SOUTHERN CROSS BENEFITS LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED

30 June 2021

CONTENTS

ANNUAL REPORT DISCLOSURES
year ended 30 June 2021

The Directors present their Annual Report including the Financial Statements of Southern Cross Benefits Limited (the "Company") for the year ended 30 June 2021.

Dividend	No dividends were paid during the year ended 30 June 2021 (2020: $3,500,000).
Nature of business	The Company is in the business of providing a range of travel insurance products. The Company has a branch in Australia which provides outbound travel insurance in Australia. The Company also operated in the Pet Insurance market up until 31 January 2020 when this business was sold.
Results	The Company recorded a net loss from continuing operations of $8,062,000. (2020: $553,000 profit).
Register of Directors	G W Gent (Chairman, Chair of Remuneration Committee) C M Drayton (Chair of Audit and Risk Committee) M P Jordan M P Misur T D Moore (ceased to be a director on 15 September 2020) A J Morris K B Taylor C J White (appointed 15 September 2020)
Use of Company Information	The Board received no notices during the year from Directors requesting to use Company information received in their capacity as Directors which would not have been otherwise available to them.
Share Dealings	No Director acquired or disposed of any interest in shares in the Company during the year.
Directors' Remuneration	The Directors received no remuneration from the Company.
Indemnity and Insurance	The Company has insured its Directors and Officers for liabilities to other parties that may arise from their positions as Directors and Officers.
Auditor	KPMG, a New Zealand Partnership.

For and on behalf of the Board

G W Gent
Chairman
Date: 17 September 2021

C M Drayton
Director
Date: 17 September 2021

GOVERNANCE STATEMENT

The Directors of the Company ensure that robust corporate governance policies, practices and processes are in place. Responsibility for the day-to-day operation and administration of the Company is delegated by the Board to the Chief Executive Officer (CEO) and senior management. The CEO is authorised to make decisions in accordance with the strategy, plans, budgets and the specific delegation framework approved by the Board. The Company maintains a healthy risk culture under the frameworks of formal risk management, compliance, capital, investment, and delegated authority policies. Management report on these and other operational matters to the Board.

The Board delegates certain powers, duties and responsibilities to the Audit and Risk Committee and Remuneration Committee. All Directors of the Company are considered to be independent per Reserve Bank of New Zealand guidelines with the exception of Chris White who holds a senior executive position with Southern Cross Healthcare Limited, a subsidiary of the Company's sole shareholder Southern Cross Health Trust. No executives of the Company hold a seat on the Board. All Directors and senior managers are required to meet Fit and Proper standards as prescribed by company policy.

Some key functions of the Board include:

- ensuring the Company’s goals are clearly established and that strategies and business plans are in place for achieving them
- ensuring the Company’s financial statements are true and fair and otherwise conform with legal requirements
- identifying steps necessary to protect the Company’s financial position and brand
- appointing the CEO and determination of CEO remuneration on an ongoing basis
- monitoring the performance of management
- ensuring the Board and management adhere to high ethical standards.

The Company employs a Head of Legal, Risk and Compliance, reporting to the CEO, who holds the role of Branch Risk Officer in Australia. The Company's Chief Risk Officer in New Zealand is the CEO. The associated responsibilities with these roles is formally imbedded into the position descriptions. The Company has a Management Risk Committee which meets regularly and consists of the Senior Leadership and Risk Teams. In addition, the Company engages PwC as their Internal Auditor (outsourced) and the Board and Audit and Risk Committee approve an annual plan for independent review of the key risk areas of the business.

The Company monitors on a monthly basis its compliance with prudential capital requirements in accordance with Reserve Bank of New Zealand (RBNZ) and Australian Prudential Reporting Authority (APRA) regulatory requirements.

Profiles of the Company’s Directors are noted below.

Greg Gent
ONZM

Chairman
Greg Gent joined the Southern Cross Benefits Board and was elected Chairman in 2014. Mr Gent is a Northland dairy farmer with a wealth of governance experience. He is chairman of Dairy Holdings Limited and is also Chairman of the Southern Cross Health Trust and Chair and Trustee of Southern Cross Medical Care Society, and Director of various subsidiaries..

Catherine Drayton
BCom, LLB, FCA

Catherine Drayton was appointed to the Board of Southern Cross Benefits Limited in 2018 and chairs the Audit and Risk Committee. She is Chair of Christchurch International Airport, the Guardians of New Zealand Superannuation and Mint Innovation; and is a Director of Genesis Energy and Fronde Systems Group. Catherine is a fellow of the Chartered Accountants Australia and New Zealand. She is also a Trustee of the Southern Cross Health Trust and a Trustee and Director of Southern Cross Medical Care Society.

Murray Jordan
MProp

Murray Jordan joined the Board of Southern Cross Benefits Limited in 2019. He is a former Managing Director of Foodstuffs North Island and an experienced company Director. Murray currently serves on the Boards of Metcash Limited (an ASX listed company), Chorus, SkyCity, Stevenson Group, Asia Pacific Village, Metlifecare and Starship Foundation. His early career was in the property sector, and he holds a Masters degree in Property Administration from the University of Auckland. Murray is also a Trustee of the Southern Cross Health Trust and a Director of Southern Cross Medical Care Society.

Dr Martin Misur
BHB, MBChB, FANZCA

Dr Martin Misur was appointed to the Board of Southern Cross Benefits Limited in 2018. He is a Specialist Anaesthetist based at Auckland City Hospital and in private practice at Epsom Anaesthetic Partnership. He has a strong interest in information technology and holds the position of Informatics Lead for ADHB’s Perioperative Directorate. Martin is also a Trustee of the Southern Cross Health Trust and a Director of Southern Cross Medical Care Society.

GOVERNANCE STATEMENT (continued)

Dr Arthur Morris
BSc(Hons), MD, Dip ABMM, FRCPA

Dr Arthur Morris joined the Board of Southern Cross Benefits Limited in 2018. He is an Auckland-based clinical microbiologist who also works with the Health Quality and Safety Commission as a Clinical Lead. Arthur is a current Director of Mercy Healthcare Auckland and Royal Australasian College of Pathologists Quality Assurance Programmes Limited. He is a Trustee of the Auckland School of Medicine Foundation and University of Auckland Foundation. Arthur is also a Trustee of the Southern Cross Health Trust.

Keith Taylor
ONZM, BSc, BCA, FIA, FInstD

Keith Taylor was appointed to the Board of Southern Cross Benefits Limited in 2014. He has over 30 years' experience in the insurance and financial services industries as a chief executive, chief financial officer and actuary. Keith is Chair of Butland Holdings Limited and its subsidiaries, Port Marlborough Limited and Dwell Housing Trust; and is a Director of Resolution Life NOHC Pty Limited (and subsidiaries) and AMP Life Limited. He is also a Trustee of the Southern Cross Health Trust and a Director of Southern Cross Medical Care Society.

Chris White
MInstD

Chris White was appointed to the Southern Cross Benefits Board on 15 September 2020. He was the company's CEO from 2017 to August 2020. Chris has previously held executive roles in companies such as Carter Holt Harvey, Rank Group and AMP Financial Services. Past directorships include Dairy Holdings Limited.

