retained earnings		(27,549)	(43,745)
<b>Total equity</b>		<b>60,251</b>	<b>44,055</b>

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

# Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2019

	NOTE	Issued Share Capital \$'000	Retained Earnings \$'000	Total Equity \$'000
<b>At 1 January 2018</b>		<b>87,800</b>	<b>(44,188)</b>	<b>43,612</b>
Issue of shares (\$1 per share)		-	-	-
Profit/(loss) for the period		-	443	443
<b>Equity as at 31 December 2018</b>		<b>87,800</b>	<b>(43,745)</b>	<b>44,055</b>
Profit/(loss) for the period	31	-	16,196	16,196
<b>Equity as at 31 December 2019</b>		<b>87,800</b>	<b>(27,549)</b>	<b>60,251</b>

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

There is no impact on the adoption of AASB 16 on the Retained Earnings.

# Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2019

	NOTE	2019 \$'000	2018 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Premium received		194,101	202,537
Outwards reinsurance paid		(21,015)	(17,078)
Claims paid		(222,021)	(198,694)
Reinsurance and other recoveries received		94,579	74,449
Acquisition costs paid		(26,913)	(32,492)
Other underwriting costs		16	399
Management fee received		344	356
Operating expenses paid		(25,124)	(24,641)
Interest received		3,627	3,341
Income tax received/(paid)		-	-
GST		-	-
<b>Net cash flows from/(used in) operating activities</b>	31	<b>(2,406)</b>	<b>8,177</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		(871)	(775)
Purchase of investments		(22,000)	(7,000)
Proceeds from investments		144,000	139
<b>Net cash flows from/(used in) investing activities</b>		<b>121,129</b>	<b>(7,636)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Repayment of lease liabilities		(925)	-
Interest paid on lease liabilities		(177)	-
<b>Net cash flows from/(used in) financing activities</b>		<b>(1,102)</b>	<b>-</b>
<b>Net increase in cash</b>		<b>117,621</b>	<b>541</b>
Cash and cash equivalents at the beginning of the financial period		8,783	8,242
<b>Cash and cash equivalents at the end of the financial period</b>		<b>126,404</b>	<b>8,783</b>

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

# Notes to the Financial Statements

## 1. Corporate information

The financial statements for Aioi Nissay Dowa Insurance Company Australia Pty Ltd for the year ended 31 December 2019 were authorised for issue in accordance with the resolution of the Directors on 26 March 2020.

Aioi Nissay Dowa Insurance Company Australia Pty Ltd (the Company) is a for profit company limited by shares, incorporated and domiciled in Australia. The address of its registered office is Level 8, 390 St Kilda Road Melbourne VIC 3004.

## 2. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below.

### (a) Basis of preparation

This general purpose financial report has been prepared in accordance with the Corporations Act 2001 and applicable Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board (AASB).

The financial report has been prepared on a going concern and accruals basis, and is based on historical costs except for financial assets and liabilities, which have been recorded at amortised cost and at fair value in accordance with the accounting policies.

The preparation of financial statements requires the use of critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

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

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial period. Furthermore, certain line items have been added in the Statement of Comprehensive Income to conform with better presentation. Any such changes have had no effect on the financial position or performance of the Company.

### (b) Compliance with IFRS

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

### (c) New accounting standards and interpretations

The following standards and interpretations would have been applied for the first time by the company for the annual reporting period ending 31 December 2019:

Reference	Title	Application date for Company
AASB 16	Leases	1 January 2019
AASB 2017-6	Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation	1 January 2019
AASB 2018-1	Amendments to Australian Accounting Standards – Annual Improvements 2015-2017 Cycle	1 January 2019
AASB Interpretation 23	Uncertainty over Income Tax Treatments, and relevant amending standards	1 January 2019

#### AASB 16 Leases

AASB 16 was issued in January 2016 and it replaces AASB 117 Leases, AASB Interpretation 4 Determining whether an Arrangement contains a Lease, AASB Interpretation-115 Operating Leases-Incentives and AASB Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. AASB 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under AASB 117.

At the commencement date of a lease, the Company recognises a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use (ROU) asset). It also separately recognises the interest expense on the lease liability and the depreciation expense on the ROU asset.

The Company uses different practical expedients permitted by IFRS 16. It has elected to measure the ROU asset at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application. Since the Company recognised the ROU assets at the amount equal to the lease liabilities (as per IFRS 16C8(b)ii), there was no impact to the opening retained earnings.

The Company has also elected not to recognise ROU assets and lease liabilities for leases of low-value assets (i.e. < US\$5,000) and short-term leases (i.e. < 12 months). Options (extension / termination) on lease contracts are considered on a case by case basis following a regular management assessment. When an agreement includes an option to extend the lease term, ADICA assesses the probability of renewing the lease and includes the renewal term in the ROU asset and lease liability measurement where probable.

The Company is also required to remeasure the lease liability upon the occurrence of a lease variation (e.g., a change in the lease term, a change in future lease payments, etc.). The Company generally recognises the amount of the remeasurement of the lease liability as an adjustment to the ROU asset.

The standard allows lessees to exclude any initial direct costs from the measurement of the ROU asset at the date of initial application, so this has no impact on the Company's opening balance on 1 January 2019.

#### Effects of AASB 16 Leases

ADICA has adopted AASB 16 in accordance with the modified retrospective approach, effective 1 January 2019. The prior-year figures were not adjusted.

The adoption of AASB 16 has resulted in the recognition of \$4.54 million of ROU assets and \$4.54 million of lease liabilities on the balance sheet on 1 January 2019.

In addition, ADICA has decided not to apply the new standard to leases where the term will end within twelve months of the date of initial application and leases where the asset value is less than USD5,000. In such cases, the leases will be accounted for as short-term leases and the lease payments associated with them will be recognised as an expense from short-term leases and low value assets respectively.

The following reconciliation to the opening balance for the lease liabilities as at 1 January 2019 is based upon the operating lease obligations as at 31 December 2018:

<b>Reconciliation</b>	<b>1 Jan 2019</b>
	<b>\$'000</b>
Operating lease obligation at 31 December 2018	2,022
Lease arrangements accounted for under IFRS 16 and not AASB 117	3,090
<b>Adjusted operating lease obligation at 31 December 2018</b>	<b>5,112</b>
Minimum lease payments (notional amount) on finance lease liabilities at 31 December 2018	-
Relief option for short-term leases	-71
Relief option for leases of low-value assets	-
Lease-type obligations (service components)	-
Other	-
<b>Gross lease liabilities at 1 January 2019</b>	<b>5,041</b>
Discounting	-506
<b>Lease Liabilities at 1 January 2019</b>	<b>4,535</b>
Present value of finance lease liabilities at 31 December 2018	-
<b>Additional lease liabilities as a result of the initial application of IFRS 16 as at 1 January 2019</b>	<b>4,535</b>

The Company has used one single Incremental Borrowing Rate (IBR) for a portfolio of leases having similar risk characteristics. The lease liabilities were discounted at the reference rate as at 31 December 2018, which was 3%.

Leases are presented as follows in the income statement:

<b>Leases in the income statement</b>	<b>2019</b>
	<b>\$'000</b>
<b>Materials expense</b>	
Expenses from short-term leases	(234)
Expenses from low-value asset leases	(6)
Expenses from variable lease payments	-
Other lease expenses (incidental expenses)	244
<b>Depreciation and impairment losses</b>	
Depreciation of right-of-use assets	(1,145)
Impairment losses of right-of-use assets	-
<b>Net finance costs</b>	
Interest expenses on lease liabilities	(177)

Disclosure regarding right-of-use assets and lease liabilities and other disclosures can be found under the relevant balance sheet items.

### **AASB 2017-6 Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation**

These amendments had no material impact to the Company.

### **AASB 2018-1 Amendments to Australian Accounting Standards – Annual Improvements 2015-2017 Cycle**

These amendments had no material impact to the Company.

