BUDDLEFINDLAY
NEW ZEALAND LAWYERS

23 March 2018

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

From
Frank Porter
Cindy Yuan

By Electronic Upload

Hallmark Life Insurance Company Limited - Financial Statements for the year ended 31 December 2017

1. We act for Hallmark Life Insurance Company Limited (company number 486643) ("**Hallmark Life**")
2. In accordance with section 81 of the Insurance (Prudential Supervision) Act 2010, we **enclose** copies of the following documents in respect of Hallmark Life for the year ended 31 December 2017:
   (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.
4. We have also submitted a copy of the above documents to the Registrar of Financial Service Providers.
5. Please contact the writer if you have any queries in relation to the above.
6. Please confirm receipt by email to the writer.

Yours sincerely

Cindy Yuan
Solicitor

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Email: cindy.yuan@buddlefindlay.com

Hallmark Life Insurance Company Ltd

ABN 87 008 446 884

Annual financial statements for the year ended 31 December 2017

Hallmark Life Insurance Company Ltd ABN 87 008 446 884
Financial report - 31 December 2017

Contents

The Directors present their report together with the financial statements of Hallmark Life Insurance Company Ltd (the Company) for the year ended 31 December 2017 and the auditor's report thereon.

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

Jennifer Anne Boddington (Chairperson) (appointed 1 April 2017)
Rachel Emma Cobb
Shaun Patrick Feely (appointed 10 January 2018)
Anna Elizabeth Gladman (resigned 10 January 2018)
Christopher Paul Knoblanche
JoAnne Maree Stephenson (Chairperson) (resigned 1 April 2017)
Duncan Gerald West

Principal activities
The principal activity of the Company during the year was that of a life insurer, operating both in Australia and New Zealand.

During the year, the Company ceased acting as a holding company of Hallmark General Insurance Company Ltd.

Review of operations
The total comprehensive income of the Company for the financial year after income tax was $20,021,000 (2016: $31,297,000).

The profit of the Company exclusive of dividend income increased by $824,000. Premium revenue increased by $540,000. Administration expenses decreased by $347,000 and claims expenses also decreased by $974,000. Policy liabilities increased by $1,335,000. The remainder of the profit was driven by dividend income of $12,600,000, lower by $12,100,000 in comparison to 2016.

Significant changes in the state of affairs
During the year, the Company transferred its investment in Hallmark General Insurance Company Ltd to Latitude Insurance Holdings Pty Ltd. Other than the above, there was no significant change in the state of affairs of the Company during the year.

Dividends
Dividends amounting to $67,879,000 (profit distributions: $30,779,000 and restructure capital reduction: $37,100,000) were paid by the Company during the financial year 31 December 2017 (2016: $22,900,000).

Matters subsequent to the end of the financial year
On the 20th of February 2018, the Board approved a dividend payment amounting to $2,100,000. This will not significantly impact the Company's results, operations or capital.

The Company intends to suspend sales of its single premium credit life cover product with effect from April 2018. This is expected to impact the Company's results with an expected reduction in future written premiums and associated expenses and profit.

Other than the above, no other matter or circumstance has arisen since 31 December 2017 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.

Likely developments and expected results of operations

The Company will continue to operate in its existing business, being Life Insurance, but notes that the regulatory environment for insurance is continually evolving. Hallmark cannot predict what legislative or regulatory changes may occur in the future or the impact of future legislative or regulatory change on its business. However, additional and increasingly complex regulatory requirements may increase the cost of compliance and the risk of non-compliance which may have an impact on Hallmark's business (products and distribution), operations, regulatory and compliance costs and ultimately its financial performance. Hallmark will continue to actively manage this risk through engagement with regulators, regulatory change management, continuous review and improvement of its product design (including consideration of customer outcomes), and by maintaining risk and compliance frameworks including dedicated compliance specialists.

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

KVD Australia Holdco Pty Ltd 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 24 November 2017 and has agreed to continue to pay premiums in respect of the period ending 25 November 2018.

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 2017 and is set out on page 5.

Rounding of amounts

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

Signed in accordance with a resolution of directors.