STATEMENT OF COMPREHENSIVE INCOME AND CHANGES IN EQUITY
for the year ended 30 June 2021

	Note	2021 $000	2020 $000
Net premiums	6	9,235	46,995
Net claims expense	5	(5,097)	(22,245)
Underwriting surplus		4,138	24,750
Operating expenses	8	(12,735)	(25,325)
Other operating income		281	475
Operating loss		(8,316)	(100)
Investment and other income	7	293	711
Finance Costs		(39)	(58)
Net (loss) / profit from continuing operations		(8,062)	553
Profit from discontinued operations		-	8,301
Net (loss) / profit before income taxes		(8,062)	8,854
Income taxes	1	(6)	-
(Loss) / Profit for the Period		(8,068)	8,854
Other comprehensive income:			
Movement on foreign currency translation reserve		22	342
Net comprehensive (loss) / income		(8,046)	9,196
Equity opening balance		37,881	32,185
Dividend paid	9	-	(3,500)
Equity closing balance		**29,835**	**37,881**

The accompanying notes form part of these financial statements.

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STATEMENT OF FINANCIAL POSITION
as at 30 June 2021

	Note	2021 $000	2020 $000
Assets			
Cash and cash equivalents	10	16,229	16,977
Premium receivable and other assets	11	2,750	4,741
Investments	7	17,000	29,322
Fixed assets	12	779	1,484
Intangible assets	12	3,047	3,879
Total assets		39,805	56,403
Liabilities			
Payables and other liabilities	13	3,784	6,550
Insurance contract liabilities	3	6,186	11,972
Total liabilities		9,970	18,522
Net assets		29,835	37,881
Equity			
Share capital	9	4,600	4,600
Retained earnings		26,393	34,461
Foreign currency translation reserve		(1,158)	(1,180)
Equity		29,835	37,881

For and on behalf of the Board

G W Gent **Chairman** ______________________ Date: 17 September 2021

C M Drayton **Director** ______________________ Date: 17 September 2021

The accompanying notes form part of these financial statements.

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STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2021

2021

	Share Capital $000	Retained Earnings $000	Foreign Currency Translation Reserve $000	Total Reserves $000
Opening balance	4,600	34,461	(1,180)	37,881
Total comprehensive income:				
Profit after taxation	-	(8,068)	-	(8,068)
Other comprehensive income:				
Movement in foreign currency translation reserve	-	-	22	22
Total comprehensive income	-	(8,068)	22	(8,046)
Closing balance	4,600	26,393	(1,158)	29,835

2020

	Share Capital $000	Retained Earnings $000	Foreign Currency Translation Reserve $000	Total Reserves $000
Opening balance	4,600	29,107	(1,522)	32,185
Total comprehensive income:				
Profit after taxation	-	8,854	-	8,854
Other comprehensive income:				
Movement in foreign currency translation reserve	-	-	342	342
Total comprehensive income	-	8,854	342	9,196
Transaction with owners				
Dividend paid	-	(3,500)	-	(3,500)
Closing balance	4,600	34,461	(1,180)	37,881

The accompanying notes form part of these financial statements.

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STATEMENT OF CASH FLOWS
for the year ended 30 June 2021

	2021 $000	2020 $000
Cash flows to operating activities		
Receipt of premiums from customers	5,902	38,617
Receipts of reinsurance recoveries	502	681
Distribution, interest and other income received	1,001	713
Payment of claims	(6,906)	(27,820)
Payment of reinsurance premiums	(654)	(4,701)
Payments to employees	(5,614)	(8,176)
Payments to suppliers	(6,727)	(11,501)
Operating Income from Discontinued Operations	-	947
Net cash flows to operating activities	(12,496)	(11,240)
Cash flows from investing activities		
Payments for fixed assets	-	(71)
Payments for intangible assets	(27)	(1,815)
Net receipts for investments	12,102	13,190
Proceeds from sale of discontinued operation	-	8,077
Transfer of cash balances from discontinued operation	-	(3,411)
Net cash flows from investing activities	12,075	15,970
Cash flows to financing activities		
Lease Payments	(506)	(629)
Dividend paid	-	(3,500)
Net cash flows to financing activities	(506)	(4,129)
Net increase in cash and cash equivalents	(927)	601
Opening cash and cash equivalents	16,977	16,470
Effect of exchange rate movement on foreign currency balances	179	(94)
Closing cash and cash equivalents	16,229	16,977

RECONCILIATION OF NET PROFIT WITH NET CASH FLOWS FROM OPERATING ACTIVITIES

	Note	2021 $000	2020 $000
(Loss) / Profit for the period		(8,068)	8,854
Adjustments for:			
Depreciation and amortisation		1,555	2,240
Loss on sale of other fixed assets and impairment		-	326
Foreign currency exchange movement		24	136
Movement in valuation of investments		-	(45)
Finance Costs		39	-
Gain on Sale of Pet Insurance		-	(7,487)
Changes in assets and liabilities:			
Receivables and accrued interest		1,664	2,725
Payables and employee benefits		(1,949)	977
Insurance contract liabilities		(5,761)	(18,966)
Net cash flows from operating activities		(12,496)	(11,240)

The accompanying notes form part of these financial statements.

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NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2021

1 STATEMENT OF ACCOUNTING POLICIES

REPORTING ENTITY

Southern Cross Benefits Limited (the "Company") is a limited liability company domiciled and incorporated in New Zealand. It is a wholly owned subsidiary of the Southern Cross Health Trust. The Company's primary activity is the provision of travel insurance. The Company also provided pet insurance up until 31 January 2020 when the business was sold. The registered office is Level 12 AMP Centre, 29 Customs Street West, Auckland.

The Company is a licenced insurer under the Insurance (Prudential Supervision) Act 2010.

The Company also operates in Australia selling outbound travel insurance and is regulated by the Australian Prudential Regulation Authority ("APRA") and the Australian Securities and Investment Commission ("ASIC").

The Company is registered as a charity under the Charities Act 2005, as part of the Southern Cross Health Trust group registration.

The Company, with its shareholder's approval, has applied the exemption available under section 211 (3) of the Companies Act 1993 in not disclosing the information required under section 211 (1) paragraphs (e), (g) and (h) of the Companies Act 1993.

BASIS OF PREPARATION

Under financial reporting standards, the Company is deemed to be a Tier 1 for-profit entity for financial reporting purposes.

The financial statements are:

- presented as at and for the year ended 30 June 2021.
- presented for the Company, including the Australian branch and the discontinued operations of the pet insurance business (in the prior period).
- prepared in accordance with New Zealand generally accepted accounting practice ("NZ GAAP").
- in compliance with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and International Financial Reporting Standards ("IFRS").
- prepared in compliance with the Insurance (Prudential Supervision) Act 2010, Companies Act 1993, the Financial Markets Conduct Act 2013 and the Financial Reporting Act 2013.
- prepared on the historical cost basis except that the following are stated at their fair value: Investments, insurance contract liabilities and reinsurance recoveries on outstanding claims.
- presented in New Zealand dollars, which is the functional and presentation currency. The functional currency for the Australian branch is Australian dollars. Transactions in the branch are translated to New Zealand dollars as discussed in the foreign currency transactions accounting policy. All financial information presented in New Zealand dollars has been rounded to the nearest thousand, unless otherwise stated.
- stated net of GST, with the exception of receivables and payables which include GST invoiced.

