

General Purpose Financial Report 2021



Brand Partners



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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 2021.

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 D Cullen – Director and Chief Executive Officer

Mr D Cullen has 25 years' experience in the Insurance industry working across banking, intermediated distribution and direct to consumer insurance models. Prior to joining Adica, Mr Cullen has held senior management roles at QBE, NAB, and ANZ with responsibility for large scale insurance programs across both personal and commercial lines.

During Mr Cullen's career, he has also led a start-up general insurance company into the Australian market as well as experience with global insurer AIG.

Mr Cullen also holds the position of Chair of the Rural Financial Counselling Service Board in Victoria.

Mr Cullen joined Adica in July 2020 in the role of Chief Executive Officer and was appointed as Director to the Board in November 2021.



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 and Chairman 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 (ceased 2 August 2021)

Mr R Phillips has been the Company Secretary since August 2008 and was appointed as the Chief Risk Officer from 1 January 2015 to 16 November 2020. 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.


Mr J A Dick – Company Secretary (effective 2 August 2021)

Mr J Dick was appointed Company Secretary on 2 August 2021 having performed the role of Internal Audit Manager from 7 September 2015.

Mr Dick has over 13 years of experience in the insurance industry in Australia.

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	Risk & Compliance	Remuneration & Nomination	Investment
<i>Held</i>	9	6	6	4	4
<i>Attended</i>					
<i>Mr P E Daly AM</i>	9	6	6	4	4
<i>Mr Dean Cullen*</i>	1	**	**	**	**
<i>Mr K Forder</i>	9	6	6	4	4
<i>Mr J Richardson OAM</i>	9	6	6	4	4
<i>Mr S Ogura</i>	9	6	6	4	4
<i>Mr T Kobayashi</i>	9	**	**	**	**

* Mr Dean Cullen attended 1 meeting during the year after his recent appointment as CEO in November 2021

** 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 \$13,207,926 (2020: \$15,235,812), which includes management fee income of \$319,000 (2020: \$347,250). This includes the financial impact of COVID-19 being the premium holidays offered to customers suffering from financial hardship totalling \$36,490 (2020: \$243,150). After allowing for a tax expense of \$3,952,901 (2020: \$4,570,254), the Company generated an after tax profit of \$9,255,025 for the year ended 31 December 2021 (2020: \$10,665,558).

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.

Indemnification of Directors, Officers and Auditors

The Company indemnifies current and former Directors and officers for any loss arising from any claim by reason of any wrongful act committed by them in their capacity as a director or officer (subject to certain exclusions as required by law). During the 2021 financial year, the Company paid \$50,184 in premium for Directors and Officers Liability insurance. The Company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as such by an officer or auditor.

Capital adequacy of the Company

	2021 \$'000	2020 \$'000
A. Common Equity Tier 1 Capital		
Paid-up ordinary shares	87,800	87,800
Retained earnings	(16,883)	(27,549)
Undistributed current year earnings	9,255	10,666
Net surplus / (deficit) relating to insurance liabilities	4,171	9,844
Less: Regulatory adjustments to Common Equity Tier 1 Capital	(6,317)	(7,185)
Total Common Equity Tier 1 capital (CET1 capital)	78,026	73,576
B. Additional Tier 1 Capital	-	-
Total Tier 1 Capital	78,026	73,576
C. Tier 2 Capital	-	-
Total Regulatory Capital	78,026	73,576
D. Prescribed Capital Requirement (PCR)		
Insurance risk charge	14,595	14,936
Insurance concentration risk charge	3,000	2,000
Asset risk charge	6,673	6,415
Asset concentration risk charge	-	-
Operational risk charge	5,454	5,617
Aggregation benefit	(4,241)	(4,078)
Total PCR	25,481	24,890
PCR Coverage	3.06	2.96

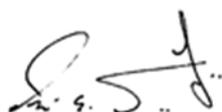
Rounding amounts

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.



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Mr P E Daly AM

Chairman and Non-Executive Director

Signed in Melbourne this 22nd day of March 2022

Auditor's Independence Declaration



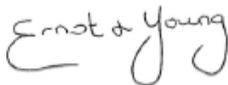
Ernst & Young
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com/au

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 2021, 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 & Young'.

Ernst & Young

A handwritten signature in black ink, appearing to be 'Hayley Watson'.

Hayley Watson
Partner
Melbourne

22 March 2022

Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2021

	NOTE	2021 \$'000	2020 \$'000
Premium revenue	7a	196,035	207,168
Outwards reinsurance premium expense	7b	(24,149)	(23,479)
Net premium revenue		171,886	183,689
Gross claims expense	8a	(138,019)	(171,213)
Reinsurance and other recoveries revenue	8b	46,637	78,765
Net claims expense		(91,382)	(92,448)
Acquisition costs	9	(33,163)	(45,545)
Levies and charges	10	(786)	(708)
Underwriting expenses		(33,949)	(46,253)
Underwriting profit/(loss)		46,555	44,988
Interest income from investment at amortised cost	11(a)	210	863
Interest income from investment at fair value	11(b)	169	333
Fee and other income	12	375	404
Other operating and administrative expenses	13	(31,354)	(28,615)
Profit/(loss) before interest, tax, depreciation and amortisation		15,955	17,973
Depreciation of property, plant and equipment		(1,303)	(1,039)
Depreciation of right-of-use assets		(1,380)	(1,417)
Finance costs	14	(64)	(281)
Profit/(loss) before income tax		13,208	15,236
Income tax benefit/(expense)	15	(3,953)	(4,570)
Net profit/(loss) for the period		9,255	10,666
Other comprehensive income		-	-
Total Comprehensive Income/(Loss)		9,255	10,666