Jennifer Anne Boddington (Chairperson)
Director
Sydney
6 March 2018

Shaun Patrick Feely (Chief Executive Officer)
Director
Sydney
6 March 2018

KPMG

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

To the Directors of Hallmark Life Insurance Company Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit of Hallmark Life Insurance Company Ltd for the financial year ended 31 December 2017 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

Ian Moyser

Partner

Sydney

6 March 2018

	Notes	2017 $'000	2016 $'000
Insurance premium revenue	1(a)	**29,563**	29,084
Outwards reinsurance premium expense		**(452)**	(513)
Net insurance premium revenue		**29,111**	28,571
Investment income	1(b)	**14,580**	26,702
Total revenue		**43,691**	55,273
Claims expenses	1(c)	**13,517**	14,578
Reinsurance and other recoveries		**(309)**	(396)
Net claims incurred		**13,208**	14,182
Decrease in policy liabilities	2(d)(i)	**(2,280)**	(3,614)
Decrease in reinsurers share of policy liabilities	2(d)(i)	**4**	3
Net decrease in policy liabilities		**(2,276)**	(3,611)
Administration expenses	1(d)	**9,114**	9,461
Total claims and expenses		**20,046**	20,032
Profit before income tax		**23,645**	35,241
Income tax expense	1(f)	**3,270**	4,100
Profit for the year		**20,375**	31,141
Other comprehensive income			
Items that may be reclassified subsequently the profit or loss:			
Exchange differences on translation of foreign operations		**(354)**	156
Total items that may be reclassified subsequently the profit or loss		**(354)**	156
Other comprehensive (loss)/ income for the year, net of tax		**(354)**	156
Total comprehensive income for the year		**20,021**	31,297
Profit is attributable to:			
Owners of Hallmark Life Insurance Company Ltd		**20,375**	31,141
		20,375	31,141
Total comprehensive income for the year is attributable to:			
Owners of Hallmark Life Insurance Company Ltd		**20,021**	31,297
		20,021	31,297

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

	Notes	2017 $'000	2016 $'000
ASSETS			
Cash and cash equivalents	2(a)	**53,493**	102,374
Trade and other receivables	2(b)	**927**	967
Reinsurance and other recoveries receivable	2(c)	**363**	550
Gross policy liability ceded under reinsurance	2(d)(i)	**36**	40
Investment in controlled entity	3(b)	**-**	107,837
Total assets		**54,819**	211,768
LIABILITIES			
Trade and other payables	2(e)	**1,896**	572
Current tax liabilities		**178**	185
Deferred tax liabilities	3(a)	**265**	234
Policy claims in the process of settlement	2(f)	**2,527**	3,614
Gross policy liabilities	2(d)(i)	**23,642**	26,160
Total liabilities		**28,508**	30,765
Net assets		**26,311**	181,003
EQUITY			
Contributed equity	4(a)	**500**	500
Reserves	4(b)	**6,845**	72,772
Retained earnings		**18,966**	107,731
Total equity		**26,311**	181,003

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

	Notes	Attributable to owners of Hallmark Life Insurance Company Ltd			
		Contributed equity $'000	**Reserves $'000**	**Retained earnings $'000**	**Total equity $'000**
Balance at 1 January 2016		10,100	84,383	79,985	174,468
Profit for the year		-	-	31,141	31,141
Other comprehensive income		-	156	-	156
Total comprehensive income for the year		**-**	**156**	**31,141**	**31,297**
Redemption of preference shares	4(a)	(9,600)	-	-	(9,600)
Dividends paid	8(b)	-	-	(22,900)	(22,900)
Reclassification of reserves to retained earnings		-	(19,505)	19,505	-
Tax consolidation reserve		-	7,738	-	7,738
Balance at 31 December 2016		**500**	**72,772**	**107,731**	**181,003**
Balance at 1 January 2017		500	72,772	107,731	181,003
Profit for the year		-	-	20,375	20,375
Other comprehensive income		-	(354)	-	(354)
Total comprehensive income for the year		**-**	**(354)**	**20,375**	**20,021**
Transfer of investment in controlled entity to holding company		-	(66,574)	(41,261)	(107,835)
Dividends paid		-	-	(67,879)	(67,879)
Tax consolidation reserve		-	1,001	-	1,001
Balance at 31 December 2017		**500**	**6,845**	**18,966**	**26,311**