ACCOUNTING POLICIES AND STANDARDS

Accounting policies have been applied on a basis consistent with that used in the audited annual financial statements for the year ended 30 June 2020. There are no new standards or amendments that have a material impact to the Company in the current period.

FINANCIAL REPORTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

The impact of the following reporting standards on the Company is outlined below.

- NZ IFRS 17 Insurance Contracts ("NZ IFRS 17") will replace NZ IFRS 4 Insurance Contracts for periods beginning on or after 1 January 2023, becoming mandatory for the Company's financial statements for the year ending 30 June 2024. The new standard establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued and differs significantly from NZ IFRS 4. The Company is currently assessing the impact of the new requirements but at this stage is unable to estimate the impact to the financial statements.

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NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2021

USE OF ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised.

Information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements relate to note 3 insurance contract liabilities and note 4a insurance risk.

COVID-19 IMPACTS AND GOING CONCERN

The Board has considered the impact of COVID-19 in relation to forecast performance, cash flow position and capital requirements of the Company. In making these assessments, the Board has considered five year cash flow forecasts under a range of potential scenarios with assistance from the Company's independent Appointed Actuary. All of these scenarios support the going concern assumption over the next twelve months from the date of authorisation of these financial statements.

Acknowledging the inherent risks in relation to the unknown future impacts of COVID-19, these financial statements and the cash flow forecast adopted by the Board have been prepared based on currently available information and the Board's best estimates of the future operations of the Company. Key assumptions used within the most likely cash flow forecast adopted by the Board for FY22 include:

- Trans Tasman travel and the Pacific to slowly and gradually recover to 75% of pre-Covid levels by Quarter 4 of FY22, supported by travel bubbles and lessening travel restrictions as vaccination programmes continue to expand.
- World wide travel to experience a slower recovery to a level of 25% of pre-Covid levels by Quarter 4 of FY22.
- International Student and Visiting New Zealand cover at 40% of pre-Covid levels.
- Domestic travel cover in both New Zealand and Australia to gradually decline as alternative International destinations become available.

The Directors have assessed that the Company will maintain sufficient liquidity and solvency to meet their financial obligations as they arise. The Company does not hold any external borrowings and does not anticipate requiring any additional funding.

The Board's assessment is that there is no material uncertainty with regard to the appropriateness of the going concern assumption. As such, these financial statements have been prepared on the basis of a going concern.

FOREIGN CURRENCY TRANSACTIONS

Transactions in foreign currencies that are settled in the reporting period are translated at the settlement rate. Transactions in foreign currency that are not settled in the reporting period, resulting in monetary assets and liabilities denominated in foreign currencies at the reporting date, are translated to New Zealand dollars at the foreign exchange rate at that date. Foreign exchange differences arising on their translation are recognised in the profit or loss.

Foreign operations

Activities of the Australian Branch are recorded in Australian dollars, its functional currency. Profit or loss items are translated to New Zealand dollars at an average exchange rate for each month. The assets and liabilities of the branch are initially translated to New Zealand dollars at the foreign exchange rate on the date they arise. At balance date, all the assets and liabilities are re-translated at the exchange rate on that date.

Foreign exchange differences arising from this translation are recognised in other comprehensive income and the foreign currency translation reserve.

TAXATION

The Company is exempt from New Zealand income tax due to its charitable status. In Australia, whilst the Company does not have a Permanent Establishment, the Company launched Domestic Australia travel insurance in December 2020. As such, under s142 of the Income Tax Assessment Act 1936, the Company is subject to pay an effective income tax of 3%, (being the corporate tax rate of 30% being applied to 10% of the Domestic Australia premium income). The amount for 2021 is $6k (2020: nil).

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NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2021

2 FINANCIAL SOUNDNESS

The minimum solvency capital the Company is required to retain under the Solvency Standard for Non-life Insurance Business issued by the RBNZ is per the table below. The Company has adopted a formal capital management plan to maintain a strong capital base and satisfy capital adequacy standards as prescribed by the RBNZ and by APRA for the Australian branch. An additional capital buffer of $2.0 million (2020: $2.9 million) for the Company has been determined by the Directors as sufficient for maintaining financial soundness.

During the year the Company has complied with all externally imposed capital requirements.

Actual solvency capital at 30 June 2021 for the Australia branch was AUD $8.4m (2020: AUD $9.3m) calculated in accordance with APRA requirements. Minimum solvency capital required to be retained by the Branch to satisfy APRA requirements is AUD $5 million.

Solvency capital requirements for the Company are detailed below.	**2021**	**2020**
	$000	**$000**
Minimum solvency capital	6,029	7,405
Actual Solvency capital	19,876	26,624
Solvency Margin	13,847	19,219
Solvency Ratio	3.30	3.60

In December 2021 Standard & Poor's reaffirmed the Company's Insurer Financial Strength Rating of A. This signifies the insurer "has strong financial security characteristics".

3 INSURANCE CONTRACT LIABILITIES

Insurance contracts are defined as those containing significant insurance risk at the inception of the contract.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during the period.

The Company has determined that all travel insurance policies provided to customers are insurance contracts.

Estimates of the provision for outstanding claims for Southern Cross Benefits Limited as at 30 June 2021 have been determined by the Company's Appointed Actuary, Win-Li Toh, MA (Oxon) of Taylor Fry Consulting Actuaries, a Fellow of the New Zealand Society of Actuaries and a Fellow of the Institute of Actuaries of Australia. The calculation of the provision for outstanding claims complies with both NZ IFRS 4: Insurance Contracts and Professional Standard No. 30: General Insurance Business of the New Zealand Society of Actuaries.

The Appointed Actuary is satisfied as to the nature, sufficiency and accuracy of the data used to determine these provisions.

Insurance contract liabilities

	2021	**2020**
	$000	**$000**
Provision for outstanding claims (refer note 3a)	2,156	4,716
Provision for unearned premium (refer note 3b)	3,301	7,012
Provision for unexpired risks (refer note 3c)	729	244
	6,186	11,972

a. Provision for outstanding claims

For travel insurance, a standard chain ladder method is used for claims outstanding twelve months or more on TravelCare policies and four months or more on non-TravelCare policies. Claims outstanding in respect of the most recent twelve months for TravelCare policies and most recent four months for non-TravelCare policies are determined by first applying an estimated loss ratio and the percentage estimated as unpaid to the gross earned premiums for the month. This result is then blended with the results from the standard chain ladder method. Additional allowance is made in the New Zealand and Australian outstanding claims provisions for large claim case estimates and associated reinsurance recoveries.

A risk margin of 30% (2020: 9%) has been added to the central estimate of the outstanding claim costs for the New Zealand travel business and 30% (2020: 12%) for the Australian business, to take account of the uncertainties inherent in the setting of claim provisions.

The risk margin provide a 75% probability of adequacy.

