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To
Registrar of Financial Service Providers
National Processing Centre
Companies Office
Level 18, 135 Albert Street
Auckland 1010

From
Frank Porter
Benjamin Sutton
Grace Alexander

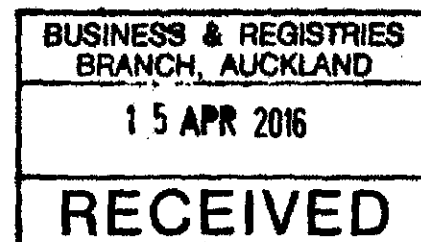
Date
14 April 2016

Hallmark Life Insurance Company Limited – Financial Statements for the year ended 31 December 2015

1. We act for Hallmark Life Insurance Company Limited (company number 486643) ("**Hallmark Life**").
2. We **enclose** for registration the following documents in respect of Hallmark Life for the year ended 31 December 2015:
 - (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 (Hallmark Life Insurance Company Limited) Exemption Notice 2016 ("**Exemption Notice**"). A copy of the Exemption Notice is **enclosed** for your reference.

Yours faithfully
Buddle Findlay

Benjamin Sutton
Senior Associate



Hallmark Life Insurance Company Ltd

ABN 87 008 446 884

**Annual financial statements
for the year ended 31 December 2015**

Hallmark Life Insurance Company Ltd ABN 87 008 446 884
Financial report - 31 December 2015

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The Directors present their report together with the financial statements of Hallmark Life Insurance Company Ltd (the Company) for the year ended 31 December 2015 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;

JoAnne Maree Stephenson (Chairman)
Duncan Gerald West
Rachel Emma Cobb
Anna Elizabeth Gladman
Christopher Paul Knoblanche

Principal activities

The principal activity of the Company during the year was that of a life insurer, operating both in Australia and New Zealand and acting as a holding company of Hallmark General Insurance Company Ltd. There has been no significant change in the nature of this activity during the year.

Review of operations

The total comprehensive income of the Company for the financial year after income tax was \$7,614,000 (2014: \$113,768,000, excluding dividend from Hallmark General Insurance Company Ltd \$10,768,000).

This result was driven by a decline in premium revenue of \$6,636,000 across all channels in Australia and New Zealand. Investment income has decreased by \$4,302,000 impacted by lower investment holdings and yields. The overall decline in income was offset by a decrease in claims and administration expenses of \$7,224,000 and a decrease in policy liabilities of \$2,050,000.

Significant changes in the state of affairs

On 19 March 2015, KVD Australia Pty Ltd entered into a share sale agreement with GE Capital Finance Australasia Pty Ltd, to purchase 100% share capital of GE Capital Australia Holdings Pty Ltd and indirectly its six subsidiaries. The sale was executed on 24 November 2015 following regulatory approval. The subsidiaries acquired include Hallmark Life Insurance Company Ltd and Hallmark General Insurance Company Ltd.

Dividends

No dividends were paid or declared by the Company in respect of the financial year 31 December 2015 (2014: \$240,000,000).

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 31 December 2015 that has significantly affected, or may significantly affect:

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

On the 3rd March 2016, the Board resolved to redeem the preference shares (\$9,600,000) held by the Company back to the Parent. After the redemption, the Company will continue to remain well capitalised. This will not significantly impact the Company's results or operations.

Likely developments and expected results of operations

The Company will continue to operate in its existing business, being Life Insurance, in the next financial year.

Environmental regulation

The Group's operations are subject to environmental regulations under Commonwealth and State legislation. The board believes the Group has adequate systems in place for the management of its environmental obligations, and is not aware of any material breach of those environmental obligations as they apply to the Group.

Indemnification and insurance of officers and auditors

Indemnification

Mandatory indemnification and legal costs

To the maximum extent permitted by law, the Company:

- (a) shall indemnify any current or former officer of the Company who was or is made or is threatened to be made a party or is otherwise involved in any proceeding by reason of the fact he or she is or was an officer of the Company against all liability and loss suffered and expenses reasonably incurred by that officer (except a liability for legal costs); and
- (b) shall indemnify an officer against legal costs incurred by that officer in defending any proceeding for which that officer is entitled to be indemnified pursuant to (a) above, in advance of its final disposition provided however that such payment of legal costs shall only be made in advance of final disposition of the proceeding upon receipt of an undertaking by the officer to repay all amounts advanced if it should be ultimately determined that the officer is not entitled to be indemnified

Permissive indemnification and legal costs

To the maximum extent permitted by law, the Company:

- (a) may indemnify any person who is not an officer of the Company (non-officer) against any liability or loss incurred by that non-officer in their performance of, or in connection with, the role undertaken by them for or on behalf of the Company (except a liability for legal costs); and
- (b) may indemnify a non-officer against legal costs incurred by that non-officer in defending any proceeding for which such non-officer is entitled to be indemnified pursuant to (a) above, in advance of its final disposition provided however that, to the extent required by law, such payment of legal costs shall only be made in advance of final disposition of the proceeding upon receipt of an undertaking by the non-officer to repay all amounts advanced if it should be ultimately determined that the non-officer is not entitled to be indemnified.

Any such permissive indemnity must be evidenced by way of written agreement by any officer designated by the board of directors for such purpose.

Indemnification and insurance of officers and auditors (continued)

Insurance

During the financial year ended 31 December 2015 General Electric Company has paid premiums on behalf of the Company in respect of directors' and officers' liability insurance (non-indemnifiable coverage only) in respect of the period up to 24th November 2015.

Subsequently, the ultimate parent entity, KVD Australia Holdco Pty Ltd, has agreed to pay premiums on behalf of the Company, in respect of directors' and officers' liability insurance (non-indemnifiable coverage only) in respect of the period ending 25 November 2016.

Such insurance policies insure directors and officers against certain limited liabilities.

Directors have not included details of the nature of the liabilities covered or the amount of the premium paid as such disclosure is prohibited under the terms of the insurance policy.

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.

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*.


Lead Auditor's independence declaration

The lead auditor's independence declaration as required under section 307C of the *Corporations Act 2001* forms part of the directors' report for the year ended 31 December 2015 and is set out on page 4.

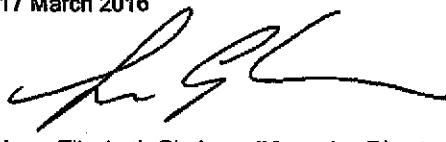
Rounding of amounts

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 (as amended) and in accordance with that class order, amounts in this 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.



JoAnne Marea Stephenson (Chairman)
Director
Sydney
17 March 2016



Anna Elizabeth Gladman (Managing Director)
Director
Sydney
17 March 2016



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 for the financial year ended 31 December 2015 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



Andrew Reeves
Partner

Sydney

17 March 2016

Hallmark Life Insurance Company Ltd
Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2015

	Notes	2015 \$'000	2014 \$'000
Insurance premium revenue	1(a)	28,571	35,179
Outwards reinsurance premium expense		(586)	(558)
Net insurance premium revenue		27,985	34,621
Other revenue from ordinary activities		-	(10)
Investment income	1(b)	2,697	109,999
Total revenue		30,682	144,610
Claims expenses	1(c)	13,916	19,305
Reinsurance and other recoveries		(399)	(952)
Net claims incurred		13,517	18,353
Decrease in policy liabilities	2(e)(i)	(5,512)	(3,496)
Decrease in reinsurers share of policy liabilities	2(e)(i)	3	37
Net decrease in policy liabilities		(5,509)	(3,459)
Administration expenses	1(d)	10,112	12,500
Total claims and expenses		18,120	27,394
Profit before income tax		12,562	117,216
Income tax expense	1(f)	4,435	4,183
Profit for the year		8,127	113,033
Other comprehensive income			
<i>Items that may be reclassified subsequently the profit or loss:</i>			
Exchange differences on translation of foreign operations		(513)	735
Total items that may be reclassified subsequently the profit or loss		(513)	735
Other comprehensive (loss)/ income for the year, net of tax		(513)	735
Total comprehensive income for the year		7,614	113,768
Profit is attributable to:			
Owners of Hallmark Life Insurance Company Ltd		8,127	113,033
		8,127	113,033
Total comprehensive income for the year is attributable to:			
Owners of Hallmark Life Insurance Company Ltd		7,614	113,768
		7,614	113,768

The above Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

Hallmark Life Insurance Company Ltd
Statement of Financial Position
As at 31 December 2015

	Notes	2015 \$'000	2014 \$'000
ASSETS			
Cash and cash equivalents	2(a)	101,230	105,830
Trade and other receivables	2(b)	2,193	919
Current tax assets		39	-
Financial assets at fair value through profit or loss	2(c)	-	951
Reinsurance and other recoveries receivable	2(d)	280	1,013
Gross policy liability ceded under reinsurance	2(e)(i)	43	46
Investment in controlled entity	3(b)	103,385	103,619
Total assets		<u>207,170</u>	<u>212,378</u>
LIABILITIES			
Trade and other payables	2(f)	554	5,750
Current tax liabilities		-	996
Deferred tax liabilities	3(a)	142	155
Policy claims in the process of settlement	2(g)	2,307	2,902
Gross policy liabilities	2(e)(i)	29,699	35,282
Total liabilities		<u>32,702</u>	<u>45,085</u>
Net assets		<u>174,468</u>	<u>167,293</u>
EQUITY			
Contributed equity	4(a)	10,100	10,100
Reserves	4(b)	84,383	85,336
Retained earnings		79,985	71,858
Total equity		<u>174,468</u>	<u>167,293</u>

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Hallmark Life Insurance Company Ltd
Statement of Changes in Equity
For the year ended 31 December 2015

		Attributable to owners of Hallmark Life Insurance Company Ltd			
		Contributed equity	Reserves	Retained earnings	Total equity
		\$'000	\$'000	\$'000	\$'000
Notes					
	Balance at 1 January 2014	10,100	80,683	198,825	289,608
	Profit for the year	-	-	113,033	113,033
	Other comprehensive income	-	735	-	735
	Total comprehensive income for the year	-	735	113,033	113,768
	Dividends paid	-	-	(240,000)	(240,000)
8(b)	Tax consolidation reserve	-	3,917	-	3,917
	Balance at 31 December 2014	<u>10,100</u>	<u>85,335</u>	<u>71,858</u>	<u>167,293</u>
	Balance at 1 January 2015	10,100	85,335	71,858	167,293
	Profit for the year	-	-	8,127	8,127
	Other comprehensive income	-	(513)	-	(513)
	Total comprehensive income for the year	-	(513)	8,127	7,614
	Tax consolidation reserve	-	(439)	-	(439)
	Balance at 31 December 2015	<u>10,100</u>	<u>84,383</u>	<u>79,985</u>	<u>174,468</u>

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Hallmark Life Insurance Company Ltd
Statement of Cash Flows
For the year ended 31 December 2015

	Notes	2015 \$'000	2014 \$'000
Cash flows from operating activities			
Premium received		18,778	34,551
Outward reinsurance expense		(627)	(573)
Claims paid		(6,024)	(19,847)
Payments to suppliers and employees		(11,706)	(6,148)
Interest received		2,745	8,783
Dividends received		-	102,813
Income taxes paid		(5,464)	(1,156)
Reinsurance and other recoveries		1,132	293
Fees and commissions paid		(4,403)	(3,791)
Net cash (outflow) inflow from operating activities	5(a)	<u>(5,569)</u>	<u>114,925</u>
 Investing activities			
Payment for financial assets		-	(620)
Proceeds from sale of financial assets		-	50,292
Proceeds from held-to-maturity investments		951	-
Net cash inflow/ from investing activities		<u>951</u>	<u>49,672</u>
 Financing activities			
Dividends paid to company's shareholders	8(b)	-	(240,000)
Net cash inflow/(outflow) from financing activities		<u>-</u>	<u>(240,000)</u>
 Net (decrease) in cash and cash equivalents		<u>(4,618)</u>	<u>(75,403)</u>
Cash and cash equivalents at 1 January		105,830	180,330
Effects of exchange rate changes on cash and cash equivalents		18	903
Cash and cash equivalents at 31 December	2(a)	<u>101,230</u>	<u>105,830</u>

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

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Financial performance

This section provides additional information about those individual line items in the financial statements, relating to financial performance, that the directors consider most relevant in the context of the operations of the entity.