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 2021

	NOTE	2021 \$'000	2020 \$'000
ASSETS			
Cash and cash equivalents	16	99,980	101,686
Trade and other receivables	17	71,317	69,192
Reinsurance and other recoveries receivable	18	36,089	30,035
Investments	19	58,500	58,500
Deferred acquisition costs	20(a)	14,368	20,704
Deferred outwards reinsurance expense	20(b)	10,283	9,642
Property, plant and equipment	21	2,370	2,245
Right-of-use assets	22	4,173	7,147
Deferred tax assets	15	6,317	7,185
Other assets		1,728	-
Total assets		305,125	306,336
LIABILITIES			
Trade and other payables	23	38,611	39,703
Current tax liabilities		2,148	-
Unearned premium liability and unexpired risk liability	24	115,121	129,385
Unearned reinsurance commission	25	669	611
Lease liabilities	26	4,326	7,506
Employee benefits provision	27	4,267	4,235
Outstanding claims liability	28	59,811	51,277
Provisions for customer refunds	29	-	2,702
Total liabilities		224,953	235,419
Net assets		80,172	70,917
EQUITY			
Contributed equity	30	87,800	87,800
Accumulated losses		(7,628)	(16,883)
Total equity		80,172	70,917

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 2021

	NOTE	Issued Share Capital \$'000	Accumulated Losses \$'000	Total Equity \$'000
At 1 January 2020		87,800	(27,549)	60,251
Issue of shares (\$1 per share)		-	-	-
Profit/(loss) for the period		-	10,666	10,666
Equity as at 31 December 2020		87,800	(16,883)	70,917
Profit/(loss) for the period	31	-	9,255	9,255
Equity as at 31 December 2021		87,800	(7,628)	80,172

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



Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2021

	NOTE	2021 \$'000	2020 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Premium received		174,288	183,894
Outwards reinsurance paid		(24,196)	(22,942)
Claims paid		(133,214)	(178,221)
Reinsurance and other recoveries received		42,989	82,755
Acquisition costs paid		(27,217)	(25,623)
Other underwriting costs		117	(235)
Management fee received		322	347
Operating expenses paid		(31,193)	(28,524)
Interest received		412	1,264
Income tax received/(paid)		(937)	-
GST		-	-
Net cash flows from/(used in) operating activities	31	1,371	12,715
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(1,427)	(1,379)
Purchase of investments		(23,000)	(64,500)
Proceeds from investments		23,000	30,000
Net cash flows from/(used in) investing activities		(1,427)	(35,879)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		-	7,500
Repayment of borrowings		-	(7,500)
Repayment of lease liabilities		(1,586)	(1,278)
Interest paid on lease liabilities		(64)	(276)
Net cash flows from/(used in) financing activities		(1,650)	(1,554)
Net increase in cash		(1,706)	(24,718)
Cash and cash equivalents at the beginning of the financial period		101,686	126,404
Cash and cash equivalents at the end of the financial period		99,980	101,686

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 (the Company or Adica) for the year ended 31 December 2021 were authorised for issue in accordance with the resolution of the Directors on 22 March 2022.

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 unless the application of fair value measurements is required by the relevant accounting standards.

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 2021:

Reference	Title	Application date for Company
AASB 2020-4	Amendments to AASs– Covid-19-Related Rent Concessions	1 January 2021
AASB 2020-5	Amendments to AASs – Insurance Contracts	1 January 2021
AASB 2020-8	Amendments to AASs – Interest Rate Benchmark Reform– Phase 2	1 January 2021
AASB 2021-3	Amendments to AASs– COVID-19-Related Rent Concessions beyond 30 June 2021	1 April 2021

The adoption of these new or amended standards had no material impact to the Company's accounting policies or financial statements.

(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 2021, are outlined in the following table:

Reference	Title	Application date for Company
AASB 2020-2	Amendments to AASs – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities	1 January 2022
AASB 2020-7	Amendments to AASs – Covid-19-Related Rent Concessions: Tier 2 Disclosures	1 January 2022
AASB 2020-9	Amendments to AASs – Tier 2 Disclosures: Interest Rate Benchmark Reform (Phase 2) and Other Amendments	1 January 2022
AASB 1060	General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not- for-Profit Tier 2 Entities	1 January 2022
AASB 2020-3	Amendments to AASs – Annual Improvements 2018–2020 and Other Amendments <ul style="list-style-type: none"> ▶ Amendment to AASB 1, Subsidiary as a First-time Adopter ▶ Amendments to AASB 3, Reference to the Conceptual Framework ▶ Amendment to AASB 9, Fees in the '10 per cent' Test for Derecognition of Financial Liabilities ▶ Amendments to AASB 116, Property, Plant and Equipment: Proceeds before Intended Use ▶ Amendments to AASB 137, Onerous Contracts– Cost of Fulfilling a Contract ▶ Amendment to AASB 141, Taxation in Fair Value Measurements 	1 January 2022
AASB 2014-10	Amendments to AASs – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2022
AASB 9	Financial instruments	1 January 2023
AASB 17	Insurance Contracts	1 January 2023
AASB 2020-1	Amendments to AASs – Classification of Liabilities as Current or Non-current	1 January 2023
AASB 2021-2	Amendments to AASs– Disclosure of Accounting Policies and Definition of Accounting Estimates <ul style="list-style-type: none"> ▶ Amendments to AASB 7, AASB 101, AASB 134 and AASB Practice Statement 2 ▶ Amendments to AASB 108 	1 January 2023
AASB 2021-5	Amendments to AASs – Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023

The Australian Accounting Standards and amendments detailed in the table above are not mandatory for the Company until the operative dates stated. Early adoption is however often permitted.