### **AASB Interpretation 23 Uncertainty over Income Tax Treatments, and relevant amending standards**

These amendments had no material impact to the Company.

### **(d) Accounting standards and interpretations issued but not yet adopted**

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Company for the annual reporting period ending 31 December 2019, are outlined in the following table:

<b>Reference</b>	<b>Title</b>	<b>Application date for Company</b>
	Conceptual Framework for Financial Reporting	1 January 2020
AASB 2019-1	Amendments to Australian Accounting Standards – References to the Conceptual Framework	1 January 2020
AASB 2018-6	Amendments to Australian Accounting Standards – Definition of a Business	1 January 2020
AASB 2018-7	Amendments to Australian Accounting Standards – Definition of Material	1 January 2020
AASB 2019-3	Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform	1 January 2020
AASB 2019-5	Amendments to Australian Accounting Standards – Disclosure of the Effect of the New IFRS Standards Not Yet Issued in Australia	1 January 2020
AASB 9	Financial instruments	1 January 2023
AASB 17	Insurance contracts	1 January 2023

### **AASB 2019-1 Amendments to Australian Accounting Standards – References to the Conceptual Framework**

These amendments will have no material impact to the Company.

### **AASB 2018-6 Amendments to Australian Accounting Standards – Definition of a Business**

These amendments will have no material impact to the Company.

### **AASB 2018-7 Amendments to Australian Accounting Standards – Definition of Material**

These amendments will have no material impact to the Company.

### **AASB 2019-3 Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform**

These amendments will have no material impact to the Company.

### **AASB 2019-5 Amendments to Australian Accounting Standards – Disclosure of the Effect of the New IFRS Standards Not Yet Issued in Australia**

These amendments will have no material impact to the Company.

## AASB 9 Financial Instruments

AASB 9 replaces AASB 139 Financial Instruments: Recognition & Measurement, effective 1 January 2018. The Company meets the eligibility criteria of the temporary exemption from AASB 9 and intends to defer the application of AASB 9 until the effective date of the new insurance contracts standard AASB 17 for the annual reporting periods beginning on or after 1 January 2023. The Company is currently in the process of determining the impact of this new standard.

## AASB 17 Insurance Contracts

AASB 17 replaces AASB 4 Insurance Contracts, AASB 1023 General Insurance Contracts and AASB 1038 Life Insurance Contracts for for-profit entities. It is currently effective for reporting periods beginning on or after 1 January 2023.

The standard introduces a new general measurement model for accounting for insurance contracts, with the application of a simplified approach (similar to AASB 1023) permitted in certain circumstances. The Company is currently undertaking a detailed impact assessment of the new standard. There are changes in the presentation of the financial statements and disclosures anticipated.

Due to a number of changes made to the standard since it was first issued and the proposal to issue an exposure draft to consolidate all amendments before a final version of the standard is made available late in 2019. The Company is currently in the process of determining the impact of this new standard.

## (e) Revenue recognition

### Premium Revenue

Premium revenue comprises amounts charged to policyholders, including fire service levies and excludes taxes collected on behalf of third parties. The earned portion of premiums written is recognised as revenue and premiums are treated as earned from the date of attachment of risk. The portion of premium not earned at the reporting date is recognised in the Statement of Financial Position as unearned premium liability.

### Management Fee Income

The Company recognises income in respect of management services provided to Aioi Nissay Dowa Insurance Co., Ltd (the Branch) as per the agreement between the parties. The management services are primarily related to the management of Branch claims reported, measured at a fixed charge per claim that represents the arm's length of managing a claim and a fixed charge for board, executive, Head Office representatives and finance department time to manage the Branch. Income is recorded once the performance obligation has been satisfied by the Company, being at the end of each month. No variable consideration or financing component has been identified in the agreement by the Company. Furthermore, no GST is charged on the management fee as the Branch and the Company are grouped for GST purposes.

### Other Revenue

Other revenue is recognised when the Company's right to receive the payment is established.

### Investment Income

Investment income represents interest income on cash and cash equivalents and changes in fair value of investments.

## (f) Fire service levies and other charges

A liability for fire service levy and other charges payable is recognised on business written to the reporting date. Levies and charges payable are expensed on the same basis as the recognition of premium revenue, with the proportion relating to unearned premium being recognised as a prepayment.

## (g) Reinsurance and other recoveries receivable

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid and incurred but not reported (IBNR) are recognised as revenue. Recoveries receivable are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

## (h) Outwards reinsurance premium expense

Premium ceded to reinsurers is recognised as an expense in accordance with the pattern of reinsurance service received. Accordingly, a portion of outwards reinsurance premium expense is treated as a prepayment and presented as deferred outwards reinsurance expense on the Statement of Financial Position at the reporting date.

## (i) Deferred acquisition costs

Those direct and indirect costs incurred during the financial period arising from the writing or renewing of insurance contracts are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognised as an expense when incurred.

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.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value, an impairment loss is recognised in the statement of profit or loss. DACs are also considered in the liability adequacy test for each reporting period. DACs are derecognised when the related contracts are either settled or disposed of.

## (j) Liability adequacy test

Liability adequacy testing is performed in order to recognise any deficiencies arising from the carrying amount of the unearned premium liability less any related deferred acquisition costs not meeting the estimated future claims under current insurance contracts in the Statement of Comprehensive Income.

The estimated future claims under current insurance contracts are measured using the present value of the expected cash flows relating to future claims and associated expenses (discounted using a risk free discount rate) plus an additional fair value risk margin to reflect the inherent uncertainty of those estimated cash flows.

Liability adequacy testing is performed at the level of a portfolio of contracts that are subject to broadly similar risks and are managed together as a single portfolio.

## (k) Claims liabilities

The outstanding claims liability is measured as the central estimate of the present value of expected future payments relating to claims incurred at the reporting date with an additional risk margin to allow for the inherent uncertainty in the central estimate. The expected liability is measured based on the advice of valuations performed by the Appointed Actuary. The expected future payments include those in relation to claims reported but not yet paid in full; claims incurred but not reported (IBNR); claims incurred but not enough reported (IBNER) and the anticipated direct and indirect claims handling costs. The liability is discounted to present value using a risk free rate. Claims expense represents claim payments adjusted for the movement in the outstanding claims liability.

The estimation of the outstanding claims liability involves a number of key assumptions and is the most critical accounting estimate. All reasonable steps are taken to ensure that the information used regarding claims exposures is appropriate. However, given the uncertainty in establishing the liability, it is likely that the final outcome will be different from the original liability established. Changes in claims estimates are recognised in the Statement of Comprehensive Income in the reporting period in which the estimates are changed.

## (l) Cash and cash equivalent

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

## (m) Trade and other receivables

Trade receivables are recognised initially at fair value less any transaction costs. After initial measurement, trade receivables are measured at amortised costs less any allowance for impairment. Collectability of trade receivables is reviewed on an on-going basis. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the Company will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts greater than trade terms are considered objective evidence of impairment.

## (n) Financial assets

### Initial recognition and measurement

The company has determined that all investments are held to back general insurance liabilities. All investments are managed and performance evaluated on a fair value basis for both external and internal reporting purposes in accordance with a documented risk management strategy. The Company's financial assets include cash, fixed interest deposits and other trade receivables.

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

### Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

#### – *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term.

Financial assets at fair value through profit and loss are carried in the Statement of Financial Position at fair value with net changes in fair value recognised in finance income or finance costs in the Statement of Comprehensive Income.

#### – *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

After initial measurement, loans and receivables are subsequently measured at amortised cost. The amortisation is included in finance income in the Statement of Comprehensive Income.

### Derecognition

A financial asset is derecognised when:

- The rights to receive cash flows from the asset have expired.
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either
  - (a) the Company has transferred substantially all the risks and rewards of the asset, or
  - (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership.

