

Results announcement

Results for announcement to the market		
Name of issuer	Turners Automotive Group Limited	
Report period	12 months to 31 March 2024	
Previous reporting period	12 months to 31 March 2023	
Currency	NZD	
	Amount (000s)	Percentage change
Revenue from continuing operations	\$416,145	7.0%
Total revenue	\$416,968	7.0%
Net profit from continuing operations	\$32,966	1.5%
Total net profit	\$28,796	-12.2%
Final dividend		
Amount per quoted equity security	\$0.07500000	
Imputed amount per quoted security	\$0.02916667	
Record date	18 July 2024	
Dividend payment date	26 July 2024	
	Current period	Prior comparable period
Net tangible assets per quoted security	\$1.47	\$1.38
A brief explanation of any of the figures above necessary to enable the figures to be understood	Please refer to accompanying Company Announcement	
Authority for this announcement		
Name of person authorised to make this announcement	Barbara Badish	
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Date of release through MAP	21/05/2024	

This announcement is based on audited results.

TURNERS AUTOMOTIVE GROUP LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 March 2024

		2024	Restated 2023
	Note	\$'000	\$'000
Revenue	2	416,145	389,027
Other income	2	823	608
Cost of goods sold		(177,175)	(173,986)
Interest expense		(27,842)	(19,933)
Impairment provision expense	2	(4,616)	(3,740)
Subcontracted services expense		(15,466)	(11,927)
Employee benefits		(66,365)	(60,709)
Commission		(11,070)	(12,024)
Advertising expense		(5,650)	(4,934)
Depreciation and amortisation expense	2	(11,968)	(11,478)
Systems maintenance		(5,384)	(5,109)
Claims		(21,901)	(21,827)
Other expenses		(20,392)	(18,544)
Profit before taxation		49,139	45,424
Taxation expense		(16,173)	(12,941)
Profit from continuing operations		32,966	32,483
Other comprehensive income for the period (which may subsequently be reclassified to profit/loss), net of tax			
Cash flow hedges		(4,118)	415
Revaluation of financial assets at fair value through OCI		(73)	(91)
Foreign currency translation differences		21	(7)
Total comprehensive income for the period		28,796	32,800
Earnings per share (cents per share)			
Basic earnings per share	3	37.71	37.54
Diluted earnings per share	3	37.61	37.65

TURNERS AUTOMOTIVE GROUP LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 March 2024

		Share Capital	Share Options Reserve	Translation Reserve	Revaluation of financial assets at fair value through OCI	Cash flow reserve	Retained Earnings	Total
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 31 March 2022		205,482	472	(32)	(1,085)	5,477	42,083	252,397
Adjustments on initial application of NZ IFRS 17, net of tax	9	-	-	-	-	-	(1,754)	(1,754)
Restated balance at 1 April 2022		205,482	472	(32)	(1,085)	5,477	40,329	250,643
<i>Transactions with shareholders in their capacity as owners</i>								
Employee share based payments	3	1,594	(188)	-	-	-	296	1,702
Dividend paid	8	-	-	-	-	-	(14,732)	(14,732)
		1,594	(188)	-	-	-	(14,436)	(13,030)
<i>Comprehensive income</i>								
Profit		-	-	-	-	-	32,483	32,483
Other comprehensive income		-	-	(7)	(91)	415	-	317
Total comprehensive income for the period, net of tax		-	-	(7)	(91)	415	32,483	32,800
Balance at 31 March 2023		207,076	284	(39)	(1,176)	5,892	58,376	270,413
<i>Transactions with shareholders in their capacity as owners</i>								
Dividend reinvestment plan	3	5,106	-	-	-	-	-	5,106
Employee share based payments	3	1,040	(41)	-	-	-	-	999
Dividend paid/payable	8	-	-	-	-	-	(27,090)	(27,090)
		6,146	(41)	-	-	-	(27,090)	(20,985)
<i>Comprehensive income</i>								
Profit		-	-	-	-	-	32,966	32,966
Other comprehensive income		-	-	21	(73)	(4,118)	-	(4,170)
Total comprehensive income for the period, net of tax		-	-	21	(73)	(4,118)	32,966	28,796
Balance at 31 March 2024		213,222	243	(18)	(1,249)	1,774	64,252	278,224

TURNERS AUTOMOTIVE GROUP LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 March 2024

