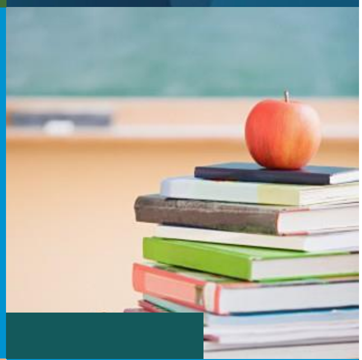
CARE

COMMUNITY

FAITH

EDUCATION



HERITAGE

Ansvar Insurance Limited

ABN 21 007 216 506

Annual Report for the financial year ended 31 December 2020

Ansvar Insurance Limited

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Ansvar Insurance Limited

Corporate Information

ABN 21 007 216 506

Directors
Patricia Kelly, Chairperson
Warren Hutcheon, Chief Executive Officer
Michael Grantham
David Lambert
Helen Thornton
Jacinta Whyte

Company Secretary
Dana Argyropoulos

Registered Office and Principal Place of Business
Level 5
1 Southbank Boulevard
Southbank
Melbourne
Victoria
3006
Phone: +61 3 8630 3100

External Auditor
PricewaterhouseCoopers
2 Riverside Quay
Southbank
Melbourne
Victoria
3006

Internal Auditor
Ernst & Young
8 Exhibition Street
Melbourne
Victoria
3000

Appointed Actuary
Finity Consulting Pty Ltd
Level 3, 30 Collins Street
Melbourne
Victoria
3000

Directors' Report

The Directors of Ansvar Insurance Limited (Ansvar) (the Company) submit their report for the year ended 31 December 2020.

The names and details of Ansvar's Directors during the financial year and until the date of this report are as follows. Directors were in office for the entire period unless otherwise stated.

Patricia Kelly Chairperson and independent non-executive Director	Patricia joined the Board in May 2014 and was appointed Chairperson in June 2018. Patricia has held senior management roles in the financial services industry including as Executive General Manager Strategy and Business Development Personal Insurance at Suncorp/AAMI, General Manager AAMI New South Wales and Director and Executive General Manager Life and Superannuation at Norwich Union Life Australia. Patricia is a past President and Honorary Life Member of the Insurance Institute of Victoria and a former Director of the Australian and New Zealand Institute of Insurance and Finance (ANZIIF). Patricia is also a non-executive Director and Chairperson of RACT Insurance Pty Limited and a non-executive Director of the Royal Automobile Club of Victoria and Legal Practitioners Liability Committee. Patricia is the Chairperson of the Nominations and Remuneration Committee and a member of the Audit Committee, Risk and Compliance Committee and Technology Committee.
Warren Hutcheon MBA, GAICD, Fellow ANZIIF (CIP) Executive Director	Warren was appointed Chief Executive Officer and Director of Ansvar in May 2014. Prior to joining Ansvar he was the Chief Executive Officer of the Victorian Managed Insurance Authority, the risk and insurance advisor to the Victorian Government. Warren has over 30 years' experience in risk and insurance. He has held senior management positions in underwriting, claims, operational management, strategy and organisational change. Warren is an active supporter of the Australian insurance industry and served as Chairperson of the ANZIIF General Insurance Faculty Advisory Board. Warren is also an active community member, holding the position of Board member of Bayside Church Incorporated, Bayside Community Care and associated entities. Warren is a Director of ACS (NZ) Limited and Ansvar Risk Management Services Pty Limited and a member of the Technology Committee.
Michael Grantham MBA, FAICD Independent non-executive Director	Michael was appointed to the Board in March 2016. Michael has over 30 years' experience as an information and communications technology professional. He is currently the Head of Google Cloud Australia and New Zealand, Google LLC. Michael is a former General Manager of NBN Co Limited and Director of CGU Australia Limited, CGU Insurance Limited and Insurance Network Services. He has also held the position of Chief Information Officer at CGU Insurance Limited, Australian Customs and Border Protection and Tenix. Michael is the Chairperson of the Technology Committee, and a member of the Audit Committee, Nominations and Remuneration Committee and Risk and Compliance Committee.
David Lambert BA (Hons), LLB Independent non-executive Director	David was appointed to the Board in July 2018. David is an experienced executive, Director and commercial lawyer with diverse international experience. He is currently the Corporate Counsel and Company Secretary of Total Tools. David has held senior roles in risk, strategy and legal practice including Blackmagic Design, EnergyAustralia, National Foods, Clifford Chance, Ashton Mining and Bapcor Limited. David is a member of the Audit Committee, Nominations and Remuneration Committee and Risk and Compliance Committee.
Helen Thornton BEc, CA, GAICD Independent non-executive Director	Helen joined the Board in May 2018 and was appointed Chairperson of the Audit Committee and Risk and Compliance Committee in June 2018. A Chartered Accountant, Helen has extensive experience in finance, governance, audit and risk management. She has held senior management roles at Deloitte, KPMG, BHP Limited and BlueScope Steel Limited where she was responsible for the company's global risk management function. Helen is also an experienced non-executive Director. Her previous directorships include Big Sky Building Society, Rural Finance Corporation and Zoos Victoria. Her current directorships include Deputy Chairperson of the Treasury Corporation of Victoria and non-executive Director of Yarra Valley Water, Austin Health, Legal Practitioners Liability Committee and ISPT Pty Limited. Helen is a member of the Nominations and Remuneration Committee.

Jacinta Whyte
MC Inst. M, ACII, Chartered Insurer
Non-executive Director

Jacinta was appointed to the Board in August 2013. She is the Deputy Group Chief Executive of Ecclesiastical Insurance Office Plc. Jacinta joined the Ecclesiastical Group in 2003 as General Manager and Chief Agent of the Group's Canadian business. She was responsible for turning around the performance of the Canadian operation and building a high performing team and a successful specialist insurance business. Jacinta is responsible for the Group's general insurance operations worldwide, covering the United Kingdom, Ireland, Australia and Canada. Jacinta commenced her career as an underwriter in 1974 with Royal and Sun Alliance and held a number of senior executive positions in Ireland and Canada. Jacinta is a member of the Nominations and Remuneration Committee.

As at the date of this report, the Directors held no interests in the shares and options of Ansvar Insurance Limited.

Company Secretary

Dana Argyropoulos
BEc, FGIA

Dana was appointed as Company Secretary on 12 November 2018. Dana is an experienced Company Secretary having held positions within the private and public sectors. Prior to joining Ansvar, Dana was the Corporate Secretary of the Victorian Managed Insurance Authority, a position she held for 12 years. Dana was also a Company Secretary at ANZ Bank.

Principal activities

Ansvar is a company limited by shares that is incorporated and domiciled in Australia. Ansvar Insurance Limited and its dormant subsidiary, Ansvar Insurance Services Pty Limited, form the consolidated Group (the Group). The Group's principal activities in the financial year consisted of the provision of general insurance products to its customers in its core segments of faith, care, property owners (including heritage), education and community. It also continued to provide claims run-off services to ACS (NZ) Limited (ACS), its former subsidiary domiciled in New Zealand, under a management services agreement. During 2020 Ansvar seconded staff and provided support services to Ansvar Risk Management Services Pty Limited (ARMS) which in turn delivered risk services to Ansvar's customers.

Ansvar continues to be ultimately owned by a charity and provided further grants of $250K (2019: $250K) during the financial year through its Community Education Programme.

Review of operations

Ansvar responded quickly to the outbreak of the COVID-19 pandemic in equipping and transitioning its workforce to work remotely ensuring continuity of service to its policyholders was maintained throughout the transition.

In 2020 Ansvar generated a profit before income taxation of $3,884K (2019: loss $4,956K). During the year Ansvar incurred a net underwriting loss of $1,946K (2019: loss $12,348K) due primarily to the strengthening of PSA net claims liabilities following higher than expected claim numbers, an allowance for COVID-19 related Property Business Interruption claims and an adverse impact pertaining to the decrease in the weighted average discount rate to 0.70% (2019: 1.24%), offset by favourable development in the General Public Liability portfolio due to both favourable actual experience in 2020 and related changes to forward looking assumptions. The net underwriting loss was more than offset by a strong investment performance with Net Investment Income of $5,853K (2019: $7,460K) in line with Ansvar's strategy for the investment portfolio to act as a hedge against the impact of the movement in discount rates on net claims liabilities.

At 31 December 2020 Ansvar's Prescribed Capital Amount Coverage Ratio was 1.98 (2019: 1.82) which was within the target range of 1.75-2.25 approved by the Board. In May 2020 its financial strength rating from its rating agency, A.M. Best, was reaffirmed as Excellent/A- (2019: Excellent/A-).

Ansvar employed 102 full time equivalent staff at 31 December 2020 (2019: 97).

Changes in state of affairs

During the financial year there were no significant changes in the state of affairs of the Group.

Subsequent events

There has not been any matter or circumstance that has occurred between the balance sheet date and the date of this report that has significantly affected, or may significantly affect, the Group's and the Company's operations in future financial years, the results of those operations or the Group's and the Company's state of affairs in future financial years.

Future developments

Disclosure of information with regard to likely developments in the operations of the Group in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the Group. Accordingly, this information has not been disclosed in this report.

Directors' meetings
The following table sets out the number of Board and Board Committee meetings during the financial year the Director was eligible to attend as members and the number of meetings attended by each Director including in an observer capacity.

Directors	Board		Audit Committee		Nominations and Remuneration Committee		Risk and Compliance Committee		Technology Committee	
	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended
Patricia Kelly	10	10	5	5	4	4	4	4	8	8
Michael Grantham	10	10	5	5	4	4	4	4	8	8
Warren Hutcheon	10	10	-	5	-	4	-	4	8	8
David Lambert	10	10	5	5	4	4	4	4	-	1
Helen Thornton	10	10	5	5	4	4	4	4	-	6
Jacinta Whyte	10	9	-	5	4	4	-	4	-	1

Section 11 of the Company's Constitution provides an indemnity to every person that is or has been a Director, alternate Director, executive officer or officer of the Company or related corporate bodies. During the financial year the Company paid a premium in respect of a contract insuring the abovementioned Directors of the Company, the Company Secretary and all executive officers of the Company and any related corporate body against a liability incurred as such a Director, Company Secretary, executive officer or corporate body to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits the disclosure of the nature of the liability and the amount of the premium.

The Company has not otherwise, during the financial year and until the date of this report, indemnified or agreed to indemnify an officer or auditor of the Company or any related corporate body against a liability incurred as such officer or auditor.

Environmental regulations
The operations of the Company are not subject to any particular or significant environmental regulation under a law of the Commonwealth or of a State or Territory. There have been no known breaches of any environmental requirements applicable to the Company.

Auditor's Independence Declaration
The Auditor's Independence Declaration is included on page 5 of the Annual Report.

Rounding
The Company is a company of the kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191* dated 24 March 2016 and accordingly all amounts in the Directors' Report and the annual financial statements are rounded to the nearest thousand Dollars unless otherwise indicated.

The Directors' Report is signed in accordance with a resolution of the Directors made pursuant to section 298(2) of the *Corporations Act 2001*.

On behalf of the Directors:

……………………………………………..
P M Kelly
Chairperson

……………………………………………..
H Thornton
Director

Melbourne
22 February 2021

Auditor's Independence Declaration

As lead auditor for the audit of Ansvar Insurance Limited for the year ended 31 December 2020, I declare that 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.

This declaration is in respect of Ansvar Insurance Limited and the entities it controlled during the period.

R Balding
Partner
PricewaterhouseCoopers

Sydney
22 February 2021

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Independent auditor's report

To the members of Ansvar Insurance Limited

Our opinion

In our opinion:

The accompanying financial report of Ansvar Insurance Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 31 December 2020 and of its financial performance for the year then ended

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated balance sheet as at 31 December 2020
- the consolidated comprehensive operating statement for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated cash flow statement for the year then ended
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information
- the directors' declaration.