When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

#### Hierarchy

The Company is required to classify fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- **Level 1** – the fair value is calculated using quoted prices in active markets.
- **Level 2** – the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).
- **Level 3** – the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

For assets that are recognised in the financial statements at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

All financial assets except investments are carried at amortised cost. Investments are held to back general insurance liabilities and are classified as fair value through profit and loss upon initial recognition and have been designated as level 2 in the fair value hierarchy, as set out in Note 19.

#### (o) Depreciation

Property, plant and equipment and right-of-use assets are initially recorded at cost which is the fair value of consideration provided plus incidental costs directly attributable to the acquisition. Depreciation is calculated using the straight line method to allocate the cost of assets less any residual value over the estimated useful economic life.

The economic life periods used for depreciation are:

	31 December 2019	31 December 2018
Office furniture and fixtures	8 - 20 years	8 - 20 years
Computer software	1 - 4 years	1 - 4 years
Computer hardware	3 - 5 years	3 - 5 years
Office equipment	2 - 10 years	2 - 10 years
Right-of-use assets	2 - 15 years	-

Assets are not depreciated in the first month of purchase and depreciated for the full month in the month of disposal. The carrying amounts of property, plant and equipment and right-of-use assets are reviewed each reporting date. If any impairment is indicated or exists, the item is tested for impairment by comparing the recoverable amount of the asset to the carrying value.

Where an existing carrying value exceeds the recoverable amount, the difference is recognised in the Statement of Comprehensive Income. The net gain or loss on the disposal is recognised in the Statement of Comprehensive Income and is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds.

#### (p) Trade and other payables

Trade and other payables are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received. The amounts are discounted where the effect of the time value of money is material.

## (q) Provisions for employee benefits

Provisions are made for the Company's liabilities for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year together with entitlements arising from wages and salaries, annual leave and long service leave which will be settled after one year, have been measured at the amounts expected to be paid when the liability is settled. Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

If the effect of the time value of money is material, provisions are discounted using a current rate that reflects the risks specific to the liability.

## (r) Income tax and other taxes

### Income tax

Income tax expense for a reporting period comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax expense is the change in deferred tax assets and liabilities between the reporting periods.

Deferred tax assets and liabilities are recognised using the liability method for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for taxation purposes, except in the following circumstances when no deferred tax asset or liability is recognised:

- Temporary differences if they arose in a transaction, other than a business combination, that at the time of transaction did not affect either accounting profit or taxable profit or loss;
- Temporary differences relating to the initial recognition of goodwill; and
- Temporary differences between the carrying amount and tax bases of investments in subsidiaries branches and associates, and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets relate to the same taxable entity and the same taxation authority.

### Goods and Services Tax (GST)

Revenue, expenses and assets are recognised net of the amount of GST, except:

- When the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.
- Receivables and payables, which are stated inclusive of GST. Cash flows are included in the cash flow statement on a gross basis.

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

### (s) Operating leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at inception date and whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset even if that right is not explicitly specified in an arrangement.

#### Company as a lessee

Operating lease payments are recognised as an expense in the Statement of Comprehensive Income on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability. Due to the adoption of AASB 16, operating leases only include leases of low-value assets (i.e. < US\$5,000) and short-term leases (i.e. < 12 months).

### (t) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

## 3. Significant accounting judgements, estimates and assumptions

In the process of applying the significant accounting policies, certain critical accounting estimates and assumptions are used and certain judgements are made.

The estimates and related assumptions are based on experience and other factors that are considered to be reasonable, the results of which form the basis for judgements about the carrying values of assets and liabilities. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and future periods if relevant.

The areas where the estimates and assumptions involve a high degree of judgement or complexity and are considered significant to the financial statements, listed together with reference to the notes to the financial statements where more information is provided, are:

#### a. Ultimate liability arising from claims made under general insurance contracts

A liability is recorded at the end of the year for the estimated cost of claims incurred but not settled at the reporting date, including the cost of IBNR claims and the cost of IBNER claims to the Company.

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

The estimation of claims IBNR and IBNER is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about the claim event is generally available. IBNR claims may often not be reported until many years after the events giving rise to the claims that have occurred. 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 Appointed Actuary of the Company uses a variety of estimation techniques, generally based upon statistical analyses of historical and industry experience that assumes that the development pattern of the current claims will be consistent with past experience and/or general industry benchmarks as appropriate.

Allowance is made, however, for changes or uncertainties that may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or decrease when compared with the cost of previously settled claims. Details of specific actuarial techniques and assumptions used and analysis of the outstanding claims liabilities at the reporting date are described in Note 28.

#### **b. Assets arising from reinsurance contracts**

Estimates of reinsurance and other recoveries are also determined using the above methods. In addition, 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 credit risk.

#### **c. Deferred tax assets**

The Company has recognised deferred tax assets relating to carried forward tax losses to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority against which the unused tax losses can be utilised. However, utilisation of the tax losses also depends on the ability of the Company to satisfy certain tests at the time the losses are recouped. If the Company fails to satisfy the tests, carried forward losses of \$7,560,313 that are currently recognised as deferred tax asset would have to be written off to income tax expense.

## **4. Division information**

For management purposes, the Company is organised into business units based on their products and has two reportable operating divisions as follows:

- Toyota Insurance Division (TID) offers retail general insurance products. The products offered include motor vehicle insurance, motor vehicle gap insurance, consumer credit insurance and extended warranty on motor vehicles.
- Japanese Interest Abroad (JIA) offers general insurance products for commercial purposes. The products offered include commercial motor vehicle, marine, property, public liability, professional indemnity, householders and casualty insurance.

## **5. Risk Management Framework**

The Board of Directors have ultimate responsibility for the Risk Management Framework (RMF) and has appointed a Chief Risk Officer who has executive management responsibility of the RMF. The RMF is the totality of the systems, structures, policies, processes and people that identify, measure, evaluate, monitor, mitigate and control all internal and external sources of risk that could have a material impact on the Company's operations.

The RMF includes the Company's Risk Appetite Statement (RAS), Risk Management Strategy (RMS) and Reinsurance Management Strategy (ReMS).

The RAS identifies the amount and type of risk that the Company is prepared to accept in order to achieve its strategic and operational objectives. The RMS and ReMS identify the Company's policies and procedures, processes and controls that comprise its risk management and control systems. These systems address all material risks, financial and non-financial, likely to be faced by the Company.

Each year the Board will certify to APRA that adequate strategies have been put in place to monitor those risks, that there are systems in place to ensure compliance with legislative and prudential requirements and that the Board is satisfied with the compliance with the RMS and ReMS.

The RAS, RMS and ReMS are updated annually or as required, and are approved by the Board. They are submitted to APRA after any material changes are made. A five year rolling business plan and capital management plan is also submitted to APRA after each annual review or whenever material changes are made.

All ADICA's investments are level 2 and are measured at fair value through profit or loss on the statement of comprehensive income.

Key risks faced by the Company affecting its financial condition are discussed below.

### **a. Insurance Risk**

Insurance contracts transfer risk to the insurer by indemnifying the policyholder against adverse events. The risk inherent in the insurance contract is the uncertainty of claims and amounts paid which may exceed amounts estimated at the time the product was designed and priced.

The Company has developed its underwriting strategy to diversify the type of insurance risks accepted within each of these categories in order to achieve a sufficiently large population of risks to reduce the variability of the expected outcome. The following protocols have been established to manage insurance risk:

#### *1. Premium risk*

The pricing and selection of risks for each class of business is controlled by underwriting rules and the results are analysed by the Appointed Actuary during the annual actuarial review.

#### *2. Concentration of insurance risk*

The Company's exposure to concentrations of insurance risk is mitigated by a robust catastrophe reinsurance programme which limits the financial impact of its exposure to any single event or any single risk.

#### *3. Terms and conditions of insurance contracts*

There are no special terms and conditions in any non-standard contracts that have a material impact on the financial statements.

#### *4. Claims management and provisioning*

The Company has established systems to capture, review and update claims estimates on a timely basis to ensure the adequacy of its outstanding claims provision.

