BUDDLE FINDLAY

29 March 2021

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

From
Stephen Behrmann
Benjamin Sutton

By Electronic Upload

Hallmark Life Insurance Company Limited - Financial Statements for the year ended 31 December 2020

1. We act for Hallmark Life Insurance Company Limited (company number 486643) (**"Hallmark Life"**)
2. In accordance with section 81 of the Insurance (Prudential Supervision) Act 2010, we **enclose** copies of the following documents in respect of Hallmark Life for the year ended 31 December 2020:
   (a) audited financial statements for Hallmark Life, 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 Life'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 2020.
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
Email: stephen.behrmann@buddlefindlay.com

Hallmark Life Insurance Company Ltd
ABN 87 008 446 884
FINANCIAL REPORT
For the Year Ended 31 December 2020

Hallmark Life Insurance Company Ltd

ABN 87 008 446 884

Financial report for the year ended 31 December 2020

Contents

Directors' report
For the year ended 31 December 2020

The directors present their report together with the financial statements of Hallmark Life Insurance Company Ltd (the Company) for the year ended 31 December 2020 and the auditor's report thereon.

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)
Shaun Patrick Feely
Christopher Paul Knoblanche
Paul Varro
Alison Ledger

Principal activities

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

Review of operations and the Covid-19 Pandemic

Total comprehensive income of the Company was $2,554,000 (2019: $4,844,000). Insurance premium revenue (excluding terminations) decreased by $5,069,000 (sales of loan protection insurance in New Zealand was ceased on 3 December 2020). Administration expenses decreased $1,016,000 and claims expenses have decreased by $587,000. There has also been a reduction in the movement of the Policy liabilities by $1,619,000.

The COVID-19 outbreak become a global pandemic during the first half of 2020 and the duration, scale and impact of the outbreak remains uncertain. In response to the rapidly changing situation, Hallmark Life Insurance Company Ltd's Management team and Board implemented an action plan in early March 2020 to manage the impact of COVID-19 on its operations including employees, partners and customers, in accordance with Australian and New Zealand Government guidelines;

Customers: A dedicated customer information hub was established to ensure that customers were aware of what help and solutions were available, including access to a Hardship program. The Hardship process was simplified making it easier for customers and enabling Hallmark Life Insurance Company Ltd to provide a solution to more customers faster. To find additional ways to support customers, during April 2020, Hallmark Life Insurance Company Ltd began e-mailing customers about Hallmark Life Insurance Company Ltd COVID-19 Assistance Programs available.

Employees: Hallmark Life Insurance Company Ltd ceased all international travel and halted domestic travel within Australia and New Zealand in mid-March 2020. A travel registry and self-isolation policy was also introduced to reduce risk, on return from International travel. To ensure the safety of employees and the workplace, a working from home strategy was put in place in late March 2020 that included technology for phone and videoconferencing. This enabled a large proportion of staff to carry out their roles and support customers and partners from home whilst some operational and other critical staff continued to support customers and partners from office locations. To ensure employee safety, additional cleaning precautions and workstation etiquette was implemented. Additionally, the management of staff well-being and communication on the pandemic was enhanced through the creation of a central employee information hub and additional People & Culture Team communication.

Directors' report
For the year ended 31 December 2020

Business: The Management team and Board continue to assess the potential financial and operational impacts on the Company, including the potential impact on expected claims. Proactive steps have been taken including robust financial forecasting scenarios, cashflow forecasting and the review of policy benefit strategies.

Given the continued uncertainties, any financial impact cannot be determined with certainty. However, given Hallmark Life Insurance Company Ltd's response to the pandemic, Management believes there is no material uncertainty of going concern and the annual financial report has been prepared on this basis.

Significant changes in the state of affairs

During the year, the Company discontinued selling loan protection insurance in New Zealand in December 2020.

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

Dividends

Dividends amounting to $250,000 were paid by the Company in respect of the financial year 31 December 2020 (2019: $5,800,000).

Matters subsequent to the end of the financial year

On 23 February 2021 the Board approved a dividend payment amounting to $2,600,000. This will not significantly impact the Company's results, operations or capital.

No matter or circumstance has arisen since 31 December 2020 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 2020

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

(a) Insurance of officers

During the financial year and subsequent to the period end, Latitude Financial Services Australia Holdings Pty Ltd, has paid Directors and Officers insurance and liability premiums on behalf of the Company's ultimate Parent, 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.

(b) Indemnity of auditors

The Company has not during or since the end of the financial year, paid or agreed to pay any premiums in respect of any person who has been an auditor of the Company for the purposes of indemnifying them against any claims by third parties arising from their audit report.

Directors' report
For the year ended 31 December 2020

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 2020 and is set out on page 9.

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
Sydney
23 February 2021

Shaun Patrick Feely (Chief Executive Officer)
Director
Sydney
23 February 2021

Directors' Declaration

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

(a) the financial statements and notes set out on pages 12 to 55 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 2020 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 1.1; 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
Sydney
23 February 2021

Shaun Patrick Feely (Chief Executive Officer)
Director
Sydney
23 February 2021

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

To the Directors of Hallmark Life Insurance Company Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit of Hallmark Life Insurance Company Ltd for the financial year ended 31 December 2020 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
Partner

Sydney

23 February 2021

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 2020 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 2020;
- 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. The Directors are responsible for the Other Information.

The Other Information we obtained prior to the date of this Auditor's Report was the Directors' 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.

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.

KPMG

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

KPMG

Rachel Milum

Partner

Sydney

23 February 2021

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2020

	Notes	2020 $'000	2019 $'000
Insurance premium revenue	2.1(a)	**6,190**	8,561
Outwards reinsurance premium expense		**(290)**	(277)
Net insurance premium revenue		**5,900**	8,284
Claims expenses	2.1(c)	**(1,733)**	(2,268)
Reinsurance and other recoveries		**156**	104
Net claims incurred		**(1,577)**	(2,164)
Net decrease in policy liabilities		**4,398**	6,019
Net decrease in reinsurers share of policy liabilities		**(1)**	(3)
Net decrease in policy liabilities	3.1(f)	**4,397**	6,016
Administration expenses	2.1(d)	**(5,327)**	(6,343)
Total claims and expenses		**(2,507)**	(2,491)
Total underwriting result		**3,393**	5,793
Investment income	2.1(b)	**424**	1,000
Profit for the year before income tax		**3,817**	6,793
Income tax expense	2.2(a)	**(1,123)**	(2,010)
Profit for the year		**2,694**	4,784
Item that may be reclassified to profit or loss			
Currency translation differences arising during the year		**(140)**	60
		(140)	60
Total comprehensive income for the year		**2,554**	4,844
Profit is attributable to:			
Owners of Hallmark Life Insurance Company Ltd		**2,694**	4,784
Profit for the year		**2,694**	4,784
Owners of Hallmark Life Insurance Company Ltd		**2,554**	4,844
Other comprehensive income for the year, net of tax		**2,554**	4,844

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

Balance Sheet
As at 31 December 2020

	Notes	2020 $'000	2019 $'000
Assets			
Cash and cash equivalents	3.1(a)	**28,807**	35,684
Investments	3.1(b)	**8,822**	4,089
Current tax assets		**-**	169
Trade and other receivables	3.1(c)	**510**	671
Reinsurance and other recoveries	3.1(d)	**95**	147
Gross policy liability ceded under reinsurance	3.1(f)	**28**	29
Total assets		**38,262**	40,789
Liabilities			
Trade and other payables	3.1(e)	**690**	1,063
Policy claims in the process of settlement	3.1(g)	**1,106**	1,542
Gross insurance policy liabilities	3.1(f)	**6,124**	10,635
Deferred tax liabilities	2.2(d)	**181**	292
Current tax liability		**10**	-
Total liabilities		**8,111**	13,532
Net assets		**30,151**	27,257
Equity			
Contributed equity	4.1(a)	**500**	500
Reserves	4.1(b)	**9,658**	9,209
Retained earnings		**19,993**	17,548
Capital and reserves attributable to owners of Hallmark Life Insurance Company Ltd		**30,151**	27,257
Total equity		**30,151**	27,257

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

Statement of changes in equity

For the year ended 31 December 2020

		Attributable to owners of Hallmark Life Insurance Company Ltd			
		Contributed equity	Reserves	Retained Earnings	Total Equity
	Notes	$'000	$'000	$'000	$'000
At 1 January 2019		500	8,175	18,565	27,240
Profit for the year		-	-	4,784	4,784
Other comprehensive income		-	60	-	60
Total comprehensive income for the year		**-**	**60**	**4,784**	**4,844**
Dividends paid or declared	2.3(a)	-	-	(5,800)	(5,800)
Tax consolidation reserve	4.1(b)	-	974	-	974
At 31 December 2019		**500**	**9,209**	**17,548**	**27,257**
At 1 January 2020		**500**	**9,209**	**17,548**	**27,257**
Profit for the year		-	-	2,694	2,694
Other comprehensive expense		-	(140)	-	(140)
Total comprehensive income for the year		**-**	**(140)**	**2,694**	**2,554**
Dividends paid or declared	2.3(a)	-	-	(250)	(250)
Tax consolidation reserve	4.1(b)	-	589	-	589
At 31 December 2020		**500**	**9,658**	**19,993**	**30,151**

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

Statement of cash flows

For the year ended 31 December 2020

	Notes	2020 $'000	2019 $'000
Cash flows from operating activities			
Premium received		**6,184**	13,833
Reinsurance and other recoveries		**156**	378
Outward reinsurance expense		**(244)**	(314)
Claims paid		**(2,160)**	(7,739)
Fees and commissions paid		**(973)**	(1,428)
Payments to suppliers and employees		**(4,779)**	(4,303)
Interest received		**567**	1,035
Income taxes paid		**(357)**	(1,716)
Net cash outflow from operating activities	**2.1(g)**	**(1,606)**	(254)
(Purchase)/maturity of investments		**(4,733)**	12,598
Net cash (outflow)/inflow from investing activities		**(4,733)**	**12,598**
Cash flows from financing activities			
Dividends paid to company's shareholders		**(250)**	(8,100)
Net cash outflow from financing activities		**(250)**	(8,100)
Net (decrease)/increase in cash and cash equivalents		**(6,589)**	4,244
Cash and cash equivalents at beginning of financial year		**35,683**	31,332
Effects of exchange rate changes on cash and cash equivalents		**(287)**	107
Cash and cash equivalents at end of financial year	**3.1(a)**	**28,807**	35,683

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

Notes to the financial statements

For the year ended 31 December 2020

Section 1 - Basis of preparation

1.1 Basis of preparation

(a) Reporting entity

Hallmark Life Insurance Company Ltd is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is 800 Collins Street, Docklands, Melbourne, Victoria, 3008.

These are the financial statements of Hallmark Life Insurance Company Ltd, as at and for the year ended 31 December 2020. Hallmark Life Insurance Company Ltd is a for-profit entity for the purpose of preparing the financial statements.

The financial statements were authorised for issue on 23 February 2021.

(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 consolidated 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 as described in Note 5.5.

(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) Covid-19 Pandemic

Given the continued uncertainties, the ongoing financial impact cannot be determined with certainty. However, given Hallmark Life Insurance Company Ltd's response to the pandemic as described in the Directors' Report, Management believes there is no material uncertainty of going concern and the financial report has been prepared on this basis.