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NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2021

3 INSURANCE CONTRACT LIABILITIES (continued)

A further provision has been made for direct and indirect claim management costs using a fixed dollar approach. The change to a fixed dollar projection approach was required as the percentage method was no longer appropriate for a smaller, post Covid-19 book. In the prior year this amount was calculated as a percentage of the central estimate for both the New Zealand travel business (2020: 19.0%) and the Australian business (2020: 24.0%).

	2021 $000	2020 $000
Central estimate of outstanding claims liability	1,226	3,563
Claims handling costs	563	728
Risk margin	367	425
Provision for outstanding claims	2,156	4,716

Claims are predominantly short-term in nature and are generally settled within twelve months of being incurred. Accordingly, amounts are not discounted.

	2021 $000	2020 $000
Central estimate of reinsurance recoveries on outstanding claims liability	179	695
Risk margin	2	79
Reinsurance recoveries on outstanding claims	181	774

Reinsurance recoveries on outstanding claims liabilities are included in other assets in the statement of financial position.

Reconciliation of movement in provision for outstanding claims net of reinsurance recoveries	2021 $000	2020 $000
Opening balance	3,942	11,532
Adjustment for disposal of Pet Insurance business - central estimate & risk margin	-	(1,885)
Amounts utilised during the year	(2,450)	(6,673)
Additional provision / (reversal of unused provision)	(493)	(1,187)
Amounts provided during the year	1,122	2,693
Decrease in claims handling costs	(165)	(28)
Increase/(decrease) in risk margin	19	(510)
Closing balance	1,975	3,942

b. Provision for unearned premium	2021 $000	2020 $000
Opening balance	7,012	29,623
Adjustment for disposal of Pet Insurance business	-	(9,103)
Premiums written in the year	8,072	47,303
Premium refunds for cancelled FY20 contracts	(1,294)	(7,561)
Premium refunds for duplicate policies	(122)	(129)
Premiums earned during the year	(9,580)	(51,515)
Premiums refundable as a result of Covid-19 travel restrictions	(787)	(1,606)
Closing balance	3,301	7,012

c. Provision for unexpired risks	2021 $000	2020 $000
Opening balance	244	-
Additional Provision	485	244
Closing balance	729	244

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NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2021

3 INSURANCE CONTRACT LIABILITIES (continued)

Premium refunds for cancelled contracts

The Company acknowledges that many customers during the lockdown as a response to COVID-19 have not been able to travel and make use of their travel insurance policies. The Company performed an analysis and identified customers eligible for refunds. These customers have been contacted to inform them that they are eligible to cancel and receive a refund of the policy purchased. As at 30 June 2021, a total of $0.8m (June 2020: $1.6m) in premium refund obligations are recognised within payables and other liabilities.

Unexpired risk provision and liability adequacy test

The liability for unearned premiums arises from premiums received for risks that have not yet expired. The provision is released evenly over the duration of the travel period for travel insurance contracts and is recognised as premium income.

The Appointed Actuary has reviewed the adequacy of the unearned premium provision at 30 June 2021. In performing this test, an additional margin has been added to the central estimate of the future claim costs, to take account of the uncertainties inherent in the central estimate. A further allowance has been made for direct and indirect claim management costs and also policy administration costs.

A liability adequacy test is performed to assess whether there is any deficiency in the unearned premium liability arising from expected claims and administration costs during the period covered by the unearned premium. For both the New Zealand and Australian travel insurance businesses, the test has been performed on the aggregate portfolio as risks are broadly similar and are managed together as a single portfolio.

In the Actuary's view, the liability adequacy tests (LAT) identified a shortfall for the New Zealand and Australian businesses. Accordingly, there was a write down of deferred acquisition costs (2021:$0.4m, 2020: $0.2m). The unexpired risk liability was assessed at $0.7m and is recognised in the unexpired risks provision (2020: $0.2m).

If the loss ratio was to increase, a higher assumed loss ratio will result in a higher premium liability. As there is no margin between the premium liability and the unearned premium provision, any variability in the loss ratio will immediately impact the liability adequacy test result with direct flow on to the statement of comprehensive income.

	2021		2020	
	New Zealand	Australia	New Zealand	Australia
	$000	$000	$000	$000
Sensitivity				
Net Incurred But Not Paid (including margins)	1,976	116 *	3,076	866
20% increase in the initial claims ratio for recent event months	2,048	138	3,298	933
20% decrease in the initial claims ratio for recent event months	1,904	93	2,855	799

* For the purpose of the sensitivity for the Australian branch in 2021, the gross IBNP is referenced rather than the net IBNP, because COVID recoveries exceed the gross IBNP.

This sensitivity analysis does not indicate upper or lower bounds of all possible outcomes. Future experience could be considerably more adverse (or favourable) than the scenarios presented.

4 RISK MANAGEMENT

The Company is exposed to a number of risks in the normal course of business. Primarily there is the risk of conducting an insurance business (insurance risk). Other risks include financial risks (credit risk and liquidity risk), market risks (foreign currency risk, interest rate risk and price risk), and non-financial risks (operational risk and compliance risk). The directors and management recognise the importance of having an effective risk management policy. The risks and any objectives, policies and processes to manage the risks are described below in summary; a detailed risk register and risk management framework underpin this summary.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2021

4 RISK MANAGEMENT (continued)

a. Insurance risk

The Company assumes insurance risk through its travel insurance activities. The key risk arises in respect of claims costs and, in particular, those costs varying from what was assumed in the setting of premium rates.

I. Risk management objectives, policies and processes for mitigating risk

The primary objective in managing risk is, as far as possible, to reduce the magnitude and volatility of claims costs. A secondary objective is to ensure funds are available to pay claims and maintain the solvency of the business if there is adverse deviation in experience. Key policies and methods for mitigating risk include:

* Underwriting policies and processes which evaluate new risks and offer terms that do not endanger the portfolio.
* Strict claims management procedures to ensure the payment of claims is in accordance with policy conditions and the Delegated Authority Policy.
* Maintaining a reinsurance programme for the business which protects the Company against single large claims in excess of the Company's retention, and against a catastrophic event involving multiple claims.
* A long-term pricing strategy which supports pricing based on underlying risk.
* Monthly monitoring of financial and operating results and detailed investigations into the claims experience of the portfolio.
* Adherence to a formal capital management plan monitored monthly to ensure minimum prudential capital requirements are complied with.
* Implementation of a risk management strategy, which is in accordance with the prudential standards issued by RBNZ and APRA.

II. Sensitivity to insurance risk

The financial results of the Company are primarily affected by the level of claims incurred relative to that assumed when pricing the premiums of the policies. The assumptions used in the valuation of the outstanding claims provision and the liability adequacy test directly affect the level of estimated claims incurred. The key assumptions used are detailed in note 3.

The scope of insurance risk is managed by the terms and conditions of the policy. The main insurance benefit for the travel insurance business involves the reimbursement of losses during travel for medical expenses in addition to the losses relating to personal property, cancellation, personal accident, personal liability, and rental vehicle excesses.