	Note	2024 \$'000	Restated 2023 \$'000	Restated 1 April 2022 \$'000
Assets				
Cash and cash equivalents	4	17,523	11,845	13,373
Financial assets at fair value through profit or loss		69,558	66,730	70,274
Trade receivables		7,277	7,800	7,506
Inventories		25,051	26,057	31,980
Finance receivables	5	430,299	424,621	422,870
Other receivables, deferred expenses and contract assets		13,782	9,144	9,520
Derivative financial instruments		1,774	5,887	5,414
Financial assets at fair value through OCI		157	230	225
Reverse annuity mortgages		2,489	2,925	3,242
Property, plant and equipment		113,948	105,993	67,569
Right-of-use assets		20,716	22,226	23,497
Investment property		-	5,800	5,950
Intangible assets		163,084	163,556	164,453
Total assets		865,658	852,814	825,873
Liabilities				
Other payables		48,352	56,008	50,103
Contract liabilities		1,297	1,562	1,848
Tax payable		5,183	6,773	4,016
Deferred tax		15,037	12,412	12,564
Borrowings	6	425,318	412,035	412,761
Lease liabilities		24,924	27,120	28,209
Life investment contract liabilities		7,188	7,042	8,153
Insurance contract liabilities		60,135	59,449	57,576
Total liabilities		587,434	582,401	575,230
Shareholders' equity				
Share capital	3	213,222	207,076	205,482
Other reserves		750	4,961	4,832
Retained earnings		64,252	58,376	40,329
Total shareholders' equity		278,224	270,413	250,643
Total shareholders' equity and liabilities		865,658	852,814	825,873
Total assets per share (\$)		9.80	9.84	9.53
Net tangible assets (\$)		1.47	1.38	1.14

TURNERS AUTOMOTIVE GROUP LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 March 2024

	2024	2023
	\$'000	\$'000
Cash flows from operating activities		
Interest received	56,183	51,639
Receipts from customers	359,265	334,105
Receipt of government subsidies	13	100
Interest paid - borrowings	(25,954)	(17,653)
Interest paid - lease liabilities	(1,483)	(1,548)
Payment to suppliers and employees	(330,265)	(286,783)
Income tax paid	(15,259)	(10,394)
Net cash inflow/(outflow) from operating activities before changes in operating assets and liabilities	42,500	69,466
Net increase in finance receivables	(11,117)	(6,814)
Net decrease in reverse annuity mortgages	673	572
Net increase of financial assets at fair value through profit or loss	(2,293)	3,872
Net (withdrawal)/contribution from life investment contracts	(92)	(304)
Changes in operating assets and liabilities arising from cash flow movements	(12,829)	(2,674)
Net cash inflow/(outflow) from operating activities	29,671	66,792
Cash flows from investing activities		
Proceeds from sale of property, plant, equipment and intangibles	3,180	942
Purchase of property, plant, equipment and intangibles	(18,641)	(44,177)
Purchase of investments	-	(96)
Sale of investments	5,526	-
Net cash inflow/(outflow) from investing activities	(9,935)	(43,331)
Cash flows from financing activities		
Net bank loan (repayments)/advances	13,283	(553)
Principal elements of lease payments	(6,303)	(5,976)
Proceeds from the issue of shares	918	1,436
Dividend paid	(21,956)	(19,896)
Net cash inflow/(outflow) from financing activities	(14,058)	(24,989)
Net movement in cash and cash equivalents	5,678	(1,528)
Add opening cash and cash equivalents	11,845	13,373
Closing cash and cash equivalents	17,523	11,845

TURNERS AUTOMOTIVE GROUP LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS (CONT)
For the year ended 31 March 2024