1 Profit or loss information

(a) Insurance premium revenue

	2015 \$'000	2014 \$'000
Direct life insurance premiums - single	19,157	24,872
Direct life insurance premiums - regular	8,163	8,714
Non life insurance premiums	1,251	1,593
Total insurance premium revenue	28,571	35,179

(b) Investment income

	2015 \$'000	2014 \$'000
Interest income	2,697	7,632
Realised net gains/(losses)	-	159
Unrealised net (losses)/gains	-	(782)
Dividend income	-	102,990
Total investment income	2,697	109,999

(c) Claims expenses

	2015 \$'000	2014 \$'000
Death and disability	3,424	5,195
Unemployment	(94)	41
Terminations of policies	10,586	14,069
Total claims expenses	13,916	19,305

(d) Administration expenses

	2015 \$'000	2014 \$'000
Policy maintenance - others	6,781	7,778
Foreign exchange (gains)/losses	(375)	(41)
Policy acquisition cost - others	450	662
Policy acquisition cost - commission	3,139	3,742
Investment management expenses	117	359
Total administration expenses	10,112	12,500

1 Profit or loss information (continued)

(e) Profit before income tax

	2015 \$'000	2014 \$'000
<i>Profit before income tax includes the following specific expenses:</i>		
<i>Employee costs</i>		
Personnel cost	123	188
Contribution to superannuation fund	5	8
Change in annual and long service leave provision	(5)	(10)
<i>Other administrative expenses</i>		
Marketing fees	57	(150)
Management fees	6,272	7,918

(f) Income tax expense

(i) Income tax expense

	2015 \$'000	2014 \$'000
Current tax expense	3,760	4,182
Deferred tax (note 3(a))	(118)	(83)
Adjustments for current tax of prior periods	143	84
Additional exit payment adjustments	650	-
Income tax expense	4,435	4,183

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

	2015 \$'000	2014 \$'000
Profit from continuing operations before income tax expense	12,562	117,216
Tax at the Australian tax rate of 30% (2014 - 30%) and tax at the New Zealand tax rate of 28% (2014 - 28%)	3,688	35,071
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Adjustment for Hallmark New Zealand policyholder base	26	(75)
Non-taxable income	(72)	-
Non-taxable dividends	-	(30,897)
	3,642	4,099
Adjustments for current tax of prior periods	143	84
Additional exit payment adjustment	650	-
Income tax expense	4,435	4,183

1 Profit or loss information (continued)

(g) Statement of sources of operating profit

	2015 \$'000	2014 \$'000
The shareholders' operating profit after income tax of the statutory funds is represented by:		
Investment earnings on shareholders' retained and capital	619	1,614
Emergence of shareholders' planned profits	5,064	5,262
Experience profit/(loss)	1,530	873
	<u>7,213</u>	<u>7,749</u>

Balance sheet management

This section provides additional information about those individual line items in the statement of financial position that the directors consider most relevant in the context of the operations of the entity.

2 Financial assets and financial liabilities

(a) Cash and cash equivalents

	2015 \$'000	2014 \$'000
Cash at bank	16,848	13,621
Short term deposits	84,382	92,209
Total cash and cash equivalents	<u>101,230</u>	<u>105,830</u>

(b) Trade and other receivables

	2015 \$'000	2014 \$'000
Trade receivables	548	675
Investment income accrued and receivable	195	241
Other receivables	1,450	3
Total trade and other receivables	<u>2,193</u>	<u>919</u>

Trade and other receivables - current	<u>2,193</u>	<u>919</u>
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These balances include amounts receivable from related parties (note 13(b)).

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

(c) Financial assets at fair value through profit or loss

	2015 \$'000	2014 \$'000
Debt security - Foreign national government	-	951
Fixed interest securities	-	-
Total assets at fair value through profit or loss	<u>-</u>	<u>951</u>

2 Financial assets and financial liabilities (continued)

(c) Financial assets at fair value through profit or loss (continued)

Financial assets at fair value through profit or loss - current	-	951
Financial assets at fair value through profit or loss - non-current	-	-
	<u>-</u>	<u>951</u>

(d) Reinsurance and other recoveries receivable

	2015 \$'000	2014 \$'000
Expected future reinsurance recoveries undiscounted		
Outstanding claims	<u>280</u>	<u>1,013</u>
Reinsurance and other recoveries receivable - current	<u>280</u>	<u>1,013</u>

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

(e) Policy liabilities

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

	2015 \$'000	2014 \$'000
Gross life insurance contract liabilities		
Balance at 1 January	35,282	38,607
Foreign exchange movement	(71)	171
Decrease in life insurance contract liabilities reflected in the profit or loss	<u>(5,512)</u>	<u>(3,496)</u>
Closing balance at 31 December	<u>29,699</u>	<u>35,282</u>
Reinsurers' share of life insurance contract liabilities		
Balance at 1 January	46	83
Decrease in reinsurance assets reflected in the profit or loss	<u>(3)</u>	<u>(37)</u>
Closing balance at 31 December	<u>43</u>	<u>46</u>
Net insurance contract liabilities	<u>29,656</u>	<u>35,236</u>
Net insurance contract liabilities - current	15,696	17,424
Net insurance contract liabilities - non current	<u>13,960</u>	<u>17,812</u>
	<u>29,656</u>	<u>35,236</u>

2 Financial assets and financial liabilities (continued)

(e) Policy liabilities (continued)

(ii) Components of net life insurance contract liabilities

	2015 \$'000	2014 \$'000
Best estimate liability:		
Future policy benefits (Note (2) below)	32,870	39,006
Unrecouped acquisition expenses	<u>(3,214)</u>	<u>(3,770)</u>
Total best estimate liability	29,656	35,236
 Value of future shareholder profit margins (Note 1 below)	 <u>-</u>	 <u>-</u>
Net policy liabilities	<u>29,656</u>	<u>35,236</u>

- (1) This item is not specifically calculated under the accumulation method.
(2) 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) 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 relevant Prudential Standards as prescribed by APRA. 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 (APRA)).

The excess of the Company's capital base over the PCA as at 31 December 2015 was \$71.6 million (2014: \$71.9 million).

The available assets of each statutory fund have also exceeded the Prudential Capital Requirement at all times during the year ending 31 December 2015.

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

2 Financial assets and financial liabilities (continued)

(e) Policy liabilities (continued)

2015	Statutory Fund 1 \$'000	Statutory Fund 2 \$'000	Shareholder Fund \$'000	Total \$'000
(a) Capital base	14,049	6,050	116,420	136,519
(b) Prescribed capital amount	811	275	63,834	64,920
Capital in excess of prescribed capital amount = (a) - (b)	13,238	5,775	52,586	71,599
Capital adequacy multiple = (a)/(b)	17.32	21.99	1.82	2.10
Capital Base:				
Net assets	12,184	5,665	156,619	174,468
Less: Difference between adjusted policy liabilities and policy liabilities	1,865	385	-	2,250
Less: Adjustments to the value of the holding in Hallmark General	-	-	(30,599)	(30,599)
Less: Additional adjustments to capital base	-	-	(9,600)	(9,600)
Equals: Capital base	<u>14,049</u>	<u>6,050</u>	<u>116,420</u>	<u>136,519</u>
Prescribed capital amount:				
Asset risk charge	122	58	3,877	4,057
Asset concentration risk charge	-	-	58,238	58,238
Operational risk charge	689	217	-	907
Combined stress scenario adjustment	-	-	1,718	1,718
Prescribed capital amount	<u>811</u>	<u>275</u>	<u>63,833</u>	<u>64,920</u>
2014	Statutory Fund 1 \$'000	Statutory Fund 2 \$'000	Shareholder Fund \$'000	Total \$'000
(a) Capital base	9,828	34,982	89,592	134,402
(b) Prescribed capital amount	1,016	423	60,968	62,407
Capital in excess of prescribed capital amount = (a) - (b)	8,812	34,559	28,624	71,995
Capital adequacy multiple = (a)/(b)	9.68	82.63	1.47	2.15
Capital Base:				
Net assets	7,822	34,439	125,032	167,293
Less: Difference between adjusted policy liabilities and policy liabilities	2,006	543	-	2,549
Less: Elimination of any excess DTAs over DTLs	-	-	(6)	(6)
Less: Adjustments to the value of the holding in Hallmark General	-	-	(35,434)	(35,434)
Common equity tier 1 capital	<u>9,828</u>	<u>34,982</u>	<u>89,592</u>	<u>134,402</u>
Prescribed capital amount:				
Asset risk charge	111	140	3,115	3,366
Asset concentration risk charge	-	-	56,986	56,986
Operational risk charge	905	283	-	1,188
Combined stress scenario adjustment	-	-	867	867
Prescribed capital amount	<u>1,016</u>	<u>423</u>	<u>60,968</u>	<u>62,407</u>

2 Financial assets and financial liabilities (continued)

(e) Policy liabilities (continued)

(iv) 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 2015 \$'000	2014 \$'000	Profit after Tax 2015 \$'000	2014 \$'000
Shareholders interest (overseas and non-participating businesses)	(5,406)	61,381	7,213	7,749

(f) Trade and other payables

	2015 \$'000	2014 \$'000
Trade payables	96	295
Other payables	458	5,455
Total trade and other payables	554	5,750
 Trade and other payables - current	 546	 5,750

The carrying amount disclosed above approximates fair value at reporting date.
These balances include amounts payable to related parties (note 13(b)).

(g) Policy claims in the process of settlement

	2015 \$'000	2014 \$'000
Undiscounted expected future claims payment	2,307	2,902
Discount to present value	-	-
Total policy claims in the process of settlement	2,307	2,902
 Policy claims in the process of settlement - current	 2,238	 2,815
Policy claims in the process of settlement - non current	69	87
	2,307	2,902

(h) Fair value measurements

(i) Fair value hierarchy

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Company has classified its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

2 Financial assets and financial liabilities (continued)

(h) Fair value measurements (continued)

31 December 2015	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets				
Financial assets designated at fair value through profit or loss	-	-	-	-
31 December 2014	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets				
Financial assets designated at fair value through profit or loss	-	951	-	951

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices), including quoted prices for similar assets and liabilities in active markets.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

(ii) Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

- The use of quoted market prices or dealer quotes for similar instruments.
- the fair value of the remaining financial instruments is determined using discounted cash flow analysis.

