BUDDLEFINDLAY
NEW ZEALAND LAWYERS

24 April 2020

To
Insurance Supervision
Reserve Bank of New Zealand
2 The Terrace
Wellington 6011

From
Benjamin Sutton
Stephen Behrmann

By Electronic Upload

Hallmark General Insurance Company Limited – Financial Statements for the year ended 31 December 2019

1. We act for Hallmark General Insurance Company Limited (company number 3346111) ("**Hallmark General**").
2. In accordance with section 81 of the Insurance (Prudential Supervision) Act 2010, we **enclose** copies of the following documents in respect of Hallmark General for the year ended 31 December 2019:
   (a) audited financial statements for Hallmark General, a copy of the independent auditor's report and a copy of the appointed actuary's report (as required by section 78 of the Insurance (Prudential Supervision) Act 2010) in relation to the same; and
   (b) audited financial statements for Hallmark General's New Zealand branch, a copy of the independent auditor's report and a copy of the appointed actuary's report (as required by section 78 of the Insurance (Prudential Supervision) Act 2010) in relation to the same.
3. The financial statements listed above have been prepared in reliance on the Financial Markets Conduct (Overseas Registered Banks and Licensed Insurers) Exemption Notice 2016.
4. We have also submitted a copy of the above documents to the Registrar of Financial Service Providers.
5. Please contact the writer if you have any queries in relation to the above.
6. Please confirm receipt by email to the writer.

Yours sincerely

Stephen Behrmann
Senior Solicitor (South African Qualified)

Direct: 64 9 358 7007
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Hallmark General Insurance Company Ltd
ABN 82 008 477 647
FINANCIAL REPORT
For the Year Ended 31 December 2019

Hallmark General Insurance Company Ltd
ABN 82 008 477 647
Financial report for the year ended 31 December 2019

Contents

Directors' report
For the year ended 31 December 2019

The directors present their report together with the financial statements of Hallmark General Insurance Company Ltd (the Company) for the year ended 31 December 2019 and the auditor's report thereon.

Board of Directors

The following persons were directors of the Company at any time during the financial year and up to the date of this report:

Jennifer Anne Boddington (Chairperson)
Rachel Emma Cobb (resigned 5 March 2019)
Shaun Patrick Feely
Christopher Paul Knoblanche
Paul Varro (appointed 5 March 2019)
Alison Ledger

Principal activities

The principal activity of the Company during the year was that of a General insurer, operating both in Australia and New Zealand. There has been no significant change in the nature of this activity during the year.

The company is regulated by APRA in accordance with Section 122 of the Insurance Act. The Company distributes consumer credit insurance products.

Review of operations

Total comprehensive income of the Company was $9,884,000 (2018: $14,010,000).

This result was driven by an decrease in premium revenue of $4,653,000 across all channels in Australia and New Zealand (excluding the personal loans portfolio in New Zealand) and a decrease in underwriting expenses of $1,437,000. Claims expenses have increased by $1,138,000.

Significant changes in the state of affairs

During the year the Company discontinued selling Credit Card Insurance to new cardholders from 26 September 2019, across both Australia and New Zealand.

There have been no other significant changes in the state of affairs of the Company during the year.

Dividends

Dividends amounting to $11,279,000 were paid by the Company in respect of the financial year 31 December 2019 (2018: $11,900,000) to Latitude Insurance Holding Pty Limited.

Matters subsequent to the end of the financial year

On the 25 of February 2020, the Board approved a dividend payment amounting to $700,000. This will not significantly impact the Company's results, operations or capital.

No matter or circumstance has arisen since 31 December 2019 that has significantly affected, or may significantly affect:

(a) the Company's operations;
(b) the results of those operations; or
(c) the Company's state of affairs.

Directors' report
For the year ended 31 December 2019

Likely developments and expected results of operations

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

Indemnification and insurance of officers and auditors

Indemnification

Mandatory indemnification and legal costs

To the extent permitted by law, the Company:

(a) must indemnify each person who is, or has been, a director, principal executive officer or secretary of the Company against any liability which results (directly or indirectly) from facts or circumstances relating to the person serving or having served in that capacity:

  i) to any person (other than the Company or a related body corporate), (whether or not arising from a prior contingent liability), which does not arise out of conduct involving a lack of good faith (or conduct known to the person to be wrongful); and

  ii) for costs and expenses incurred by the person in defending proceedings whether civil or criminal in which judgment is given in favour of the person or in which the person is acquitted, or in connection with any application in relation to such proceedings in which the court grants relief to the person under the Law.

The Company need not provide such indemnity to the extent that the person is entitled to an indemnity in respect of that liability under a contract of insurance.

Permissive indemnification and legal costs

To the extent permitted by law, the board of directors may authorise the Company, and the Company may enter into any:

(a) Documentary indemnity in favour of, or
(b) Insurance policy for the benefit of,

A person who is, or has been, a director, principal executive officer, secretary, auditor, employee or other officer of the Company or a subsidiary of the Company, which indemnity or insurance policy may be in such terms as the board of directors approves and, in particular, may apply to acts or omissions prior to or after the time of entering into the indemnity or policy.

Insurance

During the financial year and subsequent to the period end, Latitude Financial Services Australia Holdings Pty Ltd, the Parent of the Company, has paid Directors and Officers insurance and liability premiums on behalf of KVD Singapore Pte. Ltd. and its subsidiaries. The insurance has a limit of liability unless specified within the policy.

The insurance policies prohibit the disclosure of limits of liability, the nature of liability indemnified and the premium payable.

Directors' report
For the year ended 31 December 2019

Proceedings on behalf of the company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.

Environmental regulations

The Company does not believe that its operations are subject to any particular or significant environmental regulation under a law of the Commonwealth or of a State of Territory.

Lead Auditor's independence declaration

The lead auditor's independence declaration is required under section 307C of the *Corporations Act 2001*, forms part of the directors' report for the year ended 31 December 2019 and is set out on page 8.

Rounding of amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 24 March 2016 issued by Australian Securities and Investments Commission, relating to the 'rounding off of amounts in the Directors' report and the accompanying financial statements have been rounded to the nearest thousand dollars unless otherwise indicated.

Signed in accordance with a resolution of directors.

Jennifer Anne Boddington (Chairperson)
Director
Melbourne
25 February 2020

Shaun Patrick Feely (Chief Executive Officer)
Director
Melbourne
25 February 2020

Directors' Declaration

In the opinion of the Directors of Hallmark General Insurance Company Ltd (the Company):

(a) the financial statements and notes set out on pages 11 to 53 are in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the Company's financial position as at 31 December 2019 and of its performance for the financial year ended on that date; and

  (ii) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements;

(b) the financial statements also comply with International Financial Reporting Standards as disclosed in note 1.2; and

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

Signed in accordance with a resolution of directors:

Jennifer Anne Boddington (Chairperson)
Director
Melbourne
25 February 2020

Shaun Patrick Feely (Chief Executive Officer)
Director
Melbourne
25 February 2020

KPMG

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Hallmark General Insurance Company Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit of Hallmark General Insurance Company Ltd for the financial year ended 31 December 2019 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Rachel Milum

Rachel Milum

Partner

Melbourne

25 February 2020

Independent Auditor's Report

To the shareholders of Hallmark General Insurance Company Ltd

Opinion

We have audited the ***Financial Report*** of Hallmark General Insurance Company Ltd (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

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

The ***Financial Report*** comprises:

- Balance sheet as at 31 December 2019;
- Statement of profit or loss and other comprehensive income, Statement of changes in equity, and Statement of cash flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

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

Other Information

Other Information is financial and non-financial information in Hallmark General Insurance Company Ltd's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. This includes the Director's Report. The Directors are responsible for the Other Information.

The Other information we obtained prior to the date of this Auditor's Report was the Director's report. Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we 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.

KPMG

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001;*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- 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 *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They 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/ar4.pdf. This description forms part of our Auditor's Report.

KPMG

Rachel Milum

Partner

Melbourne

25 February 2020

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2019

	Notes	2019 $'000	2018 $'000
Insurance premium revenue		50,550	55,202
Outwards reinsurance premium expense		(2)	(1)
Net insurance premium revenue	2.1(a)	50,548	55,201
Claims expenses		(15,725)	(14,587)
Net claims incurred	2.1(c)	(15,725)	(14,587)
Deferred acquisition costs amortisation		(10,068)	(10,907)
Administration expenses		(15,873)	(16,471)
Underwriting Expenses		(25,941)	(27,378)
Underwriting result		8,882	13,236
Investment income	2.1(b)	3,509	3,885
Other (expense)/income		(53)	60
Profit before income tax		12,338	17,181
Income tax expense	2.2(a)	(2,604)	(3,766)
Profit for the year		9,734	13,415
Item that may be reclassified to profit or loss			
Currency translation differences arising during the year		150	595
		150	595
Other comprehensive income for the year, net of tax		150	595
Total comprehensive income for the year from continuing operations		9,884	14,010
Profit is attributable to:			
Owners of Hallmark General Insurance Company Ltd		9,734	13,415
Profit for the year		9,734	13,415
Total comprehensive income for the year is attributable to:			
Owners of Hallmark General Insurance Company Ltd		9,884	14,010
Other comprehensive income for the year, net of tax		9,884	14,010

The above statement should be read in conjunction with the accompanying notes.

Balance Sheet
As at 31 December 2019

	Notes	2019 $'000	2018 $'000
Assets			
Cash and cash equivalents	3.1(a)	**144,730**	158,101
Trade and other receivables	3.1(b)	**1,348**	1,750
Deferred tax assets	2.2(d)	**828**	832
Deferred acquisition costs	3.1(c)	**10,605**	12,852
Total assets		**157,511**	173,535
Liabilities			
Trade and other liabilities	3.1(d)	**2,896**	7,708
Current tax liabilities		**817**	777
Provisions	3.1(e)	**1,349**	857
Outstanding claims liability	3.1(f)	**13,845**	15,034
Unearned premium liability	3.1(h)	**52,691**	63,205
Total liabilities		**71,598**	**87,581**
Net assets		**85,913**	85,954
Equity			
Contributed equity	4.1(a)	**2,000**	2,000
Reserves	4.1(b)	**64,889**	63,386
Retained earnings		**19,024**	20,568
Total equity		**85,913**	85,954

The above statement should be read in conjunction with the accompanying notes.

Statement of changes in equity
For the year ended 31 December 2019

	Notes	Contributed equity $'000	Reserves $'000	Retained Earnings $'000	Total Equity $'000
		Attributable to owners of Hallmark General Insurance Company Ltd			
At 1 January 2018		2,000	61,083	19,053	82,136
Profit for the year		-	-	13,415	13,415
Other comprehensive income	4.1(b)	-	595	-	595
Total comprehensive income for the year		**-**	**595**	**13,415**	**14,010**
Dividends paid or declared	2.3(a)	-	-	(11,900)	(11,900)
Tax consolidation reserve	4.1(b)	-	1,708	-	1,708
At 31 December 2018		**2,000**	**63,386**	**20,568**	**85,954**
At 1 January 2019		**2,000**	**63,386**	**20,568**	**85,954**
Profit for the year		-	-	9,734	9,734
Other comprehensive income	4.1(b)	-	150	-	150
Total comprehensive income for the year		**2,000**	**63,536**	**30,302**	**95,839**
Dividends paid or declared	2.3(a)	-	-	(11,279)	(11,279)
Tax consolidation reserve	4.1(b)	-	1,353	-	1,353
At 31 December 2019		**2,000**	**64,889**	**19,024**	**85,913**

The above statement should be read in conjunction with the accompanying notes.

Statement of cash flows
For the year ended 31 December 2019

	Notes	2019 $'000	2018 $'000
Cash flows from operating activities			
Premium received net		40,122	54,670
Outward reinsurance expense		(2)	(1)
Claims paid		(16,927)	(13,502)
Payments to suppliers and employees		(29,296)	(29,485)
Interest received		3,623	3,706
Net cash inflow/(outflow) from operating activities	2.1(e)	(2,480)	15,388
Cash flows from financing activities			
Dividends paid to company's shareholders		(11,278)	(8,300)
Net cash inflow/(outflow) from financing activities		(11,278)	(8,300)
Net (decrease)/increase in cash and cash equivalents		(13,758)	7,088
Cash and cash equivalents at beginning of financial year		158,101	149,597
Effects of exchange rate changes on cash and cash equivalents		387	1,416
Cash and cash equivalents at end of financial year	3.1(a)	144,730	158,101

The above statement should be read in conjunction with the accompanying notes.

Notes to the financial statements

For the year ended 31 December 2019

Section 1 - Basis of preparation

1.1 Basis of preparation

(a) Reporting entity

Hallmark General Insurance Company Ltd (the "Company") is a company limited by shares, incorporated and domiciled in Australia. The Company is registered under the Insurance Act 1973. Its registered office and principal place of business is 800 Collins Street, Docklands, Melbourne, Victoria, 3008.

These are the financial statements of Hallmark General Insurance Company Ltd, as at and for the year ended 31 December 2019. Hallmark General Insurance Company Ltd is a for-profit entity for the purpose of preparing the financial statements.

The financial statements were authorised for issue on 25 February 2020.

(b) Statement of compliance

These General Purpose Tier 1 financial statements have been prepared in accordance with Australian Accounting Standards and other authoritative pronouncements issued by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The financial statements comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Where necessary, comparatives figures have been re-classified for consistency with current period disclosures.

(c) Basis of measurement

These financial statements have been prepared on a historical cost basis except for the following:

- Financial instruments measured at fair value, including financial assets backing insurance policies designated at fair value through profit or loss, equity investments designated at fair value though other comprehensive income.

(d) Functional and presentation currency

These financial statements are presented in Australian Dollars, which is the Company's functional and presentation currency. Hallmark General Insurance New Zealand Branch numbers have been converted to Australian Dollars.

(e) Rounding of amounts

The company is of a kind referred to in ASIC Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Notes to the financial statements
For the year ended 31 December 2019

1.1 Basis of preparation (continued)

(f) Significant estimates and judgements

The preparation of financial statements that conform to accounting standards requires Management to exercise judgement in applying the Company's accounting policies and to make estimates and assumptions. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Company and that are believed to be reasonable under the circumstances.

Areas involving assumptions and estimates that are significant to the financial statements or areas requiring a higher degree of judgement, are described below.

Key sources of estimation uncertainty

The key area of estimation uncertainty for the Company is in its estimation of outstanding claims and reinsurance recoveries. The claims expense is disclosed in note 3.1(f).

The ultimate liability arising from claims made under insurance contracts

Provision is made at the year end for the estimated cost of claims incurred but not settled at the end of the reporting period, including the cost of claims incurred but not reported (IBNR) to the Company.

The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposure. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about the claim event is generally available. In calculating the estimated cost of unpaid claims the Company uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- changes in the economic environment
- changes in the mix of business
- medical and technological developments
- change in unemployment factor for policy holders
- changes in benefit structures
- changes in claims management practice

Provisions are calculated gross of all recoveries. A separate estimate is made of the amounts that will be recoverable from decreasing adjustments and from reinsurers based upon the gross provisions. The decreasing adjustments are estimated as $1/11^{th}$ of gross outstanding claims liability.