The Company's approach to valuing the outstanding claims provision and the related sensitivities are set out in Note 28.

### **b. Operational Risk**

All businesses are subject to operational risk as they pursue their objectives. Operational risk is the financial loss that can occur as a result of any or all of the failure of people, processes or systems to perform as required, resulting from the breakdown of internal controls and corporate governance. The Company cannot expect to eliminate all operational risks, but to manage these by initiating an appropriate control framework and by monitoring and responding to potential risks, and thereby minimising exposure to such risks.

As outlined in the RMS, operational risk is to be identified and assessed on an on-going basis. The capital management strategy includes consideration of operational risk. Management and staff are responsible for identifying, assessing and managing operational risks in accordance with their roles and responsibilities. The Chief Risk Officer reviews the effectiveness of processes and procedures mitigating operational risk.

### **c. Capital Requirements Risk**

For the purposes of Company's capital management, capital includes authorised/fully-paid capital attributable to the parent. APRA requires the Company to set a capital target which is high enough to withstand temporary stresses and which will give the Company adequate lead time to take corrective actions should the Company's target be breached. The Company has therefore implemented an Internal Capital Adequacy Assessment Process (ICAAP) which links the capital target to the Company's risk profile, assesses the risk to capital from existing material risks and potential risks from future business strategies and ensures that actions can be taken to minimise the impact of these risks. The Company is in compliance with its capital requirements set by APRA.

The Company's solvency is forecasted annually and more rigorous monitoring and analysis of the underlying causes will be undertaken if the solvency is forecasted to be lower than the capital target in order to determine the relevant corrective actions to take. Corrective action includes adjusting premium pricing and underwriting criteria, changing the reinsurance programme or requesting additional capital from its parent Aioi Nissay Dowa Insurance Co., Ltd.

## 6. Financial Risk Management

The operating activities of the Company may expose it to investment, liquidity and credit financial risks.

### a. Investment Risk

Investment risk is the probability that an actual return on investment will be lower than the expectation. The types of investment risk that may affect the operating activities of the Company are discussed below:

#### 1. Currency risk

Currency risk is the risk of loss arising from an unfavourable movement in market rates. The Company's insurance contracts and financial assets and liabilities are not exposed to currency risk

#### 2. Interest rate risk

Interest rate risk is the risk of loss arising from an unfavourable movement in market interest rates. Fixed interest rate assets and liabilities are exposed to changes in market value derived from mark-to-market revaluations. Financial assets and liabilities with floating interest rates create exposure to cash flow volatility. Interest rate risk arises primarily from investments in interest bearing securities.

The underwriting of general insurance contracts creates exposure to the risk that interest rate movements may materially impact the value of the insurance liabilities. Movements in interest rates should have minimal impact on the insurance profit due to the Company's policy of investing in assets backing insurance liabilities principally in fixed interest securities broadly matched to the expected payment pattern of the insurance liabilities. Movements in investment income on assets backing insurance liabilities broadly offset the impact of movements in discount rates on the insurance liabilities.

The Company's exposure to interest rate risk will mainly affect the investment income.

#### Sensitivity analysis

The impact from the measurement of the investments held at reporting date of a change in interest rates at reporting date on profit after tax is shown in the table below:

	Increase / decrease in basis points	Effect on profit before tax
<b>2019</b>	1.00%	240
	-1.00%	(240)
<b>2018</b>	1.00%	1,460
	-1.00%	(1,460)

### b. Credit Risk

Credit risk is the risk of loss from a counterparty failing to meet their financial obligations. The Company's credit risk arises predominantly from reinsurance and investing activities. The Company's credit risk is minimised as it deals with counterparties that have a minimum Standard & Poor credit rating of A-.

The level of assets invested in individual counterparties and the level of reinsurance cover entered into with individual reinsurers is sufficiently diversified so as to avoid a concentration charge in the regulatory capital calculation.

#### *Credit risk exposure*

- *Premium and Reinsurance Recoveries on paid claims receivable*

The maximum exposure to credit risk as at reporting date is the carrying amount of the receivables on the Statement of Financial Position.

The majority of the premium receivable balance relates to policies which are paid on a monthly instalment basis. It is important to note that the late payment of amounts due under such arrangements allows for the cancellation of the related insurance contract eliminating both the credit risk and insurance risk for the unpaid amounts. Upon cancellation of a policy the outstanding premium receivable and revenue is reversed.

- *Reinsurance recoveries receivable on outstanding claims*

Reinsurance arrangements mitigate insurance risk but expose the Company to credit risk. Reinsurance is placed with companies based on an evaluation of the financial strength of the reinsurers, terms of coverage and price.

The Company monitors the financial condition of its reinsurers on an on-going basis and periodically reviews the reinsurers' ability to fulfil their obligations under respective existing and future reinsurance contracts.

The level and quality of reinsurance protection is an important element in understanding the financial strength of an insurer. The financial condition of a reinsurer is a critical deciding factor when entering into a reinsurance agreement.

It is the Company's policy to only deal with reinsurers with credit ratings of at least Standard & Poor's A- (or other rating agency equivalent). Where the credit rating of a reinsurer falls below the required quality during the period of risk, a contractual right to replace the counterparty exists.

Having reinsurance protection with strong reinsurers also benefits the Company in its regulatory capital calculations. The risk charges vary with the grade of the reinsurers such that higher credit quality reinsurance counterparties incur lower APRA regulatory capital charges. No separate provision for impairment has been recognised for the reinsurance recoveries on outstanding balance.

The following table illustrates the credit risk exposure of the Company:

	A- and above \$'000	Customers \$'000	Total \$'000
<b>2019</b>			
Cash and cash equivalents	126,404	-	126,404
Trade and other receivables	71	62,907	62,978
Reinsurance and other recoveries receivable	33,287	-	33,287
Investments	24,000	-	24,000
<b>Net exposure</b>	<b>183,762</b>	<b>62,907</b>	<b>246,669</b>
<b>2018</b>			
Cash and cash equivalents	8,783	-	8,783
Trade and other receivables	47	60,996	61,043
Reinsurance and other recoveries receivable	65,872	-	65,872
Investments	146,000	-	146,000
<b>Net exposure</b>	<b>220,702</b>	<b>60,996</b>	<b>281,698</b>

There are no financial assets which are past due nor impaired at 31 December 2019.

### c. Liquidity Risk

Liquidity risk is concerned with the risk of there being insufficient cash resources to meet payment obligations without affecting the daily operations or the financial condition of the Company. Liquidity facilitates the ability to meet expected and unexpected requirements for cash. The liquidity position is derived from operating cash flows, investment portfolios and reinsurance arrangements. The following policies and procedures are in place to mitigate the Company's exposure to liquidity risk:

- a Company liquidity risk policy which sets out the assessment and determination of what constitutes liquidity risk for the Company. Compliance with the policy is monitored and exposures and breaches are reported to the Risk committee. The policy is regularly reviewed for pertinence and for changes in the risk environment;
- investing in products with a maturity of 6 months or less;
- entering into a money market line facility with ANZ on 22<sup>nd</sup> December 2015. The facility is an uncommitted amount of AUD \$7,500,000 and can be terminated, cancelled or withdrawn at any time; and
- ensuring that banking facilities are rated at no lesser than S&P AA- (S&P Short Term Issuer Credit Rating) or its accepted equivalent.