III. Concentration of insurance risk

The Company transacts travel insurance business in New Zealand for inbound, domestic and outbound customers, and in Australia for domestic and outbound customers. The nature of its business means that this concentration of risk cannot be avoided. Management defines concentration of risk by geographic region, specific destination, and unknown and unforeseen accumulations of insured on a single transport carrier. The Company is most at risk to the global commercial aviation industry and its ability to offer continuous operations given the impacts of oil prices, pandemics, natural disasters and terrorism, which lends itself to a single event resulting in a high volume of relatively low dollar value cancellation / delay claims.

The Company's travel related concentration risks are mitigated by its catastrophe, pandemic and terrorism reinsurance treaties for the travel insurance business, to protect it from high severity losses and catastrophic events. Reinsurance is placed to cover losses in excess of agreed retentions.

b. Financial risks

I. Credit risk

Credit risk is the potential risk of loss arising from the failure of a debtor or counterparty to meet their contractual obligations. In the normal course of its business the Company incurs credit risk from its travel insurance operations and from investment in financial assets. There are no significant concentrations of credit risk other than the $10.0 million on deposit with Kiwibank (2020: nil) and $7.0 million (2020: $19.0 million) on deposit with ANZ Bank.

The Company has internal controls in place to manage premium accounts receivable credit risk and an investment policy is also maintained which is used to manage the exposure to credit risk. The Company has a reinsurance management strategy in place to manage the credit risk from its reinsurance programme.

The maximum exposure to credit risk at reporting date is the amount of financial assets reported in the statement of financial position.

These exposures are net of any recognised provisions for impairment losses. There were no impairments at 30 June 2021 (2020: none). The Company does not require any collateral or security to support financial assets due to the quality of the counter-party organisations. The credit quality of counter-parties is assessed based on published credit ratings, issued by Standard & Poor's or equivalent ratings agencies.

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NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2021

4 RISK MANAGEMENT (continued)

The credit quality of counter-parties is as follows:	2021 $000	2020 $000
AAA	3	24
AA	33,332	45,976
A	218	1,515
BBB	-	-
Non-rated	2,426	2,780
	35,979	50,295

The cash and cash equivalents balances are held with counter-parties rated AA - (30 June 2020: AA -).

The non-rated balances are predominantly premium receivables due from a large number of counter-parties and related party balances. Analysing these by credit quality would not be feasible, as the majority of counter-parties will be non-rated. Credit risk for premium receivables is considered low as the Company is able to terminate or suspend policies for non-payment, at the Company's discretion.

II. Liquidity risk

The Company is exposed to daily calls on its available cash resources from claims and administration expenses. Liquidity risk is the risk that payment of obligations may not be met in a timely manner at a reasonable cost. The investment policy sets out criteria to ensure funds are available to meet calls to cover claims and expenses at unexpected levels of demand.

For the New Zealand operation invested funds are held on bank term deposits and for the Australian operation funds are held in an Australian bank account. The New Zealand funds are held over a range of tenures less than one year. Cash and cash equivalents are available on call. The majority of premium accounts receivable, are due within one month of balance date. Substantially all liabilities are payable within one year of balance date.

c. Market risks

I. Foreign currency risk

At 30 June 2021, the New Zealand operations had assets of NZD $14,000 and no liabilities denominated in foreign currencies (30 June 2020: assets of $15,000 and no liabilities).

A movement of 100 basis points on these exchange rates would have an immaterial impact on the statement of profit or loss and other comprehensive income (2020: immaterial).

The Company's Australian branch exposes it to currency risk, as the branch's functional currency is Australian dollars. The New Zealand dollar equivalents of the Australian assets and liabilities at reporting date amounted to $10.1 million and $1.0 million respectively (2020: assets of $13.4 million and liabilities of $3.4 million).

As the Australian operation is considered an ongoing investment, no hedging of the foreign currency exposure is undertaken. Any movement in the Australian dollar exchange rate is reflected in the foreign currency translation reserve. A movement of 100 basis points on the Australian dollar exchange rate at year end would have an impact of $91,000 (2020: $100,000) on the net assets of the Company and the foreign currency translation reserve.

II. Interest rate risk

During the year, the Company invested in Kiwibank and ANZ bank deposits and with First Sentier Investors (Australia) IM Limited Fund (until February 2021). Through the underlying investments in these funds, the Company has indirect exposure to interest rate risk. There is a risk that any movement in interest rates can have an effect on the profitability and cash flows of the Company. The Company maintains an investment policy to mitigate this risk.

(i) *Cash flow interest rate risk*

The cash flows from investments of the Company in the short term are susceptible to changes in interest rates.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2021

4 RISK MANAGEMENT (continued)

Impact of change in interest rates	2021 $000	2020 $000	2021 $000	2020 $000
	Increase / (decrease) in cash flows		Increase / (decrease) in profitability	
Increase by 100 basis points	332	463	(15)	(30)
Decrease by 100 basis points	(332)	(463)	(15)	(23)

d. Fair values of financial assets and financial liabilities

All financial assets and financial liabilities included in the statement of financial position are measured at fair value. The table below analyses financial assets measured at fair at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised.

Definition of the fair value hierarchy

Level 1: Valuation based on quoted market prices (unadjusted) in an active market.

Level 2: Valuation techniques based on observable market data, either directly (as prices) or indirectly (derived from prices).

Level 3: Valuation techniques not based on observable market data.

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
30 June 2021				
Bank deposits	-	17,000	-	17,000
	-	17,000	-	17,000
30 June 2020				
Bank deposits	-	19,021	-	19,021
Units in unlisted trusts	-	10,301	-	10,301
	-	29,322	-	29,322

5 NET CLAIMS EXPENSE

The net claims expense represents payments made on claims and the movements in the outstanding claims and unexpired risk provisions.

The component of claims expense relating to risk ceded to reinsurers is recognised as reinsurance claim recoveries in the profit or loss and as reinsurance recoveries in the statement of financial position.

	2021 $000	2020 $000
Claims expense	4,864	22,752
Reinsurance claims recovery	233	(507)
Net claims expense	5,097	22,245
Claims incurred relating to risk borne in current financial year (gross)	5,729	25,275
Claim recoveries relating to risk borne in current financial year	-	(378)
Claims incurred relating to risk borne in the current financial year (net)	5,729	24,897
Claims incurred relating to risk borne in previous financial year (gross)	(725)	(3,576)
Claim recoveries relating to risk borne in previous financial year	239	1,462
Claims incurred relating to risk borne in previous financial year (net)	(486)	(2,114)
Increase / (decrease) in provision for claims handling cost	(165)	(28)
Increase / (decrease) in risk margin	19	(510)
Net claims expense	5,097	22,245

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2021

6 PREMIUM REVENUE

Gross written premiums from insurance contracts are recognised evenly over the period covered by the contract. For the travel operations, revenue is recognised from the date on which the travel period commences. Premiums written but unearned are recorded as unearned premiums. Premiums are stated net of fire service levies and stamp duty. Where premiums are billed and paid by instalments, the premium to be billed up to the next renewal date is recognised as a receivable and unearned premium liability.

Premiums ceded to reinsurers are recognised as reinsurer's share of the premium and deducted from gross premiums. The recognition of the expense in the profit or loss is in accordance with the pattern of reinsurance service received.