The methods used to analyse past claims experience and to project future claims experience are largely determined by the available data and the nature and maturity of the portfolio.

The determination of an appropriate outstanding claims liability and the specific assumptions used are detailed in note 3.2.

Notes to the financial statements

For the year ended 31 December 2019

1.2 Other significant accounting policies

Significant accounting policies adopted in the preparation of these financial statements have been included in the relevant notes to which the policies relate. Other significant accounting policies are listed below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Foreign currency translation

Items included in the financial statements of each of the entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency').

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss and other comprehensive income. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction. Foreign exchange gains and losses are presented in the statement of profit or loss and other comprehensive income on a net basis within other comprehensive income or other expenses.

The results and financial position of the branch that has a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet,
- Income and expenses for each statement of profit or loss and other comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- All resulting exchange differences are recognised in other comprehensive income, and included in a separate component of equity.

1.3 New and amended standards

(a) New and amended standards adopted

AASB Interpretation 23 Uncertainty over Income Tax Treatments - AASB Interpretation 23 became effective to the Company at 1 January 2019. The new interpretation clarifies the accounting for uncertainties in income taxes in relation to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates. This has had an immaterial impact on the Company.

1.3 New and amended standards (continued)

Other amended standards

Other amended Standards that became effective for the financial year ended 31 December 2019 did not have a material impact on the Company.

(b) New standards and interpretations not yet adopted

The following standards have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Company. The Company expects to adopt these on their effective dates.

AASB 17 Insurance Contracts - AASB 17 is effective for financial years commencing on or after 1 January 2022. The new standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts. The objective of AASB 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. The Company does not plan to adopt this standard early and the extent of the impact has not been determined.

Conceptual Framework for Financial Reporting – the AASB issued a new framework in May 2019 and applies to periods beginning on or after 1 January 2020. The new Framework includes updated definitions and recognition criteria for assets and liabilities. It also introduces new concepts on measurement, presentation and disclosure and new guidance on derecognition of assets and liabilities. It will apply to the Company from 1 January 2020 and is not expected to have a material impact on the Company.

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Notes to the financial statements
For the year ended 31 December 2019

Section 2 - Results

2.1 Revenue and expenses

Accounting Policy

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. The Company recognises revenue from non-insurance activities when it is probable that the economic benefits will flow to the Company and the revenue amount can be reliably measured. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. In addition, the following specific recognition criteria apply to revenue streams:

Premium revenue
Premium revenue comprises amounts charged to policyholders (direct premium) for insurance contracts, excluding stamp duties and taxes collected on behalf of third parties, including goods and services tax in Australia.

Premium revenue is recognised in the statement of profit and loss when it has been earned. It is recognised as earned from the date attachment of risk (generally the date a contract is agreed to but not the earlier if persuasive evidence of an arrangement exists) over the period of the related insurance contracts in accordance with the pattern of the incidence of risk expected under the contracts. The pattern of risks underwritten is generally matched by the passing of time but when time does not approximate the pattern of risk, previous claims experience is used to derive the incidence of risk.

Premium for unclosed business (business written close to reporting date where attachment risk is prior to reporting date and there is insufficient information to accurately identify the business) is brought to account based on previous experience with due allowance for any changes in the pattern of new business and renewals.

The Company recognises premium revenue in accordance with the requirements of AASB 1023.

The unearned portion of premium is recognised with unearned premium liability in the Statement of Financial Position.

Investment revenue
All investment income is recognised as revenue on an effective interest rate method. Interest income from assets backing life-insurance liabilities, which are designated as fair value through statement of profit or loss, is recognised on a time proportion basis using the simple interest method. Dividends are brought to account as declared and are recognised net of franking credits. Assets are designated at fair value through profit or loss and the related net realised and unrealised gains and losses arising on financial assets designated at fair value through profit or loss are included in statement of profit or loss and other comprehensive income as investment revenue.

Notes to the financial statements
For the year ended 31 December 2019

2.1 Revenue and expenses (continued)

Claims expenses
The Company's claims liability is measured as the present value of expected future payments relating to claims incurred at the reporting date. The expected future payments include those estimates in relation to claims incurred but not yet enough reported (IBNER's) and claims incurred but not yet reported (IBNR's) based on past experience.

Claims incurred all relate to providing services, including the bearing of risk, and are accordingly treated as expenses in the statement of profit or loss and other comprehensive income. Claims expenses represent total claim payments made during the year adjusted for the movement in the outstanding claims liability.

The claims liability is measured based on the advice of valuations performed by the appointed actuary whose key assumptions are outlined in note 3.2.

Other expenses
Other expenses are recognised in the statement of profit or loss and other comprehensive income on an accruals basis.

Outward reinsurance premium expense
Premium ceded to reinsurers is recognised as an expense in accordance with the pattern of reinsurance service received. Accordingly, a portion of outwards reinsurance premium is treated at the reporting date as deferred reinsurance expense. Reinsurance recoveries on claims incurred are recognised as revenue.

Deferred acquisition costs
Costs, which vary with and are primarily related to the production of new business, have been deferred to the extent such costs are deemed recoverable from future profits. Such costs primarily include commissions. These costs are amortised in proportion to premiums over the estimated lives of the policies. A write down to recoverable amount is recognised where the present value of expected future claims (including settlement costs) in relation to business written to the end of the reporting period exceeds related unearned premiums less the deferred acquisition costs.

Goods and Services Tax (GST)
Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case, it is recognised as part of the cost of acquisition of the asset or as part of the expense. Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet. Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

Notes to the financial statements
For the year ended 31 December 2019

2.1 Revenue and expenses (continued)

(a) Insurance premium revenue

	2019 $'000	2018 $'000
Gross written premium	39,837	54,998
Movement in unearned premium liability	10,713	204
Outwards reinsurance premium expense	(2)	(1)
Net premium revenue	50,548	55,201

(b) Investment income

	2019 $'000	2018 $'000
Interest income	3,509	3,885
Total investment income	3,509	3,885

(c) Net claims incurred

	2019			2018		
	Current Year $'000	Prior Years $'000	Total $'000	Current Year $'000	Prior Years $'000	Total $'000
Gross claims incurred and related expenses - undiscounted	(16,516)	939	**(15,577)**	(15,119)	457	(14,662)
Discount and discount movement - gross claims incurred	81	(229)	**(148)**	181	(106)	75
	(16,435)	710	**(15,725)**	(14,938)	351	(14,587)
Net claims incurred	**(16,435)**	**710**	**(15,725)**	**(14,938)**	**351**	**(14,587)**

Current period claims relate to risk borne in the current financial year. Prior period claims relate to a reassessment of the risks borne in all previous financial years.

Notes to the financial statements
For the year ended 31 December 2019

2.1 Revenue and expenses (continued)

(d) Profit before income tax

	2019 $'000	2018 $'000
Profit before income tax includes the following specific expenses:		
Employee costs		
Personnel cost	(4,933)	(7,764)
Contribution to superannuation fund	(414)	(649)
Change in annual and long service leave provision	(335)	164
Other administrative expenses		
Marketing fees	(419)	(576)
Management fees - Related party	(7,536)	(6,057)

(e) Reconciliation of profit after income tax to net cash inflow from operating activities

	2019 $'000	2018 $'000
Net profit after income tax	9,734	13,415
Adjustments		
Effect of foreign exchange on cash and cash equivalents	(387)	(1,416)
Change in operating assets and liabilities:		
Decrease/(increase) in trade debtors	285	(517)
Decrease in trade and other payables	(4,185)	(329)
Decrease in other receivables	110	-
Decrease/(increase) in deferred acquisition costs	2,248	(69)
Decrease in provisions	(128)	(152)
(Decrease)/increase in outstanding claim liability	(1,189)	1,112
(Decrease)/increase in unearned premium liability	(10,514)	747
Increase in tax consolidation reserve	1,353	1,708
Increase in foreign currency translation reserve	150	595
Decrease in net deferred tax assets	3	193
Increase in current tax liability	40	101
Net cash (used in)/provided by operating activities	(2,480)	15,388

2.2 Income tax expense and deferred tax

Accounting Policy

Taxation

Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. The current income tax charge is calculated based on the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate based on amounts expected to be paid to the tax authorities.

Deferred tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and liabilities are offset when there is a legally enforceable right to offset and an intention to settle the liability simultaneously. Current and deferred tax is recognised in the statement of profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

Tax consolidation legislation

The Company is a member of an income tax consolidation group and has implemented the tax consolidation legislation. These entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set-off in the consolidated group financial statements. The head and controlled entities in the tax consolidated group account for their own current and deferred tax accounts. These tax amounts are measured as if each entity in the tax consolidation group was a separate taxpayer with the Group. In addition to its own current and deferred tax amounts, the Company also recognises the current tax liabilities (assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidation group. Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group. Any difference between the amounts assumed and amounts receivable or payable under the agreement are recognised as an equity contribution to (or distribution from) wholly-owned tax consolidation entities.

Notes to the financial statements
For the year ended 31 December 2019

2.2 Income tax expense and deferred tax (continued)

New Zealand branch
Tax-effect accounting is applied using the liability method whereby tax is recognised as an expense and is calculated after allowing for permanent differences. To the extent that differences occur between the time items are recognised in the financial statements and when items are taken into account in determining taxable income (timing differences), the related future taxation benefit and deferred income tax liability are disclosed as a deferred tax asset and a deferred tax liability, respectively.

Taxation basis
For tax purposes the Branch is a non-resident general insurer in New Zealand and is taxed on 10% of its New Zealand sourced gross premium income. Deductions for expenditure are not allowed. A non-resident withholding tax of 10% or approved issuer levy of 2% applies to any New Zealand sourced interest income on investments.

2.2 Income tax expense and deferred tax (continued)

(a) Income tax expense

	2019 $'000	2018 $'000
Current tax on profits for the year	2,452	3,652
Deferred tax expenses	81	111
Over provision in prior year	71	3
Income tax expense	2,604	3,766

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	2019 $'000	2018 $'000
Profit from continuing operations before income tax expense	12,338	17,181
Tax at the Australian tax rate of 30%	3,701	5,033
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Permanent differences (^)	(1,062)	(1,266)
Effect of differences in tax rates in foreign jurisdictions	(106)	(4)
Adjustments of prior periods	71	3
Income tax expense	2,604	3,766

(^) Amortisation of acquisition costs and other items.

(c) Deferred tax expense represents movements in deferred tax assets/liabilities

	2019 $'000	2018 $'000
Deferred expenses and prepayments	828	832
	828	832

(d) Deferred tax assets and liabilities

	2019 $'000	2018 $'000
Deferred tax assets		
Provisions and other liabilities	417	496
Operating accruals	3	6
Indirect claims handling expense	407	330
Other	1	-
	828	832
Net deferred tax assets/ (liabilities)	828	832
Amounts expected to be settled within 12 months	828	831
Amounts expected to be settled after more than 12 months	-	-
	828	831

2.3 Shareholder returns

Accounting Policy

Dividends
Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the Company, on or before the end of the reporting period but not distributed at the end of the reporting period.

(a) Dividends

	2019 $'000	2018 $'000
Dividends paid and payable during the financial year ended 31 December	**11,279**	11,900

Notes to the financial statements
For the year ended 31 December 2019

Section 3 - General Insurance Assets & Liabilities and Risk Management

3.1 Assets and liabilities

Accounting Policy

Cash and cash equivalents
Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, restricted cash and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash.

Trade and other receivables
All premium and other receivables are recognised at the amounts receivable as these amounts are generally due for settlement within 30 days and less, where applicable, any provision for doubtful debts. Collectability of premium and other receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off in the period in which they are identified.

Reinsurance and other recoveries receivable
Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid and IBNR's are recognised as revenue. Recoveries receivable are assessed in a manner similar to the assessment of the liability for outstanding claims and policy liabilities.

Classification of insurance contracts
Contracts under which the Company accepts significant insurance risk from the policyholder or another party by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event adversely affects the policyholder or other beneficiary, are classified as insurance contracts. The risks associated with Insurance contracts are detailed further in note 3.3(d).

Asset backing insurance liabilities
The Company currently maintains a significant capital surplus. The Company has established a target capital to ensure assets are available to meet insurance liabilities.

Financial assets
The Company has elected to designate all its financial assets at fair value through profit and loss consistent with the provisions of AASB 139 Financial Instruments:

Recognition and Measurement.
Financial assets designated at fair value through profit or loss and are initially recognised at fair value, excluding transaction costs, which are expensed in the profit or loss in the period in which they arise. Financial assets are subsequently measured at fair value at each reporting date with realised and unrealised gains and losses arising from changes in the fair value recognised in the profit or loss in the period in which they arise.

Short term deposits
Short term deposits are carried at the face value of the amounts deposited as their carrying amounts approximate to their fair value.

3.1 Assets and liabilities (continued)

Trade and other liabilities
These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 90 days of recognition.

Outstanding claims liability
The liability for outstanding claims covers the expected future payments for claims including IBNR and IBNER claims and the anticipated direct and indirect costs of settling these claims.
The liability for outstanding claims is subject to yearly actuarial review. The general approach to the actuarial estimation of outstanding claims is to analyse all available past experience. Based on this, the expected future payments are determined and discounted to present value using a risk free rate.
The provision for the outstanding claims liability also contains a risk margin to reflect the inherent uncertainty in the central estimate. The risk margin increases the probability that the net liability is adequately provided for to a 90% (2018: 90%) confidence level.

Liability adequacy test
The adequacy of the insurance contract liabilities are evaluated each year. The insurance contract test considers current estimates of all contractual and related cash flows. If it is determined using best estimate assumptions that a shortfall exists, it is immediately recognised in the profit or loss.

Unexpired risk liability
Provision is made for unexpired risks arising from general insurance business where the expected value of claims and expenses attributed to the unexpired periods of policies in force at the end of the reporting period exceeds the unearned premiums provision in relation to such policies after the deduction of any deferred acquisition costs. The provision for unexpired risk is calculated separately by reference to separate classes of business, which are managed together, after taking into account the relevant investment return.

Unexpired risk liability, if any, remaining after writing off deferred acquisition costs is recognised immediately in the profit or loss. Refer to note 3.1(f)(v)).

Notes to the financial statements

For the year ended 31 December 2019

3.1 Assets and liabilities (continued)

Employee benefits

(i) Short term employee benefits

The provisions for employee entitlements to wages, salaries and annual leave expected to be settled wholly within 12 months of year end represents the amount which the Company has a present obligation to pay resulting from employees' services provided up to the balance date. The provisions have been calculated at undiscounted amounts based on wage and salary rates that the Company expects to pay including related on-costs.

(ii) Other long-term employee benefit obligations

The liability for employees entitled to long service leave represents the present value of the estimated future cash outflows to be made by the Company resulting from employees' services provided up to the balance date.

Liabilities for employee entitlements, which are not expected to be wholly settled within 12 months, are discounted using the rates attaching to Australian Commonwealth Government securities at balance date, which most closely match the terms of maturity of the related liabilities. In determining the liability for employee entitlements, consideration has been given to future increases in wage and salary rates, and the Company's experience with staff tenure. Related on-costs have also been included in the liability.

(iii) Defined contribution plans

For defined contribution plans, the Company has no further payment obligations once the contributions have been paid. The contributions are recognised as other staff expenses when they are due.