(e) Functional and presentation currency

These financial statements are presented in Australian Dollars, which is Hallmark Life Insurance Company Ltd's functional and presentation currency.

Notes to the financial statements

For the year ended 31 December 2020

1.1 Basis of preparation (continued)

(f) 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.

(g) Principles for life insurance business

Activities of the life insurance operations

The life insurance operations of the Company are conducted within separate statutory funds as required by the Life Insurances Act 1995 (LIA) and are reported in aggregate with the shareholders' fund in the statement of profit or loss and other comprehensive income, statement of financial position and statement of cash flows of the Company. The life insurance operations of the Company comprise the selling and administration of life insurance contracts only.

Life insurance contracts involve the acceptance of significant insurance risk. Insurance risk is defined as significant if and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (i.e. have no discernible effect on the economics of the transaction). Insurance contracts include those where the insured benefit is payable on the occurrence of a specified event such as death, injury or disability caused by accident or illness. The insured benefit is either not linked or only partly linked to the market value of the investments held by the Company, and the financial risks are substantially borne by the Company.

Restrictions on assets

Monies held in the statutory funds are subject to the distribution and transfer restrictions and other requirements of the LIA.

As the Company does not have any participating business, all profits and losses are allocated to the shareholders.

(h) 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.

Notes to the financial statements

For the year ended 31 December 2020

1.1 Basis of preparation (continued)

Life insurance contract liabilities

The financial reporting methodology used to determine the fair value of life insurance contract liabilities is referred to as margin on services (MoS).

Under MoS the excess of premium received over claims and expenses (the margin) is recognised over the life of the contract in a manner that reflects the pattern of risk accepted from the policyholder (the service), hence the term margin on services. The movement in life insurance contract liabilities recognised in the profit or loss reflects the planned release of this margin.

The projection method is usually used to determine life insurance contract liabilities. The net present value of projected cashflows is calculated using best estimate assumptions about future events. When the benefits under the life insurance contract are linked to the assets backing it, the discount rate applied is based on the expected future earnings rate of those assets, otherwise, a risk-free discount rate is used.

Where the accumulation method has been used, the liability is based on an unearned premium reserve, less an explicit allowance for deferred acquisition costs and a reserve for IBNR's. Where used, the accumulation method is considered to be a reasonable approximation of liabilities had they been determined on a projection basis. A summary of the significant actuarial methods and assumptions used is contained in note 3.2.

Assets arising from reinsurance contracts

Assets arising from reinsurance contracts are also computed using the above methods. In addition, the recoverability of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as counterparty and credit risk. Impairment is recognised when there is objective evidence that the Company may not receive amounts due to it and these amounts can be reliably measured.

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

Notes to the financial statements

For the year ended 31 December 2020

1.2 Other significant accounting policies (continued)

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.

The results and financial position of the branches that have 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 accumulated in a separate component of equity.

1.3 New and amended standards

(a) New and amended standards adopted

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.

Other amended standards
Other amended Standards that became effective for the financial year ended 31 December 2020 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 2020 reporting periods and have not been early adopted by the Company. The Company expects to adopt these on their effective dates.

AASB 9 Financial instruments (2014) became effective to the Company at 1 January 2018. AASB 9 *Financial instruments,* which addresses recognition and measurement requirements for financial assets and financial liabilities, impairment requirements that introduce an expected credit loss impairment model and general hedge accounting requirements. The Company is predominantly connected with insurance and meets the requirements in AASB 2016-6 Amendments to Australian Accounting Standards - Applying AASB 9 Financial Instruments with AABS 4 Insurance Contracts. It is applying the temporary exemption to continue AASB 139 Financial Instruments: Recognition and Measurement (AASB 139) rather than AASB 9 until initial application of AASB 17 Insurance Contracts. The Company has yet to determine the extent of the impact.

Notes to the financial statements

For the year ended 31 December 2020

1.3 New and amended standards (continued)

AASB 17 Insurance Contracts - AASB 17 is effective for financial years commencing on or after 1 January 2023. 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 is currently assessing the impact of the new requirements.

Notes to the financial statements

For the year ended 31 December 2020

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.

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 revenue

All investment income is recognised as revenue on an accrual basis. Interest income from assets backing life-insurance liabilities, which are designated as fair value through profit or loss, is recognised on a time proportion basis using the simple interest method. 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 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 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

Notes to the financial statements
For the year ended 31 December 2020

2.1 Revenue and expenses (continued)

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 accrual basis.

Basis of apportionment
Apportionment of expenses has been made as follows:
- all expenses have been apportioned between policy acquisition, policy maintenance and investment management in line with the principles set out in the Prudential Standard LPS 340 Valuation of Policy Liabilities issued by APRA.
- expenses, which are directly attributable to an individual policy or product, are allocated directly to the statutory fund within which that class of business is conducted; and
- all indirect expenses charged to the profit or loss are equitably apportioned to each class of business.

The apportionment is in accordance with Division 2 Part 6 of the LIA.

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.

Policy acquisition costs
The actual acquisition costs incurred are recorded in the profit or loss. The value and future recovery of these costs is assessed in determining the policy liabilities. This has the effect that acquisition costs deferred are amortised over the period that they will be recovered from premiums or policy charges.

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 2020

2.1 Revenue and expenses (continued)

(a) Insurance premium revenue

	2020 $'000	2019 $'000
Direct life insurance premiums - singular	**4,853**	6,541
Direct life insurance premiums - regular	**2,618**	5,705
Non life insurance premiums	**1,144**	1,439
Termination of policies	**(2,425)**	(5,124)
Total insurance premium revenue	**6,190**	8,561

(b) Investment income

	2020 $'000	2019 $'000
Interest income	**424**	1,000
Total investment income	**424**	1,000

(c) Claims expenses

	2020 $'000	2019 $'000
Death and disability	**1,608**	2,246
Unemployment	**125**	22
Total claims expenses	**1,733**	2,268

Notes to the financial statements

For the year ended 31 December 2020

2.1 Revenue and expenses (continued)

(d) Administration expenses

	2020 $'000	2019 $'000
Policy maintenance - others	3,677	4,171
Foreign exchange (gains)/losses	4	(5)
Policy acquisition cost - others	670	757
Policy acquisition cost - commission	976	1,420
Total administration expenses	5,327	6,343

(e) Profit before income tax

	2020 $'000	2019 $'000
Profit before income tax includes the following specific expenses:		
Employee costs		
Personnel cost	75	181
Contribution to superannuation fund	3	3
Other administrative expenses		
Marketing fees	3	5
Management fees	4,156	4,580

(f) Statement of sources of operating profit

	2020 $'000	2019 $'000
The shareholder's operating profit after income tax of the statutory funds is represented by:		
Investment earnings on shareholders' retained earnings and capital	172	358
Emergence of shareholders' planned profits	2,337	4,220
Experience profit/(loss)	145	103
Operating profit after tax (statutory funds)*	2,654	4,681

* Refer to note 5.6

Notes to the financial statements

For the year ended 31 December 2020

2.1 Revenue and expenses (continued)

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

	2020 $'000	2019 $'000
Net profit after income tax	**2,694**	4,784
Adjustments		
Effect of foreign exchange on cash and cash equivalents	**287**	(107)
Change in operating assets and liabilities:		
Decrease/(increase) in current tax asset	**169**	(126)
Decrease in trade and other receivables	**161**	173
Decrease in reinsurance and other recoveries receivable	**52**	274
Decrease in gross policy liabilities ceded under reinsurance	**1**	3
(Decrease)/increase in trade and other payables	**(373)**	33
Decrease in policy claims in the process of settlement	**(437)**	(342)
Decrease in gross policy liabilities	**(4,511)**	(5,948)
decrease in deferred tax liability	**(111)**	(32)
Increase in current tax liability	**10**	-
Increase in tax consolidation reserve	**589**	974
(Decrease)/increase in foreign currency translation reserve	**(140)**	60
Net cash used in operating activities	**(1,606)**	(254)

Notes to the financial statements
For the year ended 31 December 2020

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 generate 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 the KVD Australia Holdco Pty Ltd income tax consolidated 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. 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 tax consolidated 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.

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

Notes to the financial statements
For the year ended 31 December 2020

2.2 Income tax expense and deferred tax (continued)

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.

Statutory funds

Taxation bases
The principal elements for the calculation of the taxable income for each class of business for the different bases for calculating tax are as follows:

Assessable income
Shareholder funds and ordinary life insurance business - Earned premiums and investment income.

Other business - Accident and disability premiums earned and investment income.

New Zealand business - The greater of the life insurer base (investment income less expenses plus underwriting profit), and the policyholder base (net value added to policies plus underwriting profit, grossed up for tax).

The gains and losses on sale of investments are taxed primarily under the ordinary income provisions, with the capital gains tax provisions potentially applying depending on the circumstance.

Allowable deductions
The allowable deductions for each taxable class of business in Australia include:

- Acquisition costs;
- Other expenses referable to the business; and
- An allocation of the general management expenses of the Company.

These deductions are then allocated to each class of business in accordance with the basis specified in the Australian Income Tax Assessment Act 1997.

Allowable deductions in respect of "other business" within the Australian Life Fund also include accident and disability claims and the movement during the period in the policy liability in respect of that business. Allowable deductions for all insurance products include claims and the movement during the period in the policy liability.

Notes to the financial statements
For the year ended 31 December 2020

2.2 Income tax expense and deferred tax (continued)

(a) Income tax expense

	2020 $'000	2019 $'000
Current tax on profits for the year	1,232	2,036
Deferred tax income	(111)	(32)
Under provision in prior year	2	6
Income tax expense	1,123	2,010

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

	2020 $'000	2019 $'000
Profit from continuing operations before income tax expense	3,817	6,793
Tax at the Australian tax rate of 30%	1,145	2,038
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Effect of differences in tax rates in foreign jurisdictions	(24)	(34)
Adjustments of prior periods	2	6
Income tax expense	1,123	2,010

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

	2020 $'000	2019 $'000
Deferred income	(111)	(32)
	(111)	(32)

Notes to the financial statements

For the year ended 31 December 2020

2.2 Income tax expense and deferred tax (continued)

(d) Deferred tax assets and liabilities

	2020 $'000	2019 $'000
Deferred tax liabilities		
Deferred expenses & prepayments	**181**	292
	181	292
Net deferred tax assets/ (liabilities)	**(181)**	(292)
Amounts expected to be settled within 12 months	**(105)**	(169)
Amounts expected to be settled after more than 12 months	**(76)**	(123)
	(181)	(292)

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

	2020 $'000	2019 $'000
Dividends paid during the financial period ended 31 December	**250**	5,800

Notes to the financial statements

For the year ended 31 December 2020

Section 3 - Life Insurance Assets & Liabilities and Risk Management

3.1 Assets and liabilities

Accounting Policy

Insurance assets and liabilities

Cash and cash equivalents
Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash. Cash and cash equivalents are held for the purpose of meeting short-term commitments rather than for investment or other purposes.

Investments
Investments include term deposits held at call with financial institutions and other highly liquid investments with original maturities of three months or more that are readily convertible to known amounts of cash. Investments are carried at the face value of the amounts deposited as their carrying amounts approximate to their fair value.

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. Investment income accrued is measured at the carrying amounts of the interest receivable measured using the effective interest rate method, net of any transaction costs.

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 policy 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

3.1 Assets and liabilities (continued)

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.