	2021 $000	2020 $000
Premium income	9,580	51,515
Reinsurers' share of premium	(345)	(4,520)
Net premiums	9,235	46,995

7 INVESTMENTS

The Company designates its investments as "financial assets at fair value through the profit or loss" at inception and they are held to match insurance contract liabilities. This eliminates or significantly reduces measurement or recognition inconsistency between assets and liabilities.

All investments are carried at fair value and recognised over a straight line basis over the contract period in accordance with the pattern of risk using the market bid price or valuation based on market observable data with changes in fair value recognised in the profit or loss. Transaction costs are recognised in the profit or loss on transaction date.

The Company is required to hold designated levels of funds in Australia to comply with the capital adequacy requirements of APRA in relation to the activities of the Australian branch (refer note 2). The Company requested a full redemption of the investment with First Sentier Investors IM Limited fund at 11 February 2021 due to the fund closure (2020: $10.3 million). The full redemption amount of $8.1m was transferred to our Australian bank account with CBA bank.

Interest income is recognised in the profit or loss as it accrues using the effective interest rate method.

Investment and other income	2021 $000	2020 $000
Interest income	293	275
Distribution income	-	391
Net gain on investment at fair value through profit or loss	-	45
Investment and other income	293	711

The amount and fair value hierarchies of investments are disclosed in Note 6.

8 OPERATING EXPENSES

	2021 $000	2020 $000
External Auditor's remuneration:		
– Audit of financial statements	162	129
– Other services	68	52
Internal Auditor's remuneration	114	314
Depreciation (note 12)	698	847
Amortisation of intangibles (note 12)	859	1,259
Employee benefits expense	4,573	8,282
Restructuring expenses	-	588
Rental of premises	115	174
Bank charges	78	435
Acquisition costs	848	2,195
Other direct expenses	2,601	5,824
Other overhead expenses	2,619	5,263
Operating expenses	12,735	25,325

External auditor's remuneration for other services consists of auditing the year end regulatory solvency return to the RBNZ and annual APRA reporting on the Australian branch. Other direct expenses include items such as IT costs, marketing and underwriting expenses.

The Company applied for and received the second round extension of the New Zealand Government wage subsidy in July 2020. A total of $302,000 has been recognised as a reduction of Employee benefits expenses in the statement of comprehensive income in the current year (2020:$546,000).

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NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2021

9 SHARE CAPITAL

Share capital comprises 4,600,000 (2020: 4,600,000) authorised, issued and fully paid ordinary shares. All ordinary shares have equal voting rights, and share equally in dividends and surplus on winding up.

No dividends were paid or declared during the year (30 June 20: $3,500,000).

10 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand and current account balances in bank accounts, which are readily convertible to cash, with original maturities of less than three months, and are carried at "amortised cost" as they are subject to an insignificant risk of changes in value.

11 PREMIUM RECEIVABLE AND OTHER ASSETS

The recoverability of reinsurance recoveries receivable is assessed at the reporting date and impairment is recognised where there is objective evidence that the Company may not receive the amounts due to it and these amounts can be reliably measured.

The costs incurred in acquiring insurance contracts are deferred in recognition that they represent future benefits.

Any amounts that give rise to premium income in subsequent reporting periods are deferred as an asset and amortised over the period covered by the insurance contract.

Premium and other receivables are stated at their cost less impairment losses. Impairment losses for uncollectable premiums are recorded as bad debt expense in the profit or loss. Under the NZ IFRS 9 definition of financial assets, premium and other receivables are classified as “financial assets at amortised cost”.

	2021 $000	2020 $000
Premium accounts receivable	136	161
Reinsurance recoveries receivable (note 11a)	12	155
Deferred acquisition costs (note 11b)	-	436
Deferred reinsurance assets	4	96
Net Investment in Sublease to Southern Cross Health Trust (note 14)	-	327
Advance to Southern Cross Health Trust (note 14)	2,000	2,000
Other assets	598	1,566
Premium Receivable and Other Assets	2,750	4,741

a. Reconciliation of movements in reinsurance recoveries receivable	2021 $000	2020 $000
Opening balance	155	338
Gross reinsurance recoveries on claims paid during the year	356	1,671
Reinsurance recoveries settled by reinsurer during the year	(499)	(1,854)
Closing balance	12	155

b. Reconciliation of movements in deferred acquisition cost	2021 $000	2020 $000
Opening balance	436	924
Gross commissions paid during the year	794	1,897
Deferred acquisition cost write down	(382)	(190)
Commissions incurred during the year	(848)	(2,195)
Closing balance	-	436

Premium and other receivables is a current asset with the exception of a lease to Southern Cross Health Trust which in the current year contains a non-current portion of nil (2020: $191,000). Other assets include $181,000 (2020: $744,000) reinsurance recoveries on outstanding claims.

Deferred acquisition costs balances were written down by $0.4m (2020: $0.2m) following the Actuary's assessment of a shortfall in the liability adequacy test (LAT) (refer note 3c).

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NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2021

12 FIXED AND INTANGIBLE ASSETS

Fixed assets and intangibles are non-current assets.

FIXED ASSETS	Right-of-use assets	Leasehold Improvements	Other fixed assets	Total
At 30 June 2020		$000	$000	$000
Cost	1,418	966	2,053	4,437
Accumulated depreciation	(439)	(713)	(1,801)	(2,953)
Opening net book value	**979**	**253**	**252**	**1,484**
Derecognition of leased asset - cost	(30)	-	-	(30)
Derecognition of leased asset - accumulated depreciation	23	-	-	23
Depreciation	(438)	(134)	(126)	(698)
Closing net book value	**534**	**119**	**126**	**779**
At 30 June 2021				
Cost	1,388	966	2,052	4,406
Accumulated depreciation	(854)	(847)	(1,926)	(3,627)
Closing net book value	**534**	**119**	**126**	**779**

Other fixed assets include furniture and fittings, office equipment and computer equipment.

The derecognition of leased asset relates to the cancellation of a motor vehicle lease in May 2021.

INTANGIBLE ASSETS	Computer Software	Work in progress	Total
At 30 June 2020	$000	$000	$000
Cost	10,131	1,994	12,125
Accumulated amortisation	(8,246)	-	(8,246)
Opening net book value	**1,885**	**1,994**	**3,879**
Additions	27	-	27
Transfer from work in progress	1,994	(1,994)	-
Amortisation for the year	(859)	-	(859)
Closing net book value	**3,047**	**-**	**3,047**
At 30 June 2021			
Cost	12,152	-	12,152
Accumulated amortisation and impairment	(9,105)	-	(9,105)
Closing net book value	**3,047**	**-**	**3,047**

Recognition and measurement, including impairment

The carrying amounts of the Company's assets are reviewed at each balance date to determine whether there is any objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses directly reduce the carrying amount of the asset and are recognised in the profit or loss. The estimated recoverable amount of assets is the greater of fair value less costs to sell, or value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units ("CGU")). Management consider there to be only one CGU being the travel business as a whole. As such, an impairment test is performed for the whole of the Company using the value-in-use ("VIU") method to test the recoverable amount of the CGU.