The Company currently plans to adopt the standards and amendments detailed above in the reporting periods beginning on their respective operative dates. They are not expected to have a material impact on the Group's financial statements, except where noted below:

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.

Financial instruments that are in the scope of IAS 39 are also in the scope of IFRS 9. Under IFRS 9, financial instruments can be designated at fair value through profit or loss (FVTPL). The IFRS 9 impairment requirements also apply to all loan commitments and contract assets in the scope of IFRS 15 Revenue from Contracts with Customers.

The Company holds financial instruments recognised at fair values with maturities up to 12 months, receivables measured at amortised cost and does not currently hold any debt instruments, so the impact of AASB 9 adoption is expected to be minimal.

AASB 17 Insurance Contracts

AASB 17 replaces AASB 1023 General Insurance Contracts for for-profit entities. It is currently effective for reporting periods beginning on or after 1 January 2023. Retrospective application is required, and comparative information needs to be restated applying the requirements of AASB 17.

The standard introduces a new general model for the recognition and measurement of insurance contracts, with the application of a simplified approach ('the premium allocation approach or PAA', similar to AASB 1023) permitted for short-term contracts with coverage periods within 12 months or for long-term contracts if the liability for remaining coverage under the PAA is not expected to materially differ from the general model.

The Company has established an AASB 17 project team who are currently developing accounting policies and procedures to ensure compliance with the requirements of the new standard. As part of this process, the Company is currently undertaking a detailed impact assessment of the new standard, including analysis to determine the most appropriate approach for each of its insurance products.

The following are key considerations of the impact assessment:

- **Measurement and contract boundaries:** The Company is required to assess contract boundaries for all insurance contracts and classify them as either short duration (\leq 12-month boundary) or long duration ($>$ 12-month boundary). The majority of Adica products are expected to be classified as short term. However, there exists some multi-year liability which will be subject to the PAA eligibility test.
- **Level of aggregation:** AASB 17 requires contracts that are subject to similar risks and managed together to be aggregated into portfolios of contracts. Portfolios are then divided into groups of contracts (by policy issue date and level of profitability -onerous contracts). The Company has developed a policy regarding level of aggregation with the application currently being assessed.
- **Reinsurance contracts held:** AASB 17 will require reinsurance contracts held to be separately measured and valued using a similar set of principles as are applied to direct contracts. Models are being developed to value the expected reinsurance recoveries for incurred claims as well as for remaining coverage. Reinsurance contracts on a risk attaching basis may also be considered more than 12 months.
- **PAA eligibility:** The Company is in the process of developing a model to validate which classes of business will be modelled under the PAA. The Company is also in the process of seeking formal agreement from all stakeholders to adopt the use of the PAA method for all policies, where eligible.

- Onerous contracts: AASB 17 requires onerous contracts to be identified and a day 1 loss accounted for at initial recognition (under the general model) or when 'facts and circumstances' make this evident (under the PAA model). The Company is conducting an exercise to identify classes of business which may contain groups of onerous contracts.
- Risk adjustment: The risk adjustment for non-financial risk under AASB 17 is compensation an entity requires for bearing the uncertainty about the amount or timing of the cash flows that arises from non-financial risk as the company fulfils insurance contracts.
- Discount rates: AASB 1023 requires the net outstanding claims liability to be discounted using risk-free rates. Under AASB 17, the Company is in the process of determining whether the risk free rates will need to be adjusted to reflect the liquidity of the insurance liabilities.
- Financial statement disclosures: AASB 17 requires significant changes to the Statement of Comprehensive Income and Statement of Financial Position as well as more detailed disclosures on both an issued contracts and reinsurance contracts held basis. The Company is currently developing pro-forma financial statements to prepare for these changes.

The Company continues to closely monitor all these developments and to assess the impacts of the standard on the Company. The financial impact of adopting AASB 17 including consideration of the income tax implications of the standard is not reasonably estimable at the date of this report.

(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 cost 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 2021	31 December 2020
Office furniture and fixtures	5 - 20 years	5 - 20 years
Computer software	1 - 5 years	1 - 5 years
Computer hardware	1 - 15 years	1 - 15 years
Office equipment	1 - 12 years	1 - 12 years
Right-of-use assets	2 - 15 years	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.

Right-of-use (ROU) assets are recognised in accordance with AASB 16 (i.e. present value of future lease payments over the term of the agreement). They are depreciated using the straight-line method to allocate the cost of assets less any residual value over the estimated useful economic life.

(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) Leases liabilities

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.

At the commencement date of a lease, the Company recognises a liability to make lease payments (i.e. the present value of lease payments over the term of the agreement). Interest is accrued monthly and the lease liability is reduced each time a payment is made. 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.

Operating Lease

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 that are currently recognised as deferred tax asset would have to be written off to income tax expense.

d. Financial and non-financial impacts of Covid-19

The impact on financial services was varied with insurers who predominantly wrote motor insurance, such as Adica, benefitting from the lower claim frequencies experienced during the lockdown periods, while Commercial property policyholders faced the possibility of having their business interruption claims denied by insurers due to pandemic exclusions. While some decisions favoured the insured, particularly in relation to the reference to the Quarantine Act 1906 in policy wording, others favoured the insurers.