Impairment of assets

The carrying amount of the Company'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 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.

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.

Policy liabilities

Policy liabilities for life insurance contracts in the Statement of Financial Position and the increase/(decrease) in policy liabilities for life insurance contracts in the profit or loss have been calculated using the Margin on Services methodology outlined in note 1.1(h).

Notes to the financial statements

For the year ended 31 December 2020

3.1 Assets and liabilities (continued)

(a) Cash and cash equivalents

	2020 $'000	2019 $'000
Current assets		
Cash and cash equivalents	3,576	2,804
Short term deposits	25,231	32,879
Total cash and cash equivalents	28,807	35,684

(b) Investments

	2020 $'000	2019 $'000
Current assets		
Term desposits	8,822	4,089
Total Investments	8,822	4,089

(c) Trade and other receivables

	2020 $'000	2019 $'000
Current assets		
Trade receivables	448	464
Investment income accrued and other receivables	62	207
Total trade and other receivables	510	671

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

(d) Reinsurance and other recoveries receivable

	2020 $'000	2019 $'000
Expected future reinsurance recoveries undiscounted		
Outstanding claims	95	147
Reinsurance and other recoveries receivable - current	95	147

The carrying amount disclosed above reasonably approximates fair value at reporting date.

Notes to the financial statements
For the year ended 31 December 2020

3.1 Assets and liabilities (continued)

(e) Trade and other liabilities

	2020 $'000	2019 $'000
Current		
Trade and other payables	**160**	124
Accrued expenses	**121**	167
Payables to related parties	**409**	772
	690	1,063

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

These balances include amounts payable to related parties (note 5.3(c)).

(f) Policy liabilities

(i) Reconciliation of movements in life insurance contract policy liabilities

	2020 $'000	2019 $'000
Gross life insurance contract liabilities		
Balance at 1 January	**10,635**	16,583
Foreign exchange movement	**(113)**	71
Decrease in life insurance contract liabililities reflected in the profit or loss	**(4,398)**	(6,019)
Closing balance at 31 December	**6,124**	10,635
Reinsurers' share of life insurance contract liabilities		
Balance at 1 January	**29**	32
Decrease in reinsurance assets reflected in the profit or loss	**(1)**	(3)
Closing balance at 31 December	**28**	29
Net insurance contract liabilities	**6,096**	10,606
Current	**3,547**	6,144
Non-current	**2,549**	4,462
Total net insurance contract liabilities	**6,096**	10,606

Notes to the financial statements
For the year ended 31 December 2020

(ii) Components of net life insurance contract liabilities

	2020 $'000	2019 $'000
Best estimate liability:		
Value of future policy benefits (Note 1 below)	7,330	12,766
Unrecouped acquisition expenses	(1,234)	(2,160)
Total best estimate liability	6,096	10,606
Net policy liabilities	6,096	10,606

(1) This item includes the unearned premium component of the liability. The accumulation method has been used to calculate liabilities, and components relating to expenses and profits are not separately calculated.

(iii) Reconciliation to Life Insurance Act 1995 operating profit and retained earnings of statutory funds

Allocation of operating profit

There are no participating policy owners, therefore all emerging profits are allocated to shareholders.

Distribution of retained earnings

Profits available for distribution are determined by the directors each year and are in accordance with Division 6 of the Life Insurance Act 1995 and the constitution of the Company.

	Retained Profits		Profit after Tax	
	2020 $'000	2019 $'000	**2020 $'000**	2019 $'000
Shareholders interest (overseas and non-participating businesses) - Note 5.5	7,208	9,737	2,654	4,681

(g) Policy claims in the process of settlement

	2020 $'000	2019 $'000
Undiscounted expected future claims payment	1,106	1,542
Total policy claims in the process of settlement	1,106	1,542
Current	1,106	1,523
Non-current	-	19
Total policy claims in the process of settlement	1,106	1,542

Notes to the financial statements
For the year ended 31 December 2020

3.2 Actuarial assumptions and methods

The following section describes the process surrounding, and key factors used to estimate the policy liabilities in the actuarial report:

The effective date of the actuarial report on policy liabilities and capital requirements is 31 December 2020. The actuarial report was prepared by Mr. Thomas David Millar, FIAA, FNSZA. The actuarial report indicates that Mr. Millar is satisfied as to the accuracy of the data upon which policy liabilities have been determined.

The amount of policy liabilities has been determined in accordance with methods and assumptions disclosed in these financial statements and the requirements of the relevant accounting standards (which may differ from the requirements of the Life Insurance Act 1995).

Policy Liabilities for Insurance Contracts
Policy liabilities for insurance contracts have been calculated in accordance with Prudential Standard LPS 340 Valuation of Policy Liabilities issued by APRA under subsection 230A(1) of the Life Insurance Act 1995. The Prudential Standard requires the policy liabilities to be calculated in a way which allows for the systematic release of planned margins as services are provided to policy owners.

The profit carriers used for the major product groups in order to achieve the systematic release of planned margins are as follows:

Product group	Method (projection or other)	Profit carrier
Lump sum risk	Accumulation (2019: Accumulation)	Claims (implied)
Disability and involuntary unemployment income	Accumulation (2019: Accumulation)	Claims (implied)

Policy liabilities have been calculated as the provision for unearned premium, less a deferred acquisition cost item. The recognition rate of premium has been chosen to approximate the planned margin release that would be achieved through use of the projection method.

(a) Disclosure of assumptions

Assumptions are required to establish recoverability of acquisition costs. Key assumptions are listed below:

(i) Discount rates

The gross interest rates used are the gross yield to redemption of benchmark government securities. For the current valuation, these are:

	Assumption	Australia	New Zealand
2020	90 days	0.01%	0.27%
	5 years	0.34%	0.39%
2019	90 days	0.93%	1.29%
	5 years	1.04%	1.36%

Notes to the financial statements

For the year ended 31 December 2020

3.2 Actuarial assumptions and methods (continued)

(ii) Inflation rates

Allowance for future inflation:

Australia 2.5% (2019: 2.5% p.a.) where future inflation assumption is based on the long-term target range of the Reserve Bank of Australia of 2% - 3%.

New Zealand 2.0% (2019: 2.0% p.a.) where future inflation assumption is based on the medium-term target range of the Reserve Bank of New Zealand of 1% - 3%.

(iii) Future expenses and indexation

Maintenance expense assumptions have been based on the experience in the current year and budgeted expenses for the 2021 year. Inflation adjustments are consistent with the inflation assumption.

(iv) Mortality and morbidity

Mortality rates for risk products have been based on experience over recent years. A loss ratio approach (applied to earned premium) was adopted. The loss ratios used have not varied significantly from those used in 2019.

Currently claims experience in Australia and New Zealand is not being significantly impacted by the COVID-19 pandemic. There have been no specific adjustments to actuarial assumptions adopted for 31 December 2020 due to COVID-19. The long-term impact of the COVID-19 pandemic remains uncertain and actuarial assumptions will continue to be monitored closely against experience.

(v) Disability and involuntary unemployment

The general approach to actuarial estimation of disability and involuntary unemployment liabilities (in the New Zealand statutory fund) is to analyse all available past experience. This analysis allows patterns to be identified in the past experience. Based on this, development patterns associated with the run-off of Outstanding Claims at the balance date can be estimated. The estimate of the Outstanding Claims includes an allowance for claims Incurred but Not Reported ('IBNR') and the further development of reported claims, a risk margin and claims handling expense provision. Actuarial methods such as Payment Per Claim Incurred ("PPCI"), Payment Chain Ladder ("PCL") and Bornheutter Ferguson ("BF") are adopted to estimate the outstanding claims.

The key actuarial assumptions for the determination of the outstanding claims liabilities are claim termination rate, average claim size (Disability = NZ$3,023, Unemployment = NZ$991), a claims handling expense rate of 12.0% of the projected gross claim payments (based on expense investigation) and a discount rate of 0.26% (based on the yields of 1 year and 2 year New Zealand Government bonds as at 31 December 2020). Across all classes, changes to the claim termination and average claim size assumptions would cause the most significant change to the liability estimate.

The actuarial estimation of disability and involuntary unemployment liabilities (in the New Zealand statutory fund) allowed for the emergence of experience due to the COVID-19 pandemic. No specific adjustments were implemented to actuarial assumptions for COVID-19 and experience continues to be monitored closely.

3.2 Actuarial assumptions and methods (continued)

(vi) Voluntary discontinuance

Voluntary discontinuance rates vary by product and have been based on the Group's recent discontinuance experience. For the major classes of business, the assumed aggregate rates of discontinuance are:

	Assumption	Australia	New Zealand
2020	Consumer credit insurances	26.0%	30.0%
	Regular premium Term Life	17.0%	n/a
2019	Consumer credit insurances	31.0%	39.0%
	Regular premium Term Life	17.0%	n/a

(vii) Capital requirements

The Company is required to hold prudential reserves, over and above the policy liabilities, as a buffer against adverse future experience and poor investment returns. The methods and bases used for determining the capital requirements were in accordance with the requirements of Prudential Standard *LPS 110: Capital Adequacy* as issued by APRA.

(b) Impact of changes in assumptions

The policy liabilities for insurance contracts have been calculated using the accumulation method. Under this method, changes in assumptions do not have any impact on policy liabilities in the current period, unless a product enters loss recognition. As at 31 December 2020, the assumption changes have resulted in the Consumer Credit Insurance related product group for Statutory Fund 2 entering loss recognition, and hence the policy liability has increased in this related product group. The other related product groups have not been impacted by changes in assumptions as they have not entered loss recognition.

The value of future profit margins is not explicitly calculated under the accumulation method and hence the impact of any change in assumptions on the value of future profit margins is not determined.

(c) Sensitivity analysis

Movements in key variables such as mortality experience, lapse rates and expenses will have an impact on the future cash flows, performance and net assets of the business.

As the accumulation method is used to determine policy liabilities for insurance contracts, changes in the assumptions around these key variables do not have any impact on the policy liability or retained profits at the current balance date, unless a product group enters loss recognition. An alternate approach to demonstrating the sensitivity to changes in variables is to consider the impact on profit and equity at the current balance date if the experience over the current financial period varied under certain scenarios. The table below considers a number of changes in variables, and shows the impact on the profit and equity if that change had been experienced during the financial reporting period.

Notes to the financial statements

For the year ended 31 December 2020

3.2 Actuarial assumptions and methods (continued)

2020 ($'000)	Change in variables	Impact on profit or loss		Impact on equity	
		Gross of Reinsurance	Net of Reinsurance	Gross of Reinsurance	Net of Reinsurance
Mortality/morbidity	Worsening by 5%	(73)	(68)	(73)	(68)
	Improving by 5%	73	68	73	68
Lapse rates	Worsening by 5%	10	10	10	10
	Improving by 5%	(10)	(10)	(10)	(10)
Expenses	Worsening by 5%	(150)	(150)	(150)	(150)
	Improving by 5%	150	150	150	150

2019 ($'000)	Change in variables	Impact on profit or loss		Impact on equity	
		Gross of Reinsurance	Net of Reinsurance	Gross of Reinsurance	Net of Reinsurance
Mortality/morbidity	Worsening by 5%	(90)	(85)	(90)	(85)
	Improving by 5%	90	85	90	85
Lapse rates	Worsening by 5%	20	20	20	20
	Improving by 5%	(20)	(20)	(20)	(20)
Expenses	Worsening by 5%	(158)	(158)	(158)	(158)
	Improving by 5%	158	158	158	158

Notes to the financial statements

For the year ended 31 December 2020

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 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 5.3(b)).