RECONCILIATION OF NET SURPLUS WITH CASH FLOWS FROM OPERATING ACTIVITIES

	2024	Restated 2023
	\$'000	\$'000

RECONCILIATION OF NET SURPLUS WITH CASH FLOWS FROM OPERATING ACTIVITIES

Profit/(loss)	32,966	32,483
Adjustment for non-cash items		
Impairment charge on finance receivables, reverse annuity mortgages and other receivables	4,627	3,659
Net loss/(profit) on sale fixed assets	(204)	(290)
Depreciation and amortisation	11,968	11,478
Capitalised reverse annuity mortgage interest	(291)	(287)
Deferred revenues	713	628
Fair value adjustments on assets/liabilities at fair value through profit and loss	(573)	(444)
Net annuity and premium change to policyholders accounts	394	(656)
Non-cash adjustments to finance receivables effective interest rates	-	(3)
Deferred expenses	765	1,105
Revaluation loss on investment property	-	150
Adjustment for movements in working capital		
Net decrease/(increase) receivables and pre-payments	(1,870)	937
Net decrease/(increase) in inventories	389	5,923
Net increase in payables	(7,033)	12,580
Net decrease in contract liabilities	(265)	(345)
Net increase in finance receivables	(11,117)	(6,814)
Net decrease in reverse annuity mortgages	673	572
Net (decrease)/increase of insurance assets at fair value through profit or loss	(2,293)	3,872
Net (withdrawals)/contributions from life investment contracts	(92)	(304)
Net (decrease)/increase in deferred tax liability	2,327	(212)
Net increase in tax payable	(1,413)	2,760
Net cash inflow/(outflow) from operating activities	29,671	66,792

TURNERS AUTOMOTIVE GROUP LIMITED

1. SEGMENTAL INFORMATION

OPERATING SEGMENTS

Revenue	Total		Revenue		Revenue	
	segment	Inter-	from	Total	Inter-	from
	revenue	segment	external	segment	segment	external
	2024	revenue	customers	revenue	revenue	customers
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Automotive retail	300,366	(1,750)	298,616	283,354	(5,189)	278,165
Finance	62,416	-	62,416	58,634	-	58,634
Insurance	47,838	(1,765)	46,073	45,282	(1,717)	43,565
Credit management	9,794	(10)	9,784	9,259	(36)	9,223
Corporate & other	79	-	79	48	-	48
	420,493	(3,525)	416,968	396,577	(6,942)	389,635

Operating profit	2024		Restated	
	\$'000	\$'000	2023	\$'000
Automotive retail	31,807	24,985		
Finance	12,228	14,956		
Insurance	14,287	12,468		
Credit management	3,121	2,865		
Corporate & other	(12,304)	(9,850)		
Profit/(loss) before taxation	49,139	45,424		
Income tax	(16,173)	(12,941)		
Profit attributable to shareholders	32,966	32,483		

	Interest revenue		Interest expense		Depreciation and amortisation expenses	
	2024	2023	2024	2023	2024	2023
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Automotive retail	687	225	(3,583)	(2,349)	(9,700)	(9,141)
Finance	54,551	51,508	(18,399)	(13,281)	(775)	(725)
Insurance	3,505	2,138	(50)	(61)	(1,173)	(1,211)
Credit management	5	4	(9)	(11)	(162)	(258)
Corporate & other	31	20	(6,174)	(4,261)	(158)	(143)
	58,779	53,895	(28,215)	(19,963)	(11,968)	(11,478)
Eliminations	(373)	(30)	373	30	-	-
	58,406	53,865	(27,842)	(19,933)	(11,968)	(11,478)

Other material non-cash items

	Revenue/(expenses)	
	2024	2023
	\$'000	\$'000
Finance - impairment provisions	(4,562)	(3,741)
Insurance - reverse annuity mortgage interest	291	287

SEGMENT ASSETS AND LIABILITIES

	Segment assets		Segment liabilities	
	2024	Restated	2024	Restated
		2023		2023
		\$'000		\$'000
Automotive retail	163,917	155,850	96,478	73,689
Finance	457,041	453,869	340,080	344,786
Insurance	151,002	136,896	78,511	79,576
Credit management	35,432	34,035	2,927	3,943
Corporate & other	255,178	238,577	100,174	84,618
	1,062,570	1,019,227	618,170	586,612
Eliminations	(196,912)	(166,413)	(30,736)	(4,211)
	865,658	852,814	587,434	582,401

TURNERS AUTOMOTIVE GROUP LIMITED

Five reportable segments have been identified as follows:

Automotive retail -	remarketing (motor vehicles, trucks, heavy machinery and commercial goods) and purchasing goods for sale.
Finance -	provides asset based finance to consumers and SME's.
Insurance -	marketing and administration of a range of life and consumer insurance and saving products.
Credit management -	collection services, credit management and debt recovery services to the corporate and SME sectors. Geographically the collections services segment business activities are located in New Zealand and Australia.
Corporate & other -	corporate centre.