Notes to the financial statements
For the year ended 31 December 2019

3.1 Assets and liabilities (continued)

(a) Cash and cash equivalents

	2019 $'000	2018 $'000
Current assets		
Cash and cash equivalents	2,081	3,836
Short term deposits	142,649	154,265
Total cash and cash equivalents	144,730	158,101

(b) Trade and other receivables

	2019 $'000	2018 $'000
Current assets		
Other receivables	1,348	1,750
Total trade and other receivables	1,348	1,750

The carrying value disclosed above approximates fair value at end of the reporting period.

(c) Deferred acquisition costs

	2019 $'000	2018 $'000
Current	5,760	6,977
Non-current	4,845	5,875
Total deferred acquisition costs	10,605	12,852
Reconciliation of changes in deferred acquisition costs:		
Opening balance at 1 January	12,852	12,783
Deferred acquisition costs incurred during the year	2,328	4,844
Amortisation charged to statement of profit or loss	(4,575)	(4,775)
Closing balance at 31 December	10,605	12,852

Deferred acquisition costs incurred during the year and amortisation charged to statement of profit or loss relate to the Personal loans portfolios as there were no deferred acquisition costs for Cards portfolios.

Notes to the financial statements
For the year ended 31 December 2019

3.1 Assets and liabilities (continued)

(d) Trade and other liabilities

	2019 $'000	2018 $'000
Current		
Trade and other payables	1,114	2,020
Accrued expenses	423	430
Payables to related parties	1,359	5,258
	2,896	7,708

The carrying amounts of trade and other payables approximates fair value.

These balances include amounts payable to related parties (note 5.2(c)).

(e) Employee benefits and other provisions

			2019			2018
	Current $'000	Non-Current $'000	Total $'000	Current $'000	Non-current $'000	Total $'000
Leave obligations	709	20	729	845	-	845
Other employee benefit obligations	428	-	428	-	-	-
Total employee benefit obligations	1,137	20	1,157	845	-	845
Other provisions	192	-	192	12	-	12
Total employee benefit obligations and other provisions	1,329	20	1,349	857	-	857

Total number of employees as at 31 December 2019: 69 (2018: 58)

Notes to the financial statements
For the year ended 31 December 2019

3.1 Assets and liabilities (continued)

(f) Outstanding claims liability

	2019 $'000	2018 $'000
Central estimate	9,629	10,867
Risk margin	2,696	2,842
Claims handling expense	1,654	1,623
	13,979	15,332
Discount to present value	(134)	(298)
Gross outstanding claims liability	13,845	15,034
Current	8,598	9,036
Non-current	5,247	5,998
Total outstanding claims liability	13,845	15,034

(i) The following ranges of discount rates were used in the measurement of outstanding claims and reinsurance recoveries.

Australia

The current year discount rate is 0.9% (2018: 1.9%).
The subsequent years discount rate is 0.9% - 2.7% (2018: 1.8% - 3.2%).
The weighted average expected term to settlement of the outstanding claims from the end of the reporting period is estimated to be 1.08 years (2018: 1.10 years).

New Zealand Branch

The current year discount rate is 1.12% (2018: 1.71%)
The subsequent years discount rate is 1.12% (2018: 1.71%)
The weighted average expected term to settlement of the outstanding claims from the end of the reporting period is estimated to be 0.86 years (2018: 0.88 years)

(ii) Risk margin

Process for determining risk margin

The risk margin is an additional allowance for uncertainty in the ultimate cost of claims. The overall margin adopted is determined by the board after considering the uncertainty in the portfolio, industry trends and the Company's risk appetite.

To determine the margin adopted the appointed actuary has reviewed the factors impacting the portfolio to establish a recommended margin at the level required by the board. Factors considered include:

- variability of claims experience of the portfolio;
- quality of historical data;
- diversification between different classes within the portfolio; and
- increase in uncertainty due to future economic environment and legislative changes.

The level of uncertainty varies between classes of business, as such the adopted risk margin varies between business classes. The risk margin is applied to the gross central estimate.

Notes to the financial statements

For the year ended 31 December 2019

(f) Outstanding claims liability (continued)

The aggregate risk margin, after diversification allowance, is intended to achieve a 90% (2018: 90%) probability of sufficiency.

The risk margins applied to the major segments of the portfolio for 90% (2018: 90%) level of adequacy are:

	2019 %	2018 %
Australia		
Consumer credit insurance - disability	**23.2**	21.8
Consumer credit insurance - unemployment	**46.8**	45.7
New Zealand		
Consumer credit insurance - disability	**30.3**	30.3
Consumer credit insurance - unemployment	**35.7**	35.7

(iii) Reconciliation of movement in discounted outstanding claims liability

	2019		2018	
	Gross $'000	Total $'000	Gross $'000	Total $'000
Balance at 1 January	**15,034**	**15,034**	14,021	14,021
Current year claims incurred	**16,478**	**16,478**	15,034	15,034
Change in previous year claims	**(667)**	**(667)**	(361)	(361)
Current year claims paid / reinsurance recovered	(7,947)	(7,947)	(5,628)	(5,628)
Previous year claims paid / reinsurance recovered	(9,053)	(9,053)	(8,032)	(8,032)
Closing balance at 31 December	13,845	13,845	15,034	15,034

Notes to the financial statements
For the year ended 31 December 2019

(f) Outstanding claims liability (continued)

(iv) Claims development tables

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

Gross

Reporting Year	Accident Year									
	Prior*	2012*	2013	2014	2015	2016	2017	2018	2019	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Estimate of gross ultimate claims cost										
At end of reporting year	-	-	-	-	12,280	12,287	13,948	13,993	14,298	-
One year later	-	-	-	11,595	11,058	12,219	13,297	14,388	-	-
Two years later	-	-	10,931	12,361	11,630	12,316	13,328	-	-	-
Three years later	-	10,601	11,360	12,499	11,788	12,571	-	-	-	-
Four years later	-	10,662	11,440	12,548	11,852	-	-	-	-	-
Five years later	-	10,680	11,609	12,643	-	-	-	-	-	-
Six years later	-	10,720	11,611	-	-	-	-	-	-	-
Seven years later	-	10,753	-	-	-	-	-	-	-	-
Current estimate of cumulative claims	142,737	10,753	11,611	12,643	11,852	12,571	13,328	14,388	14,298	244,181
Cumulative payments to date	(142,736)	(10,749)	(11,522)	(12,534)	(11,648)	(12,087)	(12,166)	(11,720)	(6,693)	(231,855)
Undiscounted claims handling expenses	-	-	7	15	28	67	161	367	1,008	1,008
Gross outstanding claims - undiscounted	1	4	96	124	232	551	1,323	3,035	8,613	13,979
Discount impact	-	-	(1)	(1)	(2)	(5)	(12)	(32)	(81)	(134)
Gross outstanding claims - discounted	1	4	95	123	230	546	1,311	3,003	8,532	13,845

(f) Outstanding claims liability (continued)

Net

Reporting Year	Accident Year									
	Prior*	2012*	2013	2014	2015	2016	2017	2018	2019	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Estimate of gross ultimate claims cost										
At end of reporting year	-	-	-	-	12,280	12,287	13,948	13,993	14,298	-
One year later	-	-	-	11,595	11,058	12,219	13,297	14,388	-	-
Two years later	-	-	10,931	12,361	11,630	12,316	13,328	-	-	-
Three years later	-	10,601	11,360	12,499	11,788	12,571	-	-	-	-
Four years later	-	10,662	11,440	12,548	11,852	-	-	-	-	-
Five years later	-	10,680	11,609	12,643	-	-	-	-	-	-
Six years later	-	10,720	11,611	-	-	-	-	-	-	-
Seven years later	-	10,753	-	-	-	-	-	-	-	-
Current estimate of cumulative claims	142,737	10,753	11,611	12,643	11,852	12,571	13,328	14,388	14,298	244,181
Cumulative payments to date	(142,736)	(10,749)	(11,522)	(12,534)	(11,648)	(12,087)	(12,166)	(11,720)	(6,693)	(231,855)
Undiscounted claims handling expenses	-	-	-	-	-	-	-	-	-	-
Gross outstanding claims - undiscounted	1	4	96	124	232	551	1,323	3,035	8,613	13,979
Discount impact	-	-	(1)	(1)	(2)	(5)	(12)	(32)	(81)	(134)
Gross outstanding claims - discounted	1	4	95	123	230	546	1,311	3,003	8,532	13,845

* All actuarial data relating to the New Zealand Branch of the Company, prior to 5 March 2012, relates to the insurance portfolio of Simply Insurance New Zealand Limited, and is disclosed to reflect the historical actuarial profile of the insurance portfolio, which was transferred to the Branch on 5 March 2012.

(v) Liability adequacy test

The liability adequacy test (LAT) is an assessment of the carrying amount of unearned premium liabilities and is conducted at the end of each reporting period. The test is calculated separately for each portfolio of contracts that are subject to broadly similar risks and are managed together as a single portfolio.

The probability of sufficiency adopted for LAT differs from the 90% (2018: 90%) probability of sufficiency adopted in determining the outstanding claims liabilities (refer to note 3.1). The reason for this difference is that the former is in effect an impairment test used only to test the sufficiency of net unearned premium liabilities whereas the latter is a measurement accounting policy used in determining the carrying value of the outstanding claims liabilities.

For the purposes of the liability adequacy test, the net premium liabilities at a 75% probability of sufficiency as at 31 December 2019 is $38,614,396 (2018: $45,916,090), therefore the liability adequacy test at reporting date resulted in a surplus for the company.

(g) Unearned premium liability

	2019 $'000	2018 $'000
Balance as at 1 January	**63,205**	62,458
Premiums written during the year	**11,640**	24,228
Premiums earned during the year	**(22,154)**	(23,481)
Closing balance as at 31 December	52,691	63,205
Current	**28,622**	34,312
Non-current	**24,069**	28,893
Total unearned premium liability	52,691	63,205

Premiums written and earned during the year relate to the Personal loans portfolios as there were no unearned premium liabilities as at 31 December 2019 and 31 December 2018 for Cards portfolios.

Notes to the financial statements

For the year ended 31 December 2019

3.2 Actuarial assumptions and methods

(a) Process used to determine outstanding claims liabilities (actuarial methods)

The general approach to actuarial estimation of insurance liabilities is to analyse all available past experience, including the number of reported and finalised claims, timing and amounts of claim payments. This analysis allows patterns to be identified in the past experience. Based on this, development patterns associated with the run-off of outstanding claims and premium liabilities at the balance date can be estimated. Claims incurred all relate to providing services, including the bearing of risk, and are accordingly treated as expenses in the profit or loss. Claims expenses represent total claim payments made during the year adjusted for the movement in the outstanding claims liability. The determination of the outstanding claims liabilities involves two steps:

1. The determination of the central estimate of outstanding claims at the balance date.

   The central estimate of outstanding claims includes an allowance for claims incurred but not reported (IBNR) and the further development of reported claims, also known as incurred but not enough reported (IBNER). The central estimate has no deliberate bias towards either over or under estimation. This means that the central estimate is assessed to have approximately 50% chance of adequacy.

2. The determination of a risk margin and claims handling expense provision to be added to the central estimates of outstanding claims. The risk margin is intended to achieve a 90% probability of adequacy at an aggregate level.

The estimation of the outstanding claims liabilities involves the use of the following standard aggregate projection methods: Payment Chain Ladder ("PCL"); Payment Per Claim Incurred ("PPCI"); Payment Per Claim Finalised ("PPCF"); Payment Per Claim Handled ("PPCH") and Bornheutter Ferguson ("BF"). A blend of the projection methods is adopted based on the nature of the claims within each portfolio to estimate the appropriate outstanding claims.

(b) Actuarial assumptions

The key actuarial assumptions for the determination of the outstanding claims liabilities of the consumer credit insurance portfolios are as follows:

2019	Disability (Personal Loans)	Unemployment (Personal Loans)	Disability (Credit Cards)	Unemployment (Credit Cards)	Protection^
Australia:					
Number of future finalisations	641	263	443	483	938
Discounted loss ratio*	35%	22%	17%	21%	23%
Expense rate	15.50%	15.50%	15.50%	15.50%	15.50%
Discount rate	0.9%pa-2.7%pa	0.9%pa-2.7%pa	0.9%pa-2.7%pa	0.9%pa-2.7%pa	0.9%pa-2.7%pa

New Zealand:					
Number of future finalisations	251	121	106	69	37
Discounted loss ratio*	26%	8%	26%	12%	7%
Expense rate	15.50%	15.50%	15.50%	15.50%	15.50%
Discount rate	1.12%				

2018	Disability (Personal Loans)	Unemployment (Personal Loans)	Disability (Credit Cards)	Unemployment (Credit Cards)	Protection^
Australia:					
Number of future finalisations	688	238	388	363	733
Discounted loss ratio*	36%	18%	12%	17%	13%
Expense rate	13.5%	13.5%	13.5%	13.5%	13.5%
Discount rate	1.8%pa-3.2%pa	1.8%pa-3.2%pa	1.8%pa-3.2%pa	1.8%pa-3.2%pa	1.8%pa-3.2%pa
New Zealand:					
Number of future finalisations	211	89	79	47	58
Discounted loss ratio*	27%	7%	18%	10%	6%
Expense rate	13.5%	13.5%	13.5%	13.5%	13.5%
Discount rate	1.71%				

*As at December 2019 & 2018
^ Merchandise protection, price protection and stolen cards (credit cards)

The above key actuarial assumptions were based on the following:

- Future finalisations - based on an analysis of historical claim reports and finalisation rates, enabling the future numbers of reports, handled claims and finalisations to be projected.
- Adopted average claim size - based on historic ratios of claim payments to factors such as number of claims reported, handled or finalised.
- Adopted claims handling expense rate - determined based on the results of an expense investigation.
- Central estimates of the outstanding claims liabilities - discounted to allow for future investment income attributable to the liabilities during the run off period. The discount factor is based on annual risk-free rates of return, derived from Government bond yield curves.
- Other assumptions - the outstanding claims provision for disability (Personal Loans) includes an additional 1.3% for medical expenses, with a prudential margin calculated at a 90% probability of adequacy.

Notes to the financial statements

For the year ended 31 December 2019

(c) Sensitivity analysis

The outstanding claims liabilities included in the reported results are calculated based on the key actuarial assumptions as disclosed above. The movement in any of the above key actuarial assumptions will impact the performance and equity of the Company. The table below describes how a change in each of the assumptions will affect the outstanding claims liabilities.