Notes to the financial statements

For the year ended 31 December 2020

3.3 Financial risk management (continued)

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

2020	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	28,807	-	-	28,807	-	**28,807**
Investments	8,822	-	-	8,822	-	**8,822**
Trade and other receivables	-	510	-	510	-	**510**
Reinsurance and other recoveries receivable	95	-	-	95	-	**95**
Gross policy liability ceded under reinsurance	28	-	-	28	-	**28**
Total credit risk exposure	**37,752**	**510**	-	**38,262**	-	**38,262**

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	35,683	-	-	35,683	-	**35,684**
Investments	4,089	-	-	-	-	**4,089**
Trade and other receivables	-	671	-	671	-	**671**
Reinsurance and other recoveries receivable	147	-	-	147	-	**147**
Gross policy liability ceded under reinsurance	29	-	-	29	-	**29**
Total credit risk exposure	**39,948**	**671**	-	**36,530**	-	**40,620**

*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 2020

3.3 Financial risk management (continued)

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

2020	AAA $'000	AA $'000	A $'000	BBB $'000	Not rated $'000	Total $'000
Financial assets						
Cash and cash equivalents	12,860	7,547	8,400	-	-	**28,807**
Investments	2,346	3,476	3,000			**8,822**
Trade and other receivables	-	-	-	-	510	**510**
Reinsurance and other recoveries receivable	-	95	-	-	-	**95**
Gross policy liability ceded under reinsurance	-	28	-	-	-	**28**
Total credit risk exposure	**15,206**	**11,146**	**11,400**	**-**	**510**	**38,262**

2019	AAA $'000	AA $'000	A $'000	BBB $'000	Not rated $'000	Total $'000
Financial assets						
Cash and cash equivalents	-	-	35,684	-	-	**35,684**
Investments	2,305	1,784	-	-	-	**4,089**
Trade and other receivables	-	-	-	-	671	**671**
Reinsurance and other recoveries receivable	-	147	-	-	-	**147**
Gross policy liability ceded under reinsurance	-	29	-	-	-	**29**
Total credit risk exposure	**2,305**	**1,960**	**35,684**	**-**	**671**	**40,620**

The receivables are largely with related parties, refer to note 5.3(b). No receivables are past due or impaired at balance date (2019: nil).

Notes to the financial statements

For the year ended 31 December 2020

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; investments and of undiscounted contractual cash flows associated with the Company's financial liabilities at balance date:

2020	Up to a year $'000	1-2 years $'000	2-5 years $'000	Over 5 years $'000	Total $'000
Cash and cash equivalents	28,807	-	-	-	**28,807**
Investments	8,822	-	-	-	**8,822**
Trade and other payables	(690)	-	-	-	**(690)**
Policy claims in the process of settlement	(1,106)	-	-	-	**(1,106)**
Gross policy liabilities	(3,575)	(1,313)	(1,068)	(168)	**(6,124)**
Net liquid assets	**32,258**	**(1,313)**	**(1,068)**	**(168)**	**29,709**

2019	Up to a year $'000	1-2 years $'000	2-5 years $'000	Over 5 years $'000	Total $'000
Cash and cash equivalents	35,683	-	-	-	**35,684**
Investments	4,089	-	-	-	**4,089**
Trade and other payables	(1,063)	-	-	-	**(1,063)**
Policy claims in the process of settlement	(1,523)	(19)	-	-	**(1,542)**
Gross policy liabilities	(6,173)	(2,394)	(1,749)	(319)	**(10,635)**
Net liquid assets	**31,013**	**(2,413)**	**(1,749)**	**(319)**	**26,533**

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 2020

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.

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 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 Statement of Financial Position 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:

	2020 $'000 NZD	**2019 $'000 NZD**
Total assets denominated in New Zealand dollars:	**11,069**	11,919
Total liabilities denominated in New Zealand dollars:	**4,318**	6,100

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:

	2020 $'000 AUD	**2019 $'000 AUD**
Strengthening of the AUD against the NZD will (decrease) equity by:	**(632)**	(552)
Strengthening of the AUD against the NZD will (decrease) profit by:	**(86)**	(122)

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 rate applied during the year:

	Average rate		**Reporting date rate**	
	2020	**2019**	**2020**	**2019**
NZD1 = AUD	**0.936**	0.960	**0.936**	0.948

Notes to the financial statements

For the year ended 31 December 2020

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	
2020	**$'000**	**%**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Financial assets								
Short term deposits	25,231	-0.1%	(25)	(20)	-	-	-	(20)
Investments	8,822	-0.1%	(9)	(7)	-	-	-	(7)
Total	**34,053**		**(34)**	**(27)**	-	-	-	**(27)**

	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	32,880	-1%	(329)	(261)	-	-	-	(261)
Investments	4,089	-1%	(41)	(261)	-	-	-	(261)
Total	**36,969**		**(370)**	**(522)**	-	-	-	**(522)**

The analysis is performed on the same basis for 2020 with the variable interest rate being reduced to a minimum of 0.0% if applicable.

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 2020.

Notes to the financial statements
For the year ended 31 December 2020

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 life insurances and term life insurances. The term insurance policies cover mainly death, but in some cases terminal illness. Guaranteed benefits are paid on death or terminal illness.

(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 LPS 230 Reinsurance Management for Life Companies 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 a rising 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 2020

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.

For the Company's main term life product lines in Australia the level of reinsurance cover is regularly reviewed. The Company considers this to be a relatively conservative retention level considering the level of sums insured written and the capital position 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.

Notes to the financial statements

For the year ended 31 December 2020

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 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 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 4.1(c).

Notes to the financial statements
For the year ended 31 December 2020

4.1 Capital management (continued)

(a) Contributed equity

(i) Share capital

	2020 Shares	2019 Shares	2020 $'000	2019 $'000
Ordinary shares - fully paid	**251**	251	**500**	500
	251	251	**500**	500

(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.

(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

	2020 $'000	2019 $'000
Tax consolidation reserve		
At 1 January	**8,040**	7,066
Tax consolidation reserve movement	**589**	974
At 31 December	**8,629**	8,040
Foreign currency translation reserve		
At 1 January	**1,169**	1,109
Currency translation differences arising during the year	**(140)**	60
At 31 December	**1,029**	1,169
Total reserves	**9,658**	9,209

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.

Notes to the financial statements
For the year ended 31 December 2020

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.

(c) Capital requirements of the life funds

The Company is required to hold prudential reserves, over and above the policy liabilities, as a buffer against adverse future experience and poor investment returns. Life and General Insurers are required to follow the Australian Prudential Regulation Authority's (APRA) Life and General Insurance Capital Standards (LAGIC).

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 life insurer is exposed and a life company must ensure that the life company and each of its statutory funds has, at all times, a capital base in excess of its PCA (plus any additional amount as required by the APRA).

The excess of the Company's capital base over the PCA as at 31 December 2020 was $20.7 million (2019: $17.8 million).

The available assets of each statutory fund have also exceeded the Prudential Capital Requirement at all times during the year ending 31 December 2020.

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

2020	Statutory Fund 1 $'000	Statutory Fund 2 $'000	Shareholder Fund $'000	Total $'000
(a) Capital base	10,838	6,434	13,380	**30,652**
(b) Prescribed capital amount	257	213	122	**10,000**
Capital in excess of prescribed capital amount = (a) - (b)	**10,581**	**6,221**	**13,258**	**20,652**
Capital adequacy multiple = (a)/(b)	**42.18**	**30.19**	**109.66**	**3.07**
Capital Base:				
Net assets	10,452	6,318	13,380	**30,150**
Less: Difference between adjusted policy liabilities and policy liabilities	386	116	-	**502**
Equals: Capital base	**10,838**	**6,434**	**13,380**	**30,652**
Prescribed capital amount:				
Asset risk charge	84	49	85	**218**
Operational risk charge	173	165	-	**338**
Combined stress scenario adjustment	-	-	36	**36**
Adjustment to meet $10 million PCA minimum		-	-	**9,408**
Prescribed capital amount	**257**	**214**	**121**	**10,000**

Notes to the financial statements
For the year ended 31 December 2020

2019	Statutory Fund 1 $'000	Statutory Fund 2 $'000	Shareholder Fund $'000	Total $'000
(a) Capital base	14,979	5,464	7,378	**27,821**
(b) Prescribed capital amount	354	239	55	**10,000**
Capital in excess of prescribed capital amount = (a) - (b)	**14,625**	**5,225**	**7,323**	**17,821**
Capital adequacy multiple = (a)/(b)	**42.32**	**22.84**	**134.14**	**2.78**
Capital Base:				
Net assets	14,292	5,587	7,378	**27,257**
Less: Difference between adjusted policy liabilities and policy liabilities	687	(123)	-	**564**
Equals: Capital base	**14,979**	**5,464**	**7,378**	**27,821**
Prescribed capital amount:				
Asset risk charge	89	40	39	**168**
Operational risk charge	265	200	-	**465**
Combined stress scenario adjustment	-	-	16	**16**
Adjustment to meet $10 million PCA minimum		-	-	**9,351**
Prescribed capital amount	**354**	**240**	**55**	**10,000**

Notes to the financial statements
For the year ended 31 December 2020

Section 5 - Other Disclosures

5.1 Commitments and contingencies

Hallmark Life Insurance Company Ltd is subject to a number of obligations which, if not discharged, may give rise to potential claims. Where some loss from non-performance of an obligation is more likely than not and can be reliably estimated, provisions have been made. The Company considers that the outcome of any specific enquiry which is underway as at 31 December 2020, and has not been provided for, is not expected to affect its financial position in any material way, either individually or in aggregate.

Regulatory and customer exposures

In recent years there has been an increase in the number of matters on which the Company engages with its regulators. There have also been significant increases in the nature and scale of regulatory investigations, surveillance and reviews, civil and criminal enforcement actions (whether by court action or otherwise), formal and informal inquiries, regulatory supervisory activities and the quantum of fines issued by regulators, particularly against financial institutions both in Australia and globally. The Company has received various requests for information from its regulators as part of both industry-wide and Company-specific reviews and has also made disclosures to its regulators at its own instigation. The nature of these interactions can be wide ranging and, for example, currently include a range of matters including product suitability and distribution, customer remediation and insurance distribution. There may be exposures to customers which are additional to any regulatory exposures. These could include individual claims or customer remediation or compensation activities. The outcomes and total costs associated with such reviews and possible exposures remain uncertain.

There is a risk that any contingent liability may be larger than anticipated. There is also a risk that additional litigation or contingent liabilities may arise, all of which could adversely affect our business, prospects, reputation, financial performance or financial condition.

No commitments, contingent assets or contingent liabilities existed as at 31 December 2020 (2019: nil).

5.2 Events occurring after the reporting date

No matter or circumstance has arisen since 31 December 2020 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.