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

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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Other information

The directors are responsible for the other information. The other information comprises the information included in the annual financial report for the year ended 31 December 2020, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and 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 on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

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

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or 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 the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:
http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf.

This description forms part of our auditor's report.

PricewaterhouseCoopers

PricewaterhouseCoopers

R Balding
Partner

Sydney
22 February 2021

Directors' Declaration

In the opinion of the Directors of Ansvar Insurance Limited:

- The consolidated financial statements and notes of Ansvar Insurance Limited for the financial year ended 31 December 2020 are in accordance with the *Corporations Act 2001* including:
    - Giving a true and fair view of the consolidated Group's financial position as at 31 December 2020 and of its performance for the year ended on that date; and
    - Complying with Australian Accounting Standards including Interpretations and the *Corporations Regulations 2001.*

- The consolidated financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 2; and

- There are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors made pursuant to section 295(5) of the *Corporations Act 2001*:

……………………………………………..	……………………………………………..
P M Kelly	**H Thornton**
Chairperson	Director

Melbourne
22 February 2021

Ansvar Insurance Limited

Consolidated Comprehensive Operating Statement
For the financial year ended 31 December 2020

		Company and Consolidated	
		2020	2019
	Note	$'000	$'000
Gross premium written	18	**149,948**	**126,531**
Increase in gross unearned premium liability		(15,332)	(15,782)
Gross premium earned	6(a),18	**134,616**	**110,749**
Reinsurance premium incurred	18	(81,698)	(68,557)
Net premium earned	18	**52,918**	**42,192**
Gross claims incurred	7	(116,656)	(82,267)
Reinsurance and other recoveries	6(a),7	83,771	52,687
Indirect claims handling expenses	7	(1,770)	(3,234)
Net claims incurred	7	**(34,655)**	**(32,814)**
Gross commission paid		(18,906)	(15,965)
Increase in gross deferred acquisition costs		3,979	83
Reinsurance commission received	6(a)	20,380	18,434
Increase in ceded deferred acquisition costs	6(a)	(1,543)	(2,273)
Reinsurance broker fees incurred		(713)	(1,066)
Underwriting expenses incurred		(15,263)	(7,276)
Emergency Services Levy		(5,842)	(4,762)
Net acquisition expenses incurred		**(17,908)**	**(12,825)**
Other income	6(a)	775	801
Administration expenses		(3,076)	(9,702)
Underwriting result		**(1,946)**	**(12,348)**
Investment income	6(a)	6,107	7,706
Investment management expenses		(254)	(246)
Net investment income		**5,853**	**7,460**
Interest expense		(23)	(68)
Profit/(loss) before income taxation		**3,884**	**(4,956)**
Income taxation (expense)/benefit	10	(1,243)	1,468
Profit/(loss) after income taxation		**2,641**	**(3,488)**
Other comprehensive income		-	-
Comprehensive result		**2,641**	**(3,488)**

The Comprehensive Operating Statement should be read in conjunction with the accompanying Notes to the Financial Statements.

Ansvar Insurance Limited

Consolidated Balance Sheet
As at 31 December 2020

	Note	Company and Consolidated			
			2020		2019
			$'000		$'000
Assets					
Cash and cash equivalents	11		36,478		19,020
Investments	12		193,767		160,903
Trade and other receivables	13		60,689		54,892
Furniture, fittings and equipment	14		230		224
Right of use assets	15		2,022		1,933
Intangible asset	16		8,579		3,671
Deferred Emergency Services Levy	17		4,086		3,278
Gross deferred acquisition costs	17		15,087		11,108
Unearned premium	18	41,322		35,896	
Claims outstanding and incurred but not reported	19,23(c)	88,710		65,084	
Reinsurance and other assets			130,032		100,980
Current taxation asset	10		2,216		2,679
Deferred taxation asset	10		3,488		4,681
Total assets			**456,674**		**363,369**
Liabilities					
Trade and other payables	20		40,824		37,031
Lease liabilities	15		2,108		1,988
Ceded deferred acquisition costs			11,335		9,792
Provisions	21		2,662		2,198
Unearned premium	18	87,119		71,787	
Claims outstanding and incurred but not reported	23	216,215		166,795	
Gross insurance liabilities			303,334		238,582
Total liabilities			**360,263**		**289,591**
Net assets			**96,411**		**73,778**
Equity					
Share capital	24		27,300		7,308
Retained earnings			69,111		66,470
Total equity			**96,411**		**73,778**

The Balance Sheet should be read in conjunction with the accompanying Notes to the Financial Statements.

Ansvar Insurance Limited

Consolidated Statement of Changes in Equity
For the financial year ended 31 December 2020

	Note	Company and Consolidated		
		Fully paid ordinary shares $'000	Retained earnings $'000	Total $'000
Balance at 31 December 2018		**7,308**	**73,733**	**81,041**
Comprehensive result for the year		-	(3,488)	(3,488)
Dividend	27	-	(3,775)	(3,775)
Balance at 31 December 2019		**7,308**	**66,470**	**73,778**
Comprehensive result for the year		-	2,641	2,641
Ordinary share capital issued	24,27	19,992	-	19,992
Balance at 31 December 2020		**27,300**	**69,111**	**96,411**

The Statement of Changes in Equity should be read in conjunction with the accompanying Notes to the Financial Statements.

Consolidated Cash Flow Statement
For the financial year ended 31 December 2020

	Note	Company and Consolidated 2020 $'000	2019 $'000
Cash flows from operating activities			
Insurance premium received		141,089	117,888
Reinsurance and other recoveries received		63,174	33,677
Interest received		4,248	5,415
Other income		779	635
Reinsurance premium paid		(83,982)	(69,979)
Gross claims paid	23(c)	(67,235)	(50,859)
Indirect claims handling expenses paid		(1,770)	(3,234)
Acquisition and other expenses paid		(22,289)	(16,341)
Interest paid		(23)	(68)
Finance costs on leases		(35)	(52)
Income taxation received/(paid)		414	(3,501)
Net cash inflow from operating activities	30	**34,370**	**13,581**
Cash flows from investing activities			
Acquisition of investments		(56,957)	(54,657)
Proceeds on disposal of investments		25,952	46,268
Acquisition of furniture, fittings and equipment	14	(128)	(152)
Acquisition of intangible assets	16	(4,908)	(3,671)
Net cash outflow from investing activities		**(36,041)**	**(12,212)**
Cash flows from financing activities			
Proceeds on issue of ordinary share capital	24	19,992	-
Dividends paid		-	(3,775)
Repayment of principal on leases		(863)	(862)
Net cash inflow/(outflow) from financing activities		**19,129**	**(4,637)**
Net increase/(decrease) in cash and cash equivalents		17,458	(3,268)
Cash and cash equivalents at beginning of year		**19,020**	**22,288**
Cash and cash equivalents at end of year	11	**36,478**	**19,020**

The Cash Flow Statement should be read in conjunction with the accompanying Notes to the Financial Statements.

1. Corporate information

The consolidated financial statements of Ansvar for the financial year ended 31 December 2020 were authorised for issue in accordance with a resolution of the Directors on 22 February 2021.

Ansvar is a company limited by shares that is incorporated and domiciled in Australia. Ansvar's immediate parent is Ecclesiastical Insurance Office Plc which owns 100% of the ordinary shares. Ecclesiastical Insurance Office Plc is a wholly-owned subsidiary of AllChurches Trust Limited, which is the ultimate parent. The nature of the operations and principal activities of the Group are outlined in the Directors' Report.

2. Significant accounting policies

Basis of preparation
The consolidated financial report is a general purpose financial report which has been prepared in accordance with the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The consolidated financial report also complies with Australian equivalents to International Financial Reporting Standards as issued by the International Accounting Standards Board. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the Group and the Company comply with International Financial Reporting Standards.

The financial statements comprise the consolidated financial statements of the Group and the Company. For the purposes of preparing the consolidated financial statements, the Group and Company are for-profit entities.

The consolidated financial report has been prepared on a historical cost basis, except for investments which have been measured at fair value and net claims liabilities which have been measured as outlined in Notes 2(e), 2(f) and 3.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported. Assets and liabilities are presented in a decreasing order of liquidity on the face of the Balance Sheet. Information with regard to the current and non-current amounts of assets and liabilities is included in the relevant note to the financial statements.

All amounts are presented in Australian Dollars. The Company is a company of the kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191* dated 24 March 2016 and accordingly all amounts in the Directors' Report and the annual financial statements are rounded to the nearest thousand Dollars unless otherwise indicated.

The following significant accounting policies have been adopted in the preparation and presentation of the consolidated financial report:

(a) Principles of general insurance business
An insurance contract is defined as a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

(b) Gross premium earned and gross unearned premium liability
Premium comprises amounts charged to policyholders including the Emergency Services Levy, but excluding Stamp Duty and Goods and Services Taxation (GST). The earned portion of premium received and receivable, including unclosed business, is recognised as revenue. Premium is earned from the date of attachment of risk. Premium pertaining to unclosed business is brought to account with reference to the previous year's premium processing delays with due allowance for any changes in the pattern of new business and renewals.

The pattern of recognition of income over the policy period is based on time, which closely approximates the pattern of risks underwritten. The gross unearned premium liability is determined by apportioning the premium written over the period from date of attachment of risk to the expiry of the policy term. Gross premium written which has not been earned at the balance sheet date is included in the gross unearned premium liability in the Balance Sheet.

(c) Reinsurance premium incurred and ceded unearned premium asset
Premium ceded to reinsurers is recognised as an expense in accordance with the indemnity period of the corresponding reinsurance contract. Accordingly, a portion of outward reinsurance premium is treated as a ceded unearned premium asset at the balance sheet date.

2. Significant accounting policies (continued)

(d) Unexpired risks liability
Liability adequacy testing is performed at each balance sheet date in order to recognise any deficiencies in the adequacy of the unearned premium liability arising from the carrying amount of the net unearned premium liability less any related deferred acquisition costs not meeting the estimated future net claims incurred under current insurance contracts.

The estimated future net claims incurred under current insurance contracts is 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. Any deficiency arising from the test is recognised in the Comprehensive Operating Statement through the write down of any related deferred acquisition costs. If an additional liability is required, it is recognised as an unexpired risks liability in the Balance Sheet.

(e) Gross claims incurred and gross claims liabilities
Gross claims incurred and gross claims liabilities are recognised in respect of all business written. Gross claims liabilities comprise claims reported but not yet paid, claims incurred but not reported (IBNR), claims incurred but not enough reported, the anticipated direct and indirect claims handling expenses of settling those claims and a risk margin. Gross claims liabilities are assessed by reviewing individual claim files and estimating changes in the ultimate cost of settling claims using statistical methods based on past experience and trends.

No discounting has been applied to gross claims liabilities for short tail classes as the impact is not material. The gross claims liabilities for long tail classes are measured as the present value of the expected future claim payments. These payments are estimated on the basis of the ultimate cost of settling claims, which is affected by factors arising during the period to settlement such as normal and superimposed inflation. The expected future payments are discounted to present value at the balance sheet date using risk free discount rates.

(f) Reinsurance and other recoveries
Reinsurance and other recoveries received or receivable in respect of gross claims paid and movements in reinsurance and other recovery assets in respect of claims reported but not yet paid, claims incurred but not reported and claims incurred but not enough reported are recognised in the Comprehensive Operating Statement in the year they occur.

Reinsurance and other recovery assets are actuarially assessed in a manner similar to the assessment of gross claims liabilities and are measured as the present value of the expected future receipts, calculated on the same basis as the gross claims liabilities [refer to Note 2(e)].

(g) Deferred Emergency Services Levy
A liability for Emergency Services Levy is recognised on premium written to the balance sheet date. The Emergency Services Levy is expensed on the same basis as the recognition of premium written, with the portion relating to unearned premium being recorded as deferred Emergency Services Levy.