2. PROFIT BEFORE TAX

Revenue from continuing operations includes:	2024	2023
	\$'000	\$'000
Interest income		
Bank accounts, short term deposits and investments	3,891	2,026
Finance receivables	54,224	51,552
Reverse annuity mortgages	291	287
Total interest income	58,406	53,865
Sales of goods	215,054	205,916
Commission and other sales revenue	87,549	74,980
Loan fee income	2,669	2,988
Insurance and life investment contract income	39,181	38,514
Collection income	9,810	9,204
Bad debts recovered	1,879	1,832
Other revenue	1,597	1,728
Total operating revenue	357,739	335,162
Revenue from continuing operations	416,145	389,027
<i>Other income includes:</i>		
Dividend income	8	5
Gain on sale of property, plant and equipment	233	378
Government wage subsidies	-	100
Rental income	386	-
Other	196	125
	823	608
Over time		
<i>Automotive retail</i>		
Commission and other sales revenue	21,874	16,425
<i>Finance</i>		
Other sales revenue	3,306	2,434
At a point in time		
<i>Automotive retail</i>		
Sales of goods	215,054	205,916
Auction commissions	60,640	54,922
<i>Credit management</i>		
Collection income	9,510	8,704
Voucher income	300	500
<i>Insurance</i>		
Motor vehicle insurance commissions	1,729	1,199

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Net operating profit includes the following specific expenses

	2024	2023
	\$'000	\$'000
<i>Depreciation</i>		
- Buildings	380	299
- Plant, equipment & motor vehicles	1,427	1,118
- Leasehold improvements, furniture, fittings & office equipment	1,064	1,075
- Computer equipment	1,419	1,274
- Signs & flags	145	198
<i>Intangible amortisation</i>		
Amortisation of software	834	1,099
Amortisation of customer relationships	520	520
Amortisation of right-of-use asset	6,179	5,895
	11,968	11,478

Movement in impairment provisions

Provisions for:		
Specific impaired finance receivables	1,333	446
Collective impairment provision for finance receivables	2,699	2,784
Movement in COVID-19 overlay	-	(1,682)
Movement in economic overlay provision	345	1,965
Collective impairment on reverse annuity mortgages	54	32
Finance receivables bad debts written off	185	195
Movement	4,616	3,740

3. SHARE CAPITAL AND EARNINGS PER SHARE

	2024	2023
	\$'000	\$'000
Number of ordinary shares		
Opening balance	86,700,247	86,069,248
Shares issued for staff options	300,000	525,000
Shares issued for employee share scheme	95,305	105,999
Shares issued under dividend reinvestment plan	1,258,137	-
	88,353,689	86,700,247

Basic earnings per share

The calculation of basic earnings per share at 31 March was based on the profit attributable to ordinary shareholders and weighted average number of ordinary shares outstanding, as follows:

	2024	Restated 2023
	\$'000	\$'000
Profit for the Period (\$'000)	32,966	32,483
Weighted average number of ordinary shares at the end of the period	87,423,305	86,518,326
Basic earnings per share (cents per share)	37.71	37.54

Weighted number of shares

Opening balance	86,700,247	86,069,248
Shares issued for staff options	211,858	385,479
Shares issued for employee share scheme	56,246	63,599
Shares issued for Dividend Reinvestment Plan	454,954	-
	87,423,305	86,518,326

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Diluted earnings per share

The calculation of diluted earnings per share at 30 September and 31 March was based on the diluted profit attributable to shareholders and a diluted weighted average number of ordinary shares outstanding as follows:

	2024	Restated 2023
	\$'000	\$'000
Continuing operations (\$'000)	32,966	32,483
Add: Long term incentive expense relation to options (\$'000)	55	265
Profit for the year (\$'000)	33,021	32,748
<i>Weighted number of ordinary shares (diluted)</i>		
Weighted average number of shares (basic)	87,423,305	86,518,326
Effect of the exercise of options	376,944	467,052
Weighted average number of shares (diluted)	87,800,249	86,985,378
Diluted earnings per share (cents per share)	37.61	37.65

4. CASH AND CASH EQUIVALENTS

	2024	2023
	\$'000	\$'000
Cash and cash equivalents	17,523	11,845

The Group's insurance business is required to comply with the solvency standards for licensed insurers issued by the Reserve Bank of New Zealand. The solvency standards specify the level of assets the insurance business is required to hold in order to meet solvency requirements, consequently all cash and cash equivalents held in the insurance business may not be available for use by the wider Group. The Group's insurance business' cash and cash equivalents at 31 March 2024 were \$2.1m (2023: \$2.0m).