Notes to the financial statements
For the year ended 31 December 2020

5.3 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)
Shaun Patrick Feely
Christopher Paul Knoblanche
Paul Varro
Alison Ledger

(ii) Other executives

Anna Chung
Cath Mortlock
James Murphy
Nick Lethbridge
Rebecca Blair

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:

	2020 $	2019 $
Short-term employee benefits*	**2,773,148**	3,221,470
Long-term benefits	**28,016**	52,469
Post-employment benefits	**172,630**	183,830
Share based payments	**1,391,283**	666,826
	4,365,077	4,124,595

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

	2020 $	2019 $
At 1 January	**887,896**	-
Granted	**719,068**	618,750
Plan modification	**603,551**	-
Equity adjustments	**763,003**	269,146
at 31 December	**2,973,518**	887,896

Notes to the financial statements

For the year ended 31 December 2020

At 31 December 2020 KMP had outstanding balances payable totalling $13,015 (2019: $8,505) in respect of lending products with related parties. The total available credit facility during the period was $31,500 (2019: $23,000) and the maximum drawn amount during the period was $25,611 (2019: $13,981). Interest charged on these products issued to KMP was at normal consumer rates and under normal terms and conditions.

* There were no termination benefits paid in 2020 (2019: $nil)

(b) Transactions with related parties

The following transactions occurred with related parties:

	2020 $	2019 $
Management fees paid to/(received from):		
Latitude Financial Services Australia Holdings Pty Ltd	**2,649,012**	2,857,064
Hallmark Life Insurance Company Ltd	**1,506,939**	1,723,235
Cross charges paid to:		
Latitude Financial Services Australia Holdings Pty Ltd	**(29,746)**	1,452,947
Latitude Financial Services Ltd - NZ	**133,503**	217,795
Commission paid to/(received from):		
Latitude Personal Finance Pty Ltd	**(147,355)**	(457,899)
Latitude Finance Australia	**704,986**	985,929
Latitude Financial Services Ltd - NZ	**317,246**	768,979
Dividend paid:		
Latitude Insurance Holdings Pty Ltd	**250,000**	5,800,000

(c) Outstanding balances with related parties

	2020 $	2019 $
Receivables/(payables) outstanding at the end of the period:		
Latitude Financial Services Australia Holdings Pty Ltd	**(198,420)**	(587,275)
Latitude Finance Australia	**212,089**	280,905
Hallmark General Insurance Company Ltd	**(441,968)**	(432,332)
Latitude Personal Finance Pty Ltd	**(55,271)**	(124,433)
KVD New Zealand Ltd	**49,063**	91,284

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 2020

5.4 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

	2020 $	2019 $
Audit services		
Auditors of Hallmark Life Insurance Company Ltd are KPMG		
Audit of financial statements	**80,000**	80,000
Assurance services		
Auditors of Hallmark Life Insurance Company Ltd are KPMG		
APRA Return Audit	**20,000**	20,000
AFSL Audit	**5,000**	5,000
Total remuneration for Audit and Regulatory assurance services	**105,000**	**105,000**

Audit fees in 2020 and in 2019 were paid by Latitude Financial Services Australia Holdings Pty Ltd.

5.5 Reclassification

Certain cash equivalents have been reclassified to investments to conform to the current year's presentation. The reclassification does not have any effect on total assets, total equity and profit or loss as at and for the year ended 31 December 2020. Below is summary of the reclassification.

	As previously reported 2019 $'000	Reclassification $'000	As reclassified 2020 $'000
Balance sheet			
Cash and cash equivalents	39,773	(4,089)	35,684
Investments	-	4,089	4,089

Notes to the financial statements
For the year ended 31 December 2020

5.6 Disaggregated information on life insurance business by fund

	Non-investment linked Statutory Fund 1 $'000	Non-investment linked Statutory Fund 2 $'000	Non-investment linked Total $'000	Shareholder Fund $'000	Total $'000
2020					
Financial assets	14,520	10,358	**24,878**	13,384	**38,262**
Life insurance contract liabilities	(2,850)	(3,274)	**(6,124)**	-	**(6,124)**
Other liabilities	(1,218)	(766)	**(1,984)**	(4)	**(1,988)**
Retained earnings	(1,920)	(5,288)	**(7,208)**	(12,784)	**(19,992)**
Premium revenue	(4,314)	(1,586)	**(5,900)**		**(5,900)**
Investment revenue	(156)	(211)	**(367)**	(57)	**(424)**
Claims expense	805	772	**1,577**		**1,577**
Movement in policy liabilities	(2,787)	(1,610)	**(4,397)**		**(4,397)**
Other operating expenses	3,900	1,427	**5,327**		**5,327**
Operating profit before tax	(2,552)	(1,208)	**(3,760)**	(57)	**(3,817)**
Operating profit after tax	(1,785)	(869)	**(2,654)**	(40)	**(2,694)**
2019					
Financial assets	20,910	12,485	**33,395**	7,394	**40,789**
Life insurance contract liabilities	(4,599)	(6,036)	**(10,635)**	-	**(10,635)**
Other liabilities	(2,379)	(502)	**(2,881)**	(16)	**(2,897)**
Retained earnings	(5,320)	(4,417)	**(9,737)**	(7,810)	**(17,547)**
Premium revenue	(7,200)	(6,485)	**(13,685)**	-	**(13,685)**
Investment revenue	(555)	(298)	**(853)**	(147)	**(1,000)**
Claims expense	1,208	956	**2,164**	-	**2,164**
Movement in policy liabilities	(5,403)	(613)	**(6,016)**	-	**(6,016)**
Other operating expenses	3,661	1,250	**4,911**	-	**4,911**
Operating profit before tax	(4,975)	(1,672)	**(6,647)**	(146)	**(6,793)**
Operating profit after tax	(3,477)	(1,204)	**(4,681)**	(103)	**(4,784)**

Hallmark Life Insurance Company Ltd
New Zealand Branch

FINANCIAL REPORT
For the Year Ended 31 December 2020

Hallmark Life Insurance Company Ltd New Zealand Branch

Financial report for the year ended 31 December 2020

Contents

Directors' report
For the year ended 31 December 2020

The directors present their report together with the financial statements of Hallmark Life Insurance Company Ltd (the Branch) for the year ended 31 December 2020 and the auditor's report thereon.

Signed in accordance with a resolution of directors.

Jennifer Anne Boddington (Chairperson)
Director
Sydney
23 February 2021

Shaun Patrick Feely (Chief Executive Officer)
Director
Sydney
23 February 2021

Directors' Declaration

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

(a) the financial statements and notes set out on pages 9 to 43 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 2020 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
Sydney
23 February 2021

Shaun Patrick Feely (Chief Executive Officer)
Director
Sydney
23 February 2021

Independent Auditor's Report

To the shareholders of Hallmark Life Insurance Company Limited New Zealand Branch

Report on the audit of the financial statements

Opinion

In our opinion, the accompanying financial statements of Hallmark Life Insurance Company Limited New Zealand Branch (the 'Branch') on pages 9 to 43:

i. present fairly in all material respects the Branch's financial position as at 31 December 2020 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 2020;

— the Statements of profit or loss and other comprehensive income, Statements 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 International Code of Ethics for Assurance Practitioners (Including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) ('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 \$110,000 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.

KPMG

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 Gross Insurance Policy Liabilities ($3,498,000)	
Refer to Note 3.1(e) to the Financial Report. The valuation of the life insurance contract 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 discount rates; inflation rates; future expenses and indexation; mortality and morbidity rates; disability and involuntary unemployment rates; and voluntary discontinuance rates.	Our audit procedures included the following: - Evaluating the key controls in the life 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 historical accuracy of the estimate by testing the "analysis of profit", which compares the Branch's expected profit to actual profit. This included challenging the consistency of the analysis compared with our understanding of the business and emerging claims and lapse experience. - 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.

KPMG

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.

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-2/

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

KPMG

KPMG

Rachel Milum

Rachel Milum
Partner

Sydney

23 February 2021

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2020

	Notes	2020 $'000	2019 $'000
Insurance premium revenue	2.1(a)	1,698	4,056
Outwards reinsurance premium expense		-	-
Net insurance premium revenue		1,698	4,056
Claims expenses	2.1(c)	(814)	(1,010)
Net decrease in policy liabilities	3.1(e)	1,701	524
Net decrease in policy liabilities		1,701	524
Administration expenses	2.1(d)	(1,512)	(2,122)
Total claims and expenses		(625)	(2,608)
Total underwriting result		1,073	1,448
Investment income	2.1(b)	224	315
Profit for the year before income tax		1,297	1,763
Income tax expense	2.2(a)	(363)	(493)
Profit for the year		934	1,270
		-	-
Total comprehensive income for the year		934	1,270
Owners of Hallmark Life Insurance Company Ltd		934	1,270
Profit for the year		934	1,270
Owners of Hallmark Life Insurance Company Ltd		934	1,270
Other comprehensive income for the year, net of tax		934	1,270

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

Balance Sheet
As at 31 December 2020

	Notes	2020 $'000	2019 $'000
Assets			
Cash and cash equivalents	3.1(a)	**6,512**	8,881
Investments	3.1(b)	**4,500**	2,800
Current tax assets		**-**	170
Trade and other receivables	3.1(c)	**57**	68
Total assets		**11,069**	11,919
Liabilities			
Trade and other payables	3.1(d)	**171**	15
Policy claims in the process of settlement		**443**	582
Gross insurance policy liabilities	3.1(e)	**3,498**	5,199
Deferred tax liabilities	2.2(d)	**193**	304
Current tax liabilities		**11**	-
Total liabilities		**4,316**	6,100
Net assets		**6,753**	5,819
Equity			
Retained earnings		**6,753**	5,819
Capital and reserves attributable to owners of Hallmark Life Insurance Company Ltd		**6,753**	5,819
Total equity		**6,753**	5,819

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

Statement of changes in equity
For the year ended 31 December 2020

		Attributable to owners of Hallmark Life Insurance Company Ltd	
		Retained Earnings	Total Equity
	Notes	$'000	$'000
At 1 January 2019		4,549	4,549
Profit for the year		1,270	1,270
At 31 December 2019		**5,819**	**5,819**
At 1 January 2020		**5,819**	**5,819**
Profit for the year		934	934
Total comprehensive income for the year		**934**	**934**
At 31 December 2020		**6,753**	**6,753**

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

Statement of cash flows

For the year ended 31 December 2020

	Notes	2020 $'000	2019 $'000
Cash flows from operating activities			
Premium received		**1,701**	4,198
Claims paid		**(954)**	(936)
Payments to suppliers and employees		**(1,117)**	(1,385)
Interest received		**227**	323
Income taxes paid		**(183)**	(672)
Fees and commissions paid		**(343)**	(810)
Net cash (outflow)/ inflow from operating activities	**2.1(f)**	**(669)**	718
(Purchase)/maturity of investments		**(1,700)**	4,182
Net cash (outflow)/inflow from investing activities		**(1,700)**	**4,182**
Net (decrease)/increase in cash and cash equivalents		**(2,369)**	**4,900**
Cash and cash equivalents at beginning of financial year		**8,881**	3,981
Cash and cash equivalents at end of financial year	**3.1(a)**	**6,512**	8,881

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

Notes to the financial statements

For the year ended 31 December 2020

Section 1 - Basis of preparation

1.1 Basis of preparation

(a) Reporting entity

Hallmark Life Insurance Company Ltd is a company limited by shares, incorporated and domiciled in New Zealand. Its registered office and principal place of business is 800 Collins Street, Docklands, Melbourne, Victoria, 3008.