Following is the maturity of Financial Assets and Financial Liabilities:

2019	< 6 Months \$'000	6-12 Months \$'000	1-5 Years \$'000	> 5 Years \$'000	Total \$'000
<b>Financial Assets</b>					
Cash and cash equivalents	126,404	-	-	-	126,404
Trade and other receivables	62,978	13,632	-	-	76,610
Reinsurance and other recoveries receivable	26,235	3,591	3,322	139	33,287
Investments	24,000	-	-	-	24,000
	<u>239,617</u>	<u>17,223</u>	<u>3,322</u>	<u>139</u>	<u>260,301</u>
<b>Financial Liabilities</b>					
Trade and other payables	28,995	-	-	-	28,995
Claims liabilities	45,530	5,865	4,863	122	56,380
	<u>74,525</u>	<u>5,865</u>	<u>4,863</u>	<u>122</u>	<u>85,375</u>
<b>Net maturity</b>	<b><u>165,092</u></b>	<b><u>11,358</u></b>	<b><u>-1,541</u></b>	<b><u>17</u></b>	<b><u>174,926</u></b>
<b>2018</b>					
	< 6 Months \$'000	6-12 Months \$'000	1-5 Years \$'000	> 5 Years \$'000	Total \$'000
<b>Financial Assets</b>					
Cash and cash equivalents	8,783	-	-	-	8,783
Trade and other receivables	47,544	13,632	-	-	61,176
Reinsurance and other recoveries receivable	58,788	3,960	3,058	66	65,872
Investments	146,000	-	-	-	146,000
	<u>261,115</u>	<u>17,592</u>	<u>3,058</u>	<u>66</u>	<u>281,831</u>
<b>Financial Liabilities</b>					
Trade and other payables	23,312	-	-	-	23,312
Claims liabilities	82,118	6,188	4,910	64	93,280
	<u>105,430</u>	<u>6,188</u>	<u>4,910</u>	<u>64</u>	<u>116,592</u>
<b>Net maturity</b>	<b><u>155,685</u></b>	<b><u>11,404</u></b>	<b><u>-1,852</u></b>	<b><u>2</u></b>	<b><u>165,239</u></b>

## 7. Net premiums

### (a) Premium revenue

	2019	2018
	\$'000	\$'000
Toyota Insurance Division	164,562	183,264
Japanese Interest Abroad	29,271	19,684
Change in unearned premiums provision	26,294	6,872
<b>Total premiums</b>	<b>220,127</b>	<b>209,820</b>

### (b) Outwards reinsurance premium expense

	2019	2018
	\$'000	\$'000
Toyota Insurance Division	(3,883)	(4,513)
Japanese Interest Abroad	(21,195)	(13,427)
Change in deferred premiums provision	1,829	882
<b>Total premiums ceded to reinsurers</b>	<b>(23,249)</b>	<b>(17,058)</b>
<b>Total net premiums</b>	<b>196,878</b>	<b>192,762</b>

## 8. Net claims expense

Current year claims relate to claim events that occurred in the current financial year. Prior year claims relate to a reassessment of the claim events that occurred in all previous financial periods.

	2019			2018		
	Current year	Prior years	Total	Current year	Prior years	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>(a) Gross claims expense</b>						
Gross claims incurred - undiscounted	199,296	(16,125)	183,171	240,632	(11,325)	229,307
Add (Less): Discount movement	(124)	39	(85)	(376)	(24)	(400)
	199,172	(16,086)	183,086	240,256	(11,349)	228,907
<b>(b) Reinsurance and other recoveries revenue</b>						
Reinsurance and other recoveries revenue - undiscounted	79,878	(15,241)	64,637	104,114	(9,082)	95,032
Add (Less): Discount movement	(50)	16	(34)	(269)	(17)	(286)
	79,828	(15,225)	64,603	103,845	(9,099)	94,746
<b>Net claims expense</b>	<b>119,344</b>	<b>(861)</b>	<b>118,483</b>	<b>136,411</b>	<b>(2,250)</b>	<b>134,161</b>

## 9. Acquisition costs

	2019	2018
	\$'000	\$'000
Commission expense	40,887	36,161
<b>Total acquisition costs</b>	<b>40,887</b>	<b>36,161</b>

## 10. Levies and charges

	2019	2018
	\$'000	\$'000
Fire service levies	791	723
<b>Total levies and charges</b>	<b>791</b>	<b>723</b>

## 11. Investment income

	2019	2018
	\$'000	\$'000
Interest income	2,918	3,409
<b>Total investment income</b>	<b>2,918</b>	<b>3,409</b>

## 12. Fee and other income

	2019	2018
	\$'000	\$'000
Management fee income	345	384
Other administration fee income	48	46
<b>Total fee and other income</b>	<b>393</b>	<b>430</b>

## 13. Other operating and administrative expenses

	2019	2018
	\$'000	\$'000
Staff expenses	19,123	17,142
Superannuation	1,378	1,246
Travel expenses	192	240
Office expenses	1,711	2,354
Professional fees and membership expenses	1,853	2,099
Information technology expenses	911	571
Other expenses	442	1,289
<b>Total other operating and administrative expenses</b>	<b>25,610</b>	<b>24,941</b>

## 14. Finance costs

	2019	2018
	\$'000	\$'000
Interest on debts and borrowings	-	-
Interest on lease liabilities	(177)	-
<b>Total interest expense</b>	<b>(177)</b>	<b>0</b>

## 15. Income tax expense

The major components of income tax expense for the years ended 31 December are:

### Income Statement

#### (a) Current tax year charge

	2019 \$'000	2018 \$'000
<b>Current income tax:</b>		
Current income tax charge	-	-
Adjustments in respect of current income tax of previous year	-	-
<b>Total current tax</b>	<b>-</b>	<b>-</b>
<b>Deferred tax:</b>		
Origination of temporary differences	80	(296)
Adjustments in respect of deferred tax of previous year	(7,386)	(14)
Deferred tax used to reduce current tax for the year	3,740	-
<b>Total deferred tax</b>	<b>(3,566)</b>	<b>(310)</b>
<b>Total income tax expense/-credit</b>	<b>(3,566)</b>	<b>(310)</b>

#### (b) Reconciliation of tax charge

	2019 \$'000	2018 \$'000
Accounting profit/(loss) before tax from continuing operations	12,630	133
At statutory income tax rate of 30%	3,789	40
Adjustments in respect to current income tax of previous years:	(7,386)	(12)
Government grants exempt from tax	-	-
Utilisation of previously unrecognised tax losses	-	-
Non-deductible expenses for tax purposes:		
Entertainment expenses	15	27
FBT expense	13	(11)
Infringements	5	-
NZ project costs	(2)	(354)
Adjustments in respect of prior year	-	-
<b>Total tax charge for the year</b>	<b>(3,566)</b>	<b>(310)</b>

**Deferred Tax**

Deferred tax relates to the following:

	Statement of Financial Position		Statement of Comprehensive Income	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Asset depreciation and disposals for tax purposes	-	-	-	-
Deferred acquisition costs	57	97	40	1,660
Prepayment	-	-	-	-
Expense accruals	1,734	2,719	985	(1,932)
Expense amortisation	49	13	(36)	13
Outstanding claims provision	646	786	140	(303)
Unexpired risk liability	362	153	(209)	(131)
Lease liability	-	-	-	-
Provision for bonus	1,347	506	(841)	(146)
Provision for FBT	-	-	-	-
Provision for employee entitlements	-	-	-	-
Carried forward tax losses	7,560	3,915	(3,636)	529
<b>Deferred tax expense / (income)</b>			<b>(3,557)</b>	<b>(310)</b>
<b>Net deferred tax assets / (liabilities)</b>	<b>11,755</b>	<b>8,189</b>		

Reflected in the statement of financial position as follows:

Deferred tax assets	11,755	8,189
Deferred tax liabilities	-	-
<b>Deferred tax liabilities net</b>	<b>11,755</b>	<b>8,189</b>

	2019 \$'000	2018 \$'000
<b>Reconciliation of deferred tax assets net</b>		
<b>Opening balance</b>	<b>8,189</b>	<b>7,879</b>
Tax income/(expense) during the period recognised in Statement of Comprehensive Income	(3,820)	296
Adjustments in respect of prior years	7,386	14
<b>Closing balance as at 31 December</b>	<b>11,755</b>	<b>8,189</b>

The Company offsets tax assets and liabilities if, and only if, it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority. In determining the results for the year, management have reviewed the deferred tax assets and determined to recognise the full amount as at 31 December 2019 in accordance with AASB 112 Income Taxes.