2 Financial assets and financial liabilities (continued)

(h) Fair value measurements (continued)

(iii) Fair value measurements using significant unobservable inputs (level 2)

The following table presents the changes in level 2 items for the financial years ended 31 December 2015 and 31 December 2014:

	2015 \$'000	2014 \$'000
Opening balance at 1 January	951	958
Total gains/(losses) recognised in:		
Profit or loss	(7)	(28)
Other comprehensive income	23	21
Government Bond (NZ) Maturity	(967)	-
Closing balance at 31 December	<u>-</u>	<u>951</u>

3 Non-financial assets and liabilities

(a) Deferred tax liabilities

	2015 \$'000	2014 \$'000
<i>The balance comprises temporary differences attributable to:</i>		
Operating accruals	(54)	(169)
Other	(48)	(10)
Deferred commission	244	334
Total deferred tax liabilities/(assets)	<u>142</u>	<u>155</u>

Deferred tax liabilities are classified as non-current liabilities.

Movements in deferred tax liabilities:

Opening balance at 1 January	155	154
Charged/(credited) to profit or loss (note 1(f))	(118)	(83)
Over/(under) provision in prior years	3	84
Additional exit payment adjustment	102	-
Closing balance at 31 December	<u>142</u>	<u>155</u>

3 Non-financial assets and liabilities (continued)

(b) Investment in controlled entity

	2015 \$'000	2014 \$'000
Non-current		
Investment in controlled entity at cost	<u>103,385</u>	<u>103,619</u>

Investment in the controlled entity is carried at cost adjusted for its income tax liability of \$234,000 that is transferred to the head entity pursuant to UIG Interpretation 1052 Tax Consolidation Accounting (2014: transfer to head entity \$2,424,000).

Particulars in relation to controlled entity:

Name of entity	Country of incorporation	Class of shares	Equity holding	
			2015 %	2014 %
Hallmark General Insurance Company Ltd	Australia	Ordinary	100.0	100.0

4 Equity

(a) Contributed equity

(i) Share capital

	2015 No. of Shares	2014 No. of Shares	2015 \$'000	2014 \$'000
Paid up ordinary shares	251	251	500	500
Non-cumulative redeemable preference shares	<u>48,000</u>	<u>48,000</u>	<u>9,600</u>	<u>9,600</u>
	48,251	48,251	10,100	10,100

(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.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(iii) Non cumulative redeemable preference shares

Preference shares are able to receive a preference dividend if declared by the directors of the Company. Each holder shall have the right to receive a copy of any report or accounts and receive notice of and attend general meetings of the Company but shall have no right to speak, vote, move or second any resolutions.

(iv) Parent entities

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

Hallmark Life Insurance Company Ltd
Notes to the financial statements
For the year ended 31 December 2015
(continued)

4 Equity (continued)

(a) Contributed equity (continued)

(b) Reserves

	2015 \$'000	2014 \$'000
Foreign currency translation reserve	1,145	1,658
Tax consolidation reserve	<u>83,238</u>	<u>83,677</u>
Total reserves	<u>84,383</u>	<u>85,335</u>

	2015 \$'000	2014 \$'000
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Movements in reserves :

Foreign currency translation reserve

Opening balance at 1 January	1,658	923
Exchange differences on translation of foreign operations	<u>(513)</u>	<u>735</u>
Closing balance 31 December	<u>1,145</u>	<u>1,658</u>

Tax consolidation reserve

Opening balance at 1 January	83,677	79,760
Current tax liability transferred (from)/to Head Entity	<u>(439)</u>	<u>3,917</u>
Closing balance 31 December	<u>83,238</u>	<u>83,677</u>

5 Cash flow information

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

	2015 \$'000	2014 \$'000
Profit for the year	8,127	113,033
Adjustments		
Realised (gains)/losses on sale of financial assets	-	(159)
Unrealised losses/(gains) in value of financial assets	-	782
Effect of foreign exchange on cash and cash equivalents	(18)	(903)
Change in operating assets and liabilities:		
(Increase)/decrease in trade and other receivables	(1,274)	2,193
Increase/(decrease) in deferred tax liability	(13)	1
Increase/(decrease) in trade and other payables	(5,196)	1,668
Increase/(decrease) in current tax liability	(1,035)	538
Increase/(decrease) in tax consolidation reserve	(439)	3,917
(Increase)/decrease in reinsurance and other recoveries receivable	733	(659)
(Increase)/decrease in gross policy liabilities ceded under reinsurance	3	37
Decrease/(increase) in investment in controlled entity	234	(2,424)
Increase/(decrease) in policy claims in the process of settlement	(595)	(509)
(Decrease)/increase in gross policy liabilities	(5,583)	(3,325)
(Decrease)/increase in foreign currency translation reserve	(513)	735
Net cash (outflow)/inflow from operating activities	(5,569)	114,925

Risk

This section of the notes discusses the Company's exposure to various risks and shows how these could affect the Company's financial position and performance.

6 Actuarial assumptions and methods

The effective date of the actuarial report on policy liabilities and solvency requirements is 31 December 2015. The actuarial report was prepared by Mr Brendan Mark Counsell, BSc, BA, FIAA, FNZSA. The actuarial report indicates that Mr Counsell 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).

Policy liabilities for life insurance contracts have been calculated in accordance with Prudential Standard LPS 340 'Valuation of Policy Liabilities' issued by the Australian Prudential Regulation Authority (APRA) under subsection 230A(1) of the Life Insurance Act. 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:

6 Actuarial assumptions and methods (continued)

Product groups	Method (projection or other)	Profit carriers
Lump sum risk	Accumulation (2014: Accumulation)	Claims (implied)
Disability and involuntary unemployment income	Accumulation (2014: 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.

Disclosure of assumptions

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

(a) Discount rates

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

Australia

90 days	2.38% (2014: 2.78%)
5 years	2.24% (2014: 2.27%)

New Zealand

90 days	2.75% (2014: 3.67%)
5 years	3.00% (2014: 3.61%)

(b) Inflation rates

Allowance for future inflation of 2.5% p.a. for Australia is assumed (2014: 2.5% p.a.).

The future inflation assumption is based on the long term target range of 2%-3%.

Allowance for future inflation of 1.0% per annum for New Zealand is assumed (2014: 1.0% per annum). The future inflation assumption is based on the medium term target range of the Reserve Bank of New Zealand of 1% -3%

(c) Future expenses and indexation

Maintenance expense assumptions have been based on the experience in the current year and budgeted expenses for the year 2016. Inflation adjustments are consistent with the inflation assumption.

(d) 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 2014 with the exception of an increase in the loss ratio for the small remaining term life and disability covers and a decrease for death cover on Australian credit cards.

(e) 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) and payment per claim open (PPCO) are adopted to estimate the outstanding claims.

6 Actuarial assumptions and methods (continued)

Disclosure of assumptions (continued)

(e) Disability and involuntary unemployment (continued)

The key actuarial assumptions for the determination of the outstanding claims liabilities are claim termination rate, average claim size (disability = NZ\$1,214, unemployment = NZ\$593), a claims handling expense rate of 13% of the projected gross claim payments (based on expense investigation) and a discount rate of 2.65% (based on the yields of 1 year and 2 year New Zealand Government bonds as at 31 December 2015). Across all classes, changes to the claim termination and average claim size assumptions would cause the most significant change to the liability estimate.

(f) Voluntary discontinuance

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

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

Consumer credit insurances	23% p.a. (2014: 32% p.a.)
Regular premium term life insurances	13% p.a. (2014: 16% p.a.)

(g) 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 in determining the capital requirements were in accordance with the requirements of the Prudential Standard LPS 110 'Capital Adequacy' as issued by APRA.

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 2015, the assumption changes have not resulted in any of the related product groups entering loss recognition, and hence the policy liability has not been impacted by changes in assumptions.

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.

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.

6 Actuarial assumptions and methods (continued)

Sensitivity analysis (continued)

	Impact on profit or loss		Impact on equity	
	Gross of reinsurance	Net of reinsurance	Gross of reinsurance	Net of reinsurance
	\$'000	\$'000	\$'000	\$'000
2015				
Result of change in variables				
Mortality/morbidity- worsening by 5%	(138)	(123)	(138)	(123)
Mortality/morbidity- improving by 5%	138	123	138	123
Lapse rate- worsening by 5%	36	36	36	36
Lapse rate- improving by 5%	(36)	(36)	(36)	(36)
Expenses- worsening by 5%	(243)	(243)	(243)	(243)
Expenses- improving by 5%	243	243	243	243
	Impact on profit or loss		Impact on equity	
	Gross of reinsurance	Net of reinsurance	Gross of reinsurance	Net of reinsurance
	\$'000	\$'000	\$'000	\$'000
2014				
Result of change in variables				
Mortality/morbidity- worsening by 5%	(185)	(166)	(185)	(166)
Mortality/morbidity- improving by 5%	185	166	185	166
Lapse rate- worsening by 5%	58	58	58	58
Lapse rate- improving by 5%	(58)	(58)	(58)	(58)
Expenses- worsening by 5%	(272)	(272)	(272)	(272)
Expenses- improving by 5%	272	272	272	272

7 Financial risk management

This note explains the Company's exposure to financial risks and how these risks could affect the Company's future financial performance. Current year profit and loss information has been included where relevant to add further context.

(a) Transition Risk

Following completion of the sale of GE's consumer business to KVD Australia Pty Ltd, operational risk exposures are higher as services provided under the Transitional Services Agreement (TSA) with GE are transferred to Latitude. This will result in significant change across the business and Hallmark Life Insurance Company Ltd is actively monitoring and managing these risks.

(b) Credit risk

Credit risk is the risk of financial loss due to a counterparty failing to perform their contractual obligations and principally arises 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:

7 Financial risk management (continued)

(b) Credit risk (continued)

(i) 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 GE Capital Corporation Financial Institutions Credit Standards (GECC FICS) policy which sets out concentration limits and additional portfolio parameters. The Company will continue to adopt the GECC FICS policy until a new Investment Policy is approved by the Board in 2016. 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 A1/A 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.

(ii) 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.

(iii) Loans 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 13(b)).