Key actuarial assumptions 2019	**Changes**	**Impact on net outstanding claims liabilities ($'000's)**	**Impact on total outstanding claims liabilities (%)**
Australia:			
Reported claims chain ladder factor	Increase the chain ladder factor by 10%	+230	+2.1
Discount rate	Decrease discount rate by 1%	+116	+1.1
Claims handling expense rate	Increase claims handling expense rate by 4%	+412	+3.8
New Zealand*:			
Chain ladder factor	Increase the chain ladder factor by 10%	+34	+1.14
Discount rate	Decrease discount rate by 1%	+26	+0.86
Claims handling expense rate	Increase claims handling expense rate by 4%	+117	+3.9
Key actuarial assumptions 2018	**Changes**	**Impact on net outstanding claims liabilities ($'000's)**	**Impact on total outstanding claims liabilities (%)**
Australia:			
Reported claims chain ladder factor	Increase the chain ladder factor by 10%	+249	+2.0
Discount rate	Decrease discount rate by 1%	+136	+1.1
Claims handling expense rate	Increase from claims handling expense rate by 4%	+477	+3.8
New Zealand*:			
Chain ladder factor	Increase the chain ladder factor by 10%	+30	+1.12
Discount rate	Decrease discount rate by 1%	+23	+0.87
Claims handling expense rate	Increase from claims handling expense rate by 4%	+107	+3.98

* Branch credit insurances only

Notes to the financial statements

For the year ended 31 December 2019

3.3 Financial risk management

Credit risk

Credit risk is the risk of financial loss due to a counterparty failing to meet their contractual obligations and principally arises from the Company's investment in financial instruments, receivables from related or other parties, and claims on reinsurance contracts.

The following policies and procedures are in place to mitigate the Company's exposure to credit risk:

(a)Financial assets

The Company's investment mandate sets out the investment management guidelines approved by the Board. The guidelines establish credit approval authorities, concentrations limits, and approved investment portfolio parameters, these guidelines comply with the Investment Policy. Management conducts a regular review of the investment holdings, compliance is monitored and exposures or breaches are reported to the Board. The mandate is reviewed regularly for pertinence and for changes in the risk environment.

The Company only invests with counterparties that have a credit rating of at least A3/BBB- from Standard & Poor's (S&P). The Company further limits its exposure to credit risk by setting individual exposure limits. There is no significant concentration of credit risk and management does not expect any counterparty to fail to meet its obligations.

(b)Reinsurance assets

Reinsurance is placed with counterparties within the guidelines of the reinsurance management strategy (ReMS). Counterparties must have an S&P credit rating of at least A. The Company further sets its exposure to credit risk by setting individual exposure limits. At the end of each reporting period, management performs an assessment of creditworthiness of reinsurers and updates the ReMS.

(c)Trade and other receivables

The Company's maximum credit risk exposure at balance date is limited to the carrying amount of the financial assets as stated in the statement of financial position. The Company does not have a significant concentration of credit risk with any counterparty, other than related parties (See note 5.2(b)).

Notes to the financial statements
For the year ended 31 December 2019

3.3 Financial risk management (continued)

The table below shows the Company's maximum exposure to credit risk at balance date.

2019	Investment grade $'000	Non-investment grade satisfactory* $'000	Non-investment grade unsatisfactory $'000	Total neither past due nor impaired $'000	Past due or impaired $'000	Total $'000
Financial assets						
Cash and cash equivalents	144,730	-	-	144,730	-	144,730
Trade and other receivables	-	1,348	-	1,348	-	1,348
Total credit risk exposure	**144,730**	**1,348**	**-**	**146,078**	**-**	**146,078**

2018	Investment grade $'000	Non-investment grade satisfactory* $'000	Non-investment grade unsatisfactory $'000	Total neither past due nor impaired $'000	Past due or impaired $'000	Total $'000
Financial assets						
Cash and cash equivalents	158,101	-	-	158,101	-	158,101
Trade and other receivables	-	1,750	-	1,750	-	1,750
Total credit risk exposure	**158,101**	**1,750**	**-**	**159,851**	**-**	**159,851**

*A receivable is deemed satisfactory when management is satisfied that the obligor has the capacity to meet its financial obligations.

Notes to the financial statements
For the year ended 31 December 2019

3.3 Financial risk management (continued)

The table below classifies the financial assets of the Company by counterparty credit rating (S&P)

2019	AAA $'000	AA $'000	A $'000	BBB $'000	Not rated $'000	Total $'000
Financial assets						
Cash and cash equivalents	-	-	144,730	-	-	**144,730**
Trade and other receivables	-	-	-	-	1,348	**1,348**
Total credit risk exposure	**-**	**-**	**144,730**	**-**	**1,348**	**146,078**

2018	AAA $'000	AA $'000	A $'000	BBB $'000	Not rated $'000	Total $'000
Financial assets						
Cash and cash equivalents	-	-	158,101	-	-	**158,101**
Trade and other receivables	-	-	-	-	1,750	**1,750**
Total credit risk exposure	**-**	**-**	**158,101**	**-**	**1,750**	**159,851**

No receivables are past due or impaired at balance date (2018: Nil).

3.3 Financial risk management (continued)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's objective and funding strategy seeks to ensure liquidity and diversity of funding sources to meet actual and contingent liabilities in both stable and adverse market conditions.

The Company's liquidity is primarily monitored through the production of statement of cash flows for Board review. Periodic review of the maturity profile of the Company's financial assets and liabilities is performed to ensure sufficient liquidity is maintained.

The following is an analysis of the maturity profile of both cash and cash equivalents and of undiscounted contractual cash flows associated with the Company's financial liabilities at balance date:

2019	Up to a year $'000	1-2 years $'000	2-5 years $'000	Over 5 years $'000	Total $'000
Cash and cash equivalents	144,730	-	-	-	**144,730**
Trade and other liabilities	(2,896)	-	-	-	**(2,896)**
Outstanding claims liability	(8,598)	(3,041)	(2,143)	(63)	**(13,845)**
Net liquid assets	**133,236**	**(3,041)**	**(2,143)**	**(63)**	**127,989**

2018	Up to a year $'000	1-2 years $'000	2-5 years $'000	Over 5 years $'000	Total $'000
Cash and cash equivalents	158,101	-	-	-	**158,101**
Trade and other liabilities	(7,708)	-	-	-	**(7,708)**
Outstanding claims liability	(9,036)	(3,502)	(2,424)	(72)	**(15,034)**
Net liquid assets	**141,357**	**(3,502)**	**(2,424)**	**(72)**	**135,359**

The Company's financial assets and liabilities are carried in the Balance Sheet at amounts that approximate fair value.

Notes to the financial statements

For the year ended 31 December 2019

3.3 Financial risk management (continued)

Foreign exchange risk

Currency risk is the risk that the value of recognised assets and liabilities or the cash flows from possible future transactions, that are denominated in a currency, other than that of the functional currency, will decrease due to changes in market exchange rates.

The Company has no foreign currency exposure at balance date that is considered material.

The Company has a New Zealand branch whose assets and liabilities are denominated in New Zealand dollars. On translation of the New Zealand branch into the reporting currency (Australian dollars) of the Company, exchange rate variations on Balance Sheet items are recognised in the foreign currency translation reserve within the Company. The Company is exposed to currency risk on the translation of Statement of Profit or Loss and Other Comprehensive income items and the settlement of monetary balances between the Australian and New Zealand businesses.

At the balance date, the Company's exposure to foreign currency risk was as follows:

	2019 $'000 NZD	2018 $'000 NZD
Total assets denominated in New Zealand dollars:	39,839	43,487
Total liabilities denominated in New Zealand dollars:	26,324	29,540

A 10% strengthening in the value of the Australian dollar (AUD) against the New Zealand dollar (NZD) at the balance date would increase/(decrease) equity and increase/(decrease) profit by the amounts shown below:

	2019 $'000 AUD	2018 $'000 AUD
Strengthening of the AUD against the NZD will (decrease) equity by:	(1,281)	(1,326)
Strengthening of the AUD against the NZD will (decrease) profit by:	(491)	(562)

A 10% weakening in the value of the AUD against the NZD at the balance date would have had the equal but opposite effect to the amounts shown above. The following exchange rates applied during the year:

	Average rate		Reporting date rate	
	2019	2018	2019	2018
NZD1 = AUD	0.960	0.923	0.948	0.951

Notes to the financial statements
For the year ended 31 December 2019

3.3 Financial risk management (continued)
Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate as a result of changes in market interest rates.

The following table analyses the impact of a reasonable possible movement in market interest rates on the Company's operating results.

	Carrying amount	Change in variables	Impact on profit before tax	Impact on equity				Total
				Up to a year	1-2 years	2-5 years	Over 5 years	
2019	**$'000**	**%**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Financial assets								
Short term deposits	142,649	-1%	(1,426)	(428)	-	-	-	(428)
Total	**142,649**		**(1,426)**	**(428)**	**-**	**-**	**-**	**(428)**

	Carrying amount	Change in variables	Impact on profit before tax	Impact on equity				Total
				Up to a year	1-2 years	2-5 years	Over 5 years	
2018	**$'000**	**%**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Financial assets								
Short term deposits	154,265	-1%	(1,543)	(463)	-	-	-	(463)
Total	**154,265**		**(1,543)**	**(463)**	**-**	**-**	**-**	**(463)**

The analysis is performed on the same basis for the prior year and assumes that all other variables remain the same.

Price risk

Price risk is the risk that the fair value of equities or financial instruments could change due to fluctuations in market prices. The Company has no equity securities as at 31 December 2019.

Notes to the financial statements

For the year ended 31 December 2019

3.3 Financial risk management (continued)

Insurance risk

(d) Insurance contracts

An insurance contract is a contract under which the insurer accepts significant insurance risk from the policyholder by agreeing to compensate the policy holder for a specified uncertain future event that will adversely affect them. Insurance risk is other than financial risk.

The significance of insurance risk under any one contract is determined by the uncertainty surrounding the probability and timing of the insured event occurring, and the magnitude of its effect. Insurance risk is assessed by the Company at a contract level on its inception and is periodically reassessed as the risk may vary during the period of insurance cover.

The majority of direct insurance contracts written are entered into on a standard form basis. There are no special term and conditions in any non-standard contracts that have a material impact on the financial statements.

The business written consists mainly of consumer credit insurances.

(e) Insurance risk management

Insurance risk management is the assessment and quantification of the likelihood and financial impact of events that may require settlement by the insurer; and the ability of the Company to mitigate the financial impact of these events on its operating results.

In accordance with Prudential Standards CPS 220 Risk Management and GPS 230 Reinsurance Management for General Insurers issued by APRA, the board and senior management of the Company have developed, implemented and maintained a sound and prudent risk management strategy (RMS) and a reinsurance management strategy (ReMS).

The RMS and ReMS identify the Company's policies, procedures, processes and controls that address all known material risks, financial and non-financial arising from the business. Annually, the board certifies to APRA that adequate strategies have been put in place to monitor those risks, that the Company has systems in place to ensure compliance with legislative and prudential requirements, and that the board has satisfied itself as to the compliance with the RMS and ReMS.

Specific key components of the RMS and ReMs are detailed further below.

(i) Underwriting strategy

The board has developed an underwriting strategy to ensure that the Company has the ability to meet the insurance needs of the policy holders and to ensure the ability to pay benefits and claims when due. The strategy involves the identification of risks by type, impact and likelihood and involves the application of mathematical modeling to determine that products are appropriately priced.

Notes to the financial statements
For the year ended 31 December 2019

3.3 Financial risk management (continued)

(ii) Reinsurance strategy

A conservative approach is taken in determining the level of risk appetite appropriate for the Company and where deemed appropriate will spread the risk associated with the insured events according to its ReMS. All reinsurance treaties are subject to analytical and statistical modeling to ensure that they offer a sufficient level of cover for the identified exposures whilst in alignment with the ReMs of the Company.

No reinsurance is in place for the Company's consumer credit insurance products.

(iii) Claims management

Strict claims management procedures ensure the timely and accurate payment of claims in accordance with policy conditions. Claim outcomes are monitored to track the actual versus expected experience of the portfolio, with feedback delivered to underwriting and product development.

(iv) Concentration of insurance risk

The Company's portfolio of products and policy holders is sufficiently diversified such that there is no material concentration of insurance risk.

Section 4 - Capital Management

Accounting Policy

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

4.1 Capital management

The Company's capital management strategy plays a central role in managing capital risk arising from the business activities of the Company, providing an appropriate level of capital to protect policyholders' interests and satisfy regulators. The strategy seeks to ensure sufficient capital levels are maintained in both stable and adverse market conditions.

The Company has adopted a target surplus policy to assist the Board and management to manage its capital position. The target surplus level has been set with reference to a range of risks and possible adverse scenarios faced by the Company.

The Company has net assets in excess of the adopted target surplus requirement, reflecting its current strong capital position.

In addition to the Company's target surplus policy, external capital requirements are set and regulated by APRA. The Company calculates its capital position according to the relevant prudential standards which ensures sufficient capital margins to meet policyholders obligations are maintained. An insurer's capital base is expected to be adequate for the size, business mix, complexity and risk profile of its business.

It is the Company's policy to hold a capital base in excess of those required by APRA according to its target surplus policy. The capital level is regularly monitored to minimise the risk of a regulatory breach.

For detailed information on the Company's capital position and the capital requirements of APRA, refer to note 3.3.

(a) Contributed equity

(i) Share capital

	2019 Shares	2018 Shares	2019 $'000	2018 $'000
Ordinary shares - fully paid	**10,001**	10,001	**2,000**	2,000
	10,001	10,001	**2,000**	2,000

(ii) Ordinary shares

The Company does not have authorised capital or par value in respect of its issued shares. All issued shares are fully paid.

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

Notes to the financial statements

For the year ended 31 December 2019

(a) Contributed equity (continued)

(iii) Parent entities

Hallmark General Insurance Company Ltd is owned by Latitude Insurance Holdings Pty Ltd with 100% majority interest, which is incorporated in Australia. The Company's ultimate parent entity is KVD Australia Holdco Pty Ltd, which is incorporated in Australia.

(b) Reserves

	2019 $'000	2018 $'000
Tax consolidation reserve		
At 1 January	62,449	60,741
Tax consolidation reserve movement	1,353	1,708
At 31 December	63,802	62,449
Foreign currency translation reserve		
At 1 January	937	342
Currency translation differences arising during the year	150	595
At 31 December	1,087	937
Total reserves	64,889	63,386

Tax consolidation reserve

The tax consolidation reserve records the impact of the funding arrangement adopted under the tax consolidation regime. Any difference between the current tax liability and the amount paid by a member of the tax group, under the tax funding agreement, is recognised as an equity contribution in the tax consolidation reserve or as a distribution within equity.

Foreign currency translation

Exchange differences arising on translation of entities that have a non-Australian dollar functional currency are recognised in other comprehensive income and accumulated in a separate reserve within equity.

Capital adequacy

The Company is required to hold prudential reserves, over and above the general insurance contract liabilities, as a buffer against adverse future experience and poor investment returns. New risk-based prudential capital standards, Life and General Insurance Capital (LAGIC) standards, for Australian life and general insurance companies were introduced effective 1 January 2013. The required level of capital for regulatory purposes (the Prescribed Capital Amount, or PCA) is intended to take account of the full range of risks to which a general insurer is exposed and must ensure that the general company has, at all times, a capital base in excess of its PCA (plus any additional amount as required by APRA).

The excess of the Company's capital base *over* the PCA as at 31 December 2019 was $63.0 million (2018: $60.2 million).

Notes to the financial statements
For the year ended 31 December 2019

In addition to the regulatory capital requirements, the Company maintains a target surplus providing an additional capital buffer against adverse events.