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

	Notes	2017 $'000	2016 $'000
Cash flows from operating activities			
Premium received		**29,627**	30,325
Outward reinsurance expense		**(467)**	(573)
Claims paid		**(14,569)**	(13,289)
Payments to suppliers and employees		**(5,833)**	(6,035)
Interest received		**1,953**	1,988
Income taxes paid		**(571)**	(503)
Reinsurance and other recoveries		**496**	126
Fees and commissions paid		**(3,539)**	(3,358)
Net cash inflow/ from operating activities	5(a)	7,097	8,681
Dividends received		**12,600**	24,700
Net cash inflow/(outflow) from investing activities		12,600	24,700
Cash flows from financing activities			
Dividends paid to company's shareholders	8(b)	**(67,879)**	(22,900)
Redemption of preference shares		**-**	(9,600)
Net cash inflow/(outflow) from financing activities		(67,879)	(32,500)
Net (decrease)/increase in cash and cash equivalents		**(48,182)**	881
Cash and cash equivalents at 1 January		**102,374**	101,230
Effects of exchange rate changes on cash and cash equivalents		**(699)**	263
Cash and cash equivalents at 31 December	2(a)	53,493	102,374

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

Contents of the notes to the financial statements

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

	2017 $'000	2016 $'000
Direct life insurance premiums - single	20,654	20,092
Direct life insurance premiums - regular	6,737	6,371
Non life insurance premiums	2,172	2,621
Total insurance premium revenue	29,563	29,084

(b) Investment income

	2017 $'000	2016 $'000
Interest income	1,980	2,002
Dividend income	12,600	24,700
Total investment income	14,580	26,702

(c) Claims expenses

	2017 $'000	2016 $'000
Death and disability	3,348	4,382
Unemployment	42	11
Terminations of policies	10,127	10,185
Total claims expenses	13,517	14,578

(d) Administration expenses

	2017 $'000	2016 $'000
Policy maintenance - others	4,915	5,325
Foreign exchange (gains)/losses	66	7
Policy acquisition cost - others	579	599
Policy acquisition cost - commission	3,532	3,392
Investment management expenses	22	138
Total administration expenses	9,114	9,461

1 Profit or loss information (continued)

(e) Profit before income tax

Profit before income tax includes the following specific expenses:	2017 $'000	2016 $'000
Employee costs		
Personnel cost	174	265
Contribution to superannuation fund	8	12
Other administrative expenses		
Marketing fees	97	75
Management fees	4,658	4,981

(f) Income tax expense

(i) Income tax expense

	2017 $'000	2016 $'000
Current tax expense	3,239	3,078
Deferred tax (note 3(a))	31	35
Adjustments for current tax of prior periods	-	987
Income tax expense	3,270	4,100

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

	2017 $'000	2016 $'000
Profit from continuing operations before income tax expense	23,645	35,241
Tax at the Australian tax rate of 30% (2016 - 30%) and tax at the New Zealand tax rate of 28% (2016 - 28%)	7,049	10,523
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non-taxable dividends	(3,780)	(7,410)
	3,269	3,113
Adjustments for current tax of prior periods	1	987
Income tax expense	3,270	4,100

1 Profit or loss information (continued)

(g) Statement of sources of operating profit

	2017 $'000	2016 $'000
The shareholders' operating profit after income tax of the statutory funds is represented by:		
Investment earnings on shareholders' retained and capital	349	346
Emergence of shareholders' planned profits	4,959	4,539
Experience profit/(loss)	1,846	1,616
	7,154	6,501

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

	2017 $'000	2016 $'000
Cash at bank	2,761	12,377
Short term deposits	50,732	89,997
Total cash and cash equivalents	53,493	102,374

(b) Trade and other receivables

	2017 $'000	2016 $'000
Trade receivables	482	468
Investment income accrued and receivable	235	210
Other receivables	210	289
Total trade and other receivables	927	967
Trade and other receivables - current	927	967

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) Reinsurance and other recoveries receivable

	2017 $'000	2016 $'000
Expected future reinsurance recoveries undiscounted		
Outstanding claims	363	550

2 Financial assets and financial liabilities (continued)

(c) Reinsurance and other recoveries receivable (continued)