Cash and cash equivalents at 31 March 2024 of \$6.7m (2023: \$4.3m) belongs to the Turners Marque Warehouse Trust 1 and the Turners Marque ABS 2023-1 Trust and are not all available to the Group.

5. FINANCE RECEIVABLES

	2024	2023
	\$'000	\$'000
Gross finance receivables	429,400	422,014
Deferred fee revenue and commission expenses	10,111	11,276
Provision for impairment	(6,902)	(6,704)
Economic overlay provision	(2,310)	(1,965)
	430,299	424,621
Fair value	432,065	425,900

The fair values are based on cash flows discounted using a weighted average interest rate of 13.07% (2023: 11.81%).

Securitisation

The Group has two Trusts under which it securitises finance receivables. The Trusts are special purpose entities set up solely for the purpose of purchasing finance receivables originated by the finance sector. The New Zealand Guardian Trust Company Limited has been appointed Trustee and NZGT Security Trustee Limited as the security trustee for both Trusts. The Company is the sole beneficiary of both Trusts.

The Group has the power over the Trusts, exposure, or rights, to variable returns from its involvement with the Trusts and the ability to use its power over the Trusts to affect the amount of the Group's returns from the Trusts. Consequently the Group controls the Trusts and has consolidated the Trusts into the Group's financial statements.

The Group retains substantially all the risks and rewards relating to the finance receivables sold and therefore the finance receivables do not qualify for derecognition and remain on the Group's consolidated statement of financial position.

Turners Marque Warehouse Trust 1 (the Trust)

The Trust has a wholesale funding facility with the Bank of New Zealand (BNZ) which is secured by finance receivables sold to the Trust. The facility is for \$355m and with a 1 year term that will be renewed annually. BNZ fund up to 90% (2023: 85%) of the purchase price of the finance receivables with the balance funded by sub-ordinated notes from the Group.

During the reporting period \$202.4m finance receivables were sold to the Trust (31 March 2023: \$215.5m) and the Trust sold \$100.0m finance receivables to the Turners Marque ABS 2023-1 Trust. As at 31 March 2024 the carrying value of finance receivables in the Trust was \$281.2m (2023: \$314.4m).

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Turners Marque ABS 2023-1 Trust (the 2023-1 Trust)

During the period the Group created the 2023-1 Trust. The 2023-1 Trust, is a closed pool trust, and issued \$100m notes comprising \$70m Class A1 notes and \$20.7m Class A2 notes both rated AAAsf (Fitch) and \$9.3m unrated Class B notes, the Class A2 notes and B notes are held by the Group. The 2023-1 Trust purchased \$100.0m finance receivables from the Trust. As at the 31 March 2024 the carrying value of finance receivables in the 2023-1 Trust was \$72.9m.

6. BORROWINGS

	2024	2023
	\$'000	\$'000
Secured bank borrowings	373,710	412,035
Non bank borrowings	51,608	-
Total borrowings	425,318	412,035
Fair value	423,539	406,127

Secured bank borrowings

At March 2024 the Group has a syndicated funding facility, including a 18 month working capital facility, with the Bank of New Zealand, ASB Bank and Westpac New Zealand, a self liquidating trade finance facility and three year term facility with ASB Bank and a securitisation facility with the Bank of New Zealand.

The bank borrowings are secured by a first-ranking general security agreement over the assets of the Company and its subsidiaries, excluding DPL Insurance Limited, Turners Finance Limited and EC Credit (Aust.) Limited. The bank funded securitisation financing arrangement is described under finance receivables.

Non bank borrowings

The Group's non bank securitisation arrangement with the Accident Compensation Corporation is described under finance receivables.

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The fair value of financial assets and liabilities carried at fair value are summarised in the table below. The methods used to calculate fair value are the same as those applied when preparing the Group's Annual Report for the year ended 31 March 2023 (refer note 5.5 in the Annual Report for the year ended 31 March 2023). During the period there were no movements of fair value assets or liabilities between levels of the fair value hierarchy.