As part of its response to the pandemic, the Company initiated a Financial Hardship programme in 2020 which offered a premium holiday to those customers who were financially impacted by the economic downturn. For the 12 months to 31 December 2021, \$36k of premium holidays were provided to customers (2020: \$243k). Although the financial impact was lower than 2020, the Company is considering its options on expanding the program to all customers experiencing financial difficulty, regardless of cause. The premium holidays are recognised as an expense immediately as the premiums related to the 2021 financial year.

The main impact of the pandemic seen by Adica was in the sale of new business policies which, while higher than in 2020 due to the use of initiatives aimed to increase sales during the year, suffered from the supply chain issues that impacted the delivery of new vehicles in 2021. However, strong retention of existing customers allowed Adica to maintain its MVI policy book during 2021.

The Plan assumes that the motor vehicle insurance claims frequency will return to the levels experienced before the pandemic, although there is a strong possibility that frequency will increase compared to historical levels. Any increases in frequency are tested in the Capital Management Plan to assess the potential impact for frequency increases on solvency. The Company has also been significantly impacted by the decreasing interest rates, resulting in total interest income being 68% lower than prior year.

Wellbeing of employees has been on a high priority of the Company. Most employees were transitioned to work from home from end of March 2020. Any access to work in the office has been provided in compliance with national and state public health orders.

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 four or 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 formed a Product & Underwriting Committee to develop and oversee 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 design of processes and procedures mitigating operational risk and Internal Audit reviews the operating effectiveness of these controls.

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 cash rate serves as a benchmark for the interest rate Adica is exposed to by financial institutions.

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

Sensitivity analysis

The impact from the measurement of the investments, cash and cash equivalents 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	Sensitivity of the input to fair value
2021	1.00%	1,585
	-1.00%	(1,585)
2020	1.00%	1,602
	-1.00%	(1,602)

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 holds investments that have a minimum Standard & Poor credit rating of BBB-.

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	B- to BBB+	Customers	Total
	\$'000	\$'000	\$'000	\$'000
2021				
Cash and cash equivalents	99,980	-	-	99,980
Trade and other receivables	19	-	71,298	71,317
Reinsurance and other recoveries receivable	36,089	-	-	36,089
Investments	27,000	31,500	-	58,500
Net exposure	163,088	31,500	71,298	265,886
2020	\$'000		\$'000	\$'000
Cash and cash equivalents	101,686	-	-	101,686
Trade and other receivables	581	-	68,611	69,192
Reinsurance and other recoveries receivable	30,035	-	-	30,035
Investments	31,500	27,000	-	58,500
Net exposure	163,802	27,000	68,611	259,413

There are no financial assets which are past due or impaired at 31 December 2021.

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 12 months or less;
- entering into a money market line facility with ANZ on 22nd 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 BBB- (S&P Short Term Issuer Credit Rating) or its accepted equivalent.
- ensuring that placements mature regularly so that any cash requirements can be met

Following is the maturity of Financial Assets and Financial Liabilities:

2021	< 6 Months	6-12 Months	1-5 Years	> 5 Years	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Financial Assets					
Cash and cash equivalents	99,980	-	-	-	99,980
Trade and other receivables	58,109	13,208	-	-	71,317
Reinsurance and other recoveries receivable	27,761	3,985	4,210	133	36,089
Investments	58,500	-	-	-	58,500
	<u>244,349</u>	<u>17,193</u>	<u>4,210</u>	<u>133</u>	<u>265,885</u>
Financial Liabilities					
Trade and other payables	38,611	-	-	-	38,611
Claims liabilities	45,816	7,275	6,576	144	59,811
Lease liabilities	788	741	2,314	2,681	6,524
	<u>85,215</u>	<u>8,017</u>	<u>8,890</u>	<u>2,825</u>	<u>104,946</u>
Net maturity	<u>159,134</u>	<u>9,176</u>	<u>-4,680</u>	<u>-2,692</u>	<u>160,939</u>

2020	< 6 Months	6-12 Months	1-5 Years	> 5 Years	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Financial Assets					
Cash and cash equivalents	101,686	-	-	-	101,686
Trade and other receivables	56,567	12,625	-	-	69,192
Reinsurance and other recoveries receivable	23,071	3,468	3,404	92	30,035
Investments	58,500	-	-	-	58,500
	<u>239,824</u>	<u>16,093</u>	<u>3,404</u>	<u>92</u>	<u>259,413</u>
Financial Liabilities					
Trade and other payables	39,703	-	-	-	39,703
Claims liabilities	39,915	5,960	5,286	116	51,277
Lease liabilities	996	779	4,040	2,681	8,496
	<u>80,614</u>	<u>6,739</u>	<u>9,326</u>	<u>2,797</u>	<u>99,476</u>
Net maturity	<u>159,210</u>	<u>9,354</u>	<u>-5,922</u>	<u>-2,705</u>	<u>159,937</u>

7. Net premiums

(a) Premium revenue

	2021	2020
	\$'000	\$'000
Toyota Insurance Division	155,931	156,198
Japanese Interest Abroad	25,869	31,000
Change in unearned premiums provision	14,235	19,970
Total premiums	196,035	207,168

(b) Outwards reinsurance premium expense

	2021	2020
	\$'000	\$'000
Toyota Insurance Division	(5,076)	(4,233)
Japanese Interest Abroad	(19,714)	(23,030)
Change in deferred premiums provision	641	3,784
Total premiums ceded to reinsurers	(24,149)	(23,479)
Total net premiums	171,886	183,689

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Spring, Yulara, Mutitjulu**



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.