Reinsurance and other recoveries receivable - current	**363**	550

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

(d) Policy liabilities

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

	2017 $'000	2016 $'000
Gross life insurance contract liabilities		
Balance at 1 January	**26,160**	29,699
Foreign exchange movement	**(238)**	75
Increase in life insurance contract liabililities reflected in the profit or loss	**(2,280)**	(3,614)
Closing balance at 31 December	**23,642**	26,160
Reinsurers' share of life insurance contract liabilities		
Balance at 1 January	**40**	43
Decrease in reinsurance assets reflected in the profit or loss	**(4)**	(3)
Closing balance at 31 December	**36**	40
Net insurance contract liabilities	**23,606**	26,120
Net insurance contract liabilities - current	**13,232**	14,258
Net insurance contract liabilities - non current	**10,374**	11,862
	23,606	26,120

2 Financial assets and financial liabilities (continued)

(d) Policy liabilities (continued)

(ii) Components of net life insurance contract liabilities

	2017 **$'000**	2016 $'000
Best estimate liability:		
Future policy benefits (Note (2) below)	**28,193**	29,906
Unrecouped acquisition expenses	**(4,587)**	(3,786)
Total best estimate liability	**23,606**	**26,120**
Value of future shareholder profit margins (Note 1 below)	**-**	-
Net policy liabilities	**23,606**	26,120

(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 Australian Prudential Regulation Authority's (APRA) Life and General Insurance Capital Standards (LAGIC). The required level of capital for regulatory purposes (the prescribed capital amount or PCA) is intended to take account of the full range of risks to which a life insurer is exposed and a life company must ensure that the life company and each of its statutory funds has, at all times, a capital base in excess of its PCA (plus any additional amount as required by (APRA)).

The excess of the Company's capital base over the PCA as at 31 December 2017 was $16.5 million (2016: $82.4 million).

The available assets of each statutory fund have also exceeded the Prudential Capital Requirement at all times during the year ended 31 December 2017.

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)

(d) Policy liabilities (continued)

2017	Statutory Fund 1 $'000	Statutory Fund 2 $'000	Shareholder Fund $'000	Total $'000
(a) Capital base	11,522	2,622	12,403	**26,547**
(b) Prescribed capital amount	780	283	62	**10,000**
Capital in excess of prescribed capital amount = (a) - (b)	**10,742**	**2,339**	**12,341**	**16,547**
Capital adequacy multiple = (a)/(b)	**14.77**	**9.26**	**200.82**	**2.65**
Capital Base:				
Net assets	11,186	2,722	12,403	**26,311**
Less: Difference between adjusted policy liabilities and policy liabilities	336	(100)	-	**236**
Equals: Capital base	11,522	2,622	12,403	**26,547**
Prescribed capital amount:				
Asset risk charge	138	39	43	**220**
Asset concentration risk charge	-	-	-	**-**
Operational risk charge	642	244	-	**886**
Combined stress scenario adjustment	-	-	19	**19**
Adjustment to meet $10 million PCA minimum		-	-	**8,875**
Prescribed capital amount	780	283	62	**10,000**

2016	Statutory Fund 1 $'000	Statutory Fund 2 $'000	Shareholder Fund $'000	Total $'000
(a) Capital base	20,285	7,909	125,849	**154,043**
(b) Prescribed capital amount	780	251	70,635	**71,666**
Capital in excess of prescribed capital amount = (a) - (b)	**19,505**	**7,658**	**55,214**	**82,377**
Capital adequacy multiple = (a)/(b)	**26.01**	**31.57**	**1.78**	**2.11**
Capital Base:				
Net assets	19,208	7,696	154,099	181,003
Less: Difference between adjusted policy liabilities and policy liabilities	1,077	213	-	1,290
Less: Adjustments to the value of the holding in Hallmark General	-	-	(28,250)	(28,250)
Common equity tier 1 capital	20,285	7,909	125,849	154,043
Prescribed capital amount:				
Asset risk charge	129	29	4,708	4,866
Asset concentration risk charge	-	-	63,856	63,856
Operational risk charge	651	222	-	873
Combined stress scenario adjustment	-	-	2,072	2,072
Prescribed capital amount	780	251	70,636	71,667