## 16. Cash and cash equivalents

	2019 \$'000	2018 \$'000
Cash at bank	3,826	543
Short-term deposits	122,578	8,240
<b>Total cash and cash equivalents</b>	<b>126,404</b>	<b>8,783</b>

## 17. Trade and other receivables

	2019	2018
	\$'000	\$'000
Premiums receivable	62,643	60,225
Receivables from related parties	71	47
Accrued investment income	148	857
Sundry debtors	116	47
<b>Total trade and other receivables</b>	<b>62,978</b>	<b>61,176</b>

For the maturity profile, please refer to Note 6c.

## 18. Reinsurance and other recoveries receivable

	2019	2018
	\$'000	\$'000
<b>(a) On outstanding claims</b>		
Expected future recoveries (undiscounted)	29,434	61,460
Discount to present value	(20)	(264)
<b>Total reinsurance and other recoveries receivable on outstanding claims</b>	<b>29,414</b>	<b>61,196</b>
<b>(b) On paid claims</b>		
Reinsurance recoveries receivable on paid claims	3,873	4,675
<b>Total reinsurance and other recoveries on paid claims</b>	<b>3,873</b>	<b>4,675</b>
<b>Total reinsurance and other recoveries receivable</b>	<b>33,287</b>	<b>65,871</b>

For the maturity profile, please refer to Note 6c.

## 19. Investments

	2019	2018
	\$'000	\$'000
<b>Level 2 Financial Assets</b>		
Current:		
Interest bearing investments	24,000	146,000
Non-current:		
Bank guarantee deposit	0	0
<b>Total investments</b>	<b>24,000</b>	<b>146,000</b>

The Company only holds level 2 investments.

During the reporting period ending 31 December 2019, there were no transfers between Level 1, Level 2 and Level 3 fair value measurements.

## 20. Deferred insurance assets

	2019 \$'000	2018 \$'000
<b>(a) Deferred acquisition costs</b>		
Carrying amount at the beginning of the period	50,738	53,494
Deferral of expenses in the period	28,996	34,128
Expensed in the period	(41,678)	(36,884)
<b>Carrying amount at the end of the period</b>	<b>38,056</b>	<b>50,738</b>
<b>Maturity</b>		
Expected to be realised within 12 months	24,605	27,711
Expected to be realised after 12 months	13,451	23,027
	<b>38,056</b>	<b>50,738</b>
<b>(b) Deferred outwards reinsurance expense</b>		
Carrying amount at the beginning of the period	4,027	3,145
Deferral of expenses in the period	26,260	18,710
Expensed in the period	(24,430)	(17,828)
<b>Carrying amount at the end of the period</b>	<b>5,857</b>	<b>4,027</b>
<b>Maturity</b>		
Expected to be realised within 12 months	5,857	4,027
Expected to be realised after 12 months	-	-
<b>Carrying amount at the end of the period</b>	<b>5,857</b>	<b>4,027</b>

## 21. Property, plant and equipment

	Furniture & Fixtures \$'000	Computer Software \$'000	Computer Hardware \$'000	Office Equipment \$'000	TOTAL \$'000
<b>Cost or valuation</b>					
At 1 January 2018	813	218	719	263	2,013
Additions	214	258	257	45	774
Disposals	(6)	(147)	(32)	(14)	(199)
<b>At 31 December 2018</b>	<b>1,021</b>	<b>329</b>	<b>944</b>	<b>294</b>	<b>2,588</b>
Additions	243	468	82	78	871
Disposals	-	(220)	(10)	(7)	(237)
<b>At 31 December 2019</b>	<b>1,264</b>	<b>577</b>	<b>1,016</b>	<b>365</b>	<b>3,222</b>
<b>Depreciation and impairment</b>					
At 1 January 2018	(147)	(105)	(404)	(143)	(799)
Additions	(47)	(256)	(144)	(35)	(482)
Disposals	1	146	32	14	193
<b>At 31 December 2018</b>	<b>(193)</b>	<b>(215)</b>	<b>(516)</b>	<b>(164)</b>	<b>(1,088)</b>
Additions	(63)	(195)	(166)	(42)	(466)
Disposals	-	220	10	7	237
<b>At 31 December 2019</b>	<b>(256)</b>	<b>(190)</b>	<b>(672)</b>	<b>(199)</b>	<b>(1,317)</b>
<b>Net book value</b>					
<b>At 31 December 2019</b>	<b>1,008</b>	<b>387</b>	<b>344</b>	<b>166</b>	<b>1,905</b>
<b>At 31 December 2018</b>	<b>828</b>	<b>114</b>	<b>428</b>	<b>130</b>	<b>1,500</b>

## 22. Right-of-use assets

	Property \$'000	Equipment \$'000	Software \$'000	TOTAL \$'000
Balance at 1 January 2019	3,867	445	223	4,535
Additions	2,244	-	2,363	4,607
Disposals	-	-	-	0
Depreciation expense	(765)	(133)	(247)	(1,145)
<b>Carrying amount at 31 December 2019</b>	<b>5,346</b>	<b>312</b>	<b>2,339</b>	<b>7,997</b>

## 23. Trade and other payables

	2019 \$'000	2018 \$'000
Trade creditors	14,739	13,455
Amounts payable to reinsurers	11,130	7,184
Accrued expenses	1,647	986
Other payables	1,479	1,687
	<b>28,995</b>	<b>23,312</b>

For the maturity profile, please refer to Note 6c.

## 24. Unearned premium liability and unexpired risk liability

	2019 \$'000	2018 \$'000
Unearned premium	148,121	175,110
Unexpired risk liability	1,205	510
	<b>149,326</b>	<b>175,620</b>
<b>(a) Unearned premium liabilities</b>		
Carrying amount at the beginning of the period	175,110	182,391
Deferral of premiums on contracts in the period	193,138	202,539
Earning of premiums written in the period	(220,127)	(209,820)
<b>Carrying amount at the end of the period</b>	<b>148,121</b>	<b>175,110</b>
<b>(b) Maturity</b>		
Expected to be realised within 12 months	113,201	121,563
Expected to be realised after 12 months	34,920	53,547
	<b>148,121</b>	<b>175,110</b>
<b>(c) Unexpired risk liability</b>		
Unexpired risk liability at the beginning of the period	510	101
Recognition of additional unexpired risk liability during the year	695	409
	<b>1,205</b>	<b>510</b>

**(d) Liability adequacy test (LAT)**

Gross unearned premium	148,121	175,110
Deferred acquisition costs	(43,280)	(54,333)
Net unearned premium	<b>104,841</b>	<b>120,777</b>
Central estimate of present value of expected future cashflows	127,926	120,994
Expected recoveries	(55,281)	(37,384)
Risk margin at 75% probability of sufficiency	12,507	14,454
	<b>85,152</b>	<b>98,064</b>
Net surplus/(deficiency)	<b>19,689</b>	<b>22,713</b>

In accordance with the Appointed Actuary's valuation methodology, the LAT has been performed on a disaggregated level per APRA product class. Although the LAT across all product classes resulted in a surplus of \$19.7m (2018: surplus of \$22.7m), at an individual product level, the LAT resulted in a total deficiency of \$951k (2018: 343k), which has been recognised in the financial statements as an adjustment to deferred acquisition costs of \$0.3m (2018: \$0.2m) and an unexpired risk liability of \$1.2m (2018: \$0.5m).

## 25. Unearned reinsurance commission

	2019	2018
	\$'000	\$'000
Unearned reinsurance commission	380	266
	<b>380</b>	<b>266</b>

**(a) Unearned reinsurance commission**

Carrying amount at the beginning of the period	266	212
Deferral of premiums on contracts in the period	1,295	824
Earning of premiums written in the period	(1,181)	(770)
<b>Carrying amount at the end of the period</b>	<b>380</b>	<b>266</b>

**(b) Maturity**

Expected to be realised within 12 months	380	266
Expected to be realised after 12 months	-	-
	<b>380</b>	<b>266</b>

Reinsurance commission is presented as a deduction in Outward Reinsurance Expense in line with the requirements of AASB 1023.