	2021			2020		
	Current year \$'000	Prior years \$'000	Total \$'000	Current year \$'000	Prior years \$'000	Total \$'000
(a) Gross claims expense						
Gross claims incurred - undiscounted	145,494	(7,362)	138,031	174,910	(3,685)	171,225
Add (Less): Discount movement	(83)	(29)	(112)	(8)	(4)	(12)
	<u>145,410</u>	<u>(7,391)</u>	<u>138,019</u>	<u>174,902</u>	<u>(3,689)</u>	<u>171,213</u>
(b) Reinsurance and other recoveries revenue						
Reinsurance and other recoveries revenue - undiscounted	50,898	(4,187)	46,711	78,482	292	78,774
Add (Less): Discount movement	(54)	(19)	(73)	(6)	(3)	(9)
	<u>50,843</u>	<u>(4,206)</u>	<u>46,637</u>	<u>78,476</u>	<u>289</u>	<u>78,765</u>
Net claims expense	<u>94,567</u>	<u>(3,185)</u>	<u>91,382</u>	<u>96,426</u>	<u>(3,978)</u>	<u>92,448</u>

9. Acquisition costs

	2021 \$'000	2020 \$'000
Commission expense	33,163	45,545
Total acquisition costs	<u>33,163</u>	<u>45,545</u>

10. Levies and charges

	2021 \$'000	2020 \$'000
Fire service levies	786	708
Total levies and charges	<u>786</u>	<u>708</u>

11. Investment income

	2021 \$'000	2020 \$'000
(a) Interest income from investment at amortised cost	210	863
(b) Interest income from investment at fair value	169	333
Total investment income	<u>379</u>	<u>1,196</u>

12. Fee and other income

	2021 \$'000	2020 \$'000
Management fee income	319	347
Other administration fee income	56	56
Total fee and other income	<u>375</u>	<u>403</u>

13. Other operating and administrative expenses

	2021 \$'000	2020 \$'000
Staff expenses	17,900	19,265
Superannuation	1,455	1,482
Termination	829	757
Travel expenses	50	36
Office expenses	1,467	2,049
Professional fees and membership expenses	5,228	2,698
Information technology expenses	853	1,380
Short-term and low value leases	400	269
Other expenses	3,172	679
Total other operating and administrative expenses	31,354	28,615

14. Finance costs

	2021 \$'000	2020 \$'000
Interest on debts and borrowings	-	6
Interest on lease liabilities	(64)	(287)
Total interest expense	(64)	(281)

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

	2021 \$'000	2020 \$'000
Current income tax:		
Current income tax charge	3,085	-
Adjustments in respect of current income tax of previous year	-	-
Total current tax	3,085	-
Deferred tax:		
Origination of temporary differences	(2)	(2,121)
Adjustments in respect of deferred tax of previous year	-	66
Deferred tax used to reduce current tax for the year	870	6,625
Total deferred tax	868	4,570
Total income tax expense/-credit	3,953	4,570

(b) Reconciliation of tax charge

	2021	2020
	\$'000	\$'000
Accounting profit/(loss) before tax from continuing operations	13,208	15,235
At statutory income tax rate of 30%	3,962	4,570
Adjustments in respect to current income tax of previous years	22	-
Government grants exempt from tax	-	-
Utilisation of previously unrecognised tax losses	-	-
Non-deductible expenses for tax purposes:		
Entertainment expenses	33	14
FBT expense	(64)	(43)
Infringements	-	29
Adjustments in respect of prior year	-	-
Total tax charge for the year	3,953	4,570

Deferred Tax

Deferred tax relates to the following:

	Statement of Financial Position		Statement of Comprehensive Income	
	2021	2020	2021	2020
	\$'000	\$'000	\$'000	\$'000
Asset depreciation and disposals for tax purposes	(1,180)	(2,144)	(964)	2,144
Deferred acquisition costs	1,700	1,956	256	(1,899)
Prepayment	-	-	-	-
Expense accruals	1,864	1,483	(381)	251
Expense amortisation	96	150	54	(101)
Outstanding claims provision	856	741	(115)	(95)
Unexpired risk liability	361	542	181	(180)
Lease liability	1,298	2,252	954	(2,252)
Provision for bonus	637	592	592	755
Provision for employee entitlements	685	743	(579)	(743)
Carried forward tax losses	-	870	870	6,690
Deferred tax expense / (income)			868	4,570
Net deferred tax assets / (liabilities)	6,317	7,185		

Reflected in the statement of financial position as follows:

Deferred tax assets	6,317	7,185
Deferred tax liabilities	-	-
Deferred tax liabilities net	6,317	7,185

	2021	2020
	\$'000	\$'000
Reconciliation of deferred tax assets net		
Opening balance	7,185	11,755
Tax income/(expense) during the period recognised in Statement of Comprehensive Income	2	2,121
Deferred tax assets on previous tax losses	(870)	(6,691)
Closing balance as at 31 December	6,317	7,185

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 2021 in accordance with AASB 112 Income Taxes.