2 Financial assets and financial liabilities (continued)

(d) 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		**Profit after Tax**	
	2017	2016	**2017**	2016
	$'000	$'000	**$'000**	$'000
Shareholders interest (overseas and non-participating businesses)	**7,063**	20,609	**7,154**	6,501

(e) Trade and other payables

	2017	2016
	$'000	$'000
Trade payables	**250**	274
Other payables	**1,646**	298
Total trade and other payables	**1,896**	572
Trade and other payables - current	**1,896**	572

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

(f) Policy claims in the process of settlement

	2017	2016
	$'000	$'000
Undiscounted expected future claims payment	**2,527**	3,614
Total policy claims in the process of settlement	**2,527**	3,614
Policy claims in the process of settlement - current	**2,451**	3,506
Policy claims in the process of settlement - non current	**76**	108
	2,527	3,614

2 Financial assets and financial liabilities (continued)

(f) Policy claims in the process of settlement (continued)

3 Non-financial assets and liabilities

(a) Deferred tax liabilities

	2017 $'000	2016 $'000
The balance comprises temporary differences attributable to:		
Deferred commission	**265**	234

Deferred tax liabilities are classified as non-current liabilities.

	2017	2016
Movements in deferred tax liabilities:		
Opening balance at 1 January	**234**	142
Charged/(credited) to profit or loss (note 1(f))	**31**	35
Over/(under) provision in prior years	**-**	57
Closing balance at 31 December	**265**	234

3 Non-financial assets and liabilities (continued)

(b) Investment in controlled entity

	2017 $'000	2016 $'000
Non-current		
Investment in controlled entity at cost	-	107,837

In 2017, the Company transferred its investment in Hallmark General Insurance Company Ltd. to Latitude Insurance Holdings Pty Ltd., a non operating holding company.

4 Equity

(a) Contributed equity

(i) Share capital

	2017 No. of Shares	2016 No. of Shares	2017 $'000	2016 $'000
Paid up ordinary shares	**251**	251	**500**	500

(ii) Ordinary shares

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

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

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) Parent entities

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

(b) Reserves

	2017 $'000	2016 $'000
Foreign currency translation reserve	**947**	1,301
Tax consolidation reserve	**5,898**	71,471
Total reserves	**6,845**	72,772

4 Equity (continued)

(b) Reserves (continued)

	2017 $'000	2016 $'000
Movements in reserves :		
Foreign currency translation reserve		
Opening balance at 1 January	**1,301**	1,145
Exchange differences on translation of foreign operations	**(354)**	156
Closing balance 31 December	**947**	1,301
Tax consolidation reserve		
Opening balance at 1 January	**71,471**	83,238
Current tax liability transferred (from)/to Head Entity	**1,001**	7,738
Reclassification of reserves to retained earnings	**-**	(19,505)
Transfer of investment in controlled entity to holding company	**(66,574)**	-
Closing balance 31 December	**5,898**	71,471

5 Cash flow information

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

	2017 $'000	2016 $'000
Profit for the year	**20,375**	31,141
Adjustments		
Transfer of investment in controlled entity to holding company	**(41,261)**	-
Dividend income received from subsidiary	**(12,600)**	(24,700)
Effect of foreign exchange on cash and cash equivalents	**699**	(263)
Change in operating assets and liabilities:		
(Increase)/decrease in trade and other receivables	**40**	1,226
Increase/(decrease) in deferred tax liability	**31**	92
Increase/(decrease) in trade and other payables	**1,324**	18
Increase/(decrease) in current tax liability	**(7)**	224
Increase/(decrease) in tax consolidation reserve	**(65,573)**	7,738
(Increase)/decrease in reinsurance and other recoveries receivable	**187**	(270)
(Increase)/decrease in gross policy liabilities ceded under reinsurance	**4**	3
Decrease/(increase) in investment in controlled entity	**107,837**	(4,452)
Increase/(decrease) in policy claims in the process of settlement	**(1,087)**	1,307
(Decrease)/increase in gross policy liabilities	**(2,518)**	(3,539)
(Decrease)/increase in foreign currency translation reserve	**(354)**	156
Net cash (outflow)/inflow from operating activities	**7,097**	8,681

(b) Non-cash investing and financing activities

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 2017. 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 1995).