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

	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
2015						
Financial assets						
Cash and cash equivalents	101,230	-	-	101,230	-	101,230
Trade and other receivables	-	2,193	-	2,193	-	2,193
Financial assets at fair value through profit or loss						
Debt securities	-	-	-	-	-	-
Investment in controlled entities	-	103,385	-	103,385	-	103,385
Reinsurance and other recoveries receivable	-	280	-	280	-	280
Gross policy liability ceded under reinsurance	-	43	-	43	-	43
Total credit risk exposure	101,230	105,901	-	207,131	-	207,131

7 Financial risk management (continued)

(b) Credit risk (continued)

2014	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	105,830	-	-	105,830	-	105,830
Trade and other receivables	-	919	-	919	-	919
Financial assets at fair value through profit or loss						
Debt securities	951	-	-	951	-	951
Investment in controlled entities	-	103,619	-	103,619	-	103,619
Reinsurance and other recoveries receivable	-	1,013	-	1,013	-	1,013
Gross policy liability ceded under reinsurance	-	46	-	46	-	46
Total credit risk exposure	106,781	105,597	-	212,378	-	212,378

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

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

2015	AAA \$'000	AA \$'000	A \$'000	BBB \$'000	Not rated \$'000	Total \$'000
Financial Assets						
Cash and cash equivalents	-	-	101,230	-	-	101,230
Trade and other receivables*	-	-	-	-	2,193	2,193
Financial assets at fair value through profit or loss						
Debt securities	-	-	-	-	-	-
Investment in controlled entity*	-	-	-	-	103,385	103,385
Reinsurance and other recoveries receivable	-	-	280	-	-	280
Gross policy liability ceded under reinsurance	-	43	-	-	-	43
Total credit risk exposure	-	43	101,510	-	105,578	207,131

7 Financial risk management (continued)

(b) Credit risk (continued)

2014	AAA \$'000	AA \$'000	A \$'000	BBB \$'000	Not rated \$'000	Total \$'000
Financial Assets						
Cash and cash equivalents	-	-	105,830	-	-	105,830
Trade and other receivables*	-	-	-	-	919	919
Financial assets at fair value through profit or loss						
Debt securities	-	951	-	-	-	951
Investment in controlled entity*	-	-	-	-	103,619	103,619
Reinsurance and other recoveries receivable	-	-	1,013	-	-	1,013
Gross policy liability ceded under reinsurance	-	46	-	-	-	46
Total credit risk exposure	<u>-</u>	<u>997</u>	<u>106,843</u>	<u>-</u>	<u>104,538</u>	<u>212,378</u>

* The receivables and investment in controlled entity are largely with related parties, refer to note 13(b)).

No receivables are past due or impaired at balance date (2014: Nil).

(c) 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.

7 Financial risk management (continued)

(c) Liquidity risk (continued)

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

	Up to a year \$'000	1-2 years \$'000	2-5 years \$'000	Over 5 years \$'000	No term \$'000	Total \$'000
2015						
Trade and other payables	554	-	-	-	-	554
Policy claims in process of settlement	2,238	52	17	-	-	2,307
Gross policy liabilities	16,740	7,168	5,872	919	-	29,699
Net principal liabilities	<u>18,532</u>	<u>7,220</u>	<u>5,889</u>	<u>919</u>	<u>-</u>	<u>32,560</u>
2014						
Trade and other payables	5,750	-	-	-	-	5,750
Policy claims in process of settlement	2,815	66	21	-	-	2,902
Gross policy liabilities	17,469	8,553	8,234	1,026	-	35,282
Net principal liabilities	<u>26,034</u>	<u>8,619</u>	<u>8,255</u>	<u>1,026</u>	<u>-</u>	<u>43,934</u>

The Company's financial assets and liabilities are carried in the statement of financial position at amounts that approximate fair value.

(d) Market risk

Market risk is the risk that the fair value of its financial instruments or future cash flows will decrease due to changes in external economic variables such as interest rates, currency rates and equity prices.

The board is responsible for developing and monitoring the risk management policies of the Company in relation to market risk. The Company's investment activities follow the GECC FICS policy. The GECC FICS policy document outlines the level of acceptable market risk, including counterparty ratings and exposure levels that apply to the investment activities of companies within the GECC Group. The Company will continue to adopt the GECC FICS policy until a new Investment Policy is approved by the Board in 2016.

(i) Currency 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.

7 Financial risk management (continued)

(d) Market risk (continued)

(ii) Interest rate risk

Interest rate risk is the risk that the value or cash flows 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	
2015	\$'000	%	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets								
Short term deposits	84,382	-1	(844)	(591)	-	-	-	(591)
Debt securities	-	-1	-	-	-	-	-	-
	<u>84,382</u>		<u>(844)</u>	<u>(591)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(591)</u>

	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	
2014	\$'000	%	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets								
Short term deposits	92,209	-1	(922)	(645)	-	-	-	(645)
Debt securities	951	-1	(10)	-	(7)	-	-	(7)
	<u>93,160</u>		<u>(932)</u>	<u>(645)</u>	<u>(7)</u>	<u>-</u>	<u>-</u>	<u>(652)</u>

The analysis is performed on the same basis for 2014 and assumes that all other variables remain the same.

(iii) 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 2015.

8 Capital management

Capital consists of ordinary shares, non-cumulative redeemable preference shares and retained earnings.

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 2(e)(II).

(a) Risk management

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.

8 Capital management (continued)

(a) Risk management (continued)

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, arising from the business. Annually, the board certifies to APRA that adequate strategies have been put in place to monitor those risks, that the Company has systems in place to ensure compliance with legislative and prudential requirements, and that the board has satisfied itself as to the compliance with the RMS and ReMS.

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

(i) Underwriting strategy

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

(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. For the Company's main term life product lines in New Zealand, two reinsurance treaties provide surplus reinsurance cover. 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.

(b) Dividends

	2015 \$'000	2014 \$'000
Dividends paid during the financial year ended 31 December	-	240,000

Unrecognised items

This section of the notes provides information about items that are not recognised in the financial statements as they do not (yet) satisfy the recognition criteria.

9 Commitments and contingencies

No contingent assets or contingent liabilities existed as at 31 December 2015 (2014: nil).

10 Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 31 December 2015 that has significantly affected or may significantly affect:

- the Company's operations; or
- the results of those operations; or
- the Company's state of affairs.

In early January 2016, APRA indicated that the preference shares within the Shareholders' Fund should not be recognised as available capital to support the business. On the 3rd March 2016, the Board resolved to redeem the preference shares (\$9,600,000) held by the Company back to the Parent. After the redemption, the Company will continue to remain well capitalised.

This will not significantly impact the Company's results or operations.

Other information

This section of the notes includes other information that must be disclosed to comply with the accounting standards and other pronouncements, but that is not immediately related to individual line items in the financial statements.

11 Remuneration of auditors

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

(a) Audit services

Amounts received or due and receivable by auditors of the Group (KPMG Australia) for:

	2015 \$	2014 \$
Audit and review of financial statements	61,007	83,885
Other assurance services:		
APRA Return	35,782	49,200
AFSL Audit	4,113	5,655
Total remuneration for audit and other assurance services	<u>100,902</u>	<u>138,740</u>

Audit fees in 2015 and 2014 were paid by Latitude Financial Services Australia Holdings Pty Ltd. and GE Capital Finance Australia Pty Ltd. respectively.

12 Key management personnel disclosures

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

(i) Directors

Duncan Gerald West
JoAnne Mæree Stephenson
Christopher Paul Knoblanche
Anna Elizabeth Gladman
Rachel Emma Cobb

(ii) Other executives

Aliessa Pritchard
Alexandra Yaniv (resigned 31 May 2015)
Rachel Perry
Drossos Haramantas (resigned 24 November 2015)
Ryan Kiss (resigned 17 September 2015)
Kevin Smith (resigned 17 April 2015)
Emma Robinson (resigned 30 January 2015)
Julie Taylor
Karen Parkin (appointed 12 October 2015)
Cath Mortlock (appointed 13 June 2015)
Shelly Slater (appointed 15 March 2015)
Mercedes Colla (appointed 29 September 2015)

Key management personnel compensation

In addition to their salaries, the Company and related parties also provided non-cash benefits which included long service leave and an employee share option plan.

	2015	2014
	\$	\$
Short-term employee benefits*	3,013,252	2,209,404
Long-term employee benefits	249,804	209,423
Equity compensation benefits	1,420	24,471
	<u>3,264,476</u>	<u>2,443,298</u>

There are no other transactions with key management personnel (2014: \$nil).

* The 2015 amount includes termination benefits of \$265,999 (2014: \$132,600)

13 Related party transactions

(a) Transactions with related parties

The following transactions occurred with related parties:

	2015 \$	2014 \$
<i>Management fees paid to/(received from):</i>		
GE Capital Finance Australasia Pty Ltd	4,115,606	4,749,739
Latitude Financial Services Australia Holdings Pty Ltd	31,091	-
Hallmark General Insurance Company Ltd	2,289,035	2,650,153
GE Capital Corporation	-	263,877
<i>Cross charges paid to:</i>		
GE Capital Finance Australasia Pty Ltd	510,875	687,593
GE Finance and Insurance (NZ)	121,440	201,906
Latitude Financial Services Ltd - NZ	23,531	-
<i>Royalty paid:</i>		
GE Capital Registry, Inc.	107,810	296,378
<i>Commission paid to:</i>		
GE Personal Finance Pty Ltd	1,019,619	1,413,615
Latitude Personal Finance Pty Ltd	177,986	-
GE Capital Finance Australia	712,152	805,965
Latitude Finance Australia	77,848	-
GE Capital Finance Australasia Pty Ltd	-	45,891
GE Finance and Insurance (NZ)	847,270	1,310,309
Latitude Financial Services Ltd - NZ	92,037	-
<i>Dividend (received)/paid</i>		
Hallmark General Insurance Company Ltd	-	(103,000,000)

(b) Outstanding balances with related parties

	2015 \$	2014 \$
<i>Receivables/(payables)</i>		
GE Capital Finance Australasia Pty Ltd	-	(15,785)
Latitude Financial Services Australia Holdings Pty Ltd	(79,592)	-
GE Personal Finance Pty Ltd	-	321,947
Latitude Personal Finance Pty Ltd	696,011	-
GE Capital Finance Australia	-	348,306
Latitude Finance Australia	327,155	-
GE Finance and Insurance Pty Ltd (NZ)	-	377,596
KVD New Zealand Ltd	587,355	-
Hallmark General Insurance Company Ltd	(81,016)	(3,482,323)
GE Capital Holdings Partnership	-	(1,664,386)

13 Related party transactions (continued)

(b) Outstanding balances with related parties (continued)

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.

At 31 December 2015, there are no amounts outstanding owed by the Hallmark Companies to Latitude Financial Services Australia Holdings Pty Ltd or to other related parties which are not reflected in the accounts, and there are no further amounts to be charged by Latitude Financial Services Australia Holdings Pty Ltd or by other related parties in relation to services provided to the Hallmark Companies during 2015 or prior years.

14 Disaggregated Information on life insurance business by fund

	Non-Investment linked	Non-Investment linked	Non-Investment linked		
	Statutory Fund 1	Statutory Fund 2	Total	Shareholder Fund	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
2015					
Financial assets	38,974	11,595	50,569	156,601	207,170
Life insurance contract liabilities	(24,813)	(4,886)	(29,699)	-	(29,699)
Other liabilities	(1,976)	(1,045)	(3,021)	18	(3,003)
Retained earnings	9,905	(4,499)	5,406	(85,391)	(79,985)
Premium revenue	(21,290)	(6,695)	(27,985)	-	(27,985)
Investment revenue	(908)	(880)	(1,788)	(909)	(2,697)
Claims expense	10,684	2,833	13,517	-	13,517
Movement in policy liabilities	(3,693)	(1,816)	(5,509)	-	(5,509)
Other operating expenses	7,574	2,528	10,102	10	10,112
Operating profit before tax	(7,632)	(4,030)	(11,662)	(900)	(12,562)
Operating profit after tax	(4,476)	(2,737)	(7,213)	(914)	(8,127)
2014					
Financial assets	43,146	43,589	86,735	125,643	212,378
Life insurance contract liabilities	(28,514)	(6,768)	(35,282)	-	(35,282)
Other liabilities	(6,810)	(2,382)	(9,192)	(611)	(9,803)
Retained earnings	(28,619)	(32,762)	(61,381)	(10,477)	(71,858)
Premium revenue	(25,574)	(9,047)	(34,621)	-	(34,621)
Investment revenue	(2,299)	(1,344)	(3,643)	(106,347)	(109,990)
Claims expense	14,487	3,866	18,353	-	18,353
Movement in policy liabilities	(2,607)	(852)	(3,459)	-	(3,459)
Other operating expenses	8,681	3,740	12,421	79	12,500
Operating profit before tax	(7,311)	(3,637)	(10,948)	(106,268)	(117,216)
Operating profit after tax	(5,124)	(2,625)	(7,749)	(105,284)	(113,033)

15 Summary of significant accounting policies

Hallmark Life Insurance Company Ltd is a company limited by shares, incorporated and domiciled in Australia.