16. Cash and cash equivalents

	2021	2020
	\$'000	\$'000
Cash at bank	4,121	3,209
Short-term deposits	95,859	98,447
Total cash and cash equivalents	99,980	101,686

17. Trade and other receivables

	2021	2020
	\$'000	\$'000
Premiums receivable	71,056	67,447
Receivables from related parties	19	581
Accrued investment income	47	80
Sundry debtors	195	1,084
Total trade and other receivables	71,317	69,192

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

18. Reinsurance and other recoveries receivable

	2021	2020
	\$'000	\$'000
(a) On outstanding claims		
Expected future recoveries (undiscounted)	28,826	25,294
Discount to present value	(83)	(10)
Total reinsurance and other recoveries receivable on outstanding claims	28,743	25,284
(b) On paid claims		
Reinsurance recoveries receivable on paid claims	7,346	4,751
Total reinsurance and other recoveries on paid claims	7,346	4,751
Total reinsurance and other recoveries receivable	36,089	30,035

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

19. Investments

	2021 \$'000	2020 \$'000
Level 2 Financial Assets		
Interest bearing investments	58,500	58,500
Total investments	58,500	58,500

The Company only holds level 2 investments with maturity expected to be realised within 12 months.

During the reporting period ending 31 December 2021, there were no transfers between Level 1, Level 2 and Level 3 fair value measurements.

20. Deferred insurance assets

	2021 \$'000	2020 \$'000
(a) Deferred acquisition costs		
Carrying amount at the beginning of the period	20,704	38,056
Deferral of expenses in the period	27,613	28,901
Expensed in the period	(33,949)	(46,253)
Carrying amount at the end of the period	14,368	20,704
Maturity		
Expected to be realised within 12 months	10,977	13,473
Expected to be realised after 12 months	3,391	7,231
	14,368	20,704
(b) Deferred outwards reinsurance expense		
Carrying amount at the beginning of the period	9,641	5,857
Deferral of expenses in the period	26,089	28,521
Expensed in the period	(25,447)	(24,737)
Carrying amount at the end of the period	10,283	9,641
Maturity		
Expected to be realised within 12 months	10,283	9,641
Expected to be realised after 12 months	-	-
Carrying amount at the end of the period	10,283	9,641

21. Property, plant and equipment

	Furniture & Fixtures \$'000	Computer Software \$'000	Computer Hardware \$'000	Office Equipment \$'000	TOTAL \$'000
Cost or valuation					
At 1 January 2020	1,264	577	1,016	365	3,222
Additions	68	910	266	135	1,379
Disposals	(71)	(332)	(143)	-	(546)
At 31 December 2020	1,261	1,155	1,139	500	4,055
Additions	122	962	308	35	1,427
Disposals	(2)	(1)	(430)	(204)	(637)
At 31 December 2021	1,381	2,116	1,017	331	4,845

Depreciation and impairment

At 1 January 2020	(256)	(190)	(672)	(199)	(1,317)
Additions	(119)	(671)	(168)	(81)	(1,039)
Disposals	71	332	143	-	546
At 31 December 2020	(304)	(529)	(697)	(280)	(1,810)
Additions	(248)	(719)	(219)	(117)	(1,303)
Disposals	2	1	431	204	638
At 31 December 2021	(550)	(1,247)	(485)	(193)	(2,475)

Net book value

At 31 December 2021	831	869	532	138	2,370
At 31 December 2020	957	626	442	220	2,245

22. Right-of-use assets

	Property \$'000	Equipment \$'000	Software \$'000	TOTAL \$'000
Cost or valuation				
At 1 January 2020	6,111	445	2,586	9,142
Additions	1,436	-	-	1,436
Disposals	-	-	(869)	(869)
At 31 December 2020	7,547	445	1,717	9,709
Additions	-	-	41	41
Disposals	-	(168)	-	(168)
Modifications	(1,728)	-	-	(1,728)
At 31 December 2021	5,819	277	1,758	7,854
Depreciation and impairment				
At 1 January 2020	(765)	(133)	(247)	(1,145)
Additions	(824)	(134)	(459)	(1,417)
Disposals	-	-	-	-
At 31 December 2020	(1,589)	(267)	(706)	(2,562)
Additions	(709)	(118)	(553)	(1,380)
Disposals	-	168	-	168
Modifications	93	-	-	93
At 31 December 2021	(2,205)	(217)	(1,259)	(3,681)
Net book value				
At 31 December 2021	3,614	60	499	4,173
At 31 December 2020	5,958	178	1,011	7,147

The Company has several lease contracts that include renewal options. The office lease in Melbourne was originally recognised as an 8-year lease in 2019 as the Management were reasonably certain that the Company would take up the 3-year renewal option after the original 5-year lease term expires in December 2022. Due to remote working arrangements provided to staff in the last two years, Management have re-assessed the business needs for office spaces and concluded that large areas are no longer required and that the renewal option should not be taken. The ROU asset balance on the current Melbourne office lease has therefore been reduced to 5 years to reflect the contractual lease term. Had the Company decided to take up the renewal option, the lease would end on 22nd of December 2025 and would cost additional \$1.65m.

In December 2021 the Company engaged with a new lessor to lease a smaller office area starting in February 2023.