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 1995. The prudential standard requires the policy liabilities to be calculated in a way which allows for the systematic release of planned margins as services are provided to policy owners.

6 Actuarial assumptions and methods (continued)

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 (2016: Accumulation)	Claims (implied)
Disability and involuntary unemployment income	Accumulation (2016: 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	1.80% (2016: 1.81%)
5 years	2.34% (2016: 2.24%)

New Zealand

90 days	1.88% (2016: 2.00%)
5 years	2.26% (2016: 2.69%)

(b) Inflation rates

Allowance for future inflation of 2.5% p.a. for Australia is assumed (2016: 2.5% p.a.).

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

Allowance for future inflation of 2.0% per annum for New Zealand is assumed (2016: 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 2018. 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 2016.

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 (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.

The key actuarial assumptions for the determination of the outstanding claims liabilities are claim termination rate, average claim size (disability = NZ$1,886, unemployment = NZ$816), a claims handling expense rate of 11.5% of the projected gross claim payments (based on expense investigation) and a discount rate of 1.89% (based on the 2 year New Zealand Government bond yield as at 31 December 2017). 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	34% p.a. (2016: 32% p.a.)
Regular premium term life insurances	17% p.a. (2016: 15% p.a.)

For the major classes of the New Zealand branch, the assumed aggregate rates of discontinuance are:

Consumer credit insurances	42% p.a. (2016: 46% p.a.)
Single premium term life insurances	<1% p.a. (2016: <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 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 2017, 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.

	Impact on profit or loss		Impact on equity	
2017	**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%	(110)	(140)	(110)	(140)
Mortality/morbidity- improving by 5%	110	140	110	140
Lapse rate- worsening by 5%	35	35	35	35
Lapse rate- improving by 5%	(35)	(35)	(35)	(35)
Expenses- worsening by 5%	(184)	(184)	(184)	(184)
Expenses- improving by 5%	184	184	184	184

	Impact on profit or loss		Impact on equity	
2016	**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%	(105)	(93)	(105)	(93)
Mortality/morbidity- improving by 5%	105	93	105	93
Lapse rate- worsening by 5%	37	37	37	37
Lapse rate- improving by 5%	(37)	(37)	(37)	(37)
Expenses- worsening by 5%	(210)	(210)	(210)	(210)
Expenses- improving by 5%	210	210	210	210

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

Latitude completed the exit of its transitional services agreement (TSA) with GE in July 2017. There were no material incidents (including business disruptions) resulting from the transition.

(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 Investment Policy. Management conducts a regular review of the investment holdings, compliance is monitored and exposures or breaches are reported to the board. The mandate is reviewed regularly for pertinence and for changes in the risk environment.

The Company only invests with counterparties that have a credit rating of at least 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.

2017	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	53,493	-	-	53,493	-	53,493
Trade and other receivables	-	927	-	927	-	927
Reinsurance and other recoveries receivable	-	363	-	363	-	363
Gross policy liability ceded under reinsurance	-	36	-	36	-	36
Total credit risk exposure	**53,493**	**1,326**	**-**	**54,819**	**-**	**54,819**

7 Financial risk management (continued)

(b) Credit risk (continued)

2016	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	102,374	-	-	102,374	-	102,374
Trade and other receivables	-	967	-	967	-	967
Investment in controlled entities	-	107,837	-	107,837	-	107,837
Reinsurance and other recoveries receivable	-	550	-	550	-	550
Gross policy liability ceded under reinsurance	-	40	-	40	-	40
Total credit risk exposure	102,374	109,394	-	211,768	-	211,768

* 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).