## 26. Lease liabilities

	2019	2018
	\$'000	\$'000
<b>Balance at 1 January</b>	4,535	-
Additions	4,607	-
Repayment of lease liabilities	(925)	-
<b>Balance at 31 December</b>	<b>8,217</b>	-
<b>Maturity</b>		
Expected to be realised within 12 months	1,852	-
Expected to be realised after 12 months	6,365	-
	<b>8,217</b>	-

**Operating lease commitments - Company as a lessee**

The Company has entered into commercial leases on one of its offices and nineteen motor vehicles. The office lease has a life of one year and is paid upfront with no renewal option included in the contract.

There are no restrictions placed upon the Company by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

	2019	2018
	\$'000	\$'000
Within one year	157	578
After one year but no more than five years	-	1,444
	<b>157</b>	<b>2,022</b>

**Guarantees**

At 31 December the Company has provided bank guarantees for an office lease in Warragul:

Lessor	Term	Issuer	2019	2018
			\$'000	\$'000
Mascadri Holdings Pty Limited	June 2017 to May 2018	ANZ Bank	-	44
RCP Property Australia Pty Ltd	Jan 2018 to Jun 2023	ANZ Bank	195	195
<b>Total Bank Guarantee</b>			<b>195</b>	<b>239</b>

The lessors may recover from the bank guarantees any cost incurred or loss suffered if the Company (as the lessee) breaches the lease agreements. Otherwise, the lessors must return the bank guarantees to the Company within two months after expiry or termination of the leases.

## 27. Employee benefits provision

	2019	2018
	\$'000	\$'000
Annual leave	1,445	1,278
Long service leave	956	886
Other employee benefits	1,895	1,521
<b>Total employee benefits provision</b>	<b>4,296</b>	<b>3,685</b>
<b>Maturity</b>		
Expected to be realised within 12 months	4,209	3,598
Expected to be realised after 12 months	87	87
	<b>4,296</b>	<b>3,685</b>

## 28. Outstanding claims liability

	2019	2018
	\$'000	\$'000
<b>(a) Outstanding claims liability</b>		
Gross outstanding claims liability - undiscounted	51,238	87,689
Discount to present value	(179)	(374)
<b>Gross outstanding claims liability - discounted</b>	<b>51,059</b>	<b>87,315</b>
Risk margin	5,321	5,965
<b>Total outstanding claims liability</b>	<b>56,380</b>	<b>93,280</b>

For the maturity profile, please refer to Note 6c.

**(b) Process for determining risk margin**

The overall risk margin was determined by the Appointed Actuary based on the uncertainty of the outstanding claims estimates for each class and allowing for diversification between different business classes. The Appointed Actuary reviews a number of factors when determining the appropriate risk margin, including any changes in the level of uncertainty in the net discounted central estimate, the resulting probability of adequacy and the risk margin as a percentage of the net discounted central estimate.

The risk margin is held to mitigate the potential for uncertainty in the net discounted central estimate. The determination of the appropriate level of risk margin takes into account similar factors to those used to determine the central estimate, such as:

- mix of business, in particular the mix of short-tail and long-tail business and the overall weighted average term to settlement; and
- the level of uncertainty in the central estimate due to estimation error, data quality, variability of key inflation assumptions and possible economic and legislative changes.

The variability by class of business is measured using techniques that determine a range of possible outcomes of ultimate payments and assign a likelihood to outcomes at different levels. These techniques generally use standard statistical distributions, and the measure of variability is referred to as the coefficient of variation.

APRA standard GPS 340 requires a risk margin to be applied to the central estimate of the liabilities which is equivalent to a provision that has a 75% probability of sufficiency (or a central estimate plus a half a standard deviation of insurance liabilities, whichever is greater). This is interpreted as meaning that there is a 75% chance that the liabilities will prove sufficient over time. The overall net risk margin applied was 10.64% (2018: 9.26%).

**(c) Actuarial assumptions and methods**

The following key actuarial assumptions were used in the measurement of outstanding claims and recoveries, where appropriate, at the reporting date.

	2019	2018
Inflation rate	2.25%	2.25%
Superimposed inflation rate (weighted average)	-	-
Discount rate (weighted average)	0.92%	1.87%
Claims handling expense rate - motor classes	4.00%	4.25%
Claims handling expense rate - non-motor classes	8.00%	8.00%
Weighted average term to settlement (number of years)	0.40	0.33

**Process used to determine assumptions**

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

*Inflation rate*

The most appropriate rate is selected from Consumer Price Index (CPI) and Australian All Persons Average Weekly Earnings (AWE) published by the Australian Bureau of Statistics (ABS).

*Superimposed Inflation*

An explicit rate of superimposed inflation (inflation over and above wage inflation) has not been adopted. For some of the actuarial methods used, the extent that superimposed inflation is apparent in the historical data will be projected implicitly in the estimates.

There is no clear evidence of superimposed inflation in the data available and that the short-tailed nature of the majority of liabilities means that the impact of superimposed inflation would be anticipated to be nominal.

*Discount rate*

The discount rate is based on the yield curve for Commonwealth Government Bonds as at 31 December 2019, which is applied to discount the undiscounted liability estimates.

Term to settlement

The mean term to discounted settlement for each accident/underwriting quarter within each class has been determined using the assumed payment patterns and the appropriate discount rates.

Sensitivity analysis

The impact on the profit or loss to changes in key actuarial assumptions are summarised below. Each change has been calculated in isolation of the other changes and is gross and net of reinsurance recoveries.

Variable	Movement	Gross of Recoveries \$'000	Net of Recoveries \$'000	Equity \$'000
Recognised amounts per the financial statements		56,380	26,966	60,272
Claim Inflation	+ 50 basis points	106	37	113
Discount Rate	+ 50 basis points	-106	-37	-113
Claims Handling Expense	+ 50 basis points	270	129	289
Risk Margin	+ 50 basis points	255	122	273

**(d) Reconciliation of movement in discounted outstanding claims liability**

	2019			2018		
	Gross \$'000	Reinsurance \$'000	Net \$'000	Gross \$'000	Reinsurance \$'000	Net \$'000
Balance brought forward	93,280	(65,871)	27,409	62,452	(43,502)	18,950
Movement in the prior year central estimate	-	-	-	-	-	-
Current year claims incurred	125,177	(5,363)	119,814	179,634	(49,446)	130,188
Claims paid/recoveries received	(161,628)	38,028	(123,600)	(149,971)	26,960	(123,011)
Movement in discounting	195	284	479	(31)	460	429
Movement in risk margin	(644)	(365)	(1,009)	1,196	(342)	854
<b>Balance carried forward</b>	<b>56,380</b>	<b>(33,287)</b>	<b>23,093</b>	<b>93,280</b>	<b>(65,871)</b>	<b>27,409</b>

**(e) Claims development table**

Uncertainty about the amount and timing of claims payments is typically resolved within one year for greater than 90% of ADICA's claims. As such, a claims development table is not disclosed.

## 29. Provisions for Premium Refunds

	2019 \$'000	2018 \$'000
<b>Balance at 1 January</b>	6,066	6,066
Arising during the year	-	709
Utilised	(1,672)	(709)
Unused amounts reversed	-	-
<b>Balance at 31 December</b>	<b>4,394</b>	<b>6,066</b>
Current	4,394	6,066
Non-current	-	-

ADICA has been involved in ongoing discussions with the Australian Securities and Investment Commission (ASIC) since October 2017, regarding the development of a Remediation Program for the unfair sales of add-on insurance policies. The scope of the Remediation Program has now been finalised by ADICA and provided to the regulator, and ASIC is currently considering the details of the program which has been proposed. ADICA expects to conclude negotiations with ASIC in the near future and implement the program shortly thereafter.