23. Trade and other payables

	2021 \$'000	2020 \$'000
Trade creditors	17,353	20,162
Amounts payable to reinsurers	15,758	15,221
Accrued expenses	4,161	2,641
Other payables	1,339	1,679
	38,611	39,703

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

24. Unearned premium liability and unexpired risk liability

	2021 \$'000	2020 \$'000
Unearned premium	113,920	127,580
Unexpired risk liability	1,201	1,805
	115,121	129,385

(a) Unearned premium liabilities

Carrying amount at the beginning of the period	127,580	148,121
Deferral of premiums on contracts in the period	182,375	186,627
Earning of premiums written in the period	(196,035)	(207,168)
Carrying amount at the end of the period	113,920	127,580

(b) Maturity

Expected to be realised within 12 months	102,559	106,185
Expected to be realised after 12 months	11,361	21,395
	113,920	127,580

(c) Unexpired risk liability

Unexpired risk liability at the beginning of the period	1,805	1,205
Recognition of additional unexpired risk liability during the year	(604)	600
	1,201	1,805

(d) Liability adequacy test (LAT)

Gross unearned premium	113,920	127,580
Deferred acquisition costs	(29,345)	(35,866)
Net unearned premium	84,575	91,714

Central estimate of present value of expected future cashflows	108,053	120,677
Expected recoveries	(37,808)	(46,288)
Risk margin at 75% probability of sufficiency	14,267	14,804
	84,512	89,193

Net surplus/(deficiency)	63	2,521
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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 \$63k (2020: \$2.5m), at an individual product level, the LAT resulted in a total deficiency of -\$6.6m (2020: -\$7.9m). This deficiency has been recognised in the financial statements as an adjustment to deferred acquisition costs of -\$5.4m (2020: -\$6.1m) and an unexpired risk liability of -\$1.2m (2020: -\$1.8m).

25. Unearned reinsurance commission

	2021 \$'000	2020 \$'000
Unearned reinsurance commission	669	611
	669	611
(a) Unearned reinsurance commission		
Carrying amount at the beginning of the period	611	380
Deferral of premiums on contracts in the period	1,356	1,488
Earning of premiums written in the period	(1,298)	(1,257)
Carrying amount at the end of the period	669	611
(b) Maturity		
Expected to be realised within 12 months	669	611
Expected to be realised after 12 months	-	-
	669	611

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

26. Lease liabilities

	2021 \$'000	2020 \$'000
Balance at 1 January	7,506	8,217
Additions	-	567
Modifications (Note 22)	(1,594)	-
Repayment of lease liabilities	(1,586)	(1,278)
Balance at 31 December	4,326	7,506
Maturity		
Expected to be realised within 12 months	1,175	1,575
Expected to be realised after 12 months	3,151	5,931
	4,326	7,506

Guarantees

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

Lessor	Term	Issuer	2021 \$'000	2020 \$'000
RCP Property Australia Pty Ltd	Jan 2018 to Jun 2023	ANZ Bank	195	195
Total Bank Guarantee			195	195

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

	2021 \$'000	2020 \$'000
Annual leave	1,512	1,595
Long service leave	770	883
Other employee benefits	1,985	1,757
Total employee benefits provision	4,267	4,235
Maturity		
Expected to be realised within 12 months	4,174	4,145
Expected to be realised after 12 months	93	90
	4,267	4,235

28. Outstanding claims liability

	2021 \$'000	2020 \$'000
(a) Outstanding claims liability		
Gross outstanding claims liability - undiscounted	53,403	45,838
Discount to present value	(125)	(15)
Gross outstanding claims liability - discounted	53,277	45,823
Risk margin	6,534	5,231
Total outstanding claims liability	59,811	51,054
For the maturity profile, please refer to Note 6c.		
(b) On paid claims		
Outstanding claims payable on reported and processed claims	-	223
	-	223
Total outstanding claims liability	59,811	51,277

(c) 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 11.83% (2020: 11.31%).

(d) 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.

	2021	2020
Inflation rate	2.50%-2.95%	1.35%-2.25%
Superimposed inflation rate (weighted average)	-	-
Discount rate (weighted average)	0.75%	0.21%
Claims handling expense rate - motor classes	6.00%	5.70%
Claims handling expense rate - add-on classes	4.70%	3.00%
Claims handling expense rate - commercial classes	5.70%	5.70%*
Claims handling expense rate - liability classes	8.00%	8.00%*
Weighted average term to settlement (number of years)	0.44	0.43

* The claims handling expense rate for commercial classes and liability classes has been updated to reflect the 2020 actuarial assumptions

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 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 2021, which is applied to discount the undiscounted liability estimates.

Claims handling expense

The claims handling expense rate reflects the costs incurred to manage claims measured as a percentage of claims incurred. Whilst there was only a marginal increase in the dollar claims handling expense in the current review, the gross outstanding claims liabilities (of which the claims handling expense is expressed as a percentage) reduced significantly from the previous review. This resulted in higher claims handling expense percentages for the motor and add-ons classes.

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		59,811	31,068	80,172
Claim Inflation	+ 50 basis points	519	206	695
Discount Rate	+ 50 basis points	-506	-207	-679
Claims Handling Expense	+ 50 basis points	284	264	380
Risk Margin	+ 50 basis points	244	133	327

(e) Reconciliation of movement in discounted outstanding claims liability

	2021			2020		
	Gross \$'000	Reinsurance \$'000	Net \$'000	Gross \$'000	Reinsurance \$'000	Net \$'000
Balance brought forward	51,277	(30,035)	21,242	56,380	(33,287)	23,093
Movement in the prior year central estimate	-	-	-	-	-	-
Current year claims incurred	104,066	(17,500)	86,566	117,137	(25,582)	91,555
Claims paid/recoveries received	(96,725)	10,641	(86,084)	(122,315)	28,670	(93,645)
Movement in discounting	(110)	92	(18)	165	29	194
Movement in risk margin	1,303	713	2,015	(90)	135	45
Balance carried forward	59,811	(36,089)	23,722	51,277	(30,035)	21,242