	2019 $'000	2018 $'000
(a) Capital base	**88,451**	89,205
(b) Prescribed capital amount	**25,449**	29,027
Capital in excess of prescribed capital amount = (a) - (b)	**63,002**	60,178
Capital adequacy multiple = (a)/(b)	**348%**	307%
Capital Base:		
Net assets	**85,913**	85,951
Regulatory adjustment applied in the calculation of tier 1 capital	**2,538**	3,254
Common equity Tier 1 Capital	**88,451**	89,205
Prescribed capital amount:		
Insurance risk charge	**7,753**	9,082
Insurance concentration risk charge	**14,894**	16,645
Asset risk charge	**3,186**	3,288
Operational risk charge	**1,957**	2,446
Aggregation benefit	**(2,340)**	(2,434)
Prescribed capital amount	**25,449**	29,027

Notes to the financial statements
For the year ended 31 December 2019

Section 5 - Other Disclosures

5.1 Commitments and contingencies

No contingent assets or contingent liabilities existed as at 31 December 2019 (2018: nil).

5.2 Related party transactions

(a) Key management personnel disclosures

The following persons were key management personnel of the Company at any time during the reporting period.

(i) Directors

Jennifer Anne Boddington (Chairperson)
Rachel Emma Cobb (resigned 5 March 2019)
Shaun Patrick Feely
Christopher Paul Knoblanche
Paul Varro (appointed 5 March 2019)
Alison Ledger

(ii) Other executives

Anna Chung
Cath Mortlock
James Murphy
Karen Parkin (resigned 19 July 2019)
Aliessa Pritchard (resigned 5 July 2019)
Natalie Lewis (resigned 31 December 2019)
Nick Lethbridge (appointed 5 July 2019)
Rebecca Blair (appointed 22 May 2019)

Key management personnel compensation

The following compensation is paid to Key Management Personnel (KMP) covering the Company and any Australian and New Zealand related party entities:

	2019 $	2018 $
Short-term employee benefits*	3,221,470	2,177,155
Long-term benefits	52,469	194,726
Post-employment benefits	183,830	-
Share based payments	666,826	-
	4,124,595	2,371,881

There are no other transactions with key management personnel (2018: $nil).

* There were no termination benefits paid in 2019 (2018: $nil)

All key management personnel compensation was paid by Latitude Financial Services Australia Holdings Pty Ltd

Notes to the financial statements
For the year ended 31 December 2019

5.2 Related party transactions (continued)

Compensation paid above includes share based awards that were granted to participants during their time in a KMP role during the year as follows:

	2019 $	2018 $
At 1 January*	-	-
Granted	618,750	-
Equity adjustments	269,146	-
At 31 December	887,896	-

(b) Transactions with related parties

The following transactions occurred with related parties:

	2019 $	2018 $
Management fees paid to/(received from):		
Latitude Financial Services Australia Holdings Pty Ltd	9,259,408	7,896,952
Hallmark Life Insurance Company Ltd	(1,723,235)	(1,839,885)
Cross charges paid to:		
Latitude Financial Services Australia Holdings Pty Ltd	7,047,396	9,965,104
Transactional sales costs paid to:		
Latitude Financial Services Australia Holdings Pty Ltd	-	914,388
Commission paid to:		
Latitude Personal Finance Pty Ltd	947,119	2,753,130
Latitude Finance Australia	3,375,753	4,619,257
Latitude Financial Services Ltd - NZ	2,602,604	3,420,217
Dividend paid/(received):		
Latitude Insurance Holdings Pty Ltd	11,278,704	11,899,991

(c) Outstanding balances with related parties

	2019 $	2018 $
Receivables/(payables) outstanding at the end of the period:		
Latitude Financial Services Australia Holdings Pty Ltd	(2,984,335)	(4,425,118)
Latitude Personal Finance Pty Ltd	(177,315)	188,355
Hallmark Life Insurance Company Ltd	432,331	434,333
Latitude Finance Australia	824,903	1,300,834
Latitude Financial Services Ltd - NZ	544,788	843,868
Latitude Insurance Holdings Pty Ltd	-	(3,600,000)

No provisions for doubtful debts have been raised in relation to any outstanding balances, and no expense has been recognised in respect of bad or doubtful debts due from related parties.

Notes to the financial statements
For the year ended 31 December 2019

5.3 Remuneration of auditor

During the year the following fees were paid or payable for services provided by the auditor of the Company and its related practices:

(a) Remuneration to KPMG

	2019 $	2018 $
Audit services		
Audit of financial statements	**80,000**	80,000
Assurance services		
Regulatory assurance		
APRA audit	**20,000**	20,000
AFSL Audit	**5,000**	5,000
Other assurance services	**-**	-
Total remuneration for Audit and Regulatory assurance services	**105,000**	**105,000**

Audit fees in 2019 were paid by Latitude Financial Services Australia Holdings Pty Ltd.

Hallmark General Insurance Company Ltd
New Zealand Branch

FINANCIAL REPORT
For the Year Ended 31 December 2019

Hallmark General Insurance Company Ltd New Zealand Branch

Financial report for the year ended 31 December 2019

Contents

Directors' report
For the year ended 31 December 2019

The directors present their report together with the financial statements of Hallmark General Insurance Company Ltd New Zealand Branch (the Branch) for the year ended 31 December 2019 and the auditor's report thereon.

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 31 December 2019 that has significantly affected or may significantly affect:

- The branch's operations; or
- The results of those operations; or
- The branch's state of affairs.

Signed in accordance with a resolution of directors.

Jennifer Anne Boddington (Chairperson)
Director
Melbourne
25 February 2020

Shaun Patrick Feely (Chief Executive Officer)
Director
Melbourne
25 February 2020

Directors' Declaration

In the opinion of the Directors of Hallmark General Insurance Company Ltd New Zealand Branch ("the Branch"):

(a) the financial statements and notes set out on pages 9 to 41 are in accordance with the *Financial Reporting Act 2013*, including:

   (i) giving a true and fair view of the branch's financial position as at 31 December 2019 and of its performance for the financial year ended on that date; and

(b) the financial statements also comply with International Financial Reporting Standards as disclosed in note 1.1; and

(c) there are reasonable grounds to believe that the branch will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors:

Jennifer Anne Boddington (Chairperson)
Director
Melbourne
25 February 2020

Shaun Patrick Feely (Chief Executive Officer)
Director
Melbourne
25 February 2020

KPMG

Independent Auditor's Report

To the shareholders of Hallmark General Insurance Company Ltd New Zealand Branch

Report on the audit of the financial statements

Opinion

In our opinion, the accompanying financial statements of Hallmark General Insurance Company Ltd New Zealand Branch (the 'Branch') on pages 9 to 41:

i. present fairly in all material respects the Branch's financial position as at 31 December 2019 and its financial performance and cash flows for the year ended on that date; and

ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying financial statements which comprise:

— the Balance sheet as at 31 December 2019;

— the Statements of profit or loss and other comprehensive income, Statement of changes in equity and Statement of cash flows for the year then ended; and

— notes, including a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Branch in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole. The materiality for the financial statements as a whole was set at $416,000 determined with reference to a benchmark of Branch's Revenue. We chose the benchmark because, in our view, this is a key measure of the Branch's performance.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the shareholders as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the financial statements as a whole and we do not express discrete opinions on separate elements of the financial statements

The key audit matter	How the matter was addressed in our audit
Valuation of Outstanding Claim Liabilities($2,992,000)	
Refer to Note 3.1 (e) to the Financial Report. The valuation of the Outstanding Claim Liabilities is a key audit matter due to the following: - Judgement is required by us to consider estimates and judgements that are used in developing assumptions that affect the reported amounts at year end. - Specific audit and actuarial expertise using senior resources is required to evaluate complex actuarial methodologies and assumptions that take into account the risks and uncertainties. - The assumptions include number of future finalisations based on an analysis of historical claim reports and finalisation rates; discounted loss ratio; discount rates based on related yield curves; claim handling expense; and medical expenses.	Our audit procedures included the following: - Evaluating the key controls in the general insurance contract liabilities measurement process, including controls over the integrity of the base data used in the estimation process. - Using KPMG Actuarial specialists to challenge the appropriateness of the actuarial methods and assumptions used by the Branch. - Assessing the overall level of reserving is appropriate given the consideration of historical and current claims expense, the entity overall methodology, and historical evidence of the adequacy or otherwise of the previous period's reserve level. - Identify where there are indicators of possible management bias.

Other information

The Directors, on behalf of the Branch, are responsible for the other information included in the entity's financial statements. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

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

Use of this independent auditor's report

This independent auditor's report is made solely to the shareholders as a body. Our audit work has been undertaken so that we might state to the shareholders those matters we are required to state to them in the independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholders as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.

KPMG

Responsibilities of the Directors for the financial statements

The Directors, on behalf of the Branch, are responsible for:

— the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;

— implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and

— assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objective is:

— to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and

— to issue an independent 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 ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They 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 these financial statements.

A further description of our responsibilities for the audit of these financial statements is located at the External Reporting Board (XRB) website at:

http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-4/

This description forms part of our independent auditor's report.

KPMG

KPMG

Rachel Milum

Rachel Milum
Partner
Melbourne

25 February 2020

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2019

	Notes	2019 $'000	2018 $'000
Insurance premium revenue		**15,519**	16,079
Net insurance premium revenue	2.1(a)	**15,519**	16,079
Claims expenses		**(3,459)**	(3,284)
Net claims incurred	2.1(c)	**(3,459)**	(3,284)
Acquisition costs		**(3,129)**	(3,182)
Administration expenses		**(4,348)**	(4,237)
Underwriting Expenses		**(7,477)**	(7,419)
Underwriting result		**4,583**	5,376
Investment income	2.1(b)	**1,025**	1,094
Other (expense)/income		**(55)**	65
Profit before income tax		**5,553**	6,535
Income tax expense	2.2(a)	**(434)**	(450)
Profit for the year		**5,119**	6,085
Total comprehensive income for the year from continuing operations		**5,119**	6,085
Profit is attributable to:			
Owners of Hallmark General Insurance Company Ltd New Zealand Branch		**5,119**	6,085
Profit for the year		**5,119**	6,085
Total comprehensive income for the year is attributable to:			
Owners of Hallmark General Insurance Company Ltd New Zealand Branch		**5,119**	6,085
Other comprehensive income for the year, net of tax		**5,119**	6,085

The above statement should be read in conjunction with the accompanying notes.

Balance Sheet
As at 31 December 2019

	Notes	2019 $'000	2018 $'000
Assets			
Cash and cash equivalents	3.1(a)	35,140	38,195
Trade and other receivables	3.1(b)	248	458
Deferred acquisition costs	3.1(c)	4,452	4,834
Total assets		39,840	43,487
Liabilities			
Trade and other liabilities	3.1(d)	232	1,973
Current tax liabilities		885	867
Outstanding claims liability	3.1(e)	2,992	2,698
Unearned premium liability	3.1(f)	22,215	24,002
Total liabilities		26,324	29,540
Net assets		13,516	13,947
Equity			
Retained earnings		13,516	13,947
Total equity		13,516	13,947

The above statement should be read in conjunction with the accompanying notes.

Statement of changes in equity
For the year ended 31 December 2019

	Notes	Attributable to owners of Hallmark General Insurance Company Ltd	
		Retained Earnings	Total Equity
		$'000	$'000
At 1 January 2018		14,529	14,529
Profit for the year		6,085	6,085
Total comprehensive income for the year		**6,085**	**6,085**
Dividends paid or declared		(6,477)	(6,477)
Prior year adjustment		(190)	(190)
At 31 December 2018		**13,947**	**13,947**
At 1 January 2019		**13,947**	**13,947**
Profit for the year		5,119	5,119
Other comprehensive expense		-	-
Total comprehensive income for the year		**19,066**	**19,066**
Dividends paid or declared		(5,550)	(5,550)
At 31 December 2019		**13,516**	**13,516**

The above statement should be read in conjunction with the accompanying notes.

Statement of cash flows
For the year ended 31 December 2019

	Notes	2019 $'000	2018 $'000
Cash flows from operating activities			
Premium received		13,830	19,359
Claims paid		(3,165)	(3,030)
Payments to suppliers and employees		(7,483)	(8,677)
Interest received		1,018	871
Net cash (outflow) from operating activities	2.1(d)	4,200	8,523
Net cash (outflow) from investing activities		-	-
Cash flows from financing activities			
Dividends paid to company's shareholders		(7,255)	(4,772)
Net cash inflow/(outflow) from financing activities		(7,255)	(4,772)
Net (decrease)/increase in cash and cash equivalents		(3,055)	3,751
Cash and cash equivalents at beginning of financial year		38,195	34,444
Cash and cash equivalents at end of financial year	3.1(a)	35,140	38,195

The above statement should be read in conjunction with the accompanying notes.

Notes to the financial statements
For the year ended 31 December 2019

Section 1 - Basis of preparation

1.1 Basis of preparation

(a) Reporting entity

Hallmark General Insurance Company Ltd New Zealand Branch (the Branch) was registered in New Zealand on 5 April 2011, under the Companies Act 1993. These are the financial statements of the New Zealand Branch of Hallmark General Insurance Company Ltd.

The parent entity of Hallmark General Insurance Company Ltd is Latitude Insurance Holdings Ltd. The ultimate parent entity of Hallmark General Insurance Company Ltd is KVD Australia Holdco Pty Ltd.

Hallmark General Insurance Company Ltd is a for-profit entity and is primarily involved in the underwriting of general insurance risks.

The financial statements were authorised for issue on 25 February 2020.

(b) Statement of compliance

Hallmark General Insurance Company Ltd is a company registered under the New Zealand Companies Act 1993. These General Purpose Tier 1 financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 2013 and the Companies Act 1993. The financial report complies with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) as issued by the International Accounting Standards Board (IASB). The branch is a reporting entity for the purpose of the Financial Markets Conduct 2013 and its financial statements comply with that Act.

Where necessary, comparatives figures have been re-classified for consistency with current period disclosures.

(c) Basis of measurement

These financial statements have been prepared on a historical cost basis except for the following:

- Financial instruments measured at fair value, including financial assets backing insurance policies designated at fair value through profit or loss, equity investments designated at fair value though other comprehensive income.

(d) Functional and presentation currency

These financial statements are presented in New Zealand Dollars, which is Hallmark General Insurance Company Ltd Branch's functional and presentation currency.

(e) Rounding of amounts

Amounts in the financial statements have been rounded off to the nearest thousand dollars, or in certain cases, the nearest dollar.

Notes to the financial statements
For the year ended 31 December 2019

1.1 Basis of preparation (continued)

(f) Significant estimates and judgements

The preparation of financial statements that conform to accounting standards requires Management to exercise judgement in applying the Branch's accounting policies and to make estimates and assumptions. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Branch and that are believed to be reasonable under the circumstances.

1.2 Other significant accounting policies

Significant accounting policies adopted in the preparation of these financial statements have been included in the relevant notes to which the policies relate. Other significant accounting policies are listed below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Foreign currency translation

Items included in the financial statements of each of the entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency').

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss and other comprehensive income.

Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Foreign exchange gains and losses are presented in the statement of profit or loss and other comprehensive income on a net basis within other operating income or other expenses.