(h) Gross deferred acquisition costs
Acquisition costs, which represent gross commission paid in respect of general insurance contracts and other acquisition costs, are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium earned that will be recognised in the Comprehensive Operating Statement in subsequent reporting periods.

Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the general insurance contracts to which they relate. This pattern of amortisation corresponds to the earning pattern of the corresponding premium written. Deferred acquisition costs are measured at the lower of cost and recoverable amount.

(i) Fee income
Fee income is recognised when it is probable that the economic benefits will flow to the Group and the income can be reliably measured, regardless of when the payment is being made.

2. Significant accounting policies (continued)

(j) Investment income
Interest income is recognised when it is probable that the economic benefits will flow to the Group and the income can be reliably measured. Interest income is accrued on a time proportionate basis with reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

(k) Foreign currency translation
All foreign currency transactions are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at the balance sheet date are translated at the exchange rate existing at the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

(l) Leases
The Group assesses at contract inception whether a contract is or contains a lease, i.e., if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group applies a single recognition and measurement approach for all leases, except for short term leases and leases of low value assets. The Group recognises lease liabilities to make lease payments and right of use assets representing the right to use the underlying assets.

<u>Right of use assets</u>
The Group recognises right of use assets at the commencement date of the lease, i.e., the date the underlying asset is available for use. Right of use assets are measured at cost less any accumulated depreciation and impairment and adjusted for any remeasurement of lease liabilities. The cost of right of use assets includes the amount of lease liabilities recognised, initial direct costs incurred and lease payments made at or before the commencement date less any lease incentives received. Right of use assets are depreciated on a straight line basis over the term of the lease.

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

<u>Lease liabilities</u>
At the commencement date of the lease the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments including in-substance fixed payments, less any lease incentives receivable, variable lease payments that depend on an index or a rate and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments, for example, changes to future payments resulting from a change in an index or rate used to determine such lease payments, or a change in the assessment of an option to purchase the underlying asset.

<u>Short term leases and leases of low value assets</u>
The Group applies the short term lease recognition exemption to its short term leases of equipment, i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the lease of low value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short term leases and leases of low value assets are recognised as an expense on a straight line basis over the lease term.

2. Significant accounting policies (continued)

(m) Income taxation

Current taxation

Current taxation is calculated with reference to the amount of income taxation payable or recoverable in respect of the taxable income or loss for the year. It is calculated using taxation rates and laws that have been enacted or substantively enacted by the balance sheet date. Current taxation for current and prior periods is recognised as a liability or asset to the extent that it is unpaid or refundable.

Deferred taxation

Deferred taxation is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding taxation base of those items.

In principle deferred taxation liabilities are recognised for all taxable temporary differences. Deferred taxation assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused taxation losses and taxation offsets can be utilised. However, deferred taxation assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities, other than as a result of a business combination, which does not affect either taxable income or accounting profit before income taxation.

Deferred taxation assets and liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, branches, associates and joint ventures except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred taxation assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable income against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred taxation assets and liabilities are measured at the taxation rates that are expected to apply to the periods when the asset and liability giving rise to them are realised or settled, based on taxation rates and laws that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred taxation assets and liabilities reflects the taxation consequences that would follow from the manner in which the Group expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred taxation for the year

Current and deferred taxation is recognised as an expense or benefit in the Comprehensive Operating Statement, except when it relates to items credited or debited directly to equity, in which case the deferred taxation is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

Australian Multiple Entry Consolidated Group

Ansvar Insurance Limited, Ansvar Risk Management Services Pty Limited and Ansvar Insurance Services Pty Limited formed an Australian Multiple Entry Consolidated Group (MEC Group) for income taxation purposes with effect from 8 January 2018 of which Ansvar Insurance Limited is the head company.

Ansvar Insurance Limited, as the head company, assumes the following balances from companies within the MEC Group:

- Current income taxation balances arising from external transactions recognised by companies in the MEC Group occurring on or after the implementation date.
- Deferred income taxation assets arising from unused income taxation losses and unused income taxation credits recognised by companies in the MEC Group.

A Tax Funding Agreement has been entered into by the head company and the other companies in the MEC Group. Companies in the MEC Group continue to be responsible, by the operation of the Tax Funding Agreement, for funding income taxation payments required to be made by the head company arising from underlying transactions of the companies in the MEC Group. Companies in the MEC Group make/receive contributions to/from the head company for the balances assumed by the head company. The contributions are calculated in accordance with the Tax Funding Agreement. The contributions are payable as set out in the Tax Funding Agreement and reflect the timing of Ansvar Insurance Limited’s obligations to make payments to the Australian Taxation Office.

Assets and liabilities which arise as a result of balances transferred from companies within the MEC Group to the head company are recognised as a related party receivable or payable in the Balance Sheet.

2. Significant accounting policies (continued)

(n) Goods and Services Taxation

Income, expenses, assets and liabilities are recognised net of GST except:

- Where the amount of GST incurred is not recoverable from the Australian Taxation Office.
- For receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from or payable to the Australian Taxation Office is included as part of receivables or payables.

Cash flows are included in the Cash Flow Statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from or payable to the Australian Taxation Office is classified as cash flows from operating activities.

(o) Financial assets

In accordance with *AASB 1023 General Insurance Contracts* the Group is required to measure financial assets held to back the insurance liabilities at fair value through profit or loss.

AASB 139 Financial Instruments: Recognition and Measurement has an option to measure all financial assets at fair value through profit or loss. Investments constitute a group of financial assets which are managed, and their performance evaluated, on a fair value basis in accordance with the Group's Investment Policy. The Group has elected to measure all financial assets that are not held to back the insurance liabilities at fair value through profit or loss upon initial recognition.

Fair value is determined with reference to the closing bid price of the instrument at the balance sheet date.

<u>Loans</u>
Loans are measured at amortised cost using the effective interest method less impairment.

(p) Financial instruments issued by the Group

<u>Debt and equity instruments</u>
Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

<u>Transaction costs on the issue of equity instruments</u>
Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

<u>Interest and dividends</u>
Interest and dividends are classified as expenses or as distributions of profit consistent with the Balance Sheet classification of the related debt or equity instruments.

(q) Impairment of assets

At each balance sheet date the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

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

If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash generating unit is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss reduces the revaluation amount.

2. Significant accounting policies (continued)

(q) Impairment of assets (continued)
Where an impairment loss subsequently reverses, the carrying amount of the asset or cash generating unit is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or cash generating unit in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss increases the revaluation amount.

(r) Cash and cash equivalents
Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the Balance Sheet.

Cash equivalents are held for the purpose of meeting short term cash commitments rather than for investment purposes and include money market instruments with short maturities (three months or less from the date of acquisition) which are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

(s) Receivables
Trade receivables represent receivables associated with the premium, reinsurance and other recoveries, claims and commission. All other receivables are classified as non-trade receivables.

Receivables are stated at the amounts to be received in the future, less any impairment losses. The amounts are discounted where the effect of the time value of money is material. The recoverability of receivables is assessed on an ongoing basis and provision for impairment is made based on objective evidence and with regard to past default experience. The impairment charge is recognised in the Comprehensive Operating Statement. Receivables which are known to be uncollectible are written off.

Receivables are non-interest bearing and are normally settled between 30 days and 12 months. The net carrying amount of receivables is a reasonable approximation of the fair value of the assets due to the short term nature of the assets.

(t) Furniture, fittings and equipment
Furniture, fittings and equipment are recognised at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is charged on furniture, fittings and equipment. Depreciation is calculated on a straight line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each financial year.

The following estimated useful lives are used in the calculation of depreciation:

• Computer hardware	3-9 years
• Leasehold improvements	Term of lease
• Office furniture and equipment	3 years

(u) Intangible assets
Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition intangible assets are carried at cost less any accumulated amortisation and impairment. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each financial year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the Comprehensive Operating Statement in the expense category that is consistent with the function of the intangible assets.

2. Significant accounting policies (continued)

(u) Intangible assets (continued)

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

An intangible asset is derecognised upon disposal, i.e., at the date the recipient obtains control, or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset, calculated as the difference between the net disposal proceeds and the carrying amount of the asset, is included in the Comprehensive Operating Statement.

(v) Trade and other payables

Trade payables represent payables associated with the premium, reinsurance and other recoveries, claims and commission. All other payables are classified as non-trade payables.

Trade and other payables are stated at cost, which is the fair value of future payments for the purchase of goods and services. Payables are recognised when the Group becomes obliged to make these payments. The amounts are discounted where the effect of the time value of money is material.

Trade and other payables are non-interest bearing and normally settled within 12 months. The non-current portion has not been discounted as the effect of the time value of money is not material.

(w) Employee benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave for services rendered to the balance sheet date when it is probable that settlement will be required and the amounts can be reliably measured.

Provisions made in respect of employee benefits expected to be settled within 12 months are measured as the amount unpaid at the balance sheet date at current pay rates in respect of employees' services up to that date.

Provisions made in respect of employee benefits that are not expected to be settled within 12 months are measured at the present value of the expected future cash outflows to be made by the Group in respect of services provided by employees up to the balance sheet date. Consideration is given to the expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using interest rates on high quality corporate bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

<u>Defined contribution funds</u>

Contributions to defined contribution superannuation funds are expensed when incurred.

(x) Principles of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entity controlled by the Company (its subsidiary) referred to as 'the Group' in these financial statements. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The consolidated financial statements include the information and results of the controlled entity from the date on which the Company obtains control and until such time as the Company ceases to control the entity.

Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

In preparing the consolidated financial statements all intercompany balances and transactions and unrealised profits arising within the economic entity are eliminated in full.

2. Significant accounting policies (continued)

(y) New Accounting Standards and Interpretations

The accounting policies adopted are consistent with those of the previous financial year except for the following Australian Accounting Standards adopted with effect from 1 January 2020:

Standard	Summary	Application date of standard	Note	Application date for Group
Conceptual Framework AASB 2019-1	*Conceptual Framework for Financial Reporting Amendments to Australian Accounting Standards – References to the Conceptual Framework* The revised Conceptual Framework is not a Standard and none of the concepts override those in any Standard or any requirements in a Standard. The purpose of the Conceptual Framework is to assist the AASB in developing Standards, to help preparers develop consistent accounting policies if there is no applicable Standard in place and to assist all parties to understand and interpret the Standards. The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. It is arranged in eight chapters as follows: • Chapter 1 – The objective of financial reporting. • Chapter 2 – Qualitative characteristics of useful financial information. • Chapter 3 – Financial statements and the reporting entity. • Chapter 4 – The elements of financial statements. • Chapter 5 – Recognition and derecognition. • Chapter 6 – Measurement. • Chapter 7 – Presentation and disclosure. • Chapter 8 – Concepts of capital and capital maintenance. *AASB 2019-1* has also been issued which sets out the amendments to other pronouncements for references to the revised Conceptual Framework. The changes to the Conceptual Framework may affect the application of Accounting Standards in situations where no Standard applies to a particular transaction or event. In addition, relief has been provided in applying *AASB 3* and developing accounting policies for regulatory account balances using *AASB 108*, such that entities must continue to apply the definitions of an asset and a liability and supporting concepts in the *Framework for the Preparation and Presentation of Financial Statements* (July 2004), and not the definitions in the revised Conceptual Framework.	1 January 2020	B	1 January 2020
AASB 2019-5	*Amendments to Australian Accounting Standards – Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia* It is possible that an entity complying with Australian Accounting Standards cannot assert compliance with IFRS Standards if its reporting date falls between the issuance date of a new IFRS Standard and a later release date of an equivalent Australian Accounting Standard. To enable IFRS compliance assertion despite such delays, this standard amends *AASB 1054 Australian Additional Disclosures* to require disclosure of the possible impact of initial application of forthcoming IFRS Standards not yet adopted by the AASB, as specified in paragraphs 30 and 31 of *AASB 108*. Entities complying with Australian Accounting Standards can assert compliance with IFRS Standards by making this additional disclosure. The amendments are applied prospectively.	1 January 2020	A	1 January 2020

2. Significant accounting policies (continued)

(y) New Accounting Standards and Interpretations (continued)

Accounting Standards not yet effective
There are a number of new and revised Australian Accounting Standards which have been issued by the Australian Accounting Standards Board (AASB) for which the mandatory application dates fall after the end of this financial year. None of these Standards have been adopted early and applied in the current financial year.