	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
31/03/2024				
Fair value assets:				
Financial assets at fair value through profit or loss - insurance	-	7,508	-	7,508
Financial assets at fair value through profit or loss - term deposits	62,050	-	-	62,050
Derivative financial instruments	-	1,774	-	1,774
	62,050	9,282	-	71,332
31/03/2023				
Fair value assets:				
Financial assets at fair value through profit or loss - insurance	-	7,305	-	7,305
Financial assets at fair value through profit or loss - term deposits	59,425	-	-	59,425
Investment property	-	-	5,800	5,800
Derivative financial instruments	-	5,887	-	5,887
	59,425	13,192	5,800	78,417

TURNERS AUTOMOTIVE GROUP LIMITED

8. DIVIDENDS

	2024 \$'000	2023 \$'000
Quarterly dividend for the year ended 31 March 2023 of \$0.06 per fully paid ordinary share, imputed, paid on 27 April 2023.	5,202	-
Final dividend for the year ended 31 March 2023 of \$0.07 (31 March 2022: \$0.07) per fully paid ordinary share, imputed paid on 28 July 2023 (2023: 28 July 2022).	6,085	6,062
Quarterly dividend for the year ended 31 March 2024 of \$0.06 (31 March 2023: \$0.05) per fully paid ordinary share, imputed, paid on 27 October 2024 (2023: 28 October 2022).	5,251	4,335
Quarterly dividend for the year ended 31 March 2024 of \$0.06 (31 March 2023: \$0.05) per fully paid ordinary share, imputed, paid on 26 January 2024 (2023: 26 January 2023).	5,267	4,335
Quarterly dividend for the year ended 31 March 2024: \$0.06 per fully paid ordinary share, imputed, paid on 27 March 2024.	5,285	-
	27,090	14,732

Dividends not recognised at year end

In addition to the above dividends, after year end the directors recommended the payment of the following dividend:

Quarterly dividend for the year ended 31 March 2023 of \$0.06 per fully paid ordinary share, imputed, paid on 27 April 2023 .	-	5,202
Final dividend of \$0.075 (31 March 2023: \$0.07) per fully paid ordinary share, imputed, payable on 26 July 2024 (2022: 28 July 2023).	6,627	6,085

Turners Automotive Group Limited

9. CHANGE IN ACCOUNTING POLICY

This note explains the impact of the adoption of NZ IFRS 17 Insurance Contracts on the Group's financial statements and discloses the new accounting policies that have been applied from 1 April 2023.

The Group has adopted NZ IFRS 17 retrospectively from 1 April 2023 and has restated certain comparative amounts, the retrospective restatement does not have a material effect on the information in the statement of financial position at the beginning of the preceding period.

A. Recognition, measurement and presentation of insurance contracts

NZ IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts, reinsurance contracts and investment contracts with discretionary participation features. It introduces a model that measure groups of contracts based on the Group's estimates of the present value of future cash flows that are expected to arise as the Group fulfils the contracts, an explicit risk adjustment for non-financial risk and a contractual service margin (CSM).

Under NZ IFRS 17, insurance revenue in each reporting period represents the changes in the liabilities for remaining coverage that relate to services for which the Group expects to receive consideration and an allocation of premiums that relate to recovering insurance acquisition cash flows. In addition, investment components are no longer included in insurance revenue and insurance service expenses.

The Group applies the premium allocation approach (PAA) to simplify the measurement of certain contracts.

Under NZ IFRS 17, only directly attributable insurance acquisition cash flows that arise before the recognition of the related insurance contracts are recognised as separate assets and are tested for recoverability. These assets are presented in the carrying amount of the related portfolio of contracts and are derecognised once the related contracts have been recognised.

B. Transition

Changes in accounting policies resulting from the adoption of NZ IFRS 17 have been applied using the fair value approach as the Group cannot obtain reasonable and supportable information necessary to apply the full or modified retrospective approach.

The change in accounting policy only relates to the insurance segment and has affected the following items in the Statement of financial position:

	1/04/2022
	\$'000
Increase in Other receivables, deferred expenses and contract assets	180
Increase in Insurance contract liabilities	2,561
Decrease in deferred tax impact	627
Decrease in Retained earnings	1,754

C. Accounting policy – Insurance contracts

Insurance contracts are those contracts that transfer significant insurance risk and are accounted for in accordance with the requirements of NZ IFRS 17 *Insurance Contracts*. The Group issues the following insurance contracts:

- Long-term insurance contracts with fixed and guaranteed terms, these contracts insure events associated with human life (for example, death) over a long duration;
- Temporary life insurance contracts covering death disablement, disability and redundancy risks; and
- Short term motor vehicle contracts covering mechanical breakdown risks.