Fixed Assets

Fixed assets are measured at cost, less accumulated depreciation and impairment losses. Where material parts of an item of fixed assets have different useful lives, they are accounted for as separate items of fixed assets.

Subsequent costs are added to the carrying amount of an item of fixed assets when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Company and the cost of the item can be measured reliably. All other costs are recognised in the profit or loss as an expense as incurred.

Depreciation is recognised in the profit or loss on a straight-line basis over the estimated useful lives of each part of an item of fixed assets. The depreciation rates for the current and comparative periods are as follows:

- Computer equipment 25% - 33% per annum
- Furniture and fittings 15% - 20% per annum
- Office equipment 15% - 20% per annum
- Leasehold improvements 8% - 20% per annum

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2021

12 FIXED ASSETS AND INTANGIBLES (continued)

Computer Software and Work in Progress

Most of the computer software and work in progress is internally generated.

Computer software is recognised as an intangible asset when it is not an integral part of the computer hardware. Software development expenditure that meets the criteria for recognition as an intangible asset is capitalised and amortised over its expected useful life, subject to impairment testing. The useful life of each capitalised asset is assessed by management, taking into account the expected duration that the asset will contribute value to the business. The capitalised costs are amortised on a straight line basis over the period following completion of a project or implementation of part of a project.

Capital expenditure on major projects is initially recorded as work in progress. On completion of the project the asset is transferred to computer software. Work in progress is not depreciated.

13 PAYABLES AND OTHER LIABILITIES

Payables are measured at cost. Under the NZ IFRS 9 definition of financial liabilities, payables are classified as “other liabilities at amortised cost”.

	Note	2021 $000	2020 $000
Accounts payable		1,449	1,479
Employee benefits		561	1,014
Lease liability	13a	634	1,452
Premium refunds payable		787	1,606
Other liabilities		353	999
Payables and other liabilities		3,784	6,550

Payables and other liabilities are current liabilities except for $130,000 (2020: $836,000) included in lease liability being the non-current portion of the lease liability.

Employee benefits represent the current obligation to employees in respect of outstanding salaries, leave entitlements and other short term benefits.

a. Lease liabilities	**Motor vehicles $000**	**Premises $000**	**Total $000**
At 30 June 2020			
Cost	30	1,992	2,022
Accumulated interest expense and principal repayments	(12)	(558)	(570)
Opening net book value	**18**	**1,434**	**1,452**
Interest expense	1	38	39
Derecognition of Lease - cost	(30)	(469)	(499)
Derecognition of Lease - Accumulated interest expense and principal repayments	23	210	233
Principal repayment	(12)	(579)	(591)
Closing net book value	**-**	**634**	**634**
At 30 June 2021			
Cost	-	1,523	1,523
Accumulated amortisation and impairment	-	(889)	(889)
Closing net book value	**-**	**634**	**634**

14 RELATED PARTIES

a. Identity and relationship of related parties:

♦ Southern Cross Health Trust (“Health Trust”)	Parent of the Company
♦ Southern Cross Healthcare Limited (“Healthcare”) (previously Hospitals)	100% subsidiary of Health Trust
♦ Southern Cross Medical Care Society (“Society”)	Related party to Parent
♦ Southern Cross Insurance Services Limited	Subsidiary of Society
♦ Southern Cross Health Services Limited	Subsidiary of Society
♦ Southern Cross Pet Insurance Limited	Subsidiary of Society

All these related entities have 30 June balance dates.

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NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2021

14 RELATED PARTIES (Continued)

The Company, the Healthcare and the Society are separate legal entities which work together in certain areas such as legal, payroll and HR, under fully costed service level agreements which dictate the expectations of each entity. In 2021, such costs to the Company totalled $7,000 (2020: $7,000).

Any other costs incurred by one entity on behalf of another are reimbursed monthly.

The Company purchased health insurance for its employees from the Society, to the value of $52,000 (2020: $74,000).

No advances to the Health Trust were made during 2021 (2020: none). $2,000,000 was receivable at 30 June 2021 (2020: $2,000,000).

Until January 2021, the Company subleased the entirety of a floor in the AMP Centre building to Southern Cross Healthcare Limited. Lease receipts for the year were $85,000 (2020: $125,000).

The amount of transactions with other related parties	**2021 $000**	**2020 $000**
Sales of services	155	164
Purchase of services	64	8,263
The outstanding balances with other related parties		
Receivables	2,024	2,049
Payables	4	22

b. Remuneration of Directors

The Company did not pay any Directors' fees for 2021 (2020: nil) as fees are paid on behalf on the Company by the Trust. The Company provides Directors with directors' and officers' liability insurance cover for liabilities to other parties that may arise from their positions as directors.

c. Remuneration of key management personnel	**2021 $000**	**2020 $000**
Salaries and other short-term benefits	1,342	1,605

Key management personnel include the chief executive officer and senior executives. The number of senior executives decreased during the year. The Company does not provide loans, advances or post-employment benefits to key management personnel. At each reporting date there are amounts outstanding to key management personnel comprising salaries, earned leave and short-term incentives.

15 CONTINGENT LIABILITIES

The Company has a standby letter of credit arrangement as a requirement of its merchant acquiring facility in Australia. The maximum value of this facility is $200,000 Australian dollars (2020: $200,000 Australian dollars).

The Company identified and reported to FENZ a shortfall in levy payments of $311,542. This shortfall has been provided for at 30 June 2021 and will be paid subsequent to the reporting period. There is also the possibility of the Company being liable for further shortfall surcharges and accruing interest under the provisions of the Fire Services Act 1975. No provision has been made for any shortfall surcharges and associated interest on the basis that imposition of any such penalties are not deemed probable. This is due to a number of factors including the Company identifying the shortfall itself, the Company promptly reporting to FENZ, correcting payments going forward, and the Company's charitable status. Due to the low probability of liability for surcharge and interest, a contingent liability is disclosed but no provision has been made.

16 CAPITAL COMMITMENTS

The Company had no capital commitments at 30 June 2021 (2020: Nil)

17 SUBSEQUENT EVENTS

There were no events subsequent to the reporting period which would materially affect the financial statements (30 June 2020: Nil)

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Independent Auditor's Report

To the shareholder of Southern Cross Benefits Limited

Report on the audit of the financial statements

Opinion

In our opinion, the accompanying financial statements of Southern Cross Benefits Limited (the 'company') on pages 4 to 20:

i. present fairly in all material respects the company's financial position as at 30 June 2021 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 statement of financial position as at 30 June 2021;
- the statements of comprehensive income and changes in equity, changes in equity and 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 company 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.

Our firm has also provided other services to the company in relation to the audit of the year-end solvency return and annual APRA reporting. Subject to certain restrictions, partners and employees of our firm may also deal with the company on normal terms within the ordinary course of trading activities of the business of the company. These matters have not impaired our independence as auditor of the company. The firm has no other relationship with, or interest in, the company.

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 $606,700 determined with reference to a benchmark of the company's net assets.

We chose the benchmark because, in our view, this is a key indicator of the company's solvency and its ability to pay claims which is a primary area of focus for users of the financial statements.