The Company is registered under the Life Insurance Act 1995 (LIA).

Its registered office and principal place of business is:

Level 4
99 Walker Street
North Sydney NSW 2060
Australia

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

For the purposes of the financial statements, the Company is a for-profit entity.

The financial statements were authorised for issue by the directors on 17 March 2016.

(a) Basis of preparation

Statement of compliance

This general purpose financial statements cover the Company and its New Zealand Statutory Fund as a single entity and has been prepared in accordance with Australian Accounting Standards (AASBs) and interpretations issued by the Australian Accounting Standards Board (AASB), and the *Corporations Act 2001*. The financial statements also comply with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

The Company has applied the exemption from consolidation in accordance with AASB 10. In accordance with AIFRS, consolidated financial statements are prepared by the Company's ultimate Australian parent entity, KVD Australia Holdco Pty Ltd.

Basis of measurement

These financial statements have been prepared on a fair value basis with certain exceptions as described in the accounting policies below.

Change in accounting policies

There has been no change in accounting policies for the current financial period that would have a material impact on these financial statements.

(b) 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 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.

15 Summary of significant accounting policies (continued)

(b) Principles for life insurance business (continued)

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.

(c) Critical estimates, judgements and errors

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities at year end. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The areas in which accounting estimates are applied are described below.

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 and 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 6.

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.

(d) 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:

15 Summary of significant accounting policies (continued)

(d) Revenue recognition (continued)

(i) Premium revenue

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

Premium revenue is recognised in the profit or loss when it has been earned. It is recognised as earned from the date of attachment of risk (generally the date a contract is agreed to but may be 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 the risks underwritten is generally matched by the passing of time but where 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 of 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 within gross policy liabilities in the statement of financial position.

(ii) Investment income

All investment income is recognised as revenue on an accruals 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. Dividends are brought to account as declared and are recognised net of franking credits. Assets are designated at fair value through profit or loss and the related net realised and unrealised gains and losses arising on financial assets designated at fair value through profit or loss are included in the statement of profit or loss and other comprehensive income as investment revenue.

(e) 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 enough reported (IBNER's) and claims incurred but not reported (IBNR's) based on past experience.

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

The claims liability is measured based on the advice of valuations performed by the appointed actuary whose key assumptions are outlined in note 6.

(f) Other expenses

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

15 Summary of significant accounting policies (continued)

(f) Other expenses (continued)

Basis of apportionment (continued)

- 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.

(g) Outwards 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.

(h) Income tax

Australian company

Income tax in the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognised in the profit or loss except to the extent that it relates to items recognised directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are recognised on a gross basis, and presented net if the Company has a legally enforceable right to set off current tax assets and liabilities. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Tax consolidation

On 24 November 2015, the Company exited from the GE Capital Holdings Partnership income tax consolidated group. Prior to its exit from the GE Capital Holdings Partnership income tax consolidated group, the Company paid to GE Capital Holdings Partnership a clear exit payment which was determined in accordance with the consolidated group's Tax Sharing Agreement.

On 25 November 2015, the Company joined the KVD Australia Holdco Pty Ltd income tax consolidated group. The KVD Australia Holdco Pty Ltd income tax consolidated group incorporates the Company, Hallmark General Insurance Company Ltd and several other related entities.

The current and deferred tax amounts for the tax consolidated group are allocated amongst the entities in the group using a separate taxpayer within the group approach whereby each entity in the income tax consolidated group measures its current and deferred taxes as if it continued to be a separate taxable entity in its own right, after deducting intercompany dividends, the benefit of any capital losses brought forward and intercompany debt forgiveness transactions.

15 Summary of significant accounting policies (continued)

(h) Income tax (continued)

Tax consolidation (continued)

The members of the KVD Australia Holdco Pty Ltd income tax consolidated group have entered into a tax funding agreement which sets out the funding obligations of the members of the income tax consolidated group in respect of tax amounts. The tax funding agreement was executed on 23 November 2015 and the Company was subsequently added. Under the tax funding agreement, where the member of the income tax consolidated group recognises a taxable loss, the funding amount is nil with no compensation for the tax losses unless the member is subject to prudential regulation by APRA, in which case the regulated entity will be compensated for its tax losses.

The liabilities arising for the member under a tax funding agreement are recognised as amounts payable to KVD Australia Holdco Pty Ltd - the head entity of the KVD Australia Holdco Pty Ltd income tax consolidated group. Any difference between the net tax amounts recognised on a separate taxpayer within the group approach and the actual tax funding agreement amount payable is treated as an equity transaction.

The members of the KVD Australia Holdco Pty Ltd income tax consolidated group have entered into a tax sharing agreement under the tax consolidation legislation which sets out the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations and removes the exposure of the Company to joint and several liability in the event of such default. The tax sharing agreement was executed on 23 November 2015 and the Company was subsequently added.

New Zealand branch

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

Income tax legislation was passed introducing a new taxation framework for life insurance business in New Zealand. Such rules were designed to ensure that term insurance business is taxed on actual profits and applies to life insurance policies incepting on or after 1 July 2010. Term life insurance policies in force at 30 June 2010 are grandfathered (for a limited period) and taxed under the previous rules. However, an election exists whereby such policies may be taxed under the new rules. The Branch has chosen to grandfather all of its policies and the income tax expense for the period has been calculated on this basis.

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). This applies up to 30 June 2010 after which the new income tax rules come into effect.

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.

15 Summary of significant accounting policies (continued)

(h) Income tax (continued)

Statutory funds (continued)

Taxation bases (continued)

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 Income Tax Assessment Act.

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.

(i) Cash and cash equivalents

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

(j) Loans 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.

(k) 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.

(l) 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 8(a).

(m) Assets backing policy liabilities

The Company has elected to designate all its financial assets backing insurance policies at fair value through profit or loss.

15 Summary of significant accounting policies (continued)

(n) Financial assets

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

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

Classification

(i) Short term deposits

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

(ii) Unlisted fixed interest securities

Unlisted fixed interest securities are recorded at amounts based on valuations using rates of interest equivalent to the yields obtainable on comparable investments at the end of the reporting period.

All financial instruments are required to be further categorised under AASB 7 Financial Instruments: Disclosures, according to the availability of observable market inputs used in the measurement of their fair values, which is detailed further in note 2(h).

(o) Investment in controlled entity

Investment in controlled entities is carried at cost less impairment.

(p) 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.

(q) Trade and other payables

Trade and other payables 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.

(r) 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.

15 Summary of significant accounting policies (continued)

(s) 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 15(c).

(t) 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.

(u) Foreign currency translation and functional currency

Functional and presentation currency

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

The financial statements are presented in Australian dollars, which is the functional and presentation currency for the Company.

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 year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Translation differences on financial instruments carried at fair value are reported as part of the fair value gain or loss.

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

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

- assets and liabilities are translated at the closing rate at the reporting date;
- income and expenses 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 as a separate component of equity.

(v) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of goods and service tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST 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 GST. The net amount of GST recoverable from, or payable to, the tax authorities (i.e ATO and IRD) is included as a current asset or liability in the statement of financial position.

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 ATO, are classified as operating cash flows.

15 Summary of significant accounting policies (continued)

(w) Rounding of amounts

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the rounding off of amounts in the financial statements. Unless otherwise stated, amounts in the financial statements have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

(x) New accounting standards and interpretations

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Company, except for:

- AASB 9 Financial Instruments, which becomes mandatory for the Company's 2018 financial statements and could change the classification and measurement of financial assets. The Company does not plan to adopt this standard early and the extent of the impact has not been determined.

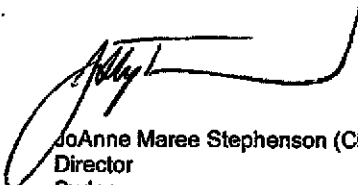
- AASB 15 Revenue from contracts with customers, which becomes mandatory for the Company's 2018 financial statements, provides a new 5 step model for recognising revenue earned from a contract with a customer and will replace the existing AASB 118 Revenue. The Company does not plan to adopt this standard early and the extent of the impact has not been determined.

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 5 to 44 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 2015 and of its performance for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*;
- (b) the financial statements also comply with International Financial Reporting Standards as disclosed in note 15; 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:



JoAnne Maree Stephenson (Chairman)
Director
Sydney
17 March 2016



Anna Elizabeth Gladman (Managing Director)
Director
Sydney
17 March 2016



Independent auditor's report to the members of Hallmark Life Insurance Company Ltd

Report on the financial report

We have audited the accompanying financial report of Hallmark Life Insurance Company Ltd (the Company), which comprises the Statement of Financial Position as at 31 December 2015, and the Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year ended on that date, notes 1 to 15 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In note 15, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Company's financial position and of its performance.



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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

- (a) the financial report of Hallmark Life Insurance Company Ltd is 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 2015 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 15.

KPMG

KPMG

AR

Andrew Reeves
Partner

Sydney
17 March 2016



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29 March 2016

The Board of Directors
Hallmark Life Insurance Company Ltd
Level 4, 99 Walker Street
North Sydney NSW 2060

**Hallmark Life Insurance Company Ltd:
Appointed Actuary signoff of financial statements and financial condition as at
31 December 2015 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 1 March 2014, HLIC appointed me, Brendan Counsell 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 2015, 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 LPS320, 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 2015, dated 10 March 2016. 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 2015. 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 this 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 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, 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 2015, with excess assets of A\$13.2m above prudential capital requirements in Statutory Fund 1 and A\$5.8m in Statutory Fund 2. Both statutory funds, as well as the Shareholders Fund have exceeded prudential capital requirements over the year to 31 December 2015.

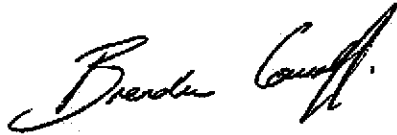
Capital requirements are expected to be met over the coming three years, and hence no reporting under Section 24 of The Act is required. In my opinion HLIC is maintaining:

- 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,



Brendan Counsell, FIAA, FNZSA
Appointed Actuary, Hallmark Life Insurance Company Ltd

**Hallmark Life Insurance Company Ltd
New Zealand Branch
Annual financial statements
for the year ended 31 December 2015**

Hallmark Life Insurance Company Ltd New Zealand Branch

Financial report - 31 December 2015

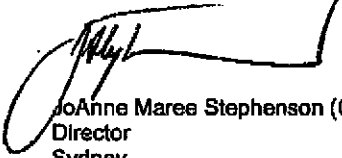
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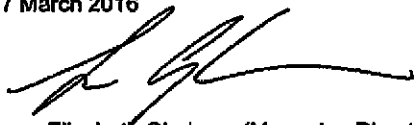
**Hallmark Life Insurance Company Ltd New Zealand Branch
Directors' Report
31 December 2015**

The directors present their report together with the financial statements of Hallmark Life Insurance Company Ltd New Zealand Branch for the year ended 31 December 2015 and the auditor's report thereon.