These are the financial statements of the Branch consisting of Hallmark Life Insurance Company Ltd as at and for the year ended 31 December 2020. Hallmark Life Insurance Company Ltd is a for-profit entity for the purpose of preparing the financial statements.

The financial statements were authorised for issue on 23 February 2021.

(b) Statement of compliance

Hallmark Life 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 Conduct Act 2013 and its financial statements comply with the Act.

Where necessary, comparatives figures have been re-classified for consistency with current period disclosures as described in Note 5.5.

(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, and/or equity investments designated at fair value through other comprehensive income.

(d) Covid-19 Pandemic

The COVID-19 outbreak become a global pandemic during the first half of 2020 and the duration, scale and impact of the outbreak remains uncertain. In response to the rapidly changing situation, Hallmark Life Insurance Company Ltd's Management team and Board implemented an action plan in early March 2020 to manage the impact of COVID-19 on its operations including employees, partners and customers, in accordance with Australian and New Zealand Government guidelines;

Notes to the financial statements

For the year ended 31 December 2020

1.1 Basis of preparation (continued)

Customers: A dedicated customer information hub was established to ensure that customers were aware of what help and solutions were available, including access to a Hardship program. The Hardship process was simplified making it easier for customers and enabling Hallmark Life Insurance Company Ltd to provide a solution to more customers faster. To find additional ways to support customers, during April 2020, Hallmark Life Insurance Company Ltd began e mailing customers about Hallmark Life Insurance Company Ltd COVID-19 Assistance Programs available.

Employees Hallmark Life Insurance Company Ltd ceased all international travel and halted domestic travel within Australia and New Zealand in mid-March 2020. A travel registry and self-isolation policy was also introduced to reduce risk, on return from International travel. To ensure the safety of employees and the workplace, a working from home strategy was put in place in late March 2020 that included technology for phone and videoconferencing. This enabled a large proportion of staff to carry out their roles and support customers and partners from home whilst some operational and other critical staff continued to support customers and partners from office locations. To ensure employee safety, additional cleaning precautions and workstation etiquette was implemented. Additionally, the management of staff well-being and communication on the pandemic was enhanced through the creation of a central employee information hub and additional People & Culture Team communication.

Business: The Management team and Board continue to assess the potential financial and operational impacts on the Branch, including the potential impact on expected claims. Proactive steps have been taken including robust financial forecasting scenarios, cashflow forecasting and the review of policy benefit strategies.

Given the continued uncertainties, any financial impact cannot be determined with certainty. However, given Hallmark Life Insurance Company Ltd's response to the pandemic, Management believes there is no material uncertainty of going concern and the annual financial report has been prepared on this basis.

(e) Functional and presentation currency

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

(f) 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 2020

1.1 Basis of preparation (continued)

(g) Principles for life insurance business

Activities of the life insurance operations

The life insurance operations of the Branch are conducted within a separate statutory fund as required by the Australian Life Insurance Act 1995 (LIA). The life insurance operations of the Branch comprise the selling and administration of life insurance contracts only. In addition, the business has consumer and credit disability and unemployment insurance contracts, for which APRA has granted an exemption to treat as life insurance for the purpose of the LIA.

Life insurance contracts involve the acceptance of significant insurance risk. Insurance risk is defined as significant if and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (i.e. have no discernible effect on the economics of the transaction). Insurance contracts include those where the insured benefit is payable on the occurrence of a specified event such as death, injury or disability caused by accident or illness. The insured benefit is either not linked or only partly linked to the market value of the investments held by the Branch, and the financial risks are substantially borne by the Branch.

Restrictions on assets

Monies held in the statutory funds are subject to the distribution and transfer restrictions and other requirements of the LIA.

As the Branch does not have any participating business, all profits and losses are allocated to the shareholders.

(h) Significant estimates and judgements

The preparation of financial statements that conform to accounting standards requires Management to exercise judgement in applying the Branch 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.

Life insurance contract liabilities

The financial reporting methodology used to determine the fair value of life insurance contract liabilities is referred to as margin on services (MoS).

Under MoS the excess of premium received over claims and expenses (the margin) is recognised over the life of the contract in a manner that reflects the pattern of risk accepted from the policyholder (the service), hence the term margin on services. The movement in life insurance contract liabilities recognised in the profit or loss reflects the planned release of this margin.

The projection method is usually used to determine life insurance contract liabilities. The net present value of projected cashflows is calculated using best estimate assumptions about future events. When the benefits under the life insurance contract are linked to the assets backing it, the discount rate applied is based on the expected future earnings rate of those assets, otherwise, a risk-free discount rate is used.

Notes to the financial statements
For the year ended 31 December 2020

1.1 Basis of preparation (continued)

Where the accumulation method has been used, the liability is based on an unearned premium reserve, less an explicit allowance for deferred acquisition costs and a reserve for IBNR's. Where used, the accumulation method is considered to be a reasonable approximation of liabilities had they been determined on a projection basis. A summary of the significant actuarial methods and assumptions used is contained in note 3.2.

Assets arising from reinsurance contracts

Assets arising from reinsurance contracts are also computed using the above methods. In addition, the recoverability of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as counterparty and credit risk. Impairment is recognised when there is objective evidence that the Branch may not receive amounts due to it and these amounts can be reliably measured.

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.

Notes to the financial statements
For the year ended 31 December 2020

1.3 New and amended standards

(a) New and amended standards adopted

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.

Other amended standards
Other amended Standards that became effective for the financial year ended 31 December 2020 did not have a material impact on the Branch.

(b) New standards and interpretations not yet adopted

The following standards have been published that are not mandatory for 31 December 2020 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 2023. 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.

Notes to the financial statements

For the year ended 31 December 2020

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 Branch recognises revenue from non-insurance activities when it is probable that the economic benefits will flow to the Branch 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 revenue

All investment income is recognised as revenue on an accrual basis. Interest income from assets backing life-insurance liabilities, which are designated as fair value through profit or loss, is recognised on a time proportion basis using the simple interest method. 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

Notes to the financial statements

For the year ended 31 December 2020

2.1 Revenue and expenses (continued)

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 accrual basis.

Basis of apportionment

Apportionment of expenses has been made as follows:

- all expenses have been apportioned between policy acquisition, policy maintenance and investment management in line with the principles set out in the Prudential Standard LPS 340 Valuation of Policy Liabilities issued by APRA.
- expenses, which are directly attributable to an individual policy or product, are allocated directly to the statutory fund within which that class of business is conducted; and
- all indirect expenses charged to the profit or loss are equitably apportioned to each class of business.

The apportionment is in accordance with Division 2 Part 6 of the LIA.

Policy acquisition costs

The actual acquisition costs incurred are recorded in the profit or loss. The value and future recovery of these costs is assessed in determining the policy liabilities. This has the effect that acquisition costs deferred are amortised over the period that they will be recovered from premiums or policy charges.

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 2020

2.1 Revenue and expenses (continued)

(a) Insurance premium revenue

	2020 $'000	2019 $'000
Direct life insurance premiums - singular	1,354	4,532
Direct life insurance premiums - regular	639	793
Non life insurance premiums	1,211	1,520
Termination of policies	(1,506)	(2,789)
Total insurance premium revenue	1,698	4,056

(b) Investment income

	2020 $'000	2019 $'000
Interest income	224	315
Total investment income	224	315

(c) Claims expenses

	2020 $'000	2019 $'000
Death and disability	684	986
Unemployment	130	24
Total claims expenses	814	1,010

(d) Administration expenses

	2020 $'000	2019 $'000
Policy maintenance - others	1,027	1,164
Foreign exhange (gains)/losses	5	(12)
Policy acquisition cost - others	140	159
Policy acquisition cost - commission	340	811
Total administration expenses	1,512	2,122

(e) Statement of sources of operating profit

	2020 $'000	2019 $'000
The shareholder's operating profit after income tax of the statutory funds is represented by:		
Investment earnings on shareholders' retained earnings and capital	96	109
Emergence of shareholders' planned profits	845	1,165
Experience profit/(loss)	(7)	(4)
Operating profit after tax (statutory funds)	934	1,270

Notes to the financial statements
For the year ended 31 December 2020

2.1 Revenue and expenses (continued)

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

	2020 $'000	2019 $'000
Profit for the year	**934**	1,270
Change in operating assets and liabilities:		
Decrease in current tax asset	**170**	-
Decrease in trade and other receivables	**11**	139
Increase/(decrease) in trade and other payables	**156**	(63)
(Decrease)/increase in policy claims in the process of settlement	**(139)**	73
Decrease in gross policy liabilities	**(1,701)**	(522)
Decrease in deferred tax liability	**(111)**	(37)
Increase/(decrease) in current tax liability	**11**	(142)
Net cash (used in)/provided by operating activities	**(669)**	718

Notes to the financial statements

For the year ended 31 December 2020

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's subsidiaries operate and generate 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 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.

Notes to the financial statements

For the year ended 31 December 2020

2.2 Income tax expense and deferred tax (continued)

(a) Income tax expense

	2020 $'000	2019 $'000
Current tax on profits for the year	474	530
Deferred tax income	(111)	(37)
Income tax expense	**363**	493

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

	2020 $'000	2019 $'000
Profit from continuing operations before income tax expense	1,297	1,763
Tax at the New Zealand tax rate of 28%	363	493
Income tax expense	**363**	493

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

	2020 $'000	2019 $'000
Deferred income	(111)	(37)
	(111)	(37)

(d) Deferred tax assets and liabilities

	2020 $'000	2019 $'000
Deferred tax liabilities		
Deferred expenses & prepayments	(193)	(304)
	(193)	(304)
Net deferred tax liabilities	(193)	(304)
Amounts expected to be settled within 12 months	(100)	(169)
Amounts expected to be settled after more than 12 months	(93)	(135)
	(193)	(304)

Notes to the financial statements

For the year ended 31 December 2020

Section 3 - Life 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, and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash. Cash and cash equivalents are held for the purpose of meeting short-term commitments rather than for investment or other purposes.

Investments

Investments include term deposits held at call with financial institutions and other highly liquid investments with original maturities of three months or more that are readily convertible to known amounts of cash. Investments are carried at the face value of the amounts deposited as their carrying amounts approximate to their fair value.

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 uncollectibleare written off in the period in which they are identified. Investment income accrued is measured at the carrying amounts of the interest receivable measured using the effective interest rate method, net of any transaction costs.

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.

Asset backing policy liabilities

The Branch 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 Branch has elected to designate all its financial assets at fair value through profit and loss consistent with the provisions of NZ IFRS 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

Notes to the financial statements
For the year ended 31 December 2020

3.1 Assets and liabilities (continued)

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.

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.

Liability adequacy test
The adequacy of the insurance contract liabilities is 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.

Policy liabilities
Policy liabilities for life insurance contracts in the Balance Sheet and the increase/(decrease) in policy liabilities for life insurance contracts in the profit or loss have been calculated using the Margin on Services methodology outlined in note 1.1(h).

Notes to the financial statements

For the year ended 31 December 2020

3.1 Assets and liabilities (continued)

(a) Cash and cash equivalents

	2020 $'000	2019 $'000
Current assets		
Cash and cash equivalents	912	1,199
Short term deposits	5,600	7,682
Total cash and cash equivalents	6,512	8,881

(b) Investments

	2020 $'000	2019 $'000
Current assets		
Term deposits	4,500	2,800
Total investments	4,500	2,800

(c) Trade and other receivables

	2020 $'000	2019 $'000
Current assets		
Investment income accrued and receivables	57	68
Total trade and other receivables	57	68

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

(d) Trade and other liabilities

	2020 $'000	2019 $'000
Current		
Trade and other payables	43	6
Payables to related parties	128	9
	171	15

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

These balances include amounts payable to related parties (note 5.3(c)).