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 shareholder 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 insurance contract liabilities and reinsurance recoveries on outstanding claims	
Refer to Note 3, Note 4a, and Note 11 to the financial statements. Valuation of the company's provision for outstanding claims (included within insurance contract liabilities in Note 3), and valuation of reinsurance recoveries on outstanding claims (included within other assets in Note 11) requires significant judgement from management and the company's externally appointed actuarial specialist. The COVID-19 pandemic has continued to create significant additional risks in the assessment of the outstanding claims liabilities. The expected claims experience is inherently more uncertain due to changes in claims incidence. This increased risk impacted the extent and nature of audit evidence that we had to gather, specifically in relation to the key actuarial assumptions and judgements applied.	Our audit procedures included: — Testing a sample of claim payments to check whether they had the appropriate level of authorisation and support; — Testing the reconciliation of claims data from the underlying claims systems to the data used in the actuary's valuation of outstanding claims and reinsurance recoveries; — Comparing a sample of reinsurance recoveries recognised to the terms of the underlying reinsurance contracts and claims data; — Assessing the recoverability of balances owed by reinsurer counterparties by considering their credit worthiness and capital strength, based on external sources of information and historical experience; and — With support from our actuarial specialists, assessing the work of the company's appointed actuary in estimating the future claims costs on claims incurred by 30 June 2021 and associated reinsurance recoveries, including: - the appropriateness of the valuation methodology, estimates and assumptions, against relevant accounting and actuarial standards; - the appropriateness of key assumptions including claims frequency, payment patterns and claims inflation against benchmark information; - separate consideration of the ongoing impact of COVID-19 on the valuation methodology and assumptions; and - comparing previous estimates to actual claims development in the current year (i.e. performing a hindsight analysis). We did not identify any material exceptions from procedures performed, and found the judgements and assumptions, including those adopted in response to COVID-19, to be balanced and consistent with our understanding of the company.

The key audit matter	How the matter was addressed in our audit
Business operations and basis of preparation	
Refer to Note 1 to the financial statements. The COVID-19 pandemic has had a significant impact on the size and scale of the company's operations, with revenue significantly reduced, and pressure on cashflows from premium refunds and fixed costs. International travel has been significantly restricted, and New Zealand borders have been closed since 19 March 2020 to date. Subsequent to this, the company identified customers impacted by the travel ban and eligible for premium refunds and commenced refunding premiums. In addition to the above, the company underwent an internal restructuring to "right-size" its operations, and applied for and received the Government wage subsidy. The above factors may indicate the existence of events or conditions casting doubt on going concern, and may suggest indicators of impairment of non-financial assets. The COVID-19 impact on 30 June 2021 financial statements has been pervasive and required significant management attention and judgement.	Our audit procedures included : — Assessing the accounting treatment of premium refunds, and agreeing a sample of refunds payable to supporting documentation; — Assessing the derecognition of premium refund liabilities, and recognition and measurement of related premium revenue, by agreeing a samples of revenue recognised to supporting documentation; — Evaluating management's assessment of the existence of any onerous contracts against relevant accounting standards; — Assessing the recognition and measurement of the wage subsidy against relevant accounting standards, and agreeing the amount recognised to communication from the New Zealand government, and bank statements; — Evaluating management's assessment of the use of the going concern assumption, and challenging management's judgements and assumptions underlying this analysis; — Evaluating management's impairment assessment of non-financial assets against relevant accounting standards, including the identification of the CGU, and challenging the key inputs and assumptions used in the Value in Use calculation; and — With support from our actuarial specialists, assessing the work of the company's appointed actuary in estimating the impact on the valuation of insurance contract liabilities, including the impact of the new domestic products. We did not identify any material exceptions from procedures performed.

Other information

The Directors, on behalf of the company, are responsible for the other information included in the company's Annual Report. Other information includes the annual report disclosures, governance statement, and appointed actuary's report issued under section 78 of the Insurance (Prudential Supervision) Act 2010. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

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

Use of this independent auditor’s report

This independent auditor’s report is made solely to the shareholder as a body. Our audit work has been undertaken so that we might state to the shareholder 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 shareholder 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 company, 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.

The engagement partner on the audit resulting in this independent auditor's report is Kay Baldock.

For and on behalf of

KPMG

KPMG
Auckland

20 September 2021

Appointed Actuary's report to the Directors of Southern Cross Benefits Limited

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Report in respect of a review of actuarial information in, or used in the preparation of, financial statements

This report is provided under section 78 of the Insurance (Prudential Supervision) Act 2010 ("the Insurance Act"), and relates to a review of the actuarial information in, or used in the preparation of, the financial statements of Southern Cross Benefits Limited ("SCBL") for the year ended 30 June 2021.

I have been advised by SCBL that the financial statements for SCBL are scheduled to be authorised for issue by the Board of Directors on 17 September 2021 and that the accompanying independent auditors' report is scheduled to be issued as soon as practicable after the issue of the signed financial statements to the auditors.

Name of Appointed Actuary conducting the review

I, Win-Li Toh, of Taylor Fry Consulting Actuaries ("Taylor Fry") am a Fellow of the New Zealand Society of Actuaries and have conducted this review in my role as appointed actuary to SCBL.

Work done in relation to actuarial information used in the financial statements

The actuarial information used in the financial statements comprises the following items, determined in accordance with the New Zealand Equivalent to International Financial Reporting Standard 4 ("NZ IFRS 4") as at 30 June 2021:

- Outstanding claims provision at a 75% probability of sufficiency;
- Unearned premium / unexpired risk provision;
- Deferred acquisition cost asset;
- Solvency capital requirement, calculated in accordance with the Solvency Standard for Non-life Insurance Business issued by the Reserve Bank of New Zealand ("RBNZ").

The Statement of Financial Position consolidates the outstanding claims provision and the unearned premium / unexpired risk provision as a single line item "insurance contract liabilities". The information received, methods, assumptions and limitations of the estimation of insurance liabilities are set out in two reports:

- "Southern Cross Benefits Limited – New Zealand Insurance Liabilities at 30 June 2021" dated 25 August 2021 and
- "Southern Cross Benefits Limited – Australian Branch Insurance Liabilities at 30 June 2021" dated 25 August 2021.

These reports set out the results of applying the Liability Adequacy Test.

The components of the solvency capital requirement were advised to SCBL in the form of the Insurer Solvency Return on 1 September 2021. This is to be submitted to the RBNZ.

Scope and limitations of review

This report is prepared for the Directors of SCBL, solely for the purposes set out in section 78 of the Insurance Act and for no other purpose.

Confirmation of independence

Other than that of appointed actuary, I confirm that I have no relationship with, or any other interests in SCBL.

Information received

I consider that I have been provided with all relevant information and explanations from SCBL.

Opinion

In my opinion:

- SCBL is maintaining the solvency margin that applies under section 21(2)(b) of the Insurance Act at 30 June 2021;
- The actuarial information contained in the financial statements for SCBL has been appropriately included in those statements; and
- The actuarial information used in the preparation of the financial statements for SCBL has been used appropriately.

Win-Li Toh

Fellow of the New Zealand Society of Actuaries

6 September 2021