Signed in accordance with a resolution of the board of directors.



JoAnne Maree Stephenson (Chairman)
Director
Sydney
17 March 2016



Anna Elizabeth Gladman (Managing Director)
Director
Sydney
17 March 2016

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Hallmark Life Insurance Company Ltd New Zealand Branch
Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2015

	Notes	2015 \$'000	2014 \$'000
Insurance premium revenue	1(a)	7,212	9,823
Outwards reinsurance premium expense		<u>(1)</u>	<u>(1)</u>
Net insurance premium revenue		7,211	9,822
Investment income	1(b)	<u>932</u>	<u>1,461</u>
Total revenue		8,143	11,283
Claims expenses	1(c)	<u>3,048</u>	<u>4,200</u>
Net claims incurred		<u>3,048</u>	<u>4,200</u>
Net (increase)/decrease in policy liability		<u>(1,979)</u>	<u>(905)</u>
Administration expenses	1(d)	<u>2,738</u>	<u>4,071</u>
Total claims and expenses		3,807	7,366
Profit before income tax		4,336	3,917
Income tax expense	1(e)	<u>1,407</u>	<u>1,089</u>
Profit for the year		2,929	2,828
Profit is attributable to:			
Owners of Hallmark Life Insurance Company Ltd New Zealand Branch		<u>2,929</u>	<u>2,828</u>
Total comprehensive income for the year is attributable to:			
Owners of Hallmark Life Insurance Company Ltd New Zealand Branch		<u>2,929</u>	<u>2,828</u>
		2,929	2,828

The above Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

Hallmark Life Insurance Company Ltd New Zealand Branch
Statement of Financial Position
As at 31 December 2015

	Notes	2015 \$'000	2014 \$'000
ASSETS			
Cash and cash equivalents	2(a)	11,550	44,874
Trade and other receivables	2(b)	757	358
Current tax assets		41	-
Financial assets at fair value through profit or loss	2(c)	-	1,009
Total assets		<u>12,348</u>	<u>46,241</u>
LIABILITIES			
Trade and other payables	2(e)	836	1,099
Current tax liabilities		-	1,056
Deferred tax liabilities	3(a)	250	355
Gross policy liabilities	2(d)(f)	5,203	7,182
Total liabilities		<u>6,299</u>	<u>9,692</u>
Net assets		<u>6,049</u>	<u>36,549</u>
EQUITY			
Retained earnings		<u>6,049</u>	<u>36,549</u>
Total equity		<u>6,049</u>	<u>36,549</u>

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Halimark Life Insurance Company Ltd New Zealand Branch
Statement of Changes in Equity
For the year ended 31 December 2015

	Attributable to owners of Halimark Life Insurance Company Ltd New Zealand Branch	
	Retained earnings \$'000	Total equity \$'000
Balance at 1 January 2014	<u>33,721</u>	<u>33,721</u>
Profit for the year	2,828	2,828
Other comprehensive income	-	-
Total comprehensive income for the year	<u>2,828</u>	<u>2,828</u>
Balance at 31 December 2014	<u>36,549</u>	<u>36,549</u>
 Balance at 1 January 2015	 <u>36,549</u>	 <u>36,549</u>
Profit for the year	2,929	2,929
Other comprehensive income	-	-
Total comprehensive income for the year	<u>2,929</u>	<u>2,929</u>
 Transactions with owners in their capacity as owners:		
Dividends paid	(33,429)	(33,429)
Balance at 31 December 2015	<u>6,049</u>	<u>6,049</u>

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Hallmark Life Insurance Company Ltd New Zealand Branch
Statement of Cash Flows
For the year ended 31 December 2015

	Notes	2015 \$'000	2014 \$'000
Cash flows from operating activities			
Premiums received		5,207	7,150
Outward reinsurance expense		(1)	(1)
Claims paid		(1,146)	(1,508)
Payments to suppliers and employees		(2,293)	(3,603)
Interest received		1,081	1,462
Income taxes paid		(2,749)	(770)
Fees and commissions paid		(1,003)	(1,325)
Net cash (outflow) inflow from operating activities	4(a)	<u>(904)</u>	<u>1,405</u>
Cash flows from investing activities			
Proceeds from held-to-maturity investments		1,009	-
Payment to parent company		(33,429)	-
Net cash (outflow) inflow from investing activities		<u>(32,420)</u>	<u>-</u>
Net cash inflow from financing activities		<u>-</u>	<u>-</u>
Net (decrease) increase in cash and cash equivalents		(33,324)	1,405
Cash and cash equivalents at 1 January		<u>44,874</u>	<u>43,469</u>
Cash and cash equivalents at 31 December	2(a)	<u>11,550</u>	<u>44,874</u>

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Hallmark Life Insurance Company Ltd New Zealand Branch
Notes to the financial statements
For the year ended 31 December 2015

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Hallmark Life Insurance Company Ltd New Zealand Branch
Notes to the financial statements
For the year ended 31 December 2015
(continued)

Financial performance

This section provides additional information about those individual line items in the financial statements, relating to financial performance, that management considers most relevant in the context of the operations of the entity.

1 Profit or loss information

(a) Insurance premium revenue

	2015 \$'000	2014 \$'000
Direct life insurance premiums	7,212	9,823
Outwards reinsurance premium expense	<u>(1)</u>	<u>(1)</u>
Total insurance premium revenue	<u>7,211</u>	<u>9,822</u>

(b) Investment income

	2015 \$'000	2014 \$'000
Interest income	<u>932</u>	<u>1,461</u>
Total investment income	<u>932</u>	<u>1,461</u>

(c) Claims expenses

	2015 \$'000	2014 \$'000
Death and disability	857	1,206
Unemployment	4	43
Terminations of policies	<u>2,187</u>	<u>2,951</u>
Total claims expenses	<u>3,048</u>	<u>4,200</u>

(d) Administration expenses

	2015 \$'000	2014 \$'000
Policy maintenance	2,030	2,558
Foreign exchange (gains)	(365)	(34)
Policy acquisition cost - others	50	41
Policy acquisition cost - commission	1,003	1,423
Other expenses	10	39
Investment management expenses	<u>10</u>	<u>44</u>
Total administration expenses	<u>2,738</u>	<u>4,071</u>

Hallmark Life Insurance Company Ltd New Zealand Branch
Notes to the financial statements
For the year ended 31 December 2015
(continued)

1 Profit or loss information (continued)

(e) Income tax expense

(i) Income tax expense

	2015 \$'000	2014 \$'000
Current tax expense	1,337	1,074
Deferred tax (note 3(a))	(95)	(90)
Adjustments for current tax of prior periods	165	105
Income tax expense	1,407	1,089

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

	2015 \$'000	2014 \$'000
Profit from continuing operations before income tax expense	4,336	3,917
Tax at the New Zealand tax rate of 28% (2014 - 28%)	1,214	1,097
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Tax effect on actuarial adjustment - policyholder base	28	(80)
	1,242	1,017
Adjustments for current tax of prior periods	165	72
Income tax expense	1,407	1,089

(f) Statement of sources of operating profit

	2015 \$'000	2014 \$'000
<i>The shareholders' operating profit after income tax of the statutory funds is represented by:</i>		
Investment earnings on shareholders' retained and capital	517	818
Emergence of shareholders' planned profits	1,134	1,322
Experience profit	1,278	645
Shareholders' operating profit after income tax	2,929	2,785

Balance sheet management

This section provides additional information about those individual line items in the financial statements relating to financial performance that management considers most relevant in the context of the operations of the entity.

2 Financial assets and financial liabilities

(a) Cash and cash equivalents

	2015 \$'000	2014 \$'000
Cash at bank	3,040	2,306
Short term deposits	8,510	42,568
Total cash and cash equivalents	11,550	44,874

(b) Trade and other receivables

	2015 \$'000	2014 \$'000
Investment income accrued and receivable	27	176
Other receivables	730	182
Total trade and other receivables	757	358
<i>Classification of total trade and other receivables</i>		
Current	757	358
Non-current	-	-
	757	358

These balances include amounts receivable from related parties (note 13).

(c) Financial assets at fair value through profit or loss

	2015 \$'000	2014 \$'000
Debt securities - national government bonds	-	1,009
Financial assets at fair value through profit or loss	-	1,009
<i>Classification of financial assets at fair value through profit or loss</i>		
Current	-	-
Non-current	-	1,009
	-	1,009

Hallmark Life Insurance Company Ltd New Zealand Branch
Notes to the financial statements
For the year ended 31 December 2015
(continued)

Financial assets and financial liabilities

(d) Policy liabilities

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

	2015 \$'000	2014 \$'000
Gross life insurance contract liabilities		
Balance at 1 January	7,182	8,087
Decrease in life insurance contract liabilities reflected in the profit or loss	<u>(1,979)</u>	<u>(905)</u>
Closing balance at 31 December	<u>5,203</u>	<u>7,182</u>

Classification of total life insurance contract liabilities

Current	2,968	3,686
Non-current	<u>2,235</u>	<u>3,496</u>
	<u>5,203</u>	<u>7,182</u>

(ii) Components of net life insurance contract liabilities

	2015 \$'000	2014 \$'000
Best estimate liability - for non investment linked business		
Future policy benefits (Note (2) below)	5,777	7,821
Unrecouped acquisition expenses	<u>(574)</u>	<u>(639)</u>
Total best estimate liability	<u>5,203</u>	<u>7,182</u>
Value of future shareholder profit margins (Note 1 below)	<u>-</u>	<u>-</u>
Net policy liabilities	<u>5,203</u>	<u>7,182</u>

(1) This item is not specifically calculated under the accumulation method.

(2) 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.

Financial assets and financial liabilities

(d) Policy liabilities

(iii) 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 relevant Prudential Standards as prescribed by APRA. 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 (APRA)).

The excess of the branch's capital base over the PCA as at 31 December 2015 was \$6.2 million (2014: \$36.7 million).

The available assets in the statutory fund have also exceeded the Prudential Capital Requirement at all times during the year ending 31 December 2015.

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

	2015 \$'000	2014 \$'000
(a) Capital base	6,460	37,123
(b) Prescribed capital amount	294	449
Capital in excess of prescribed capital amount = (a) - (b)	<u>6,166</u>	<u>36,674</u>
Capital adequacy multiple = (a)/(b)	<u>22.00</u>	<u>82.63</u>
Capital base:		
Net assets	6,049	36,549
Add: Difference between adjusted policy liabilities and policy liabilities	411	574
Less: Elimination of any excess DTAs over DTLs	-	-
Equals: Capital base	<u>6,460</u>	<u>37,123</u>
Prescribed capital amount:		
Asset risk charge	62	149
Operational risk charge	232	300
Prescribed capital amount	<u>294</u>	<u>449</u>

Hallmark Life Insurance Company Ltd New Zealand Branch
Notes to the financial statements
For the year ended 31 December 2015
(continued)

Financial assets and financial liabilities

(e) Trade and other payables

	2015 \$'000	2014 \$'000
Trade payables	1	1
Other payables	150	144
Policy claims in the process of settlement	685	954
Total trade and other payables	836	1,099
<i>Classification of total trade and other payables</i>		
Current	773	1,012
Non-current	63	87
	836	1,099

The carrying amount disclosed above approximates fair value at reporting date.
These balances include amounts payable to related parties (note 13).