Aggregation and recognition of insurance contracts

Insurance contracts

Insurance contracts are aggregated into groups for measurement purposes. Groups of insurance contracts are determined by identifying portfolios of insurance contracts, each comprising contracts subject to similar risks and managed together, and dividing each portfolio into annual cohorts (i.e. by year of issue) and each annual cohort into three groups based on the profitability of contracts:

- any contracts that are onerous on initial recognition;
- any contracts that, on initial recognition, have no significant possibility of becoming onerous subsequently; and
- any remaining contracts in the annual cohort.

An insurance contract issued by the Group is recognised from the earliest of:

- the beginning of its coverage period (i.e. the period during which the Group provides services in respect of any premiums within the boundary of the contract);
- when the first payment from the policyholder becomes due or, if there is no contractual due date, when it is received from the policyholder; and
- when facts and circumstances indicate that the contract is onerous.

When the contract is recognised, it is added to an existing group of contracts or, if the contract does not qualify for inclusion in an existing group, it forms a new group to which future contracts are added. Groups of contracts are established on initial recognition and their composition is not revised once all contracts have been added to the group.

Contract boundaries

The measurement of a group of contracts includes all of the future cash flows within the boundary of each contract in the group, determined as follows.

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Insurance contracts

Cash flows are within the contract boundary if they arise from substantive rights and obligations that exist during the reporting period in which the Group can compel the policyholder to pay premiums or has a substantive obligation to provide services (including insurance coverage and investment services). A substantive obligation to provide services ends when:

- the Group has the practical ability to reassess the risks of the particular policyholder and can set a price or level of benefits that fully reflects those reassessed risks; or
- the Group has the practical ability to reassess the risks of the portfolio that contains the contract and can set a price or level of benefits that fully reflects the risks of that portfolio, and the pricing of the premiums up to the reassessment date does not take into account risks that relate to periods after the reassessment date.

Measurement – Contracts not measure under the PAA

On initial recognition, the Group measures a group of contracts as the total of (a) the fulfilment cash flows, which comprise estimates of future cash flows, adjusted to reflect the time value of money and the associated financial risks, and a risk adjustment for non-financial risk; and (b) the CSM.

The risk adjustment for non-financial risk for a group of insurance contracts, determined separately from the other estimates, is the compensation required for bearing uncertainty about the amount and timing of the cash flows that arises from non-financial risk.

The CSM of a group of insurance contracts represents the unearned profit that the Group recognises as it provides services under those contracts. On initial recognition of a group of insurance contracts, the Group determines the net present value of future cash-flows expected to arise under those contracts, with an allowance for non-financial risk. If the result is positive (i.e. a net inflow), the group is not onerous, and a CSM is established equal to the present value of the net inflow, hence no profit is recognised in profit or loss at contract inception. If the result is negative, the CSM is zero, and the negative value reflects the loss on those contracts recognised at inception and is recognised as a loss in profit or loss.

Subsequently, the carrying amount of a group of contracts at each reporting date is the sum of the liability for remaining coverage and the liability for incurred claims. The liability for remaining coverage comprises (a) the fulfilment cash flows that relate to services that will be provided under the contracts in future periods and (b) any remaining CSM at that date. The liability for incurred claims includes the fulfilment cash flows for incurred claims and expenses that have not yet been paid, including claims that have been incurred but not yet reported.

The fulfilment cash flows of groups of contracts are measured at the reporting date using current estimates of future cash flows, current discount rates and current estimates of the risk adjustment for non-financial risk. Changes in fulfilment cash flows are recognised as follows.

Changes relating to future services	Adjusted against the CSM (or recognised in the insurance service result in profit or loss if the group is onerous)
Changes relating to current or past services	Recognised in the insurance service result in profit or loss
Effects of the time value of money, financial risk and changes therein on estimated future cash flows	Recognised as insurance finance income or expenses

The CSM is adjusted subsequently only for changes in fulfilment cash flows that relate to future services and other specified amounts and is recognised in profit or loss as services are provided. The CSM at each reporting date represents the profit in the group of contracts that has not yet been recognised in profit or loss because it relates to future service.