Standard	Summary	Application date of standard	Note	Application date for Group
AASB 9 and relevant amending Standards	*Financial Instruments* *AASB 9* replaces *AASB 139 Financial Instruments: Recognition and Measurement.* Except for certain trade receivables, an entity initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVTPL), transaction costs. Debt instruments are subsequently measured at FVTPL, amortised cost, or fair value through other comprehensive income (FVOCI), on the basis of their contractual cash flows and the business model under which the debt instruments are held. There is a fair value option (FVO) that allows financial assets on initial recognition to be designated as FVTPL if that eliminates or significantly reduces an accounting mismatch. Equity instruments are generally measured at FVTPL. However, entities have an irrevocable option on an instrument by instrument basis to present changes in the fair value of non-trading instruments in other comprehensive income (OCI) without subsequent reclassification to profit or loss. For financial liabilities designated as FVTPL using the FVO, the amount of change in the fair value of such financial liabilities that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation in OCI of the fair value change in respect of the liability's credit risk would create or enlarge an accounting mismatch in profit or loss. All other *AASB 139* classification and measurement requirements for financial liabilities have been carried forward into *AASB 9*, including the embedded derivative separation rules and the criteria for using the FVO. The incurred credit loss model in *AASB 139* has been replaced with an expected credit loss model in *AASB 9*. The requirements for hedge accounting have been amended to more closely align hedge accounting with risk management, establish a more principle based approach to hedge accounting and address inconsistencies in the hedge accounting model in *AASB 139*. Having met the criteria introduced by *AASB 2016-6 Amendments to Australian Accounting Standards – Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts*, the application of *AASB 9 Financial Instruments* has been deferred to 1 January 2023.	1 January 2018	A	1 January 2023

2. Significant accounting policies (continued)

(y) New Accounting Standards and Interpretations (continued)

Accounting Standards not yet effective (continued)

Standard	Summary	Application date of standard	Note	Application date for Group
AASB 2020-5	*Amendments to Australian Accounting Standards – Insurance Contracts* To aid implementation of the new insurance standard, the following key amendments were introduced: • Deferring the effective date of *AASB 17* for insurers by two years to annual periods beginning on or after 1 January 2023. • *AASB 4* was likewise amended to extend the expiry date of the temporary exemption from applying *AASB 9* to annual periods beginning on or after 1 January 2023. This extension allows for continuing use of *AASB 139* alongside *AASB 4*, *AASB 1023* and *AASB 1038* until *AASB 17* becomes effective. • Excluding from the scope of *AASB 17* certain credit card contracts that provide insurance coverage for purchases made using a credit card. • Providing an election to apply either *AASB 17* or *AASB 9* for contracts such as loans that include an agreement by the lender to compensate the borrower by waiving some or all the payments due from the borrower if a specified uncertain event occurs, for example, if the borrower dies. • Requiring insurance acquisition cash flows such as commissions paid to brokers to be allocated to related expected contract renewals, recognising those cash flows as an asset until contract renewal takes place. • Requiring the expected profit on insurance contracts to be recognised in a pattern acknowledging both insurance coverage and any included investment return or investment related services. • Allowing the use of the risk mitigation accounting option when reinsurance contracts or non-derivative financial instruments measured at fair value through profit or loss are used to mitigate the effects of the time value of money and other financial risks. • Reducing a potential accounting mismatch by requiring the holder of a reinsurance contract to recognise a gain on that contract when it recognises a loss on initial recognition of an onerous group of insurance contracts covered by the reinsurance contract or on the addition of further onerous contracts to that group. • Simplifying the presentation of insurance and reinsurance contract assets and liabilities in the statement of financial position using broader portfolios of insurance contracts rather than narrower groups of insurance contracts. • Introducing additional transition relief mechanisms.	1 January 2021	A	1 January 2021
AASB 2020-3	*Amendments to AASB 3 – Reference to the Conceptual Framework* The IASB's assessment of applying the revised definitions of assets and liabilities in the Conceptual Framework to business combinations showed that the problem of day 2 gains or losses would be significant only for liabilities that an acquirer accounts for after the acquisition date by applying *IAS 37 Provisions, Contingent Liabilities and Contingent Assets* or *IFRIC 21 Levies*. The Board updated *IFRS 3* in May 2020 for the revised definitions of an asset and a liability and excluded the application of the Conceptual Framework to liabilities and contingent liabilities within the scope of *IAS 37* or *IFRIC 21.* The AASB released the equivalent amendments to AASB 3 in June 2020. These amendments are applied prospectively.	1 January 2022	B	1 January 2022

2. Significant accounting policies (continued)

(y) New Accounting Standards and Interpretations (continued)

Accounting Standards not yet effective (continued)

Standard	Summary	Application date of standard	Note	Application date for Group
AASB 17	*Insurance Contracts* *AASB 17* replaces *AASB 4 Insurance Contracts*, *AASB 1023 General Insurance Contracts* and *AASB 1038 Life Insurance Contracts* for for-profit entities. *AASB 17* applies to all types of insurance contracts, i.e., life, non-life, direct insurance and reinsurance, regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. The core of *AASB 17* is the General (building block) Model supplemented by: • A specific adaptation for contracts with direct participation features (Variable Fee Approach). • A simplified approach mainly for short duration contracts (Premium Allocation Approach). The main features of the new accounting model for insurance contracts are: • A measurement of the present value of future cash flows, incorporating an explicit risk adjustment, remeasured every reporting period, i.e., the fulfilment cash flows. • A Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts, representing the unearned profitability of the insurance contract to be recognised in profit or loss over the service period (i.e., the coverage period). • Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognised in profit or loss over the remaining contract service period. • The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income, determined by an accounting policy choice. *Impact on the Group* *AASB 17* will require the application of new measurement models and extensive changes to presentation and disclosure. There is both a 'base' method (the General Measurement Method) and 'simplified' (the Premium Allocation Approach) method that general insurers may use for measurement and presentation. The simplified approach may be used under specific circumstances and has many similarities to the approach applied under *AASB 1023*. It is expected that the Group will be able to partially or entirely use the simplified measurement approach. As *AASB 17* has been evolving the Group has not yet assessed its full impact on the consolidated financial statements, although the key areas for the Group are likely to be as follows: • The net claims liabilities are currently reported at a 75% probability of sufficiency. This may change under *AASB 17*. • The grouping of contracts and the assessment method of the profitability of unearned business may change under *AASB 17*. • The measurement and presentation of deferred acquisition costs is likely to change under *AASB 17*. • The measurement and presentation of reinsurance is likely to change under *AASB 17*. • It is expected there will be substantial changes to the presentation and disclosure.	1 January 2023	C	1 January 2023

Notes:
A. These changes only impact disclosure.
B. These changes do not/are not expected to have a significant financial impact, if any.
C. Details of the impact are still being assessed.

3. Critical accounting judgements, assumptions and estimates

In the application of Australian Accounting Standards management is required to make judgements, assumptions and estimates about carrying values of assets and liabilities that are not readily apparent from other sources. The assumptions and estimates are based on historical experience and various other factors that are viewed as reasonable under the circumstances, the results of which form the basis of making the judgements. Actual results may differ from these estimates. The assumptions and estimates are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the financial year in which the estimate is revised.

<u>Key sources of estimation uncertainty</u>
Judgements made by management in the application of Australian Accounting Standards that have a significant effect on the financial statements and estimates with a significant risk of material adjustments in the subsequent year are disclosed, where applicable, in the relevant notes to the financial statements.

Significant judgements and estimates are made by the Group to arrive at certain key asset and liability amounts disclosed in the financial statements. These judgements and estimates are continually being evaluated and are based on historical experience, as well as enhancements to actuarial modelling techniques.

The key areas of significant judgements and estimates and the methodologies used to determine key assumptions are set out below.

(a) Uncertainty over estimate of ultimate liability arising from claims made under general insurance contracts
Provision is made at the financial year end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not reported and the cost of claims incurred but not enough reported to the Group.

The estimation of net claims liabilities is based largely on the assumption that past developments are an appropriate predictor of the future and involves a variety of actuarial techniques that analyse experience, trends and other relevant factors. The process commences with the actuarial projection of the future claim payments and claims handling costs incurred to the balance sheet date. Each class of insurance is examined separately and some or all of the following will be considered for each class in projecting future claim payments:

(i) Historical trends in the development and incidence of the number of claims reported, number of claims finalised, claim payments and reported incurred costs.

(ii) Exposure details, including policy counts, sums insured, earned premium and policy limits.

(iii) Claim frequencies and average claim sizes.

(iv) The legislative framework, legal and court environments and social and economic factors that may impact upon each class of insurance.

(v) Historical and likely future trends in standard inflationary pressures relating to commodity prices and wages.

(vi) Historical and likely future trends of inflationary pressures in addition to price or wage inflation, termed superimposed inflation.

(vii) Historical and likely future trends of expenses associated with managing claims to finalisation.

(viii) Reinsurance recoveries available under contracts entered into by Ansvar.

(ix) Historical and likely future trends of recoveries from sources such as subrogation and third party actions.

(x) Insurer specific, relevant industry data and more general economic data is utilised in the estimation process.

Projected future claim payments and associated claims handling costs are discounted to a present value as required using appropriate risk free discount rates. A projection of future claims payments, both gross and net of reinsurance and other recoveries is undertaken.

This projection of the net central estimate is typically made without bias toward over or under estimation. As such, the resulting estimate is considered to be a net central estimate of claims liabilities. Where possible and appropriate, multiple actuarial methods will be applied to project future claim payments. This assists in providing a greater understanding of the trends inherent in the past data. The projections obtained from various methods also assist in setting the range of possible outcomes.

3. Critical accounting judgements, assumptions and estimates (continued)

(a) Uncertainty over estimate of ultimate liability arising from claims made under general insurance contracts (continued)

The most appropriate method or blend of methods is selected taking into account the characteristics of the class of insurance and the extent of the development of each past policy year.

Large claims impacting each relevant class of insurance are generally assessed separately, being measured on a case by case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims.

As an estimate of future outcomes, the net central estimate of claims liabilities is subject to uncertainty. This uncertainty may consist of one or more of the following components:

Modelling
The process of managing and finalising claims is a complex one. Actuarial models represent a simplification of this complex process giving rise to the possibility that the actual future outcomes may depart from the modelled outcome.

Assumption selection
Even with a perfect model assumptions about future claim payment experience must be drawn from limited past data and are subject to sampling error.

Evolution of assumptions and future events
Some assumptions will be subject to changes over time due to external sources, such as changes to the legislative environment and the economic environment, or internal sources such as claim management practices.

Random variation
There is a certain amount of residual randomness that drives differences between actual and expected outcomes.

Uncertainty from the above sources is examined for each class of insurance and expressed as a volatility of the net central estimate. The volatility for each class is derived after consideration of stochastic modelling and benchmarking to industry analysis. The long tail Liability classes have the highest volatility as the longer average time to settle provides a greater opportunity for sources of uncertainty to emerge. Short tail classes such as Property and Motor have lower levels of volatility.

As the volatility for each class of insurance is partially correlated with other classes, when combined across the entire Group, the overall volatility will be less than the sum of the individual classes. With an estimate of the overall volatility for general insurance business, a range of risk margins associated with a probability of the total net claims liabilities proving adequate may be produced.

The assumptions with regard to uncertainty for each class of insurance are applied to the gross and net central estimates and the results are aggregated, allowing for diversification, in order to arrive at an overall net claims liability that is intended to have a 75% probability of sufficiency (2019: 75%).