Notes to the financial statements
For the year ended 31 December 2020

3.1 Assets and liabilities (continued)

(e) Policy liabilities

(i) Reconciliation of movements in life insurance contract policy liabilities

	2020 $'000	2019 $'000
Gross life insurance contract liabilities		
Balance at 1 January	**5,199**	5,721
Decrease in life insurance contract liabilities reflected in the profit or loss	**(1,701)**	(522)
Closing balance at 31 December	**3,498**	5,199
Current	**1,807**	2,884
Non-current	**1,691**	2,315
Total net insurance contract liabilities	**3,498**	5,199

(ii) Components of net life insurance contract liabilities

	2020 $'000	2019 $'000
Best estimate liability:		
Future policy benefits (Note (1) below)	**4,240**	6,395
Unrecouped acquisition expenses	**(742)**	(1,196)
Total best estimate liability	**3,498**	5,199
Net policy liabilities	**3,498**	5,199

(1) This item includes the unearned premium component of the liability. The accumulation method has been used to calculate liabilities, and components relating to expenses and profits are not separately calculated.

Notes to the financial statements

For the year ended 31 December 2020

3.2 Actuarial assumptions and methods

The following section describes the process surrounding, and key factors used to estimate the policy liabilities in the actuarial report:

The effective date of the actuarial report on policy liabilities and capital requirements is 31 December 2020. The actuarial report was prepared by Mr. Thomas David Millar, FIAA, FNZSA. The actuarial report indicates that Mr. Millar is satisfied as to the accuracy of the data upon which policy liabilities have been determined.

The amount of policy liabilities has been determined in accordance with methods and assumptions disclosed in these financial statements and the requirements of the relevant accounting standards (which may differ from the requirements of the Life Insurance Act 1995).

Policy liabilities for insurance contracts have been calculated in accordance with Prudential Standard LPS 340 Valuation of Policy Liabilities issued by APRA under subsection 230A(1) of the Life Insurance Act 1995. The Prudential Standard requires the policy liabilities to be calculated in a way which allows for the systematic release of planned margins as services are provided to policy owners.

The profit carriers used for the major product groups in order to achieve the systematic release of planned margins are as follows:

Product group	Method (projection or other)	Profit carrier
Lump sum risk	Accumulation (2019: Accumulation)	Claims (implied)
Disability and involuntary unemployment income	Accumulation (2019: Accumulation)	Claims (implied)

Policy liabilities have been calculated as the provision for unearned premium, less a deferred acquisition cost item. The recognition rate of premium has been chosen to approximate the planned margin release that would be achieved through use of the projection method.

(a) Disclosure of assumptions

The following assumptions are required to establish recoverability of acquisition costs:

(i) Discount rates

The gross interest rates used are the gross yield to redemption of benchmark government securities. For the current valuation, these are:

90 days: New Zealand 0.27% (2019: 1.29%)

5 years: New Zealand 0.39% (2019: 1.36%)

(ii) Inflation rates

Allowance for future inflation:

New Zealand 2.0% (2019: 2.0% p.a.) where future inflation assumption is based on the medium-term target range of the Reserve Bank of New Zealand of 1% - 3%.

Notes to the financial statements

For the year ended 31 December 2020

3.2 Actuarial assumptions and methods (continued)

(iii) Future expenses and indexation

Maintenance expense assumptions have been based on the experience in the current year and budgeted expenses for the 2021 year. Inflation adjustments are consistent with the inflation assumption.

(iv) Mortality and morbidity

Mortality rates for risk products have been based on experience over recent years. A loss ratio approach (applied to earned premium) was adopted. The loss ratios used have not varied significantly from those used in 2019.

Currently claims experience in New Zealand is not being significantly impacted by the COVID-19 pandemic. There have been no specific adjustments to actuarial assumptions adopted for 31 December 2020 due to COVID-19. The long-term impact of the COVID-19 pandemic remains uncertain and actuarial assumptions will continue to be monitored closely against experience.

(v) Disability and involuntary unemployment

The general approach to actuarial estimation of disability and involuntary unemployment liabilities is to analyse all available past experience. This analysis allows patterns to be identified in the past experience. Based on this, development patterns associated with the run-off of Outstanding Claims at the balance date can be estimated. The estimate of the Outstanding Claims includes an allowance for claims Incurred but Not Reported ('IBNR') and the further development of reported claims, a risk margin and claims handling expense provision. Actuarial methods such as Payment Per Claim Incurred ("PPCI"), Payment Chain Ladder ("PCL") and Bornheutter Ferguson ("BF") are adopted to estimate the outstanding claims.

The key actuarial assumptions for the determination of the outstanding claims liabilities are claim termination rate, average claim size (Disability = NZ$3,023, Unemployment = NZ$991), a claims handling expense rate of 12.0% of the projected gross claim payments (based on expense investigation) and a discount rate of 0.26% (based on the yields of 1 year and 2 year New Zealand Government bonds as at 31 December 2020). Across all classes, changes to the claim termination and average claim size assumptions would cause the most significant change to the liability estimate.

The actuarial estimation of disability and involuntary unemployment liabilities allowed for the emergence of experience due to the COVID-19 pandemic. No specific adjustments were implemented to actuarial assumptions for COVID-19 and experience continues to be monitored closely.

(vi) Voluntary discontinuance

Voluntary discontinuance rates vary by product and have been based on the Branch's recent discontinuance experience.

For the major classes of business, the assumed aggregate rates of discontinuance are:

Consumer credit insurances – 30% p.a. (2019: 39% p.a.)

Notes to the financial statements

For the year ended 31 December 2020

3.2 Actuarial assumptions and methods (continued)

(vii) Capital requirements

The Branch is required to hold prudential reserves, over and above the policy liabilities, as a buffer against adverse future experience and poor investment returns. The methods and bases used for determining the capital requirements were in accordance with the requirements of Prudential Standard *LPS 110: Capital Adequacy* as issued by APRA.

(b) Impact of changes in assumptions

The policy liabilities for insurance contracts have been calculated using the accumulation method. Under this method, changes in assumptions do not have any impact on policy liabilities in the current period, unless a product enters loss recognition. As at 31 December 2020, the assumption changes have resulted in the Consumer Credit Insurance related product group entering loss recognition, and hence the policy liability has increased in this related product

The value of future profit margins is not explicitly calculated under the accumulation method and hence the impact of any change in assumptions on the value of future profit margins is not determined.

(c) Sensitivity analysis

Movements in key variables such as mortality experience, lapse rates and expenses will have an impact on the future cash flows, performance and net assets of the business.

As the accumulation method is used to determine policy liabilities for insurance contracts, changes in the assumptions around these key variables do not have any impact on the policy liability or retained profits at the current balance date, unless a product group enters loss recognition. An alternate approach to demonstrating the sensitivity to changes in variables is to consider the impact on profit and equity at the current balance date if the experience over the current financial period varied under certain scenarios. The table below considers a number of changes in variables, and shows the impact on the profit and equity if that change had been experienced during the financial reporting period.

2020 ($'000) New Zealand	Percentage change in variables	Impact on profit or loss		Impact on equity	
		Gross of Reinsurance	Net of Reinsurance	Gross of Reinsurance	Net of Reinsurance
Mortality/morbidity	Worsening by 5%	(33)	(33)	(33)	(33)
	Improving by 5%	33	33	33	33
Lapse rates	Worsening by 5%	8	8	8	8
	Improving by 5%	(8)	(8)	(8)	(8)
Expenses	Worsening by 5%	(39)	(39)	(39)	(39)
	Improving by 5%	39	39	39	39

Notes to the financial statements
For the year ended 31 December 2020

3.2 Actuarial assumptions and methods (continued)

2019 ($'000) New Zealand	Percentage change in variables	Impact on profit or loss		Impact on equity	
		Gross of Reinsurance	Net of Reinsurance	Gross of Reinsurance	Net of Reinsurance
Mortality/morbidity	Worsening by 5%	(34)	(34)	(34)	(34)
	Improving by 5%	34	34	34	34
Lapse rates	Worsening by 5%	12	12	12	12
	Improving by 5%	(12)	(12)	(12)	(12)
Expenses	Worsening by 5%	(41)	(41)	(41)	(41)
	Improving by 5%	41	41	41	41

Notes to the financial statements
For the year ended 31 December 2020

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 Branch'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 Branch's exposure to credit risk:

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.

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.

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 5.3(b)).

Notes to the financial statements
For the year ended 31 December 2020

3.3 Financial risk management (continued)

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

2020	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	6,512	-	-	6,512	-	**6,512**
Investments	4,500	-	-	4,500	-	**4,500**
Trade and other receivables	-	57	-	57	-	**57**
Total credit risk exposure	**11,012**	**57**	-	**11,069**	-	**11,069**

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	8,881	-	-	8,881	-	**8,881**
Investments	2,800	-	-	2,800	-	**2,800**
Trade and other receivables	-	68	-	68	-	**68**
Total credit risk exposure	**11,681**	**68**	-	**11,749**	-	**11,749**

*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 2020

3.3 Financial risk management (continued)

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

2020	AAA $'000	AA $'000	A $'000	BBB $'000	Not rated $'000	Total $'000
Financial assets						
Cash and cash equivalents	2,412	4,100	-	-	-	**6,512**
Investments	2,500	2,000				**4,500**
Trade and other receivables	-	-	-	-	57	**57**
Total credit risk exposure	**4,912**	**6,100**	**-**	**-**	**57**	**11,069**

2019	AAA $'000	AA $'000	A $'000	BBB $'000	Not rated $'000	Total $'000
Financial assets						
Cash and cash equivalents	-	-	8,881	-	-	**8,881**
Investments	2,400	400	-			**2,800**
Trade and other receivables	-	-	-	-	68	**68**
Total credit risk exposure	**2,400**	**400**	**8,881**	**-**	**68**	**11,749**

Notes to the financial statements

For the year ended 31 December 2020

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; investments and of undiscounted contractual cash flows associated with the Branch's financial liabilities at balance date:

2020	Up to a year $'000	1-2 years $'000	2-5 years $'000	Over 5 years $'000	Total $'000
Cash and cash equivalents	6,512	-	-	-	6,512
Investments	4,500	-	-	-	4,500
Trade and other payables	(171)	-	-	-	(171)
Policy claims in the process of settlement	(443)	-	-	-	(443)
Gross policy liabilities	(1,807)	(836)	(752)	(103)	(3,498)
Net liquid assets	**8,591**	**(836)**	**(752)**	**(103)**	**6,900**

2019	Up to a year $'000	1-2 years $'000	2-5 years $'000	Over 5 years $'000	Total $'000
Cash and cash equivalents	8,881	-	-	-	8,881
Investments	2,800	-	-	-	2,800
Trade and other payables	(15)	-	-	-	(15)
Policy claims in the process of settlement	(582)	-	-	-	(582)
Gross policy liabilities	(2,884)	(1,244)	(906)	(165)	(5,199)
Net liquid assets	**8,200**	**(1,244)**	**(906)**	**(165)**	**5,885**

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

Notes to the financial statements

For the year ended 31 December 2020

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.