1.3 New and amended standards

(a) New and amended standards adopted

NZ IFRIC Interpretation 23 Uncertainty over Income Tax Treatments - The Interpretation became effective to the Branch at 1 January 2019. The new interpretation clarifies the accounting for uncertainties in income taxes in relation to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates. This has had an immaterial impact on the Branch.

Other amended standards
Other amended Standards that became effective for the financial year ended 31 December 2019 did not have a material impact on the Branch.

Notes to the financial statements
For the year ended 31 December 2019

1.3 New and amended standards (continued)

(b) New standards and interpretations not yet adopted

The following standards have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Branch. The Branch expects to adopt these on their effective dates.

NZ IFRS 17 Insurance Contracts – NZ IFRS 17 is effective for financial years commencing on or after 1 January 2022. The new standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts. The objective of NZ IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. The Branch is currently assessing the impact of the new requirements on the Branch's Insurance business.

Conceptual Framework for Financial Reporting – the NZ IFRS issued a new framework in May 2019 and applies to periods beginning on or after 1 January 2020. The new Framework includes updated definitions and recognition criteria for assets and liabilities. It also introduces new concepts on measurement, presentation and disclosure and new guidance on derecognition of assets and liabilities. It will apply to the Branch from 1 January 2020 and is not expected to have a material impact on the Branch.

Notes to the financial statements

For the year ended 31 December 2019

Section 2 - Results

2.1 Revenue and expenses

<u>Accounting Policy</u>

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. The branch recognises revenue from non-insurance activities when it is probable that the economic benefits will flow to the Company and the revenue amount can be reliably measured. The branch bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. In addition, the following specific recognition criteria apply to revenue streams:

Premium revenue

Premium revenue comprises amounts charged to policyholders (direct premium) for insurance contracts, excluding stamp duties and taxes collected on behalf of third parties.

Premium revenue is recognised in the profit and loss when it has been earned. It is recognised as earned from the date attachment of risk (generally the date a contract is agreed to but not the earlier if persuasive evidence of an arrangement exists) over the period of the related insurance contracts in accordance with the pattern of the incidence of risk expected under the contracts. The pattern of risks underwritten is generally matched by the passing of time but when time does not approximate the pattern of risk, previous claims experience is used to derive the incidence of risk.

Premium for unclosed business (business written close to reporting date where attachment risk is prior to reporting date and there is insufficient information to accurately identify the business) is brought to account based on previous experience with due allowance for any changes in the pattern of new business and renewals.

The unearned portion of premium is recognised with unearned premium liability in the Balance Sheet.

Investment income

All investment income is recognised as revenue on an accrual basis. Assets are designated at fair value through profit or loss and the related net realised and unrealised gains and losses arising on financial assets designated at fair value through profit or loss are included in statement of profit or loss and other comprehensive income as investment revenue.

Claims expenses

The branch's claims liability is measured as the present value of expected future payments relating to claims incurred at the reporting date. The expected future payments include those estimates in relation to claims incurred but not yet enough reported (IBNER's) and claims incurred but not reported (INBR's) based on past experience.

Claims incurred all relate to providing services, including the bearing of risk, and are accordingly treated as expenses in the statement of profit or loss and other comprehensive income. Claims expenses represent total claim payments made during the year adjusted for the movement in the outstanding claims liability.

2.1 Revenue and expenses (continued)

The claims liability is measured based on the advice of valuations preformed by the appointed actuary whose key assumptions are outlined in note 3.2.

Other expenses

Other expenses are recognised in the statement of profit or loss and other comprehensive income on an accruals basis.

Outward reinsurance premium

Premium ceded to reinsurers is recognised as an expense in accordance with the pattern of reinsurance service received. Accordingly, a portion of outwards reinsurance premium is treated at the reporting date as deferred reinsurance expense. Reinsurance recoveries on claims incurred are recognised as revenue.

Deferred acquisition costs

Costs, which vary with and are primarily related to the production of new business, have been deferred to the extent such costs are deemed recoverable from future profits. Such costs primarily include commissions. These costs are amortised in proportion to premiums over the estimated lives of the policies. A write down to recoverable amount is recognised where the present value of expected future claims (including settlement costs) in relation to business written to the end of the reporting period exceeds related unearned premiums less the deferred acquisition costs.

Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case, it is recognised as part of the cost of acquisition of the asset or as part of the expense. Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet. Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

Notes to the financial statements

For the year ended 31 December 2019

2.1 Revenue and expenses (continued)

(a) Net insurance premium revenue

	2019 $'000	2018 $'000
Gross written premium	13,732	18,529
Movement in Unearned Premium	1,787	(2,450)
Net premium revenue	15,519	16,079

(b) Investment income

	2019 $'000	2018 $'000
Interest income	1,025	1,094
Total investment income	1,025	1,094

(c) Net claims incurred

	2019			2018		
	Current Year $'000	Prior Years $'000	Total $'000	Current Year $'000	Prior Years $'000	Total $'000
Gross claims incurred and related expenses - undiscounted	3,767	(320)	3,447	3,479	(182)	3,297
Discount and discount movement - gross claims incurred	(20)	32	12	(29)	16	(13)
	3,747	(288)	3,459	3,450	(166)	3,284
Net claims incurred	3,747	(288)	3,459	3,450	(166)	3,284

Current period claims relate to risk borne in the current financial year. Prior period claims relate to a reassessment of the risks borne in all previous financial years.

2.1 Revenue and expenses (continued)

(d) Reconciliation of profit after income tax to net cash inflow from operating activities

	2019	2018
	$'000	$'000
Net profit after income tax	**5,119**	6,085
Adjustments		
Prior adjustments to deferred acquisition costs	**-**	(190)
Change in operating assets and liabilities:		
(Increase)/decrease in trade and other receivables	**210**	727
(Increase)/decrease in deferred acquisition costs	**382**	(333)
(Increase)/decrease in trade and other payables	**(36)**	(595)
(Increase)/decrease in outstanding claim liability	**295**	254
(Increase)/decrease in unearned premium liability	**(1,787)**	2,450
(Increase)/decrease in current tax liability	**17**	125
Net cash (used in)/provided by operating activities	**4,200**	8,523

Notes to the financial statements
For the year ended 31 December 2019

2.2 Income tax expense and deferred tax

Accounting Policy

Taxation
Income tax
The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate, based on amounts expected to be paid to the tax authorities.

Deferred tax
Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. Deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination, that, at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and liabilities are offset when there is a legally enforceable right to offset and an intention to settle the liability simultaneously. Current and deferred tax is recognised in the statement of profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

Taxation basis
As the Branch is a non-resident, for tax purposes, general insurer in New Zealand it is taxed on 10% of its New Zealand sourced gross premium income. Deductions for expenditure are not allowed. A non-resident withholding tax of 10% or approved issuer levy of 2% applies to any New Zealand sourced interest income on investments.

Notes to the financial statements
For the year ended 31 December 2019

2.2 Income tax expense and deferred tax (continued)

(a) Income tax expense

	2019 $'000	2018 $'000
Current tax on profits for the year	434	450
Income tax expense	434	450

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	2019 $'000	2018 $'000
Profit from continuing operations before income tax expense	5,553	6,535
Tax at the New Zealand tax rate of 28%	1,555	1,830
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Permanent differences (^)	(1,121)	(1,380)
Income tax expense	434	450

^ Tax effect of non-assessable income

Notes to the financial statements

For the year ended 31 December 2019

Section 3 - General Insurance Assets & Liabilities and Risk Management

3.1 Assets and liabilities

Accounting Policy

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, restricted cash and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash.

Trade and other receivables

All premium and other receivables are recognised at the amounts receivable as these amounts are generally due for settlement within 30 days and less, where applicable, any provision for doubtful debts. Collectability of premium and other receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off in the period in which they are identified.

Reinsurance and other recoveries receivable

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid and IBNR's are recognised as revenue. Recoveries receivable are assessed in a manner similar to the assessment of the liability for outstanding claims and policy liabilities.

Classification of insurance contracts

Contracts under which the Branch accepts significant insurance risk from the policyholder or another party by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event adversely affects the policyholder or other beneficiary, are classified as insurance contracts. The risks associated with Insurance contracts are detailed further in note 3.3(d).

Asset backing general insurance liabilities

Hallmark General Insurance Company Ltd has established a target capital to ensure assets are available to meet insurance liabilities.

Financial assets

The Branch has elected to designate all its financial assets at fair value through profit and loss consistent with the provisions of NZ IFS 9 Financial Instruments: *Recognition and Measurement.*

Financial assets designated at fair value through profit or loss and are initially recognised at fair value, excluding transaction costs, which are expensed in the profit or loss in the period in which they arise. Financial assets are subsequently measured at fair value at each reporting date with realised and unrealised gains and losses arising from changes in the fair value recognised in the profit or loss in the period in which they arise.

Short term deposits

Short term deposits are carried at the face value of the amounts deposited as their carrying amounts approximate to their fair value.

3.1 Assets and liabilities (continued)

Impairment of assets
The carrying amount of the Branch's non-financial assets, other than deferred tax assets, are assessed annually for indicators of impairment, if any such indicator exists, then the asset's recoverable amount is estimated.
An impairment loss is recognised when the carrying amount of an asset exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. Impairment losses are recognised in the profit or loss, unless an asset has previously been re-valued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the profit or loss.
Where an impairment loss subsequently reverses, the carrying amount is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised for the asset in prior years. A reversal of an impairment is recognised immediately in the profit or loss.

Trade and other liabilities
These amounts represent liabilities for goods and services provided to the Branch prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 90 days of recognition.

Outstanding claims liability
The liability for outstanding claims covers the expected future payments for claims including IBNR and IBNER claims and the anticipated direct and indirect costs of settling these claims.
The liability for outstanding claims is subject to yearly actuarial review. The general approach to the actuarial estimation of outstanding claims is to analyse all available past experience. Based on this, the expected future payments are determined and discounted to present value using a risk free rate.
The provision for the outstanding claims liability also contains a risk margin to reflect the inherent uncertainty in the central estimate. The risk margin increases the probability that the net liability is adequately provided for to a 90% (2018: 90%) confidence level.

Liability adequacy test
The adequacy of the insurance contract liabilities are evaluated each year. The insurance contract test considers current estimates of all contractual and related cash flows. If it is determined using best estimate assumptions that a shortfall exists, it is immediately recognised in the profit or loss.

Unexpired risk liability
Provision is made for unexpired risks arising from general insurance business where the expected value of claims and expenses attributed to the unexpired periods of policies ln force at the end of the reporting period exceeds the unearned premiums provision in relation to such policies after the deduction of any deferred acquisition costs. The provision for unexpired risk is calculated separately by reference to separate classes of business, which are managed together, after taking into account the relevant investment return.

Unexpired risk liability, if any, remaining after writing off deferred acquisition costs is recognised immediately in the profit or loss. Refer to note 3.1(e)(v)).

Notes to the financial statements
For the year ended 31 December 2019

3.1 Assets and liabilities (continued)

(a) Cash and cash equivalents

	2019 $'000	2018 $'000
Current assets		
Cash and cash equivalents	890	995
Short term deposits	34,250	37,200
Total cash and cash equivalents	35,140	38,195

(b) Trade and other receivables

	2019 $'000	2018 $'000
Current assets		
Other receivables	248	458
Total trade and other receivables	248	458

The carrying value disclosed above approximates fair value at end of the reporting period.

(c) Deferred acquisition costs

	2019 $'000	2018 $'000
Current	2,582	2,823
Non-current	1,870	2,011
Total deferred acquisition costs	4,452	4,834
Reconciliation of changes in acquisition costs:		
Opening balance at 1 January	4,834	4,501
Acquisition costs incurred during the year	1,456	2,266
Amortisation charged to income	(1,838)	(1,933)
Closing balance at 31 December	4,452	4,834

Acquisition costs incurred during the year and amortisation charged to income relate to the Personal loans portfolios as there were no deferred acquisition costs as at 31 December 2019 and 31 December 2018 for Cards portfolios.

3.1 Assets and liabilities (continued)

(d) Trade and other liabilities

	2019 $'000	2018 $'000
Current		
Trade and other payables	227	1,970
Accrued expenses	5	3
	232	1,973

The carrying amounts of trade and other payables approximates fair value.

These balances include amounts payable to related parties (note 5.2(c)).

(e) Outstanding claims liability

	2019 $'000	2018 $'000
Central estimate	1,957	1,809
Risk margin	716	648
Claims handling expense	348	280
	3,021	2,737
Discount to present value	(29)	(39)
Gross outstanding claims liability	2,992	2,698
Current	2,004	1,833
Non-current	988	865
Total outstanding claims liability	2,992	2,698

(i) The following ranges of discount rates were used in the measurement of outstanding claims and reinsurance recoveries.

The current year discount rate is 1.12% (2018: 1.71%)
The subsequent years discount rate is 1.12% (2018: 1.71%)
The weighted average expected term to settlement of the outstanding claims from the end of the reporting period is estimated to be 0.86 years (2018: 0.88 years)

(ii) Risk margin

Process for determining risk margin

The risk margin is an additional allowance for uncertainty in the ultimate cost of claims. The overall margin adopted is determined by the board after considering the uncertainty in the portfolio, industry trends and the Branch's risk appetite.

To determine the margin adopted the appointed actuary has reviewed the factors impacting the portfolio to establish a recommended margin at the level required by the board. Factors considered include:

- variability of claims experience of the portfolio; quality of historical data;
- diversification between different classes within the portfolio; and
- increase in uncertainty due to future economic environment and legislative changes.

(e) Outstanding claims liability (continued)

The level of uncertainty varies between classes of business, as such the adopted risk margin varies between business classes. The risk margin is applied to the gross central estimate.

The aggregate risk margin, after diversification allowance, is intended to achieve a 90% (2018: 90%) probability of sufficiency.