Whilst the critical accounting judgements and estimates have not changed materially, the impact of COVID-19 resulted in the application of further judgement. Given the evolving and uncertain impact of COVID-19 there may be changes in market conditions in the future and the impact of these changes will be accounted for in future reporting periods as they arise and/or are able to be reasonably predicted.

(b) Assets arising from reinsurance contracts

Assets arising from reinsurance contracts are also calculated using the above method. 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 counterparty and credit risk. Impairment is recognised where there is objective evidence that the Group may not receive amounts due to it and these amounts can be reliably measured. Refer to Note 19 for a breakdown of reinsurance and other recovery assets.

(c) Recoverability of future taxation losses

At the balance sheet date Ansvar makes an assessment whether it is probable that it will have taxable profits against which any temporary differences or unused taxation losses can be utilised before the unused taxation losses or unused taxation credits expire. In making this assessment Ansvar considers the expected level of taxable profits in its future business plans against which the taxable losses can be utilised.

4. Actuarial assumptions and methods

(a) Assumptions

The following assumptions have been made or are implied in determining the net claims liabilities:

	2020		2019	
Company and Consolidated	**Long tail**	**Short tail**	**Long tail**	**Short tail**
Inflation rate – PSA class	1.50%	-	2.50%	-
Superimposed inflation rate – PSA class	2.50%	-	2.00%	-
Discount rate	0.70%	-	1.24%	-
Weighted average term to settlement (years)	4.60	1.00	4.54	1.11
Discounted mean term (years)	4.47	1.00	4.37	1.11
Large claim frequency (per annum)	1.00	-	1.00	-
Claim handling expense rate as a % of gross claims liabilities[i]	4.50%	4.50%	8.00%	4.50%
Risk margin	20.32%	13.37%	18.32%	14.25%

[i] At 31 December 2020 the claims handling expense rate was Nil for non-COVID-19 Property Catastrophe gross claims liabilities and 4.50% for all remaining short tail classes (2019: 4.50% for all short tail classes).

(b) Processes used to determine assumptions

The net claims liabilities are calculated using assumptions including the following:

Inflation rate
Insurance costs are subject to inflationary pressures over time.

For the Liability classes, claim costs associated with personal injuries may be linked to the weekly earnings of the claimant. Medical and legal costs are subject to increases in the wages and disbursements of professionals in those fields. These standard inflationary pressures are collectively termed wage inflation.

For the Property and Motor classes, claim costs are related to the inflationary pressures of the materials and goods insured as well as labour costs to effect repairs. It is therefore expected that these costs will increase at an appropriate blend between the Consumer Price Index and wage inflation. The Property and Motor classes typically use an actuarial method in which the inflation assumption is implicit and incorporated in historical levels of claims development.

Superimposed inflation rate
There is a tendency for claim costs, particularly for the Liability classes, to increase at levels in excess of standard inflationary pressures. This can be due to a number of factors including court awards and precedents and social and environmental pressures. This is often termed superimposed inflation and is analysed and forecast separately from wage inflation.

Discount rate
The net claims liabilities for the Liability classes are discounted at a rate equivalent to that inherent in a portfolio of risk free fixed interest securities with coupon and redemption cash flows exactly matching the projected inflated claim cash flows.

For the Property and Motor classes the net claims liabilities are not discounted due to their expected payment in the near term.

Weighted average term to settlement
The weighted average term to settlement is calculated separately by class of insurance and is based on historic settlement patterns.

Claims handling expense allowance
An estimate of claims liabilities will incorporate an allowance for the future cost of administering the claims. This allowance is determined after analysing claim related expenses incurred by the various classes of insurance.

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

4. Actuarial assumptions and methods (continued)

(b) Processes used to determine assumptions (continued)
The assumptions with regard to uncertainty for each class of insurance are applied to the gross and net central estimates and the results are aggregated, allowing for diversification, in order to arrive at an overall net claims liability that is intended to have a 75% probability of sufficiency (2019: 75%).

Ultimate claims ratio
This is the ratio of ultimate net claims incurred to ultimate net premium earned.

(c) Sensitivity analysis
The Group conducts sensitivity analysis to quantify the exposure to the risk of changes in the underlying assumptions used in the annual financial statements.

The sensitivity of the Group's net claims liabilities and profit/(loss) before income taxation to key actuarial valuation assumptions is disclosed in the table below:

		Company and Consolidated			
		Impact net of recoveries			
		2020		2019	
Variable	**Movement in variable**	**Long tail $'000**	**Short tail $'000**	**Long tail $'000**	**Short tail $'000**
Inflation rate	+0.5%	2,679	-	2,159	-
	-0.5%	(2,558)	-	(2,064)	-
Superimposed inflation rate	+0.5%	1,411	-	1,034	-
	-0.5%	(1,360)	-	(994)	-
Discount rate	+0.5%	(2,558)	-	(2,064)	-
	-0.5%	2,679	-	2,159	-
Ultimate net claims ratio for the latest policy year [Long tail 43% (2019: 53%); Short tail 161% (2019: 107%)]	+10.0%	2,232	1,716	2,356	736
	-10.0%	(2,232)	(1,716)	(2,356)	(736)
IBNR for prior policy years	+10.0%	6,865	-	5,765	-
	-10.0%	(6,865)	-	(5,765)	-
Claims handling expense rate	+1.0%	1,549	264	1,157	499
	-1.0%	(1,549)	(264)	(1,157)	(499)
Risk margin	+1.0%	963	103	888	71
	-1.0%	(963)	(103)	(888)	(71)

5. Risk management

(a) Risk management framework
The Group values risk management as an integral part of its governance framework and decision making processes. The Board accepts ultimate responsibility for:
- Setting the tone from the top for risk management culture.
- Ensuring the effectiveness of the risk management framework and the systems of internal and accounting control.
- Compliance with legislative and regulatory obligations including capital and solvency requirements.

The Group's Risk and Compliance function is led by its Chief Risk Officer who is responsible for the ongoing development of its risk management framework, policies and standards. The application of the risk management framework across the Group provides reasonable assurance that key risks are identified and adequately managed. The framework is regularly reviewed to ensure it remains fit for purpose and effective. The Group outsources its internal audit function to provide independent and objective assessment of its governance, risk management and internal control activities.

The Risk Management Strategy is a core component of the risk management framework and details the strategy for identifying, managing and reporting risks pertaining to the achievement of the Group's strategic and operational objectives. It includes an agreed approach to assessing, mitigating and monitoring material risks. The Risk Management Strategy is formally reviewed and approved by the Board annually and any material changes are submitted to the Australian Prudential Regulation Authority (APRA).

5. Risk management (continued)

(a) Risk management framework (continued)
In addition to the Risk Management Strategy, the Group's risk management framework includes the following key documents:

- Risk Management Policy – sets out the Group's commitment to risk management as a driver of effective governance.
- Risk Appetite Statement – defines the parameters the Board has set for acceptable and unacceptable risk taking.
- Reinsurance Management Strategy – details the reinsurance management framework, including the selection, implementation, monitoring, review, control and documentation of reinsurance arrangements.
- Internal Capital Adequacy Assessment Process (ICAAP) Summary Statement – sets out the Group's capital assessment and management processes and monitoring controls.

(b) The Group's material risks
As detailed in the Risk Management Strategy, the Group has identified the following areas of material risk to its success. These risks form part of the Group's risk profile and are subject to formal risk assessment and management.

Categories of risk	Areas of material risk exposure at 31 December 2020
Governance Business planning Compliance Culture Outsourcing Management services	• Delivering a robust Corporate Plan and Budget for protecting and enhancing Ansvar's competitive position. • Complying with regulatory obligations and maintaining a culture of strong leadership in times of change. • Engaging and retaining personnel with the capability for achieving strategic goals. • Balancing achievement of short term financial targets with investment in long term initiatives.
Insurance Underwriting Pricing and portfolio management Reinsurance Claims Distribution	• Accurately assessing and underwriting risk exposures. • Maintaining adequate margin and reserves across portfolios of insurance business. • Preventing unauthorised claims, payments or leakage. • Maintaining affordable and appropriate reinsurance programmes. • Avoiding over reliance on any one distribution partner.
Financial Liquidity Market conditions Credit risk	• Adequately managing assets, liabilities, exposures and investments. • Maintaining the integrity of management, prudential and financial reporting. • Avoiding default by reinsurers, insurance counterparties or investment counterparties. • Effectively managing the longer term economic impacts of COVID-19.
Operational Core business systems Information management Business continuity	• Maintaining effective business systems. • Maintaining information security and data integrity. • Protecting against disruption to customer services.

(c) Mitigation strategies for material risks

(i) Governance risk
Management of the Group's governance risks centres on ensuring strong ethical leadership and a robust business strategy.

The pillars of the Group's approach for mitigating governance risks are as follows:

- The Board approves the annual Corporate Plan and Budget and monitors performance with a comprehensive suite of key performance and risk indicators.
- The Board and shareholder set the tone for ethical leadership and conduct across the business. Management reporting is designed to provide early warning of any weaknesses in risk controls.
- High importance is placed on maintaining and reporting compliance with regulatory obligations. A comprehensive compliance framework is in place, supported by a three lines of defence approach to compliance monitoring.
- Staff leadership, training and engagement programmes are well established and regularly reviewed.

5. Risk management (continued)

(c) Mitigation strategies for material risks (continued)

(ii) Insurance risk
Effective management of insurance risk across short and long tail exposures is fundamental to the Group's success and financial stability.

Key strategies for mitigating insurance risk are underpinned by the following:
- Underwriting, actuarial and analytics capability are well established and supported by a comprehensive suite of operating procedures.
- Approaches to managing and testing underwriting practices are detailed in the Group's corporate policies, quality assurance program, delegated authorities framework, Reinsurance Management Strategy and ICAAP.
- Claims are managed by a central team of claims specialists and insurance liabilities are regularly assessed and monitored.

(iii) Financial risk
There are four overarching areas of financial risk:
- Market risk – a weakened financial position as a result of changes in market conditions, such as equity prices, interest rates and commodity prices.
- Liquidity risk – the Group is unable to liquidate investments to settle its financial obligations when they fall due.
- Credit risk – the Group's liquidity may be impacted by the timeliness of payments received from brokers, reinsurers or other debtors. This may arise from counterparty default risk, spread risk or market concentration risk.
- Currency risk – arises from the change in price of one currency against another when transactions involve foreign currency.

The Group has established policies and procedures for mitigating financial risks:
- Balance Sheet and Market Risk Policy – identifies the main sources of market risk applicable to the Group and details how these are measured, monitored and controlled.
- Credit Risk Policy – details the parties with whom credit will be granted and the controls and processes in place for maximising cash flows and dealing with defaults.
- Investment Policy – describes the risk appetite profile and gives delegated authority to minimise risks.
- Outsourcing Policy – sets out the standards required by all companies to whom the Group outsources any of its material functions.
- ICAAP Summary Statement.

Market risk (incorporating interest rate risk, currency risk and price risk) and liquidity risk
The Group has identified the following key risk exposures:
- Movements in interest rates and inflation and widening of credit spreads which impact on the values of fixed interest securities.
- Reduced levels of investment income.
- Contraction in market liquidity.
- Adverse changes in the value of foreign currency assets.
- Inadequate processes for valuing assets.

The Group has determined the nature and extent of the market risks to which it considers acceptable. These limits are documented in Ansvar's Risk Appetite Statement and Investment Policy.

The Group's Finance Department performs regular stress testing to determine the impact of interest rate risk, currency risk and price risk on the Group's Balance Sheet. The stress testing determines the APRA risk charge and this then forms the capital which APRA considers appropriate to hold in relation to the asset risks to which the Group is exposed.

Stress testing is the key analysis performed by the Group on the appropriateness of the matching of assets and liabilities.