	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	
2020	**$'000**	**%**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Financial assets								
Short term deposits	5,600	-0.25%	(14)	(10)	-	-	-	(10)
Investments	4,500	-0.25%	(11)	(8)	-	-	-	(8)
Total	**10,100**		**(25)**	**(18)**	-	-	-	**(18)**

	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	7,682	-1%	(77)	(55)	-	-	-	(55)
Investments	2,800	-1%	(28)	(20)	-	-	-	(20)
Total	**10,482**		**(105)**	**(75)**	-	-	-	**(75)**

The analysis is performed on the same basis for 2020 with the variable interest rate being reduced to a minimum of 0.0% if applicable.

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 2020.

Notes to the financial statements
For the year ended 31 December 2020

3.3 Financial risk management (continued)

Insurance risk

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 credit life insurances.

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 LPS 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 a rising 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.

Notes to the financial statements
For the year ended 31 December 2020

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 2020

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 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 solvency requirements are set and regulated by the APRA. The Branch calculates its solvency position according to the relevant prudential standards which ensures sufficient solvency margins within the life statutory funds are maintained. An insurer's solvency position 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 solvency position in excess of those required by the APRA according to its target surplus policy. The solvency level is regularly monitored to minimise the risk of a regulatory breach.

For detailed information on the Branch's capital position and the capital requirements of APRA, refer to note 3.1(e).

Notes to the financial statements
For the year ended 31 December 2020

4.1 Capital management (continued)

(a) Capital requirements of the life funds

The Branch is required to hold prudential reserves, over and above the policy liabilities, as a buffer against adverse future experience and poor investment returns. Life and General Insurers are required to follow the Australian Prudential Regulation Authority's (APRA) Life and General Insurance Capital Standards (LAGIC).

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 life insurer is exposed and a life company must ensure that the life company and each of its statutory funds has, at all times, a capital base in excess of its PCA (plus any additional amount as required by the APRA).

The excess of the Branch's capital base over the PCA as at 31 December 2020 was $6.6 million (2019: $5.4 million).

The available assets of the Branch have also exceeded the Prudential Capital Requirement at all times during the year ending 31 December 2020.

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

	2020	2019
	Statutory Fund 2 $'000	**Statutory Fund 2 $'000**
(a) Capital base	**6,874**	5,689
(b) Prescribed capital amount	**228**	249
Capital in excess of prescribed capital amount = (a) - (b)	6,646	5,440
Capital adequacy multiple = (a)/(b)	**30.15**	22.85
Capital Base:		
Net assets	**6,750**	5,817
Less: Difference between adjusted policy liabilities and policy liabilities	**124**	(128)
Equals: Capital base	**6,874**	5,689
Prescribed capital amount:		
Asset risk charge	**52**	41
Operational risk charge	**176**	208
Prescribed capital amount	**228**	249

Notes to the financial statements

For the year ended 31 December 2020

Section 5 - Other Disclosures

5.1 Commitments and contingencies

Hallmark Life Insurance Company Ltd is subject to a number of obligations which, if not discharged, may give rise to potential claims. Where some loss from non-performance of an obligation is more likely than not and can be reliably estimated, provisions have been made. The Branch considers that the outcome of any specific enquiry which is underway as at 31 December 2020, and has not been provided for, is not expected to affect its financial position in any material way, either individually or in aggregate.

Regulatory and customer exposures

In recent years there has been an increase in the number of matters on which the Branch engages with its regulators. There have also been significant increases in the nature and scale of regulatory investigations, surveillance and reviews, civil and criminal enforcement actions (whether by court action or otherwise), formal and informal inquiries, regulatory supervisory activities and the quantum of fines issued by regulators, particularly against financial institutions both in Australia and globally. The Branch has received various requests for information from its regulators as part of both industry-wide and Company-specific reviews and has also made disclosures to its regulators at its own instigation. The nature of these interactions can be wide ranging and, for example, currently include a range of matters including product suitability and distribution, customer remediation and insurance distribution. There may be exposures to customers which are additional to any regulatory exposures. These could include individual claims or customer remediation or compensation activities. The outcomes and total costs associated with such reviews and possible exposures remain uncertain.

There is a risk that any contingent liability may be larger than anticipated. There is also a risk that additional litigation or contingent liabilities may arise, all of which could adversely affect our business, prospects, reputation, financial performance or financial condition.

No commitments, contingent assets or contingent liabilities existed as at 31 December 2020 (2019: nil).

5.2 Events occurring after the reporting date

No matter or circumstance has arisen since 31 December 2020 NZ Branch that has significantly affected, or may significantly affect:

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

Notes to the financial statements

For the year ended 31 December 2020

5.3 Related party transactions

(a) Key management personnel disclosures

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

(b) Transactions with related parties

The following transactions occurred with related parties:

	2020 $	2019 $
Management fees paid to/(received from):		
Hallmark Life Insurance Company Ltd	999,723	1,057,633
Host insurance depreciation and administration costs recharges:		
Latitude Financial Services Ltd - NZ	142,262	229,742
Commission paid to:		
Latitude Financial Services Ltd - NZ	339,685	811,153

(c) Outstanding balances with related parties

	2020 $	2019 $
Receivables/(payables) outstanding at the end of the period:		
Latitude Financial Services Ltd - NZ	(45,113)	95,045
Hallmark General Insurance Company Ltd	(82,712)	(104,224)

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.

5.4 Remuneration of auditor

No remuneration to auditors has been recognised; this expense was incurred by the parent of the branch Hallmark Life Insurance Company Ltd (Australia).

Notes to the financial statements
For the year ended 31 December 2020

5.5 Reclassification

Certain cash equivalents have been reclassified to investments to conform to the current year's presentation. The reclassification does not have any effect on total assets, total equity and profit or loss as at and for the year ended 31 December 2020. Below is summary of the reclassification.

	As previously reported 2019 $'000	Reclassification $'000	As reclassified 2020 $'000
Balance sheet			
Cash and cash equivalents	11,681	(2,800)	8,881
Investments	-	2,800	2,800

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23 February 2021

The Board of Directors
Hallmark Life Insurance Company Ltd
Level 4, 800 Collins St
Docklands VIC 3008

Hallmark Life Insurance Company Ltd: Appointed Actuary signoff of financial statements and financial condition as at 31 December 2020 for New Zealand reporting purposes

Dear Directors

Hallmark Life Insurance Company Ltd ("HLIC") 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 22 May 2019, HLIC appointed me, Thomas David Millar of Ernst & Young to be HLIC's Appointed Actuary. The Appointed Actuary role is as described by the Australian Life Insurance Act 1995 and related Prudential Standards and Prudential Practice Guides current at 31 December 2020, and by the New Zealand Insurance (Prudential Supervision) Act 2010 (the Act). I have no relationship with HLIC other than being its Appointed Actuary.

It is the responsibility of the Appointed Actuary to provide advice to the Board of a life insurer on the value of its policy 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 policy liabilities in accordance with APRA's Prudential Standard CPS320, Actuarial and Related Matters.

As part of my responsibilities, I have produced a report on HLIC's policy liabilities and financial condition, the Financial Condition Report (FCR), as at 31 December 2020, dated 23 February 2021. 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 HLIC as at 31 December 2020. The FCR identifies and assesses the material risks facing HLIC and includes discussion of relevant risk mitigants.

I have relied upon the general completeness and accuracy of the data and information supplied by HLIC 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 HLIC from compliance with their Solvency Standard for 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 HLIC Company level results and also separately in relation to the results of the New Zealand Branch (Statutory Fund 2) of HLIC.

Financial Statements – HLIC 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. The Policy Liability

b. The reinsurance and other recovery asset(s) relevant to the Policy Liability, or relevant to outstanding claims reserves or incurred but not reported claims reserves held outside of the Policy Liability

c. Any deferred or other tax asset relevant to the Policy Liability

d. Any deferred acquisition cost or deferred fee revenue relevant to the Policy Liability

e. The unvested policyholder benefits liability

f. 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 the FCR, and its appendices, meets the requirements of section 78 of the Act, as it contains my advice regarding policy liabilities, reinsured policy liabilities, and deferred acquisition costs (implicit in the policy liabilities). The FCR also includes advice on IBNR and capital requirements, which form part of the financial statements. No advice or review is required of unvested policyholder benefits liability, as HLIC does not write any participating products.

In my opinion and from an actuarial perspective:

a. The actuarial information contained in the HLIC financial statements, submitted to the Board for approval on 23 February 2021, has been appropriately included in those statements; and

b. The actuarial information has been used appropriately in the preparation of the HLIC 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 – HLIC New Zealand Branch (Statutory Fund 2)

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. The Policy Liability

b. The reinsurance and other recovery asset(s) relevant to the Policy Liability, or relevant to outstanding claims reserves or incurred but not reported claims reserves held outside of the Policy Liability

c. Any deferred or other tax asset relevant to the Policy Liability

d. Any deferred acquisition cost or deferred fee revenue relevant to the Policy Liability

e. The unvested policyholder benefits liability

f. 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 the FCR, and its appendices, meets the requirements of section 78 of the Act, as it contains my advice regarding policy liabilities, reinsured policy liabilities, and deferred acquisition costs (implicit in the policy liabilities). The FCR also includes advice on IBNR and capital requirements, which form part of the financial statements. Separate input has been provided regarding actuarial inputs to tax calculations in New Zealand. No advice or review is required of unvested policyholder benefits liability, as HLIC does not write any participating products.

In my opinion and from an actuarial perspective:

a. The actuarial information contained in the HLIC New Zealand Branch financial statements, submitted to the Board for approval on 23 February 2021, has been appropriately included in those statements; and

b. The actuarial information has been used appropriately in the preparation of the HLIC 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 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 HLIC and includes discussion of relevant risk mitigants. These material risks are considered at a company level and also separately for the Australian and New Zealand business.

Throughout the FCR, key metrics and information have been separated between Statutory Fund 1 (Australia) and Statutory Fund 2 (New Zealand) so that each business can be considered separately from the company as a whole.

HLIC is in a very strong financial position as at 31 December 2020, with excess assets of A$10.6m above prudential capital requirements in Statutory Fund 1 and A$6.2m in Statutory Fund 2. Under Section 25 of LPS110, the Prescribed Capital Amount (PCA) of a life company is the sum of the fund-level PCA, subject to a minimum of $10m. An entity-level PCA adjustment of $9.4m at 31 December 2020 is required to meet the $10m PCA minimum. Both statutory funds, as well as the Shareholders Fund and entity itself, have exceeded prudential capital requirements over the year to 31 December 2020.

Capital requirements are expected to be met over the coming three years, and hence no reporting under Section 24 of The Act is required. In my opinion HLIC is maintaining:

a. A solvency margin consistent with the requirements under section 21(2) (b) of the Act

b. Solvency margins for each statutory fund, both in Australian and in New Zealand, consistent with the requirements under section 21(2) (c) of the Act

This strong position means that both statutory funds, Statutory Fund 1 and 2, of HLIC would be able to withstand a catastrophe or extreme event similar to the Catastrophe Risk Capital Charge.

The New Zealand Branch (Statutory Fund 2) of HLIC is managed in conjunction with the Australian business 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,

David Millar, FIAA, FNZSA
Appointed Actuary, Hallmark Life Insurance Company Ltd