The risk margins applied to the major segments of the portfolio for 90% (2018: 90%) level of adequacy are:

	2019 %	2018 %
Consumer credit insurance - disability	**30.3**	30.3
Consumer credit insurance - unemployment	**35.7**	35.7

(iii) Reconciliation of movement in discounted outstanding claims liability

	2019		2018	
	Gross $'000	Total $'000	Gross $'000	Total $'000
Balance at 1 January	2,698	**2,698**	2,444	**2,444**
Current year claims incurred	3,747	**3,747**	3,450	**3,450**
Change in previous year claims	(288)	**(288)**	(166)	**(166)**
Current year claims paid / reinsurance recovered	(1,658)	**(1,658)**	(1,482)	**(1,482)**
Previous year claims paid / reinsurance recovered	(1,507)	**(1,507)**	(1,548)	**(1,548)**
Closing balance at 31 December	2,992	**2,992**	2,698	**2,698**

Notes to the financial statements
For the year ended 31 December 2019

(e) Outstanding claims liability (continued)

(iv) Claims development tables

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

Gross

Reporting Year	Accident Year									
	Prior*	2012*	2013	2014	2015	2016	2017	2018	2019	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Estimate of gross ultimate claims cost										
At end of reporting year				3,328	3,132	2,881	3,046	3,255	3,485	
One year later			2,218	2,946	2,295	2,629	2,963	4,871		
Two years later		2,140	2,217	2,907	2,351	2,651	3,379			
Three years later		2,182	2,253	2,906	2,353	2,771				
Four years later		2,212	2,244	2,910	2,412					
Five years later		2,209	2,239	2,951						
Six years later		2,215	2,275							
Seven years later		2,217								
Current estimate of cumulative claims	1,540	2,217	2,275	2,951	2,412	2,771	3,379	4,871	3,485	25,901
Cumulative payments to date	1,540	2,217	2,246	2,921	2,379	2,722	3,199	4,385	1,619	23,228
Undiscounted claims handling expenses	-	-	4	4	4	6	24	64	243	349
Gross outstanding claims - undiscounted	-	-	32	34	37	55	204	549	2,109	3,020
Discount impact	-	-	-	-	-	(1)	(2)	(5)	(20)	(28)
Gross outstanding claims - discounted	-	-	32	34	37	54	202	544	2,089	2,992

Notes to the financial statements
For the year ended 31 December 2019

(e) Outstanding claims liability (continued)

Net

Reporting Year	Accident Year									
	Prior*	2012*	2013	2014	2015	2016	2017	2018	2019	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Estimate of gross ultimate claims cost										
At end of reporting year	-	-	-	3,328	3,132	2,881	3,046	3,255	3,485	-
One year later	-	-	2,218	2,946	2,295	2,629	2,963	4,871	-	-
Two years later	-	2,140	2,217	2,907	2,351	2,651	3,379	-	-	-
Three years later	-	2,182	2,253	2,906	2,353	2,771	-	-	-	-
Four years later	-	2,212	2,244	2,910	2,412	-	-	-	-	-
Five years later	-	2,209	2,239	2,951	-	-	-	-	-	-
Six years later	-	2,215	2,275	-	-	-	-	-	-	-
Seven years later	-	2,217	-	-	-	-	-	-	-	-
Current estimate of cumulative claims	1,540	2,217	2,275	2,951	2,412	2,771	3,379	4,871	3,485	25,901
Cumulative payments to date	1,540	2,217	2,246	2,921	2,379	2,722	3,199	4,385	1,619	23,228
Undiscounted claims handling expenses	-	-	-	15	24	58	150	372	1,004	1,623
Gross outstanding claims - undiscounted	-	-	32	34	37	55	204	549	2,109	3,020
Discount impact	-	-	-	-	-	(1)	(2)	(5)	(20)	(28)
Gross outstanding claims - discounted	-	-	32	34	37	54	202	544	2,089	2,992

* All actuarial data relating to the New Zealand Branch of the Company, prior to the 5th March 2012 relates to the insurance portfolio of Simply Insurance New Zealand Limited, and is disclosed to reflect the historical actuarial profile of the insurance portfolio, which was transferred to the Branch on the 5 March 2012.

(v) Liability adequacy test

The liability adequacy test (LAT) is an assessment of the carrying amount of unearned premium liabilities and is conducted at the end of each reporting period. The test is calculated separately for each portfolio of contracts that are subject to broadly similar risks and are managed together as a single portfolio.

The probability of sufficiency adopted for LAT differs from the 90% (2018: 90%) probability of sufficiency adopted in determining the outstanding claims liabilities (refer to note 3.1). The reason for this difference is that the former is in effect an impairment test used only to test the sufficiency of net premium liabilities whereas the latter is a measurement accounting policy used in determining the carrying value of the outstanding claims liabilities.

For the purposes of the liability adequacy test, the net premium liabilities at a 75% probability of sufficiency as at 31 December 2019 is $16,142,800 (2018: $17,558,597), therefore the liability adequacy test at reporting date resulted in a surplus for the company.

Notes to the financial statements

For the year ended 31 December 2019

(f) Unearned premium liability

	2019 $'000	2018 $'000
Balance as at 1 January	24,002	21,552
Premiums written during the year	7,281	11,331
Premiums earned during the year	(9,068)	(8,881)
Closing balance as at 31 December	22,215	24,002
Current	12,885	14,016
Non-current	9,330	9,986
Total unearned premium liability	22,215	24,002

Premiums written and earned during the year relate to the Personal loans portfolios as there were no unearned premium liabilities as at 31 December 2019 and 31 December 2018 for Cards portfolios.

3.2 Actuarial assumptions and methods

(a) Process used to determine outstanding claims liabilities (actuarial methods)

The general approach to actuarial estimation of insurance liabilities is to analyse all available past experience, including the number of reported and finalised claims, timing and amounts of claim payments. This analysis allows patterns to be identified in the past experience. Based on this, development patterns associated with the run-off of outstanding claims and premium liabilities at the balance date can be estimated. Claims incurred all relate to providing services, including the bearing of risk, and are accordingly treated as expenses in the profit or loss. Claims expenses represent total claim payments made during the year adjusted for the movement in the outstanding claims liability. The determination of the outstanding claims liabilities involves two steps:

1. The determination of the central estimate of outstanding claims at the balance date.

   The central estimate of outstanding claims includes an allowance for claims incurred but not reported (IBNR) and the further development of reported claims, also known as incurred but not enough reported (IBNER). The central estimate has no deliberate bias towards either over or under estimation. This means that the central estimate is assessed to have approximately 50% chance of adequacy.

2. The determination of a risk margin and claims handling expense provision to be added to the central estimates of outstanding claims. The risk margin is intended to achieve a 90% probability of adequacy at an aggregate level.

The estimation of the outstanding claims liabilities involves the use of the following standard aggregate projection methods: Payment Chain Ladder ("PCL"); Payment Per Claim Incurred ("PPCI"); Payment Per Claim Finalised ("PPCF"); Payment Per Claim Handled ("PPCH") and Bornheutter Ferguson ("BF"). A blend of the projection methods is adopted based on the nature of the claims within each portfolio to estimate the appropriate outstanding claims.

Notes to the financial statements
For the year ended 31 December 2019

(b) Actuarial assumptions

The key actuarial assumptions for the determination of the outstanding claims liabilities of the consumer credit insurance portfolios are as follows:

2019	Disability (Personal Loans)	Unemployment (Personal Loans)	Disability (Credit Cards)	Unemployment (Credit Cards)	Protection^
New Zealand:					
Number of future finalisations	251	121	106	69	37
Discounted loss ratio*	26%	8%	26%	12%	7%
Expense rate	15.50%	15.50%	15.50%	15.50%	15.50%
Discount rate	1.12%	1.12%			

2018	Disability (Personal Loans)	Unemployment (Personal Loans)	Disability (Credit Cards)	Unemployment (Credit Cards)	Protection^
New Zealand:					
Number of future finalisations	211	89	79	47	58
Discounted loss ratio*	27%	7%	18%	10%	6%
Expense rate	13.5%	13.5%	13.5%	13.5%	13.5%
Discount rate	1.71%	1.71%			

*As at December 2019
^ Merchandise protection, price protection and stolen cards (credit cards)

The above key actuarial assumptions were based on the following:

- Future finalisations - based on an analysis of historical claim reports and finalisation rates, enabling the future numbers of reports, handled claims and finalisations to be projected.
- Adopted average claim size - based on historic ratios of claim payments to factors such as number of claims reported, handled or finalised.
- Adopted claims handling expense rate - determined based on the results of an expense investigation.
- Central estimates of the outstanding claims liabilities - discounted to allow for future investment income attributable to the liabilities during the run off period. The discount factor is based on annual risk-free rates of return, derived from Government bond yield curves.
- Other assumptions - the outstanding claims provision for disability (Personal Loans) includes an additional 1.3% for medical expenses, with a prudential margin calculated at a 90% probability of adequacy.

Notes to the financial statements
For the year ended 31 December 2019

(c) Sensitivity analysis

The outstanding claims liabilities included in the reported results are calculated based on the key actuarial assumptions as disclosed above. The movement in any of the above key actuarial assumptions will impact the performance and equity of the Branch. The table below describes how a change in each of the assumptions will affect the outstanding claims liabilities.

Key actuarial assumptions 2019	Changes	Impact on net outstanding claims liabilities ($'000's)	Impact on total outstanding claims liabilities (%)
New Zealand:			
Chain ladder factor	Increase the chain ladder factor by 10%	+34	+1.14
Discount rate	Decrease discount rate by 1%	+26	+0.86
Claims handling expense rate	Increase claims handling expense rate by 4%	+117	+3.9
Key actuarial assumptions 2018	**Changes**	**Impact on net outstanding claims liabilities ($'000's)**	**Impact on total outstanding claims liabilities (%)**
New Zealand:			
Chain ladder factor	Increase the chain ladder factor by 10%	+30	+1.12
Discount rate	Decrease discount rate by 1%	+23	+0.87
Claims handling expense rate	Increase from claims handling expense rate by 4%	+107	+3.98

Notes to the financial statements
For the year ended 31 December 2019

3.3 Financial risk management

Credit risk

Credit risk is the risk of financial loss due to a counterparty failing to meet their contractual obligations, arising principally arises from through the Branch's investment in financial instruments, receivables from related or other parties, and claims on reinsurance contracts.

Risk management

The Branch has strategies in place to minimise future losses including the assessment of acceptable concentration risk. New strategies are implemented to take appropriate action if adverse trends occur.

The following policies and procedures are in place to mitigate the Branch's exposure to credit risk:

(a) Financial assets

The Branch's investment mandate sets out the investment management guidelines approved by the Board. The guidelines establish credit approval authorities, concentrations limits, and approved investment portfolio parameters, these guidelines comply with the Investment Policy. Management conducts a regular review of the investment holdings, compliance is monitored and exposures or breaches are reported to the board. The mandate is reviewed regularly for pertinence and for changes in the risk environment.

The Branch only invests with counterparties that have a credit rating of at least A3/BBB- from Standard & Poor's (S&P). The Branch further limits its exposure to credit risk by setting individual exposure limits. There is no significant concentration of credit risk and management does not expect any counterparty to fail to meet its obligations.

(b) Reinsurance assets

Reinsurance is placed with counterparties within the guidelines of the reinsurance management strategy (ReMS). Counterparties must have an S&P credit rating of at least A. The Branch further sets its exposure to credit risk by setting individual exposure limits. At the end of each reporting period, management performs an assessment of creditworthiness of reinsurers and updates the ReMS.

(c) Trade and other receivables

The Branch's maximum credit risk exposure at balance date is limited to the carrying amount of the financial assets as stated in the statement of financial position. The Branch does not have a significant concentration of credit risk with any counterparty, other than related parties (See note 5.2(b)).

Notes to the financial statements
For the year ended 31 December 2019

3.3 Financial risk management (continued)

The table below shows the Branch's maximum exposure to credit risk at balance date.

2019	Investment grade $'000	Non-investment grade satisfactory* $'000	Non-investment grade unsatisfactory $'000	Total neither past due nor impaired $'000	Past due or impaired $'000	Total $'000
Financial assets						
Cash and cash equivalents	35,140	-	-	35,140	-	**35,140**
Trade and other receivables	-	248	-	248	-	**248**
Total credit risk exposure	**35,140**	**248**	**-**	**35,388**	**-**	**35,388**

2018	Investment grade $'000	Non-investment grade satisfactory* $'000	Non-investment grade unsatisfactory $'000	Total neither past due nor impaired $'000	Past due or impaired $'000	Total $'000
Financial assets						
Cash and cash equivalents	38,195	-	-	38,195	-	**38,195**
Trade and other receivables	-	458	-	458	-	**458**
Total credit risk exposure	**38,195**	**458**	**-**	**38,653**	**-**	**38,653**

*A receivable is deemed satisfactory when management is satisfied that the obligor has the capacity to meet its financial obligations.

Notes to the financial statements

For the year ended 31 December 2019

3.3 Financial risk management (continued)

The table below classifies the financial assets of the Company by counterparty credit rating (S&P)

2019	AAA $'000	AA $'000	A $'000	BBB $'000	Not rated $'000	Total $'000
Financial assets						
Cash and cash equivalents	-	-	35,140	-	-	35,140
Trade and other receivables	-	-	-	-	248	248
Total credit risk exposure	-	-	35,140	-	248	35,388

2018	AAA $'000	AA $'000	A $'000	BBB $'000	Not rated $'000	Total $'000
Financial assets						
Cash and cash equivalents	-	-	38,195	-	-	38,195
Trade and other receivables	-	-	-	-	458	458
Total credit risk exposure	-	-	38,195	-	458	38,653

The receivables and investment in controlled entity are largely with related parties, refer to note 5.2(b)). No receivables are past due or impaired at balance date (2018: Nil).

Notes to the financial statements

For the year ended 31 December 2019

3.3 Financial risk management (continued)

Liquidity risk

Liquidity risk is the risk that the Branch will not be able to meet its financial obligations as they fall due. The Branch's objective and funding strategy seeks to ensure liquidity and diversity of funding sources to meet actual and contingent liabilities in both stable and adverse market conditions.

The Branch's liquidity is primarily monitored through the production of statement of cash flows for Board review. Periodic review of the maturity profile of the Branch's financial assets and liabilities is performed to ensure sufficient liquidity is maintained.

The following is an analysis of the maturity profile of both cash and cash equivalents and of undiscounted contractual cash flows associated with the Branch's financial liabilities at balance date:

2019	Up to a year $'000	1-2 years $'000	2-5 years $'000	Over 5 years $'000	Total $'000
Cash and cash equivalents	35,140	-	-	-	**35,140**
Trade and other liabilities	(232)	-	-	-	**(232)**
Outstanding claims liability	(2,004)	(616)	(369)	(3)	**(2,992)**
Net liquid assets	**32,904**	**(616)**	**(369)**	**(3)**	**31,915**

2018	Up to a year $'000	1-2 years $'000	2-5 years $'000	Over 5 years $'000	Total $'000
Cash and cash equivalents	38,195	-	-	-	**38,195**
Trade and other liabilities	(1,973)	-	-	-	**(1,973)**
Outstanding claims liability	(1,833)	(545)	(319)	(1)	**(2,698)**
Net liquid assets	**34,389**	**(545)**	**(319)**	**(1)**	**33,524**

The Branch's financial assets and liabilities are carried in the Balance Sheet at amounts that approximate fair value.

Foreign exchange risk

Currency risk is the risk that the value of recognised assets and liabilities or the cash flows from possible future transactions, that are denominated in a currency, other than that of the functional currency, will decrease due to changes in market exchange rates.

The Branch has no foreign currency exposure at balance date that is considered material.

Notes to the financial statements
For the year ended 31 December 2019

3.3 Financial risk management (continued)

Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate as a result of changes in market interest rates.

The following table analyses the impact of a reasonable possible movement in market interest rates on the Branch's operating results.

2019	Carrying amount	Change in variables	Impact on profit before tax	Impact on equity				Total
				Up to a year	1-2 years	2-5 years	Over 5 years	
	$'000	%	$'000	$'000	$'000	$'000	$'000	$'000
Financial assets								
Short term deposits	34,250	-1%	(343)	(247)	-	-	-	(247)
Total	34,250		(343)	(247)	-	-	-	(247)

2018	Carrying amount	Change in variables	Impact on profit before tax	Impact on equity				Total
				Up to a year	1-2 years	2-5 years	Over 5 years	
	$'000	%	$'000	$'000	$'000	$'000	$'000	$'000
Financial assets								
Short term deposits	37,200	-1%	(372)	(268)	-	-	-	(268)
Total	37,200		(372)	(268)	-	-	-	(268)

The analysis is performed on the same basis as per the prior year and assumes that all other variables remain the same.