A provision for the amount relating to the scope of the Remediation Program has been recognised in this report, based on the policies affected. The balance consists of the premium to be refunded and the applicable interest. There is a certain amount on uncertainty in the measurement as the actual payments may differ. The provision has however been estimated based on reasonable factors and will be reviewed on an on-going basis.

## 30. Contributed equity

	2019 \$'000	2018 \$'000
Authorised/Fully paid ordinary shares opening balance	87,800	87,800
Additional equity contribution	-	-
<b>Authorised/Fully paid ordinary shares closing balance</b>	<b>87,800</b>	<b>87,800</b>
	<b>Number of shares</b>	<b>Number of shares</b>
Authorised/Fully paid ordinary shares (\$1.00 per share)	87,800	87,800

### **Terms and conditions of contributed equity**

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

## 31. Cash flow statement

	2019 \$'000	2018 \$'000
Reconciliation of the operating profit after tax to the net cash flows from operations:		
Net profit/(loss) from ordinary activities	16,196	443
Deduct:		
Depreciation expense	1,374	489
Loss on disposal of property, plant and equipment	237	-
Interest paid on lease liabilities	177	-
<b>Profit/(loss) from operating activities</b>	<b>17,984</b>	<b>932</b>
(Increase)/decrease in current tax assets	-	-
(Increase)/decrease in deferred acquisition costs	12,681	2,756
(Increase)/decrease in deferred outwards reinsurance expense	(1,830)	(882)
(Increase)/decrease in deferred tax assets	(3,566)	(309)
(Decrease)/increase in deferred tax liabilities	-	-
(Decrease)/increase in employee benefits provision	611	805
(Decrease)/increase in outstanding claims liability	(36,900)	30,829
(Decrease)/increase in provisions for premium refunds	(1,672)	3,798
(Decrease)/increase in trade and other payables	5,556	1,881
(Increase)/decrease in trade and other receivables	(1,676)	(2,445)
(Decrease)/increase in unearned premium liability and unexpired risk liability	(26,294)	(6,872)
(Decrease)/increase in unearned reinsurance commission	115	54
(Increase)/decrease in reinsurance and other recoveries receivable	32,585	(22,370)
<b>Net cash flows from/(used in) operating activities</b>	<b>(2,406)</b>	<b>8,177</b>

## 32. Related parties

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year:

		Management fee income	Share issue	Amounts owed by related parties *	Amounts owed to related parties *
Aioi Nissay Dowa Insurance Co., Ltd (Japan Head Office)	2019	-	-	5,921	7,444
	2018	-	-	15,929	1,665
Aioi Nissay Dowa Insurance Co., Ltd (Australian Branch)	2019	345	-	55	-
	2018	384	-	56	-
Mitsui Sumitomo Insurance Co., Ltd (Australian Branch)	2019	-	-	1,998	2,091
	2018	-	-	10,062	3,695

\* The amounts are classified as trade receivables and trade payables, respectively.

### The ultimate parent

The parent of the Company is Aioi Nissay Dowa Insurance Co. Limited and the ultimate parent of the Company is MS&AD Insurance Group Holdings, Inc. Both of these companies are incorporated in Japan. In 2019, Japan Head Office owns 100% of the ordinary shares in the Company (2018: 100%).

### Australian Branch of Mitsui Sumitomo Insurance Co., Ltd

Mitsui Sumitomo Insurance Co., Ltd is a Japanese insurance company under MS&AD Insurance Group Holdings, Inc., the same ultimate parent as the Company's.

### Terms and conditions of transactions with related parties

Transactions from related parties are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the end of financial year are unsecured and interest free. There have been no guarantees provided or received for any related party receivables or payables. For the period ended 31 December 2019, the Company has not recorded any impairment of receivables relating to amounts owed by related parties (2018: \$Nil). This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

## 33. Remuneration of auditors

The auditor of the Company is Ernst & Young.

	2019 \$	2018 \$
Amounts received or due and receivable by Ernst & Young for:		
- An audit or review of the financial report of the Company	283,887	133,826
- Other services in relation to the Company:		
Consulting	98,800	-
Tax compliance	42,500	36,000
	<b>425,187</b>	<b>169,826</b>

## 34. Key management personnel

### Compensation of key management personnel of the Company

	2019	2018
	\$'000	\$'000
Short-term employee benefits:		
Salaries	1,858	1,744
Superannuation	150	125
Fringe Benefits Tax	110	128
<b>Total compensation</b>	<b>2,118</b>	<b>1,997</b>
Paid By ADICA	1,969	1,874
Paid By Japan Head Office	149	123

The amounts disclosed in the table are the amounts recognised as an expense during the reporting period related to key management personnel.

## 35. Economic dependencies

The Company relies on Toyota Finance Australia (TFA) to promote the sale of its insurance products. This relationship is maintained through a ten year Agency Agreement signed in 2014.

## 36. Events after reporting date

The COVID-19 pandemic, declared so by the World Health Organisation on 11 March 2020, has resulted in many countries, including Australia, imposing travel bans and encouraging citizens to self-isolate themselves where possible. At this point in time the industries mostly impacted by these measures are travel, education and hospitality. The main impact on ADICA's insurance business would most likely be from the Consumer Credit Insurance products sold which cover illness and redundancy. The financial statements have been prepared based upon conditions existing at 31 December 2019 and considering those events occurring subsequent to that date, that provide evidence of conditions that existed at the end of the reporting period. As the outbreak of COVID-19 occurred after 31 December 2019, its impact is considered an event that is indicative of conditions that arose after the reporting period and accordingly, no adjustments have been made to financial statements as at 31 December 2019 for the impacts of COVID-19.

# Directors Declaration

In the opinion of the directors of Aioi Nissay Dowa Insurance Company Australia Pty Ltd:

- the financial statements and notes are in accordance with the *Corporations Act 2001* including:
- giving a true and fair view of the financial position of the Company as at 31 December 2019 and its performance, as represented by the results of the operations and the cash flows, for the year ended on that date; and
- complying with Australian Accounting Standards (including Australian Interpretations) and the Corporations Regulations 2001; and
- the financial report also complies with International Financial Reporting Standards as disclosed in Note 2b; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

Signed:

A handwritten signature in black ink, appearing to be 'P. E. Daly', written in a cursive style.

**Director: Mr P E Daly AM**

Signed in Melbourne this 26th day of March 2020

# Independent Auditors Report



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## Independent Auditor's Report to the Members of Aioi Nissay Dowa Insurance Company Australia Pty Ltd

### Opinion

We have audited the financial report of Aioi Nissay Dowa Insurance Company Australia Pty Ltd ("the Company"), which comprises the statement of financial position as at 31 December 2019, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

giving a true and fair view of the Company's financial position as at 31 December 2019 and of its financial performance for the year ended on that date; and  
complying with Australian Accounting Standards and the Corporations Regulations 2001.

### Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Company in accordance with the auditor independence requirements of the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Emphasis of Matter: Subsequent Events – Impact of the Coronavirus (COVID-19) Outbreak

We draw attention to Note 36 of the financial report which notes the World Health Organisation's declaration of the outbreak of COVID-19 as a global pandemic subsequent to 31 December 2019 and how this has been considered by the Directors in the preparation of the financial report. As set out in Note 36, no adjustments have been made to financial statements as at 31 December 2019 for the impacts of COVID-19. Our opinion is not modified in respect of this matter.

### Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information is the directors' report accompanying the financial report.

Our opinion on the financial report does not cover the other information and accordingly 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.



## 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 Company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so. Auditor's Responsibilities for the Audit of the Financial Report

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

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

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

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

Ernst & Young

I M Uring  
Partner  
Melbourne  
27 March 2020

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**Aioi Nissay Dowa Insurance Company Australia Pty Ltd**

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