Credit risk
Credit risk is the potential for losses from counterparties failing to fulfil their financial obligations to the Group. Credit risk generally arises from investment activities, reinsurance activities and dealings with any intermediaries such as brokers. The Group has a Credit Risk Policy which is approved by the Board and reviewed on a regular basis.

5. Risk management (continued)

(c) Mitigation strategies for material risks (continued)

(iii) Financial risk (continued)

Credit risk (continued)
Investments
The Group is exposed to credit risk from investments where it holds debt and securities issued by companies and Federal and State Governments. The Group has set limits to specific investments which are described in the Financial and Investment Overarching Policy, Investment Policy and Risk Appetite Statement and are monitored and assessed at regular intervals. Breaches of any investment limits are reported in accordance with policies and procedures.

Reinsurers
Reinsurance arrangements are critical in mitigating insurance risk. The Group reinsures a portion of the risks it underwrites to control exposure to losses, stabilise earnings, protect capital resources and ensure efficient control and spread of the underwriting risk. The Group purchases reinsurance based on an evaluation of the reinsurers' financial strength including its credit rating, length and quality of relationship with the Group, pricing, the Group's risk appetite limits and the specific expertise of the reinsurer. On appointment, the Group requests terms and conditions from reinsurers. These terms and conditions address coverage and price and then reinsurers respond with an offer to underwrite a percentage of the programme or layer at a selected price and with certain conditions.

The financial probity of reinsurers is determined with the assistance of the Ecclesiastical Insurance Office Plc Group Reinsurance Security Committee which performs regular analysis of reinsurers' credit ratings and performance against certain criteria.

The Risk Appetite Statement requirements are monitored by the Chief Financial Officer and reported to the Risk and Compliance Committee. Given the importance of the Group's reinsurance programme to provide adequate cover, reinsurer relationships are closely monitored in order to detect any change in attitude, appetite or approach, and mitigate any potentially negative effects.

Brokers
The Group engages a credit monitoring agency to provide ongoing monitoring of the credit worthiness of the Group's brokers and other intermediaries. Any changes in credit worthiness advised by the monitoring agency are reviewed to assess whether brokers and other intermediaries continue to represent an acceptable risk.

(iv) Operational risk
Management of the Group's operational risk centres on ensuring robust business systems, data governance and workforce capability are maintained.

Key mitigation strategies include the following:
- The Group's business systems are a combination of technology solutions, work flows and operating procedures. Assessing the design and effectiveness of controls is embedded in the Group's risk management framework and regularly reported to the Board and the Group's shareholder through a suite of key performance and risk indicators.
- The Group has developed a business continuity management framework that includes disaster and pandemic responses, cyber incident management and contingency plans. Business continuity tests are performed periodically with outcomes reported to the Chief Executive Officer and the Risk and Compliance Committee.
- In accordance with the Group's Outsourcing Policy, key controls for mitigating outsourcing risk include thorough due diligence when selecting service providers, agreeing appropriate contractual arrangements and ensuring robust business continuity arrangements are in place and regularly tested.
- The Financial Crime Policy addresses the risks of both internal and external fraud. It sets out the overarching controls to mitigate fraud and the processes for investigating suspected fraudulent activity.
- High importance is placed on data governance and security. Controls include intrusion protection and detection systems, server patching and testing, Domain Name System filtering, vulnerability testing, data asset management, policies, procedures and staff training.
- The Human Resources Department ensures that management policies, processes and procedures are in place to identify and manage operational risks involving employees, contractors and third parties. The Human Resources Department oversees sourcing, selecting, recruiting, developing and retaining staff with the necessary skills and experience.

6. Profit/(loss) from operations

	Note	Company and Consolidated 2020 $'000	2019 $'000
(a) Income			
Gross premium earned		134,616	110,749
Reinsurance and other recoveries	7	83,771	52,687
Interest		4,248	5,415
Fair value movements through income:			
Realised losses		(315)	(1,298)
Unrealised gains		2,174	3,589
Total investment income		**6,107**	**7,706**
Reinsurance commission earned		18,837	16,161
Other income		775	801
Total income		**244,106**	**188,104**
(b) Profit/(loss) before income taxation			
Profit/(loss) before income taxation is stated after charging/(crediting):			
Increase/(decrease) in provision for doubtful debts	13	122	(36)
Depreciation of furniture, fittings and equipment	14	122	52
Depreciation of right of use assets	15	894	917
Employee entitlements		1,591	1,376

7. Net claims incurred

	2020			2019		
Company and Consolidated	**Current year $'000**	**Prior years $'000**	**Total $'000**	**Current year $'000**	**Prior years $'000**	**Total $'000**
Gross claims incurred						
Undiscounted	107,662	8,954	116,616	94,630	(14,728)	79,902
Discount movement	(532)	2,342	1,810	(1,271)	6,870	5,599
	107,130	**11,296**	**118,426**	**93,359**	**(7,858)**	**85,501**
Reinsurance and other recoveries						
Undiscounted	(70,027)	(13,244)	(83,271)	(62,498)	11,879	(50,619)
Discount movement	130	(630)	(500)	363	(2,431)	(2,068)
	(69,897)	**(13,874)**	**(83,771)**	**(62,135)**	**9,448**	**(52,687)**
Net claims incurred	**37,233**	**(2,578)**	**34,655**	**31,224**	**1,590**	**32,814**

Current year claims incurred relate to risks incepting in the current financial year. Prior year claims incurred relate to a reassessment of risks incepting in all previous financial years.

8. Key management personnel compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of Ansvar, directly or indirectly, including any Director (whether executive or otherwise) of Ansvar.

The aggregate compensation of Ansvar's key management personnel is set out below.

	Company and Consolidated	
	2020	**2019**
	$'000	**$'000**
Short term employee benefits	2,924	2,824
Superannuation benefits	194	192
Termination benefits	-	106
Total	**3,118**	**3,122**

9. Remuneration of auditors

	2020	**2019**
	$	**$**
Auditor of the Group		
Audit of financial statements	146,427	102,963
Other services – PricewaterhouseCoopers[i]	55,875	-
Other services – Deloitte Touche Tohmatsu[i]	8,450	78,701
Prior year under provision	10,977	-
	221,729	**181,664**

[i]Includes engagements required by the Australian Prudential Regulation Authority, the Australian Securities and Investments Commission and the New South Wales Emergency Services Levy Insurance Monitor.

PricewaterhouseCoopers was appointed as the Group's external auditor on 14 October 2020.

10. Income taxation

	2020	**2019**
	$'000	**$'000**
Income taxation expense/(benefit) comprises:		
Deferred taxation expense/(benefit) – current year	1,243	(1,468)
Total income taxation expense/(benefit)	**1,243**	**(1,468)**
Profit/(loss) before income taxation	**3,884**	**(4,956)**
Income taxation expense/(benefit) calculated at 30%	1,165	(1,487)
Impairment of loan to Canterbury Earthquake Church and Heritage Trustee Limited Trust	73	-
Non-deductible expenses	5	19
Total income taxation expense/(benefit)	**1,243**	**(1,468)**

The taxation rate used for the taxation rate reconciliation above is the corporate taxation rate of 30% payable by Ansvar on taxable income under Australian taxation law.

Current taxation asset		
Income taxation receivable	2,216	2,679

10. Income taxation (continued)

Temporary differences
Taxable and deductible temporary differences arise from the following:

	Company and Consolidated					
	2020			2019		
	Opening balance $'000	(Charged)/ credited to income $'000	Closing balance $'000	Opening balance $'000	(Charged)/ credited to income $'000	Closing balance $'000
Gross deferred taxation liabilities						
Income receivable	(710)	(16)	(726)	(656)	(54)	(710)
Unrealised gains on fixed income securities	(957)	(726)	(1,683)	-	(957)	(957)
Prepaid expenses	(26)	-	(26)	(15)	(11)	(26)
Salary costs capitalised into intangible asset	-	(81)	(81)	-	-	-
Total	**(1,693)**	**(823)**	**(2,516)**	**(671)**	**(1,022)**	**(1,693)**
Gross deferred taxation assets						
Provisions	659	140	799	591	68	659
Provision for doubtful debts	34	36	70	45	(11)	34
Claims handling expenses	3,451	(995)	2,456	2,890	561	3,451
Unrealised losses on fixed income securities	-	-	-	120	(120)	-
Purchased interest	106	1	107	117	(11)	106
Net unearned premium liability deficit	662	(662)	-	-	662	662
Assessable loss	1,310	1,034	2,344	-	1,310	1,310
Other	103	27	130	73	30	103
Total	**6,325**	**(419)**	**5,906**	**3,836**	**2,489**	**6,325**

	2020	2019
Net deferred taxation asset comprises:		
Deferred taxation liability	(2,516)	(1,693)
Deferred taxation asset	5,906	6,325
Deferred taxation asset from a member of MEC Group	98	49
Net deferred taxation asset	**3,488**	**4,681**

11. Cash and cash equivalents

	Company and Consolidated	
	2020 $'000	2019 $'000
Cash at bank	21,152	6,457
Short term deposits	15,326	12,563
Total cash and cash equivalents	**36,478**	**19,020**

12. Investments

	2020 $'000	2019 $'000
Corporate bonds	103,126	110,650
Government/semi-government fixed income securities	90,641	50,004
Loans	-	249
Total investments	**193,767**	**160,903**

All investments are measured at fair value through profit and loss.

13. Trade and other receivables

		Company and Consolidated	
		2020	**2019**
Current	**Note**	**$'000**	**$'000**
Insurance premium receivables		47,064	38,205
Provision for doubtful debts		(235)	(113)
		46,829	**38,092**
Reinsurance and other recoveries receivable		10,677	13,671
Non-trade receivables		2,587	2,597
Financial assets	25(c)	**60,093**	**54,360**
Prepaid expenses		596	532
Total trade and other receivables		**60,689**	**54,892**

14. Furniture, fittings and equipment

		Company and Consolidated		
	Note	**Furniture and fittings $'000**	**Equipment $'000**	**Total $'000**
Cost or valuation				
Balance at 31 December 2018		**45**	**602**	**647**
Additions		4	148	152
Balance at 31 December 2019		**49**	**750**	**799**
Additions		-	128	128
Balance at 31 December 2020		**49**	**878**	**927**
Accumulated depreciation				
Balance at 31 December 2018		**(16)**	**(507)**	**(523)**
Depreciation expense	6(b)	(7)	(45)	(52)
Balance at 31 December 2019		**(23)**	**(552)**	**(575)**
Depreciation expense	6(b)	(2)	(120)	(122)
Balance at 31 December 2020		**(25)**	**(672)**	**(697)**
Net book value				
At 31 December 2019		**26**	**198**	**224**
At 31 December 2020		**24**	**206**	**230**

15. Right of use assets and lease liabilities

(a) Right of use assets

		Company and Consolidated			
	Note	Copiers $'000	Motor vehicles $'000	Properties $'000	Total $'000
Cost or valuation					
Balance at 1 January 2019		**58**	**84**	**2,708**	**2,850**
Balance at 31 December 2019		**58**	**84**	**2,708**	**2,850**
Additions		-	183	800	983
Balance at 31 December 2020		**58**	**267**	**3,508**	**3,833**
Accumulated depreciation					
Balance at 1 January 2019		**-**	**-**	**-**	**-**
Depreciation expense	6(b)	(15)	(65)	(837)	(917)
Balance at 31 December 2019		**(15)**	**(65)**	**(837)**	**(917)**
Depreciation expense	6(b)	(15)	(65)	(814)	(894)
Balance at 31 December 2020		**(30)**	**(130)**	**(1,651)**	**(1,811)**
Net book value					
At 31 December 2019		**43**	**19**	**1,871**	**1,933**
At 31 December 2020		**28**	**137**	**1,857**	**2,022**

(b) Lease liabilities are payable as follows:

	Company and Consolidated		
2020	Future minimum lease payments $'000	Interest $'000	Present value of minimum lease payments $'000
Current	913	(22)	891
1-5 years	1,225	(8)	1,217
Balance at 31 December 2020	**2,138**	**(30)**	**2,108**
2019			
Current	797	(33)	764
1-5 years	1,248	(24)	1,224
Balance at 31 December 2019	**2,045**	**(57)**	**1,988**

16. Intangible asset

	Company and Consolidated	
Non-current	**2020**	**2019**
Computer software	**$'000**	**$'000**
At beginning of year	**3,671**	**-**
Costs capitalised during the year	4,908	3,671
At end of year	**8,579**	**3,671**

On 26 February 2019 the Board approved the Business Transformation Program which incorporates the implementation of the new software as a service SSP insurance system. $8,579K of expenditure was capitalised at 31 December 2020 (2019: $3,671K) in accordance with *AASB 138 Intangible Assets*. As at 31 December 2020 this remains work in progress and is expected to be available for use in 2021.