(f) Fair value measurement

(i) Fair value hierarchy

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the branch has classified its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
31 December 2015				
Financial assets				
Financial assets designated at fair value through profit or loss	-	-	-	-
Total financial assets	-	-	-	-
31 December 2014				
Financial assets				
Financial assets designated at fair value through profit or loss	-	1,009	-	1,009
Total financial assets	-	1,009	-	1,009

- Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices), including quoted prices for similar assets and liabilities in active markets.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Financial assets and financial liabilities

(f) Fair value measurement (continued)

(ii) Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

- The use of quoted market prices or dealer quotes for similar instruments.
- the fair value of the remaining financial instruments is determined using discounted cash flow analysis.

(iii) Fair value measurements using significant unobservable inputs (level 2)

The following table presents the changes in level 2 items for the periods ended 31 December 2015 and 31 December 2014:

	2015 \$'000	2014 \$'000
Opening balance at 1 January	1,009	1,039
Total gains/(losses) recognised in:		
Profit or loss	(8)	(30)
Government Bond Maturity	(1,001)	-
Closing balance at 31 December	<u>-</u>	<u>1,009</u>

3 Non-financial assets and liabilities

(a) Deferred tax liabilities

	2015 \$'000	2014 \$'000
Non-current		
<i>The balance comprises temporary differences attributable to:</i>		
Deferred commission	260	355
Deferred tax liabilities are classified as non-current		
Movements in deferred tax liabilities were as follows:		
Opening balance at 1 January	355	444
Charged/(credited) to profit or loss 1(e)	(95)	(90)
Under/(over) provision in prior years	-	1
Closing balance at 31 December	<u>260</u>	<u>355</u>

4 Cash flow information

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

	2015 \$'000	2014 \$'000
Profit for the year	2,929	2,828
Adjustments		
Unrealised losses in value of financial assets	-	30
Change in operating assets and liabilities:		
(Increase)/decrease in trade and other receivables	(399)	299
(Decrease)/increase in trade and other payables	(263)	(1,316)
(Decrease)/increase in current tax liabilities	(1,097)	558
(Decrease) in deferred tax liabilities	(85)	(89)
(Decrease)/increase in gross policy liabilities	(1,979)	(905)
Net cash (outflow)/inflow from operating activities	<u>(904)</u>	<u>1,405</u>

Risk

This section of the notes discusses the branch's exposure to various risks and shows how these could affect the branch's financial position and performance.

5 Critical estimates, judgements and errors

The branch makes estimates and assumptions that affect the reported amounts of assets and liabilities at year end. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The areas in which accounting estimates are applied are described below.

(a) 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 statement of profit or loss and other comprehensive income 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 and 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 6.

(b) 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.

6 Actuarial assumptions and methods

The effective date of the actuarial report on policy liabilities and capital requirements is 31 December 2015. The actuarial report was prepared by Mr Brendan Mark Counsell, BSc, BA, FIAA, FNZSA. The actuarial report indicates that Mr Counsell 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).

Policy liabilities for life 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. 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 groups	Method (projection or other)	Profit carriers
Lump sum risk	Accumulation (2014: Accumulation)	Claims (implied)
Disability and involuntary unemployment income	Accumulation (2014: 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.

Disclosure of assumptions

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

(a) 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	2.75% (2014: 3.67%)
5 years	3.00% (2014: 3.61%)

(b) Inflation rates

Allowance for future inflation of 1.0% p.a. is assumed (2014: 1.0% p.a.).

The future inflation assumption is based on the long term target range of 1% - 3%.

(c) Future expenses and Indexation

Maintenance expense assumptions have been based on the experience in the current year and budgeted expenses for the year 2016. Inflation adjustments are consistent with the inflation assumptions.

(d) 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 2014.

6 Actuarial assumptions and methods (continued)

Disclosure of assumptions (continued)

(e) 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) and payment per claim open (PPCO) 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\$1,214, unemployment = NZ\$593), a claims handling expense rate of 13% (2014: 15%) of the projected gross claim payments (based on expense investigation) and a discount rate of 2.65% (2014: 3.54%) (based on the yields of 1 year and 2 year New Zealand Government bonds) as at 31 December 2015. Across all classes, changes to the claim termination and average claim size assumptions would cause the most significant change to the liability estimate.

(f) Voluntary discontinuance

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

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

Consumer credit insurances	26% p.a. (2014: 34% p.a.)
Single premium term life insurances	<1% p.a. (2014: <1% p.a.)

(g) 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 for Prudential Standard LPS 110 Capital Adequacy issued by APRA.

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 2015, the assumption changes have not resulted in any of the related product groups entering loss recognition, and hence the policy liability has not been impacted by changes in assumptions.

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.

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.

6 Actuarial assumptions and methods (continued)

Sensitivity analysis (continued)

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.

2015	Impact on profit or loss		Impact on equity	
	Gross of reinsurance \$'000	Net of reinsurance \$'000	Gross of reinsurance \$'000	Net of reinsurance \$'000
Result of change in variables				
Mortality/morbidity- worsening by 5%	(39)	(39)	(39)	(39)
Mortality/morbidity- improving by 5%	39	39	39	39
Lapse rate- worsening by 5%	10	10	10	10
Lapse rate- improving by 5%	(10)	(10)	(10)	(10)
Expenses- worsening by 5%	(77)	(77)	(77)	(77)
Expenses- improving by 5%	77	77	77	77

2014	Impact on profit or loss		Impact on equity	
	Gross of reinsurance \$'000	Net of reinsurance \$'000	Gross of reinsurance \$'000	Net of reinsurance \$'000
Result of change in variables				
Mortality/morbidity- worsening by 5%	(53)	(53)	(53)	(53)
Mortality/morbidity- improving by 5%	53	53	53	53
Lapse rate- worsening by 5%	16	16	16	16
Lapse rate- improving by 5%	(16)	(16)	(16)	(16)
Expenses- worsening by 5%	(91)	(91)	(91)	(91)
Expenses- improving by 5%	91	91	91	91

7 Financial risk management

This note explains the branch's exposure to financial risks and how these risks could affect the branch's future financial performance. Current year profit or loss information has been included where relevant to add further context.

(a) Transition Risk

Following completion of the sale of GE's consumer business to KVD Australia Pty Ltd, operational risk exposures are higher as services provided under the Transitional Services Agreement (TSA) with GE are transferred to Latitude. This will result in significant change across the business and Hallmark Life Insurance Company Ltd New Zealand Branch is actively monitoring and managing these risks.

(b) Credit risk

Credit risk is the risk of financial loss due to a counterparty failing to perform their contractual obligations and principally arises through 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:

7 Financial risk management (continued)

(b) Credit risk

(i) 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 GE Capital Corporation Financial Institutions Credit Standards ("GECC FICS") policy which sets out concentration limits and additional portfolio parameters. The Company will continue to adopt the GECC FICS policy until a new Investment Policy is approved by the Board in 2016. 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 A1/A 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.

(ii) 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, the management performs an assessment of the creditworthiness of reinsurers and updates the ReMS.

(iii) Loans 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 13(b)).

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

	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
2015						
Financial assets						
Cash and cash equivalents	11,550	-	-	11,550	-	11,550
Trade and other receivables	-	757	-	757	-	757
Financial assets at fair value through profit or loss	-	-	-	-	-	-
Debt securities	-	-	-	-	-	-
Total credit risk exposure	11,550	757	-	12,307	-	12,307

Hallmark Life Insurance Company Ltd New Zealand Branch
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For the year ended 31 December 2015
(continued)

7 Financial risk management (continued)

(b) Credit risk

	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
2014						
Financial assets						
Cash and cash equivalents	44,874	-	-	44,874	-	44,874
Trade and other receivables	-	358	-	358	-	358
Financial assets at fair value through profit or loss						
Debt securities	1,009	-	-	1,009	-	1,009
Total credit risk exposure	45,883	358	-	46,241	-	46,241

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

The table below classifies the financial assets of the branch by counterparty S&P credit rating.

	AAA \$'000	AA \$'000	A \$'000	BBB \$'000	Not rated \$'000	Total \$'000
2015						
Financial Assets						
Cash	-	-	11,550	-	-	11,550
Trade and other receivables*	-	-	-	-	757	757
Financial assets at fair value through profit or loss						
Debt securities	-	-	-	-	-	-
Total credit risk exposure	-	-	11,550	-	757	12,307

2014

Financial Assets						
Cash	-	-	44,874	-	-	44,874
Trade and other receivables*	-	-	-	-	358	358
Financial assets at fair value through profit or loss						
Debt securities	-	1,009	-	-	-	1,009
Total credit risk exposure	-	1,009	44,874	-	358	46,241

* The receivables are largely with related parties, refer to note 13(b).

No receivables are past due or impaired at balance date (2014: Nil).

7 Financial risk management (continued)

(c) 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 the 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 undiscounted contractual cash flows associated with the branch's financial liabilities at balance date, excluding insurance liabilities.

	Up to a year \$'000	1-2 years \$'000	2-5 years \$'000	Over 5 years \$'000	No term \$'000	Total \$'000
2015						
Trade and other payables	151	-	-	-	-	151
Policy claims in process of settlement	622	47	16	-	-	685
Gross policy liabilities	2,968	1,204	869	162	-	5,203
Net principal liabilities	3,741	1,251	885	162	-	6,039

2014

Trade and other payables	145	-	-	-	-	145
Policy claims in process of settlement	867	66	21	-	-	954
Gross policy liabilities	3,686	1,682	1,612	202	-	7,182
Net principal liabilities	4,698	1,748	1,633	202	-	8,281

The branch's financial assets and liabilities are carried in the statement of financial position at amounts that approximate fair value.

(d) Market risk

Market risk is the risk that the fair value of its financial instruments or future cash flows will decrease due to changes in external economic variables such as interest rates, currency rates and equity prices.

The board is responsible for developing and monitoring the risk management policies of the branch in relation to market risk. The branch's investment activities follow the GE Capital Corporation (GECC) Financial Institution Credit Standards (FICS) policy. The GECC FICS policy document outlines the level of acceptable market risk, including counterparty ratings and exposure levels that apply to the investment activities of companies within the GECC Group. The Company will continue to adopt the GECC FICS policy until a new Investment Policy is approved by the Board in 2016.

(i) Currency risk

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

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

7 Financial risk management (continued)

(d) Market risk

(ii) 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	
2015	\$'000	%	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets								
Short term deposits	8,510	-1	(85)	(61)	-	-	-	(61)
Debt securities	-	-1	-	-	-	-	-	-
	<u>8,510</u>		<u>(85)</u>	<u>(61)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(61)</u>

	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	
2014	\$'000	%	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets								
Short term deposits	42,568	-1	(426)	(306)	-	-	-	(306)
Debt securities	1,009	-1	(10)	-	(7)	-	-	(7)
	<u>43,577</u>		<u>(436)</u>	<u>(306)</u>	<u>(7)</u>	<u>-</u>	<u>-</u>	<u>(313)</u>

This analysis is performed on the same basis for 2014 and assumes that all other variables remain the same.