Price risk

Price risk is the risk that the fair value of equities or financial instruments could change due to fluctuations in market prices. The Branch has no equity securities as at 31 December 2019.

3.3 Financial risk management (continued)

Insurance risk

(d)Insurance contracts

An insurance contract is a contract under which the insurer accepts significant insurance risk from the policyholder by agreeing to compensate the policy holder for a specified uncertain future event that will adversely affect them. Insurance risk is other than financial risk.

The significance of insurance risk under any one contract is determined by the uncertainty surrounding the probability and timing of the insured event occurring, and the magnitude of its effect. Insurance risk is assessed by the Branch at a contract level on its inception and is periodically reassessed as the risk may vary during the period of insurance cover.

The majority of direct insurance contracts written are entered into on a standard form basis. There are no special term and conditions in any non-standard contracts that have a material impact on the financial statements.

The business written consists mainly of consumer general insurance.

(e)Insurance risk management

Insurance risk management is the assessment and quantification of the likelihood and financial impact of events that may require settlement by the insurer; and the ability of the Branch to mitigate the financial impact of these events on its operating results.

In accordance with Prudential Standards CPS 220 Risk Management and GPS 230 Reinsurance Management for Life and General Insurers issued by APRA, the Board and senior management of the Branch have developed, implemented and maintained a sound and prudent risk management strategy (RMS) and a reinsurance management strategy (ReMS).

The RMS and ReMS identify the Branch's policies, procedures, processes and controls that address all known material risks, financial and non-financial arising from the business. Annually, the board certifies to APRA that adequate strategies have been put in place to monitor those risks, that the Branch has systems in place to ensure compliance with legislative and prudential requirements, and that the board has satisfied itself as to the compliance with the RMS and ReMS.

Specific key components of the RMS and ReMs are detailed further below.

(i) Underwriting strategy

The Board has developed an underwriting strategy to ensure that the Branch has the ability to meet the insurance needs of the policy holders and to ensure the ability to pay benefits and claims when due. The strategy involves the identification of risks by type, impact and likelihood and involves the application of mathematical modeling to determine that products are appropriately priced.

3.3 Financial risk management (continued)

(ii) Reinsurance strategy

A conservative approach is taken in determining the level of risk appetite appropriate for the Branch and where deemed appropriate will spread the risk associated with the insured events according to its ReMS. All reinsurance treaties are subject to analytical and statistical modeling to ensure that they offer a sufficient level of cover for the identified exposures whilst in alignment with the ReMs of the Branch.

(iii) Claims management

Strict claims management procedures ensure the timely and accurate payment of claims in accordance with policy conditions. Claim outcomes are monitored to track the actual versus expected experience of the portfolio, with feedback delivered to underwriting and product development.

(iv) Concentration of insurance risk

The Branch's portfolio of products and policy holders is sufficiently diversified such that there is no material concentration of insurance risk.

Notes to the financial statements

For the year ended 31 December 2019

Section 4 - Capital Management

4.1 Capital management

As the Branch is not a separate legal entity with equity, its capital requirements are equivalent to those of the Company (Hallmark General Insurance Ltd).

The Branch's capital management strategy plays a central role in managing capital risk arising from the business activities of the Branch, providing an appropriate level of capital to protect policyholders' interests and satisfy regulators. The strategy seeks to ensure sufficient capital levels are maintained in both stable and adverse market conditions.

The Branch has adopted a target surplus policy to assist the board and management to manage its capital position. The target surplus level has been set with reference to a range of risks and possible adverse scenarios faced by the Branch.

The Branch has net assets in excess of the adopted target surplus requirement, reflecting its current strong capital position.

In addition to the Branch's target surplus policy, external capital requirements are set and regulated by APRA. The Branch calculates its capital position according to the relevant prudential standards which ensures sufficient capital margins within the life statutory funds are maintained. An insurer's capital base is expected to be adequate for the size, business mix, complexity and risk profile of its business.

It is the Branch's policy to hold a capital base in excess of those required by APRA according to its target surplus policy. The capital level is regularly monitored to minimise the risk of a regulatory breach.

As the Branch is regulated by the Australian Prudential Regulation Authority (APRA) for solvency purposes, the Reserve Bank of New Zealand (RBNZ) exempts the Branch from complying with the solvency standard for non-life insurance business in New Zealand.

Notes to the financial statements
For the year ended 31 December 2019

Capital adequacy

The Branch is required to hold prudential reserves, over and above the general insurance contract liabilities, as a buffer against adverse future experience and poor investment returns. New risk-based prudential capital standards, Life and General Insurance Capital (LAGIC) standards, for Australian life and general insurance companies were introduced effective 1 January 2013. The required level of capital for regulatory purposes (the Prescribed Capital Amount, or PCA) is intended to take account of the full range of risks to which a general insurer is exposed and must ensure that the general company has, at all times, a capital base in excess of its PCA (plus any additional amount as required by APRA).

The excess of the Branch's capital base over the PCA as at 31 December 2019 was $65.6 million (2018: $63.3 million).

In addition to the regulatory capital requirements, the Branch maintains a target surplus providing an additional capital buffer against adverse events.

	2019 $'000	2018 $'000
(a) Capital base	**92,095**	93,835
(b) Prescribed capital amount	**26,498**	30,534
Capital in excess of prescribed capital amount = (a) - (b)	**65,598**	63,301
Capital adequacy multiple = (a)/(b)	**3.48**	3.07
Capital Base:		
Net assets	**89,453**	90,412
Regulatory adjustment applied in the calculation of tier 1 capital	**2,643**	3,423
Common equity Tier 1 Capital	92,095	93,835
Prescribed capital amount:		
Insurance risk charge	**8,073**	9,554
Insurance concentration risk charge	**15,508**	17,509
Asset risk charge	**3,317**	3,459
Operational risk charge	**2,037**	2,573
Aggregation benefit	**(2,437)**	(2,561)
Prescribed capital amount	26,498	30,534

Excess technical provisions

The liability required by GPS 110 for prudential reporting purposes differs from accounting purposes. As described in 3.1(e) the Branch applies risk margins to the central estimate of net outstanding claims to achieve a 90% confidence level. GPS 110 requires a prudential margin with a sufficiency of 75%.

Notes to the financial statements
For the year ended 31 December 2019

Section 5 - Other Disclosures

5.1 Commitments and contingencies

No contingent assets or contingent liabilities existed as at 31 December 2019 (2018: nil).

5.2 Related party transactions

(a) Key management personnel disclosures

Any remuneration received by directors was received in their capacity as directors of Hallmark General Insurance Company Ltd.

(b) Transactions with related parties

The following transactions occurred with related parties:

	2019 $	2018 $
Management fees paid to/(received from):		
Hallmark General Insurance Company Ltd	**4,258,491**	4,140,860
Commission paid to:		
Latitude Financial Services Ltd - NZ	**2,746,448**	3,705,704
Cross charges paid to:		
Latitude Financial Services Australia Holdings Pty Ltd	-	96,834
Dividend paid/(received):		
Latitude Insurance Holdings Pty Ltd	**5,550,020**	6,477,490

(c) Outstanding balances with related parties

	2019 $	2018 $
Receivables/(payables) outstanding at the end of the period:		
Hallmark General Insurance Company Ltd	**(419,052)**	(436,254)
Latitude Financial Services Ltd - NZ	**567,223**	887,665
Latitude Insurance Holdings Pty Ltd	-	(1,683,040)
Hallmark Life Insurance Company Ltd - NZ Branch	-	692

No provisions for doubtful debts have been raised in relation to any outstanding balances, and no expense has been recognised in respect of bad or doubtful debts due from related parties.

5.3 Remuneration of auditor

No remuneration received to auditors has been recognised; this expense was incurred by the head office of the branch.

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The Board of Directors
Hallmark General Insurance Company Ltd
800 Collins Street
Melbourne VIC 3008

25 February 2020

Hallmark General Insurance Company Ltd: Appointed Actuary signoff of financial statements and financial condition as at 31 December 2019 for New Zealand reporting purposes

Dear Directors

Hallmark General Insurance Company Ltd ("HGIC") is an Australian authorised insurer regulated by the Australian Prudential Regulatory Authority ("APRA") and has a licence issued by the Reserve Bank New Zealand ("RBNZ").

On 23 May 2018, HGIC appointed me, Melissa Yan of Ernst & Young to be HGIC's Appointed Actuary. The Appointed Actuary role is as described by the Insurance Act 1973, related Prudential Standards and Prudential Practice Guides current at 31 December 2019, and by the New Zealand Insurance (Prudential Supervision) Act 2010 (the Act). I have no relationship with HGIC other than being its Appointed Actuary.

It is the responsibility of the Appointed Actuary to provide advice to the Board of a general insurer on the value of its insurance liabilities and the preparation of the actuarial information contained in its financial statements. The Appointed Actuary must provide written advice to the Board of the insurer on the value of insurance liabilities in accordance with APRA's Prudential Standard CPS320, Actuarial and Related Matters.

As part of my responsibilities, I have produced a report on HGIC's insurance liabilities and financial condition, the Financial Condition Report ("FCR"), as at 31 December 2019, dated 25 February 2020. The scope of the FCR is to provide the Board and management with an objective assessment of the financial condition of the Australian and New Zealand business within HGIC as at 31 December 2019. The FCR identifies and assesses the material risks facing HGIC and includes discussion of relevant risk mitigants.

I have relied upon the general completeness and accuracy of this data and information supplied by HGIC without independent verification. However, I have reviewed the information for reasonableness and consistency with my knowledge of the financial services industry.

The RBNZ has exempted HGIC from compliance with their Solvency Standard for Non-life Insurance Business. This exemption has been granted subject to various conditions, including obligations of the Appointed Actuary. These obligations are addressed below. Where relevant and appropriate, I have commented on total HGIC Company level results and also separately in relation to the results of the New Zealand Branch of HGIC.

Financial Statements – HGIC Company

Section 77 of the Act requires a review by the Appointed Actuary of the actuarial information in the financial statements of the company and in particular:

a. Unearned premium liability and liability adequacy test

b. Net outstanding claims liability

c. Reinsurance and any other recovery assets

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d. Deferred acquisition cost or deferred fee revenue

e. Any other information deemed by the Appointed Actuary to warrant actuarial review for the purpose of profit or solvency reporting

Section 78 of the Act requires that the Appointed Actuary prepare a report in respect of the review required under Section 77. I confirm that this FCR and my Actuarial Valuation Report ("AVR") meets the requirements of section 78 of The Act, and contains my advice regarding the net premium liabilities, liability adequacy test, net outstanding claims liabilities, reinsurance and any other recovery assets, and deferred acquisition costs. The FCR also includes advice on capital requirements, which form part of the financial statements.

I have previously reviewed the earning patterns adopted by HGIC and consider them to be appropriate. For the current AVR I have also checked the unearned premium calculation performed by HGIC for certain product types and the calculations appear to be reasonable.

In my opinion and from an actuarial perspective:

a. The actuarial information contained in the HGIC financial statements, submitted to the Board for approval on 25 February 2020, has been appropriately included in those statements; and

b. The actuarial information has been used appropriately in the preparation of the HGIC financial statements.

I have obtained all information and explanations that I have required. I am not aware of any other information that warrants actuarial review for the purpose of profit or solvency reporting.

Financial Statements – HGIC New Zealand Branch

Section 77 of the Act requires a review by the Appointed Actuary of the actuarial information in the New Zealand Branch financial statements and in particular:

a. Unearned premium liability and liability adequacy test

b. Net outstanding claims liability

c. Reinsurance and any other recovery assets

d. Deferred acquisition cost or deferred fee revenue

e. Any other information deemed by the Appointed Actuary to warrant actuarial review for the purpose of profit or solvency reporting

Section 78 of the Act requires that the Appointed Actuary prepare a report in respect of the review required under Section 77. I confirm that this FCR and my AVR meets the requirements of section 78 of The Act, and contains my advice regarding the net premium liabilities, liability adequacy test, net outstanding claims liabilities, reinsurance and any other recovery assets, and deferred acquisition costs. The FCR also includes advice on capital requirements, which form part of the financial statements.

I have previously reviewed the earning patterns adopted by HGIC and consider them to be appropriate. For the current AVR I have also checked the unearned premium calculation performed by HGIC for certain product types and the calculations appear to be reasonable.

In my opinion and from an actuarial perspective:

a. The actuarial information contained in the HGIC New Zealand Branch financial statements, submitted to the Board for approval on 25 February 2020, has been appropriately included in those statements; and

b. The actuarial information has been used appropriately in the preparation of the HGIC New Zealand Branch financial statements.

I have obtained all information and explanations that I have required. I am not aware of any other information that warrants actuarial review for the purpose of profit or solvency reporting.

Financial Condition Report

The Appointed Actuary must prepare a Financial Condition Report which must:

a. Identify and describe the material risks (of which it is reasonable to expect the Appointed Actuary to be aware) facing a licensed insurer that, in the Appointed Actuary's opinion, pose a threat to the licensed insurer's ability to meet its solvency requirements now and in the future, and where practicable quantify such risks

b. Comment on the steps taken or proposed by the licensed insurer to address the risks identified in (a)

c. Comment separately on the New Zealand business, these comments can be in line with Australian requirements for financial condition reports

d. Advise the licensed insurer on whether in the Appointed Actuary's opinion, the licensed insurer needs to consider reporting to the RBNZ under Section 24 of The Act, taking into account the licensed insurer's forward-looking assessment of the solvency standard and the Appointed Actuary's assessment of the licensed insurer's business plans, its enterprise risk management practices and the external environment.

The Appointed Actuary in the financial condition report must comment on:

a. The solvency position of the insurer if a catastrophe or extreme event, such as outlined in the Catastrophe Risk Capital Charge section of the Non-Life Standard, were to occur in New Zealand.

b. Any difference in the financial condition of the New Zealand Branch in comparison with the insurer as a whole, which might have implications if the two were separated as a result of regulatory action or litigation.

The FCR identifies and assesses the material risks facing HGIC and includes mitigating factors addressing those risks and therefore meets the requirements of Section 56(d) of the Act. The capital within HGIC is equally accessible by both the Australian and New Zealand operations.

HGIC is in a very strong financial position as at 31 December 2019, with available capital exceeding the target surplus. Capital requirements are expected to be met over the year and also in subsequent years, and hence no reporting under Section 24 of the Act is required. In my opinion HGIC is maintaining a solvency margin consistent with the requirements under section 21(2) (b) of the Act. HGIC does not underwrite any life insurance products. As such no opinion under Section 78(h) of the Act is required.

This strong position means that HGIC would be able to withstand a catastrophe or extreme event similar to the Catastrophe Risk Capital Charge.

The Australian and New Zealand operations of HGIC are managed in conjunction and I am not aware of any differences in the financial condition of the New Zealand Branch in comparison with the insurer as a whole which might have implications if the two were separated.

Yours sincerely,

Melissa Yan, FIAA, FNZSA
Appointed Actuary, Hallmark General Insurance Company Ltd