17. Deferred insurance costs

	Company and Consolidated			
	2020		2019	
Current	**Acquisition costs $'000**	**Emergency Services Levy $'000**	**Acquisition costs $'000**	**Emergency Services Levy $'000**
At beginning of year	**11,108**	**3,278**	**11,025**	**2,771**
Costs deferred	15,087	4,086	13,316	3,278
Amortisation charged to income	(11,108)	(3,278)	(11,025)	(2,771)
Net unearned premium liability deficit (Note 22)	-	-	(2,208)	-
At end of year	**15,087**	**4,086**	**11,108**	**3,278**

18. Net unearned premium liability

	Company and Consolidated					
	2020			2019		
Current	**Gross $'000**	**Reinsurance $'000**	**Net $'000**	**Gross $'000**	**Reinsurance $'000**	**Net $'000**
At beginning of year	**71,787**	**(35,896)**	**35,891**	**56,005**	**(28,465)**	**27,540**
Premium written	149,948	(87,124)	62,824	126,531	(75,988)	50,543
Premium (earned)/incurred	(134,616)	81,698	(52,918)	(110,749)	68,557	(42,192)
At end of year	**87,119**	**(41,322)**	**45,797**	**71,787**	**(35,896)**	**35,891**

19. Reinsurance and other recovery assets

		Company and Consolidated	
	Note	**2020 $'000**	**2019 $'000**
Reinsurance and other recovery assets		89,964	66,838
Discount to present value		(1,254)	(1,754)
Total reinsurance and other recovery assets	23(c)	**88,710**	**65,084**
Current		40,611	31,637
Non-current		48,099	33,447
Total reinsurance and other recovery assets		**88,710**	**65,084**

Undiscounted reinsurance and other recovery assets include $6,282K (2019: $6,325K) pertaining to a reinsurance contract with Ecclesiastical Insurance Office Plc.

20. Trade and other payables

Insurance payables		947	326
Deposits from reinsurers		7,313	7,278
Reinsurance premium payable		23,813	20,671
Sundry creditors and accruals		2,728	2,345
Unsecured amount owing to holding company	27	320	782
Unsecured amount owing to fellow subsidiary	27	10	152
Financial liabilities	25(c)	**35,131**	**31,554**
Indirect taxation payable		5,693	5,477
Total trade and other payables		**40,824**	**37,031**
Current		33,511	29,753
Non-current		7,313	7,278
Total trade and other payables		**40,824**	**37,031**

Deposits from reinsurers include $5,374K (2019: 5,354K) to a reinsurance contract with Ecclesiastical Insurance Office Plc.

21. Provisions

	Company and Consolidated			
	Employee benefits $'000	Other employee provisions $'000	Provision for make good $'000	Total $'000
Balance at 31 December 2018	**1,256**	**590**	**125**	**1,971**
Additional provision recognised	462	559	-	1,021
Provision utilised during the year	(218)	(576)	-	(794)
Balance at 31 December 2019	**1,500**	**573**	**125**	**2,198**
Additional provision recognised	612	545	9	1,166
Provision utilised during the year	(129)	(573)	-	(702)
Balance at 31 December 2020	**1,983**	**545**	**134**	**2,662**
2020				
Current	1,008	545	-	1,553
Non-current	975	-	134	1,109
Total provisions at 31 December 2020	**1,983**	**545**	**134**	**2,662**
2019				
Current	709	573	-	1,282
Non-current	791	-	125	916
Total provisions at 31 December 2019	**1,500**	**573**	**125**	**2,198**

22. Liability adequacy test

At 31 December 2020 the liability adequacy test on the net unearned premium liability is a surplus of $7,021K [2019: deficit $2,208K which resulted in a write down of gross deferred acquisition costs in 2019 (refer to Note 17)]. The probability of sufficiency adopted in undertaking the liability adequacy test is 75% (2019: 75%). Refer to Note 4 for the process for determining the overall risk margin including the way in which diversification of risks has been allowed for.

23. Claims liabilities

	Company and Consolidated	
	2020 $'000	2019 $'000
(a) Gross claims liabilities		
Undiscounted central estimate	192,532	147,350
Discount to present value	(4,099)	(5,909)
Claims handling expenses	6,845	9,786
Risk margin	20,937	15,568
Total gross claims liabilities	**216,215**	**166,795**
Current	70,924	53,564
1-5 years	98,639	77,988
Over 5 years	50,751	41,152
Discount to present value	(4,099)	(5,909)
Total gross claims liabilities	**216,215**	**166,795**

23. Claims liabilities (continued)

(b) Net claims development table
The following table shows the development of net claims liabilities relative to the ultimate expected cost of claims for the eight most recent policy years.

	Company and Consolidated									
	2012 $'000	**2013 $'000**	**2014 $'000**	**2015 $'000**	**2016 $'000**	**2017 $'000**	**2018 $'000**	**2019 $'000**	**2020 $'000**	**Total $'000**
Original estimate of ultimate net claims incurred at end of policy year	39,225	37,218	17,664	18,068	18,063	22,812	21,917	21,749	29,218	
One year later	34,165	37,050	16,636	14,841	17,080	19,929	19,915	18,645		
Two years later	31,590	35,824	14,745	13,568	16,114	18,380	17,308			
Three years later	30,687	32,441	11,913	9,747	16,148	16,299				
Four years later	31,593	32,815	9,221	10,277	14,521					
Five years later	30,151	32,483	8,766	8,682						
Six years later	30,074	32,816	8,055							
Seven years later	30,777	32,451								
Eight years later	30,316									
Current estimate of ultimate net claims incurred	**30,316**	**32,451**	**8,055**	**8,682**	**14,521**	**16,299**	**17,308**	**18,645**	**29,218**	
Cumulative payments	(27,602)	(29,302)	(6,200)	(6,901)	(9,874)	(9,401)	(8,369)	(6,487)	(3,939)	
Net claims liabilities – undiscounted	**2,714**	**3,149**	**1,855**	**1,781**	**4,647**	**6,898**	**8,939**	**12,158**	**25,279**	**67,420**
2011 and prior years										35,148
Total net claims liabilities – undiscounted										**102,568**
Discount to present value										(2,845)
Claims handling expenses										6,845
Risk margin										20,937
Net claims liabilities										**127,505**

(c) Reconciliation of movement in discounted claims liabilities

	2020			2019		
Company and Consolidated	**Gross $'000**	**Reinsurance and other recoveries $'000**	**Net $'000**	**Gross $'000**	**Reinsurance and other recoveries $'000**	**Net $'000**
At beginning of year	**166,795**	**(65,084)**	**101,711**	**135,387**	**(47,438)**	**87,949**
Movement in claims liabilities for current policy year	75,499	(44,066)	31,433	64,875	(39,185)	25,690
Movement in claims liabilities for prior policy years	41,156	(39,704)	1,452	17,392	(13,502)	3,890
Net claim payments during the year	(67,235)	60,144	(7,091)	(50,859)	35,041	(15,818)
At end of year	**216,215**	**(88,710)**	**127,505**	**166,795**	**(65,084)**	**101,711**

24. Share capital

		Company and Consolidated	
	Note	2020 $'000	2019 $'000
Issued share capital 27,300,000 ordinary shares each fully paid (2019: 7,307,692)		27,300	7,308

Ordinary shares carry the right to dividends and one vote per share. 19,992,308 ordinary shares of $1 each were issued to the shareholder during the current financial year (2019: Nil).

25. Financial instruments

(a) Significant accounting policies
Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 2.

(b) Financial risk management objectives
It is ultimately the responsibility of the Board of Directors to ensure that there is an effective risk management control framework in place. Consistent with regulatory requirements the Board has explicitly allocated the function of overseeing the establishment and maintenance of risk based systems and controls across the Group to the Chief Executive Officer.

As part of the overall governance framework the Group has established a number of Board and management committees to oversee and manage the financial risks facing the Group which are outlined in Note 5.

The Group has assessed the effectiveness of the controls in place to mitigate the risks and implemented appropriate policies for managing these risks. In order to establish the parameters within which risk must be managed, the Group has also developed a Risk Appetite Statement. Both the risk policies and Risk Appetite Statement are subject to annual review to ensure they reflect the changing risk profile of the business.

(c) Categories of financial instruments

	Note	2020 $'000	2019 $'000
Financial assets			
Cash and cash equivalents	11	36,478	19,020
Investments	12	193,767	160,903
Trade and other receivables	13	60,093	54,360
Financial liabilities			
Trade and other payables	20	(35,131)	(31,554)

Financial assets carried at fair value through profit or loss have been designated as such upon initial recognition.

The table below provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 – fair value is determined by using quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – fair value is determined by using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3 – fair value is determined by using inputs for the asset or liability that are not based on observable market data (i.e., unobservable inputs).

25. Financial instruments (continued)

(c) Categories of financial instruments (continued)

		Company and Consolidated			
	Note	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Fair value hierarchy					
2020					
Corporate bonds	12	103,126	-	-	103,126
Government/semi-government fixed income securities	12	90,641	-	-	90,641
Total		**193,767**	**-**	**-**	**193,767**
2019					
Corporate bonds	12	110,650	-	-	110,650
Government/semi-government fixed income securities	12	50,004	-	-	50,004
Loans	12	-	5	244	249
Total		**160,654**	**5**	**244**	**160,903**

During the year there were no transfers between the three levels.

(i) Level 3 fair value hierarchy reconciliation

	Company and Consolidated	
Loan	**2020 $'000**	**2019 $'000**
Balance at beginning of year	**244**	**243**
Unrealised (loss)/gain (charged)/credited to income	(244)	1
Balance at end of year	**-**	**244**

The loan was fully impaired during the current financial year due to the uncertainty associated with its recoverability.

25. Financial instruments (continued)

(d) Credit risk
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted the policy of only dealing with creditworthy counterparties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the risk of financial loss from defaults. The policies and procedures in place to mitigate the Group's exposure to credit risk are described in Note 5.

The Group actively monitors the credit ratings of reinsurers to ensure there is no significant exposure that requires immediate attention and action. There have been no issues or defaults with reinsurer payments to date.

The table below discloses the maximum exposure to credit risk for the components of the financial assets. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting or taking account of the value of any collateral or other security obtained.