(iii) Price risk

Price risk is the risk that the fair value of equities or financial instruments could decrease due to fluctuations in market prices.

The branch has no such price risk exposure at balance date. (2014: Nil)

8 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 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 solvency position and the solvency requirements of APRA, refer note 2(d)(iii).

(a) Risk management

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 non-specific to the policy holder 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 policies 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.

8 Capital management (continued)

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 for Life Companies issued by APRA, the board and senior management of the branch have developed, implemented and maintained a sound and prudent risk management strategy (RMS) and a reinsurance management strategy (ReMS).

The RMS and ReMS identify the branch's policies, procedures, processes and controls that address all known material risks, financial and non-financial, arising from the business. Annually, the board certifies to APRA that adequate strategies have been put in place to monitor those risks, that systems are 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 modelling to determine that products are appropriately priced.

(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 modelling to ensure that they offer a sufficient level of cover for the identified exposures whilst in alignment with the ReMS of the branch.

For the branch's main term life product lines in New Zealand, two reinsurance treaties provide surplus reinsurance cover. The branch considers this to be a relatively conservative retention level considering the level of sums insured written and the capital position of the branch. No reinsurance is in place for the branch'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 branch's portfolio of products and policy holders is sufficiently diversified such that there is no material concentration of insurance risk.

Unrecognised items

This section of the notes provides information about items that are not recognised in the financial statements as they do not (yet) satisfy the recognition criteria.

9 Commitments and contingencies

As at 31 December 2015, the branch had no contingencies (2014: nil).

10 Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 31 December 2015 that has significantly affected or may significantly affect:

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

Other information

This section of the notes includes other information that must be disclosed to comply with the accounting standards and other pronouncements, but that is not immediately related to individual line items in the financial statements.

11 Remuneration of auditors

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

12 Key management personnel disclosures

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

Hallmark Life Insurance Company Ltd New Zealand Branch
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(continued)

13 Related party transactions

(a) Transactions with related parties

The following transactions occurred with related parties:

	2015 \$	2014 \$
<i>Management fees paid to:</i>		
Hallmark Life Insurance Company Ltd	1,870,975	2,684,977
<i>Host insurance depreciation and administrative costs recharges:</i>		
GE Finance and Insurance Pty Ltd	129,191	218,885
Latitude Financial Services Ltd - NZ	25,846	-
<i>Royalty paid:</i>		
GE Capital Registry, Inc.	47,972	46,860
<i>Commission paid to:</i>		
GE Finance and Insurance Pty Ltd	901,879	1,423,500
Latitude Financial Services Ltd - NZ	101,090	-

(b) Outstanding balances with related parties

	2015 \$	2014 \$
<i>Receivables/(payables)</i>		
Hallmark Life Insurance Company Ltd	104,423	373,965
GE Finance and Insurance Pty Ltd	-	400,708
Latitude Financial Services Ltd - NZ	625,480	-

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.

14 Summary of significant accounting policies

General information

These are the financial statements of the New Zealand branch of Hallmark Life Insurance Company Ltd (the Company). Hallmark Life Insurance Company Ltd New Zealand Branch (the branch) is registered under the Companies Act 1993.

The parent entity of Hallmark Life Insurance Company Ltd is Latitude Personal Finance Pty Ltd.

For the purposes of the financial statements, the branch is a for-profit entity.

The ultimate parent entity of Hallmark Life Insurance Company is KVD Australia Holdco Pty Ltd.

The financial statements were authorised for issue by the directors on 17 March 2016.

Summary of significant accounting policies

(a) Basis of preparation

Statement of compliance

This general purpose financial report covers the branch as a single entity and has been prepared in accordance with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

This financial report complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and New Zealand equivalents to International Financial Reporting Standards (NZ IFRS). The branch is a reporting entity for the purpose of the Financial Reporting Act 1993 and its financial statements comply with that Act.

Basis of measurement

The financial statements have been prepared on a fair value basis with certain exceptions as described in the accounting policies below.

Change in accounting policies

There has been no change in accounting policies for the current financial period.

(b) 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. In addition, the business has consumer credit disability and unemployment insurances, 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.

(c) 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:

Summary of significant accounting policies

(c) Revenue recognition

(i) 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 for unclosed business (business written close to reporting date where attachment of 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 within unearned premium liabilities in the statement of financial position.

(ii) Investment income

All investment income is recognised as revenue on an accruals basis. Interest income from assets backing life insurance liabilities, which are designated at 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 are included in the profit or loss as investment revenue.

(d) Claims expenses

The branch's liability for claims in the process of settlement 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 enough reported (IBNER's) and claims incurred but not reported (IBNR's) based on past experience.

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

The claims liability is measured based on the advice of valuations performed by the appointed actuary whose key assumptions are outlined in note 6.

(e) Other expenses

Other expenses are recognised in the profit or loss on an accruals 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 the 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.

Expenses incurred by the Australian head office for the administration of the branch have been allocated according to the proportion that the branch's gross premium revenue bears to the total gross premium revenue for the Company.

Summary of significant accounting policies

(f) Outwards 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.

(g) Income tax

The income tax expense for the period is the tax payable on the current period's taxable income based on the national income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax assets and liabilities are recognised for temporary differences at the rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

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 recognised on a gross basis, and presented net if the branch has a legally enforceable right to set off current tax assets and liabilities, and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The branch is subject to specific tax provisions that apply to life insurance businesses in New Zealand. These rules are designed to ensure that term insurance business is taxed on actual profits and applies to life insurance policies incepting on or after 1 July 2010. Term life insurance policies in force at 30 June 2010 are grandfathered (for a limited period) and taxed under the previous rules. However, an election exists whereby such policies may be taxed under the new rules. The branch has chosen to grandfather all of its policies and the income tax expense for the period has been calculated on this basis.

(h) Cash and cash equivalents

For the purpose of the statement of cash flows, 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.

(i) 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 or 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.

(j) 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.

Summary of significant accounting policies

(k) 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 non-specific to the policyholder adversely affects the policyholder or other beneficiary, are classified as insurance contracts. The risks associated with insurance contracts are detailed further in note 7.

(l) Assets backing policy liabilities

The branch has determined that all assets within its statutory funds are assets backing policy liabilities.

(m) Financial assets

The branch has elected to designate all its financial assets backing insurance policies at fair value through profit or loss consistent with the provisions of NZ IAS 39 Financial Instruments; Recognition and Measurement.

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

Classification

(i) Short term deposits

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

(ii) Unlisted fixed interest securities

Unlisted fixed interest securities are recorded at amounts based on valuations using rates of interest equivalent to the yields obtainable on comparable investments at the end of the reporting period.

All financial instruments are required to be further categorised under NZ IFRS 7 Financial Instruments; Disclosures, according to the availability of observable market inputs used in the measurement of their fair values, which is detailed further in note 2(f).

(n) 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 to sell 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.

(o) Trade and other payables

Trade and other payables 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.

Summary of significant accounting policies

(p) 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.

(q) 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 5(a).

(r) Policy acquisition costs

The actual acquisition costs incurred are recorded in the profit or loss of the branch. 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.

(s) Foreign currency translation and functional currency

Functional and presentation currency

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

The financial statements are presented in New Zealand dollars, which is the functional and presentation currency for the branch.

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 year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Translation differences on financial instruments carried at fair value are reported as part of the fair value gain or loss.

(t) New accounting standards and Interpretations

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the branch, except for:

- NZ IFRS 9 Financial Instruments, which becomes mandatory for the branch's 2018 financial statements and could change the classification and measurement of financial assets. The branch does not plan to adopt this standard early and the extent of the impact has not been determined.

- NZ IFRS 15 Revenue from contracts with customers, which becomes mandatory for the Company's 2018 financial statements, provides a new 5 step model for recognising revenue earned from a contract with a customer and will replace the existing NZ IAS 18 Revenue. The Company does not plan to adopt this standard early and the extent of the impact has not been determined.

Hallmark Life Insurance Company Ltd New Zealand Branch
Notes to the financial statements
For the year ended 31 December 2015
(continued)

Summary of significant accounting policies

(u) Rounding of amounts

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


Hallmark Life Insurance Company Ltd New Zealand Branch
Directors' declaration
31 December 2015


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 2 to 31 are in accordance with the Financial Reporting Act 1993, including:
 - (i) giving a true and fair view of the branch's financial position as at 31 December 2015 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 14; 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:


JoAnne Maree Stephenson (Chairman)
Director
Sydney
17 March 2016


Anna Elizabeth Gladman (Managing Director)
Director
Sydney
17 March 2016



Independent auditor's report

To the Shareholders of Hallmark Life Insurance Company Ltd New Zealand Branch

Report on the financial statements

We have audited the accompanying financial statements of Hallmark Life Insurance Company Ltd New Zealand Branch ("the Branch") on pages 2 to 31. The financial statements comprise the Statement of Financial Position as at 31 December 2015, the Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory information, for the Branch.

This report is made solely to the Shareholders of the Branch as a body. Our audit work has been undertaken so that we might state to the Branch's Shareholders those matters we are required to state to them in the 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 Branch's Shareholders as a body, for our audit work, this report or any of the opinions we have formed.

Directors' responsibility for the Branch financial statements

The Directors are responsible on behalf of the Branch for the preparation of the Branch financial statements in accordance with generally accepted accounting practice in New Zealand and International Financial Reporting Standards that give a true and fair view of the matters to which they relate, and for such internal control as the Directors determine is necessary to enable the preparation of Branch financial statements that are free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these Branch financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Branch financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Branch financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Branch's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Branch's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.



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

Other than in our capacity as auditor the firm has no other relationship with, or interest in, the Branch.

Opinion

In our opinion the financial statements on pages 2 to 31:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards;
- give a true and fair view of the financial position of the Branch as at 31 December 2015 and of the financial performance and cash flows of the Branch for the year then ended.

Report on other legal and regulatory requirements

In accordance with the requirements of sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993, we report that:

- we have obtained all the information and explanations that we have required; and
- in our opinion, proper accounting records have been kept by Hallmark Life Insurance Company Ltd New Zealand Branch as far as appears from our examination of those records.

KPMG

KPMG

Sydney
31 March 2016



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29 March 2016

The Board of Directors
Hallmark Life Insurance Company Ltd
Level 4, 99 Walker Street
North Sydney NSW 2060

Hallmark Life Insurance Company Ltd:
Appointed Actuary signoff of financial statements and financial condition as at
31 December 2015 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 1 March 2014, HLIC appointed me, Brendan Counsell 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 2015, 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 LPS320, 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 2015, dated 10 March 2016. 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 2015. 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 this 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 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, 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 2015, with excess assets of A\$13.2m above prudential capital requirements in Statutory Fund 1 and A\$5.8m in Statutory Fund 2. Both statutory funds, as well as the Shareholders Fund have exceeded prudential capital requirements over the year to 31 December 2015.

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,

A handwritten signature in black ink, reading 'Brendan Counsell'. The signature is written in a cursive, flowing style.

Brendan Counsell, FIAA, FNZSA
Appointed Actuary, Hallmark Life Insurance Company Ltd