This approach is applied to the Group's Funeral Plan and Annuity Insurance Life contracts.

Measurement – Contracts measured under the PAA

The Group uses the PAA to simplify the measurement of groups of contracts when the Group reasonably expects that such simplification would produce a measurement of the liability for remaining coverage for the group that would not differ materially from the result of applying the accounting policies described above.

On initial recognition of each group of insurance contracts, the carrying amount of the liability for remaining coverage is measured at the premiums received on initial recognition. The Group has elected to recognise insurance acquisition cash flows as expenses when they are incurred.

Subsequently, the carrying amount of the liability for remaining coverage is increased by any further premiums received and decreased by the amount recognised as insurance revenue for services provided. The liability for remaining coverage for in-force policies will reduce in line with the underlying pattern of insurance risk over the duration of the contracts in the group.

If at any time before and during the coverage period, facts and circumstances indicate that a group of contracts is onerous, then the Group will recognise a loss in profit or loss and increase the liability for remaining coverage to the extent that the current estimates of the fulfilment cash flows that relate to remaining coverage exceed the carrying amount of the liability for remaining coverage.

The Group recognise the liability for incurred claims of a group of contracts at the amount of the fulfilment cash flows relating to incurred claims. The liability for incurred claims is derived from undiscounted fulfilment cash flows as the Group writes only lines of business with claims that are virtually all settled within 12 months.

This approach is applied to all the Group's insurance contracts, except for the Group's Funeral Plan and Annuity Insurance Life contracts.

The Group applies the same accounting policies to measure a group of reinsurance contracts, adapted where necessary to reflect features that differ from those of insurance contracts.

Derecognition

The Group derecognises a contract when it is extinguished – i.e. when the specified obligations in the contract expire or are discharged or cancelled.

Presentation

Portfolios of insurance contracts that are assets and those that are liabilities, and portfolios of reinsurance contracts that are assets and those that are liabilities, are presented separately in the statement of financial position. All rights and obligations arising from a portfolio of contracts are presented on a net basis; therefore, balances such as insurance receivables and payables are no longer presented separately. Any assets or liabilities recognised for cash

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flows arising before the recognition of the related group of contracts (including any assets for insurance acquisition cash flows) are also presented in the same line item as the related portfolios of contracts.

Amounts recognised in the statement of profit or loss and OCI are disclosed by the nature of the item.

Insurance contracts

For contracts not measured using the PAA, insurance revenue for each year includes the changes in the liabilities for remaining coverage that relate to services for which the Group expects to receive consideration and an allocation of premiums that relate to recovering insurance acquisition cash flows. For contracts measured using the PAA, insurance revenue is recognised based on an allocation of expected premium receipts to each period of coverage, which is based on the passage of time.

Transition

Changes in accounting policies resulting from the adoption of NZ IFRS 17 have been applied using the fair value approach as the Group cannot obtain reasonable and supportable information necessary to apply the full or modified retrospective approach.

The following items have not be applied retrospectively:

- The risk mitigation option in NZ IFRS 17 have not been applied prospectively from 1 April 2022. Certain groups of contracts to which the risk mitigation option is applied have been measured under the fair value approach at 1 April 2022 (see below).
- The consequential amendments to NZ IFRS 3 Business Combinations introduced by NZ IFRS 17 require the Group to classify contracts acquired as insurance contracts based on the contractual terms and other factors at the date of acquisition. This requirement has not been applied to business combinations before 1 April 2023, for which the Group classified contracts acquired as insurance contracts based on the conditions at contract.

Reinsurance of onerous underlying contracts

For groups of reinsurance contracts covering onerous underlying contracts that were entered into before or at the same time as the onerous underlying contracts, the Group has established a loss-recovery component at 1 April 2022.

Fair value approach

Under the "Fair Value" method of transition, the Group determines the price that an independent party would pay to take over the insurance contract liabilities, allowing for:

- the future net cash-flows arising under those contracts;
- the time value of money; and
- the compensation that the purchaser would require for the uncertainty relating to those cash-flows.

Non-performance risk of the contract issuer is taken into account in determining the fair value. In the valuation of portfolios of insurance contracts, the non-performance risk is normally taken as zero as it is assumed that policyholder obligations will be met with certainty.

The opening value of Contractual Service Margins is then equal to the difference between the Fair Value, and the value of fulfilment cash-flows determined under NZ IFRS 17.