		Company and Consolidated					
		AAA	AA+/AA-	A+/A-	BBB+/BBB-	Not rated	Total
	Note	$'000	$'000	$'000	$'000	$'000	$'000
2020							
Cash and cash equivalents	11	-	36,478	-	-	-	36,478
Corporate bonds	12	35,899	29,098	19,240	18,889	-	103,126
Government/semi-government fixed income securities	12	25,182	65,459	-	-	-	90,641
Insurance premium receivables	13	-	-	-	-	47,064	47,064
Reinsurance and other recoveries receivable	13	-	629	9,847	-	201	10,677
Non-trade receivables	13	-	-	-	-	2,587	2,587
Total		**61,081**	**131,664**	**29,087**	**18,889**	**49,852**	**290,573**
2019							
Cash and cash equivalents	11	-	19,020	-	-	-	19,020
Corporate bonds	12	31,320	28,550	27,889	22,891	-	110,650
Government/semi-government fixed income securities	12	26,616	23,388	-	-	-	50,004
Loans	12	-	-	-	-	249	249
Insurance premium receivables	13	-	-	-	-	38,205	38,205
Reinsurance and other recoveries receivable	13	-	494	11,389	-	1,788	13,671
Non-trade receivables	13	-	-	-	-	2,597	2,597
Total		**57,936**	**71,452**	**39,278**	**22,891**	**42,839**	**234,396**

(e) Liquidity risk
Liquidity risk is the risk that the Group will encounter difficulty in meeting its obligations associated with financial instruments. Ultimate responsibility for liquidity risk management rests with the Board of Directors which oversees the liquidity risk management framework for the management of the Group's short, medium and long term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and by continuously monitoring actual and forecast cash flows and matching the maturity profiles of assets and liabilities. As required by APRA *Prudential Standard GPS 220 Risk Management*, the Group has developed and implemented a Risk Management Strategy which is outlined in Note 5.

The Group's trade and other payables are disclosed in Note 20 and are non-interest bearing and normally settled within 12 months.

25. Financial instruments (continued)

(f) Market risk
Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: market interest rates (interest rate risk), foreign exchange (currency risk) and market prices (price risk). Refer to Note 5 for details of the policies and procedures in place to mitigate the Group's exposure to market risk. There have been no changes to the Group's exposure to market risks or the manner in which it manages and measures the risk during the current financial year.

Interest rate risk management
The Group's activities expose it to the financial risk of changes in interest rates. Floating rate instruments expose the Group to cash flow risk, whereas fixed interest rate instruments expose the Group to fair value interest rate risk. The impact of movements in interest rates on the Group's profit or loss is mitigated by the Group's policy of investing in assets backing net insurance liabilities principally in fixed interest securities that are matched to the duration of the net claims liabilities. Therefore, movements in the fair value measurement of the assets broadly offset the impact of movements in the net claims liabilities from changes in interest rates. The Group's Board monitors the Group's exposure to interest rate risk as outlined in Note 5.

The following table details the Group's expected maturity dates based on the undiscounted contractual maturity dates of the financial assets.

	Company and Consolidated				
2020	**Weighted average interest rate %**	**Under 1 year $'000**	**1-5 years $'000**	**Over 5 years $'000**	**Total $'000**
Non-interest bearing					
Insurance premium receivables	N/A	47,064	-	-	47,064
Reinsurance and other recoveries receivable	N/A	10,677	-	-	10,677
Non-trade receivables	N/A	2,587	-	-	2,587
Variable interest rate					
Cash and cash equivalents	0.11%	36,478	-	-	36,478
Corporate bonds	1.17%	8,567	35,653	13,671	57,891
Government/semi-government fixed income securities	0.15%	-	2,005	-	2,005
Fixed interest rate					
Corporate bonds	3.25%	10,447	26,946	7,842	45,235
Government/semi-government fixed income securities	2.61%	-	31,211	57,425	88,636
Total		**115,820**	**95,815**	**78,938**	**290,573**

25. Financial instruments (continued)

(f) Market risk (continued)

	Company and Consolidated				
	Weighted average interest rate %	**Under 1 year $'000**	**1-5 years $'000**	**Over 5 years $'000**	**Total $'000**
2019					
Non-interest bearing					
Loans	N/A	5	244	-	249
Insurance premium receivables	N/A	38,205	-	-	38,205
Reinsurance and other recoveries receivable	N/A	13,671	-	-	13,671
Non-trade receivables	N/A	2,597	-	-	2,597
Variable interest rate					
Cash and cash equivalents	0.72%	19,020	-	-	19,020
Corporate bonds	2.05%	2,029	39,971	16,282	58,282
Fixed interest rate					
Corporate bonds	3.73%	4,903	38,536	8,929	52,368
Government/semi-government fixed income securities	2.94%	2,938	15,994	31,072	50,004
Total		**83,368**	**94,745**	**56,283**	**234,396**

Interest rate sensitivity
The sensitivity analysis below has been determined based on the exposure to interest rates at the balance sheet date. The sensitivity analysis assumes that the change takes place at the balance sheet date with investments marked to market as at the same date. A 0.5% increase or decrease in interest rates in absolute terms is used by the Appointed Actuary in the claims sensitivity analysis in respect of the discount rate in Note 4. The same percentage has been used in this sensitivity analysis to present the impact on interest bearing investments. These movements are attributable to the Group's exposure to interest rates on its variable interest rate investments and the fair value movement on its fixed interest rate investments.

At the balance sheet date if interest rates had been 0.5% (2019: 0.5%) higher in absolute terms and all other variables were held constant, the Group's investments and profit/(loss) before income taxation would decrease and decrease/(increase) respectively by $3,352K (2019: $2,257K). This movement would substantially offset the impact on the Group's net claims liabilities due to a 0.5% increase in discount rates in absolute terms as disclosed in Note 4.

Foreign currency risk management
Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

There is no material exposure to foreign currency risk. Refer to Note 5 for details on how the Group manages exchange rate exposure. The Group's overall strategy in respect of foreign currency risk management did not change during the current financial year.

Price risk
The Group does not hold equity investments and has no exposure to equity price risks arising from equity investments.

26. Contingent assets and contingent liabilities

Ansvar has a bank guarantee facility totalling $571,027 (2019: $533,591) which comprises an undertaking by the bank pursuant to agreements for leased office premises in the event of extinguishing liabilities if necessary. The unused amount of the facility at 31 December 2020 is $571,027 (2019: $533,591).

Ansvar's insurance policy wordings generally require the onsite presence of COVID-19 to trigger access prevention clauses and the reported COVID-19 related Property Business Interruption claims to date are therefore relatively modest. However, Ansvar's exposures are not reinsured and litigation in relation to COVID-19 related Property Business Interruption claims is likely to continue for many years with potentially unpredictable outcomes in relation to matters not yet tested by law. As a result there is a very wide range of potential ultimate claim cost outcomes.

27. Related parties

Ansvar's related parties fall into the following categories:

Controlled entity
Information relating to the controlled entity is set out in Note 28.

Holding companies
The ultimate holding company in the wholly-owned group is AllChurches Trust Limited, incorporated in the United Kingdom. The immediate holding company of the Group is Ecclesiastical Insurance Office Plc, incorporated in the United Kingdom.

Directors
Refer to the Directors' Report for details of Ansvar's Directors during the current financial year.

Jacinta Whyte was a Director and Group Deputy Chief Executive of Ecclesiastical Insurance Office Plc, Ansvar's immediate holding company, during the current financial year.

Warren Hutcheon was Chief Executive Officer and a Director of ACS (NZ) Limited, Ansvar's former subsidiary domiciled in New Zealand, during the current financial year.

Warren Hutcheon was a Director and Michael Grantham was Chairperson of Ansvar Risk Management Services Pty Limited (ARMS), Ansvar's fellow subsidiary, during the current financial year. ARMS delivered risk services to Ansvar's customers and Ansvar seconded staff and provided support services to ARMS in terms of a management services agreement during the current financial year. In order to simplify the Ecclesiastical Insurance Office Plc group legal entity structure ARMS became dormant with effect from 31 December 2020 and the operations of ARMS were transferred to the Group with effect from 1 January 2021. Michael Grantham resigned as a Director of ARMS with effect from 31 December 2020.

Other transactions with Directors or their related entities
The profit/(loss) before income taxation includes the following item that resulted from a transaction with a related entity of a Director:

	Company and Consolidated	
	2020	**2019**
	$'000	**$'000**
Management services fee income – ACS (NZ) Limited	56	177

Ansvar provides management services to ACS (NZ) Limited. The management services agreement includes a performance based management fee of NZD3 million which may be payable to Ansvar once ACS (NZ) Limited has settled all claims against it. In the normal course of business, Ansvar incurs certain expenses which are recharged to ACS (NZ) Limited. There were no other transactions between the entities during the year.

The above transactions were made on commercial terms and conditions and at market rates.

In the normal course of business, insurance policies are provided to certain entities related to the Directors. These insurance policies are provided on an arm's length basis.

Wholly-owned group
The wholly-owned group consists of AllChurches Trust Limited and its wholly-owned controlled entities, including Ansvar and its controlled entity. Ansvar's ownership interest in its controlled entity is set out in Note 28.

27. Related parties (continued)

Ansvar entered into the following transactions with its holding company:

	Company and Consolidated	
	2020 $'000	**2019 $'000**
Income		
Reinsurance recoveries	10,042	1
Expenses		
Interest on collateral	20	69
Reinsurance premium incurred	4,301	2,069
Information Technology expense recharges	52	164
Other expense recharges	59	6
Other items		
Ordinary share capital issued	19,992	-
Dividends declared and paid	-	3,775

The above transactions were entered into on commercial terms and conditions and at market rates.

Ansar entered into the following transaction with its fellow subsidiary:

Expenses		
Services provided by fellow subsidiary	112	339

The above transaction was entered into on a cost recovery basis.

Aggregate amounts receivable from or payable to entities in the wholly-owned group at the balance sheet date were as follows:

Current		
Unsecured amount owing to fellow subsidiary	(10)	(152)
Unsecured amount owing to holding company	(320)	(782)

28. Controlled entity

EA Insurance Services Pty Limited was incorporated in Australia on 28 February 2013. On this date, Ansvar Insurance Limited purchased 100% of the share capital of 1,000 shares for $100. In October 2014 EA Insurance Services Pty Limited changed its name to Ansvar Insurance Services Pty Limited. Ansvar Insurance Limited owns 100% of the share capital of Ansvar Insurance Services Pty Limited at 31 December 2020 (2019: 100%). Ansvar Insurance Services Pty Limited did not enter into any transactions during the current financial year (2019: None).

29. APRA capital adequacy

The table below sets out Ansvar's Regulatory Capital, Prescribed Capital Amount and Prescribed Capital Amount Coverage Ratio calculated in accordance with APRA's Prudential Standards.

Net Assets	96,411	73,778
Less: Regulatory Adjustments	(9,573)	(10,962)
Total Regulatory Capital	**86,838**	**62,816**
Prescribed Capital Amount		
Insurance Risk Charge	23,477	19,968
Insurance Concentration Risk Charge	2,500	3,217
Asset Risk Charge	24,885	15,769
Operational Risk Charge	4,474	3,937
Less: Aggregation Benefit	(11,458)	(8,418)
Total Prescribed Capital Amount	**43,878**	**34,473**
Prescribed Capital Amount Coverage Ratio	**1.98**	**1.82**

30. Reconciliation of profit/(loss) after income taxation to net cash inflow from operating activities

	Company and Consolidated	
	2020	2019
	$'000	$'000
Profit/(loss) after income taxation	**2,641**	**(3,488)**
Depreciation of furniture, fittings and equipment	122	52
Depreciation of right of use assets	894	917
Realised losses on disposal of investments	315	1,298
Unrealised gains on investments	(2,174)	(3,589)
Decrease/(increase) in current taxation asset	463	(2,679)
Decrease/(increase) in deferred taxation asset	1,193	(1,516)
Decrease in current taxation liability	-	(774)
Changes in operating assets and liabilities:		
Increase in trade and other receivables	(5,797)	(9,763)
Increase in deferred Emergency Services Levy	(808)	(507)
Increase in gross deferred acquisition costs	(3,979)	(83)
Increase in reinsurance and other assets	(29,052)	(25,077)
Increase in trade and other payables	3,793	9,100
Increase in ceded deferred acquisition costs	1,543	2,273
Increase in provisions	464	227
Increase in gross insurance liabilities	64,752	47,190
Net cash inflow from operating activities	**34,370**	**13,581**

31. Subsequent events

There has not been any matter or circumstance that has occurred between the balance sheet date and the date of this report that has significantly affected, or may significantly affect, the Group's and the Company's operations in future financial years, the results of those operations or the Group's and the Company's state of affairs in future financial years.