(f) 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 Customer Refunds

	2021 \$'000	2020 \$'000
Balance at 1 January	2,702	4,394
Arising during the year	-	457
Utilised	(1,654)	(1,564)
Unused amounts reversed	(1,048)	(585)
Balance at 31 December	-	2,702
Current	-	2,702
Non-current	-	-



30. Contributed equity

	2021 \$'000	2020 \$'000
Authorised/Fully paid ordinary shares opening balance	87,800	87,800
Additional equity contribution	-	-
Authorised/Fully paid ordinary shares closing balance	87,800	87,800
	Number of shares	Number of shares
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

	2021 \$'000	2020 \$'000
Reconciliation of the operating profit after tax to the net cash flows from operations:		
Net profit/(loss) from ordinary activities	9,255	10,665
Deduct:		
Depreciation expense	2,683	2,456
Loss on disposal of property, plant and equipment	-	-
Interest paid on lease liabilities	63	276
Profit/(loss) from operating activities	12,001	13,397
(Increase)/decrease in current tax assets	2,148	-
(Increase)/decrease in deferred acquisition costs	6,337	17,353
(Increase)/decrease in deferred outwards reinsurance expense	(642)	(3,784)
(Increase)/decrease in deferred tax assets	868	4,570
(Decrease)/increase in deferred tax liabilities	-	-
(Decrease)/increase in employee benefits provision	32	(61)
(Decrease)/increase in outstanding claims liability	8,534	(5,103)
(Decrease)/increase in provisions for premium refunds	(2,702)	(2,149)
(Decrease)/increase in trade and other payables	(1,236)	10,581
(Increase)/decrease in trade and other receivables	(3,708)	(5,631)
(Decrease)/increase in unearned premium liability and unexpired risk liability	(14,264)	(19,941)
(Decrease)/increase in unearned reinsurance commission	58	231
(Increase)/decrease in reinsurance and other recoveries receivable	(6,055)	3,252
Net cash flows from/(used in) operating activities	1,371	12,715

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:

		Premium revenue	Management fee income	Amounts owed by related parties *	Amounts owed to related parties *
Aioi Nissay Dowa Insurance Co., Ltd (Japan Head Office)	2021	-	-	12,791	10,667
	2020	-	-	9,770	9,969
Aioi Nissay Dowa Insurance Co., Ltd (Australian Branch)	2021	-	319	35	-
	2020	-	347	47	-
Aioi Nissay Dowa Insurance Co., Ltd (New Zealand Branch)	2021	190	-	-	(1)
	2020	100	-	-	225
Mitsui Sumitomo Insurance Co., Ltd (Australian Branch)	2021	-	-	4,452	3,231
	2020	-	-	3,449	3,631

* 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 2021, Japan Head Office owns 100% of the ordinary shares in the Company (2020: 100%).

New Zealand Branch of Aioi Nissay Dowa Insurance Co., Ltd

The New Zealand Branch of Aioi Nissay Dowa Insurance Co., Ltd is an insurance company under MS&AD Insurance Group Holdings, Inc., the same ultimate parent as the Company's.

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 2021, the Company has not recorded any impairment of receivables relating to amounts owed by related parties (2020: \$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.

	2021	2020
	\$	\$
Amounts received or due and receivable by Ernst & Young for:		
- An audit or review of the financial report of the Company	276,663	188,547
- Other services in relation to the Company:		
Tax compliance	22,500	77,000
	299,163	265,547

34. Key management personnel

Compensation of key management personnel of the Company

	2021	2020
	\$'000	\$'000
Short-term employee benefits:		
Salaries	1,968	1,601
Superannuation	169	122
Termination	-	421
Fringe Benefits Tax	89	107
Total compensation	2,227	2,251
Paid By Adica	2,100	2,077
Paid By Japan Head Office	127	174

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 retail insurance products. This relationship is maintained through a ten year Agency Agreement signed in 2014.

36. Events after reporting date

The recent heavy rain and flood events along the east coast of Queensland have resulted in severe damages to property and motor vehicles for individuals residing in affected areas.

The main impact on Adica is likely to be related to Motor Vehicle Insurance products although the impact is currently being assessed at the date of this report.

The financial statements have been prepared based upon conditions existing at 31 December 2021 and considering those events occurring subsequent to that date, that provide evidence of conditions that existed at the end of the reporting period. As these natural disasters occurred after 31 December 2021, 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 2021 for the impacts.

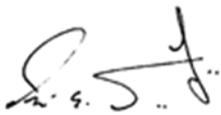
Directors Declaration

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 2021 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:



Director: Mr P E Daly AM

Signed in Melbourne this 22nd day of March 2022



Independent Auditors Report



Ernst & Young
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com/au

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 2021, 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:

- a. Giving a true and fair view of the Company's financial position as at 31 December 2021 and of its financial performance for the year ended on that date; and
- b. 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 (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

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.

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- ▶ Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

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

A handwritten signature in black ink that reads 'Ernst & Young' in a cursive style.

Ernst & Young

A handwritten signature in black ink, appearing to be 'Hayley Watson'.

Hayley Watson
Partner
Melbourne
22 March 2022

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Aioi Nissay Dowa Insurance Company Australia Pty Ltd (ADICA)

Level 8, 390 St Kilda, Melbourne, VIC 3004.

P O Box 7212, Melbourne, VIC 3004