2017	AAA $'000	AA $'000	A $'000	BBB $'000	Not rated $'000	Total $'000
Financial Assets						
Cash and cash equivalents	-	-	53,493	-	-	53,493
Trade and other receivables*	-	-	-	-	927	927
Reinsurance and other recoveries receivable	-	-	363	-	-	363
Gross policy liability ceded under reinsurance	-	36	-	-	-	36
Total credit risk exposure	-	36	53,856	-	927	54,819

2016	AAA $'000	AA $'000	A $'000	BBB $'000	Not rated $'000	Total $'000
Financial Assets						
Cash and cash equivalents	-	-	102,374	-	-	102,374
Trade and other receivables*	-	-	-	-	967	967
Investment in controlled entity*	-	-	-	-	107,837	107,837
Reinsurance and other recoveries receivable	-	-	550	-	-	550
Gross policy liability ceded under reinsurance	-	40	-	-	-	40
Total credit risk exposure	-	40	102,924	-	108,804	211,768

7 Financial risk management (continued)

(b) Credit risk (continued)

* 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 (2016: 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:

2017	Up to a year $'000	1-2 years $'000	2-5 years $'000	Over 5 years $'000	No term $'000	Total $'000
Trade and other payables	1,896	-	-	-	-	1,896
Policy claims in process of settlement	2,451	58	18	-	-	2,527
Gross policy liabilities	13,269	5,576	4,055	742	-	23,642
Net principal liabilities	**17,616**	**5,634**	**4,073**	**742**	**-**	**28,065**
2016						
Trade and other payables	572	-	-	-	-	572
Policy claims in process of settlement	3,506	82	26	-	-	3,614
Gross policy liabilities	14,298	6,239	4,806	817	-	26,160
Net principal liabilities	**18,376**	**6,321**	**4,832**	**817**	**-**	**30,346**

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 Investment policy. The Investment policy document outlines the level of acceptable market risk, including counterparty ratings that apply to the investment activities of the Company's financial instruments.

(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.

2017	Carrying amount $'000	Change in variables %	Impact on profit before tax $'000	Impact on equity: Up to a year $'000	Impact on equity: 1-2 years $'000	Impact on equity: 2-5 years $'000	Impact on equity: Over 5 years $'000	Total $'000
Financial assets								
Short term deposits	50,732	-1	(507)	(355)	-	-	-	(355)
	50,732		**(507)**	**(355)**	**-**	**-**	**-**	**(355)**

2016	Carrying amount $'000	Change in variables %	Impact on profit before tax $'000	Impact on equity: Up to a year $'000	Impact on equity: 1-2 years $'000	Impact on equity: 2-5 years $'000	Impact on equity: Over 5 years $'000	Total $'000
Financial assets								
Short term deposits	89,997	-1	(900)	(630)	-	-	-	(630)
	89,997		**(900)**	**(630)**	**-**	**-**	**-**	**(630)**

The analysis is performed on the same basis for 2016 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 2017.

8 Capital management

Capital consists of ordinary 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(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 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

	2017 $'000	2016 $'000
Dividends paid during the financial year ended 31 December	**67,879**	22,900

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 2017 (2016: nil).

10 Matters subsequent to the end of the financial year

On 20th February 2018, the Board approved a dividend payment amounting to $2,100,000. This will not significantly impact the Company's results, operations or capital.

The Company intends to suspend sales of its single premium credit life cover product with effect from April 2018. This is expected to impact the Company's results with an expected reduction in future written premiums and associated expenses and profit.

Other than the above, no other matter or circumstance has arisen since 31 December 2017 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.

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:

	2017 $	2016 $
Audit and review of financial statements	**58,234**	58,234
Other assurance services:		
APRA Return	**34,155**	34,155
AFSL Audit	**3,926**	3,926
Total remuneration for audit and other assurance services	**96,315**	96,315

Audit fees in 2017 were paid by Latitude Financial Services Australia Holdings Pty Ltd.

12 Key management personnel disclosures

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

(i) Directors

Jennifer Anne Boddington (appointed 1 April 2017)
Rachel Emma Cobb
Shaun Patrick Feely (appointed 10 Janaury 2018)
Anna Elizabeth Gladman (resigned 10 Janaury 2018)
Christopher Paul Knoblanche
JoAnne Maree Stephenson (resigned 1 April 2017)
Duncan Gerald West

(ii) Other executives

Paul Hammonds (appointed 22 November 2017)
Cath Mortlock
James Murphy (appointed 11 September 2017)
Karen Parkin
Rachel Perry (resigned 20 June 2017)
Aliessa Pritchard
Shelly Slater (resigned 31 March 2017)
Julie Taylor (resigned 22 November 2017)

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.

	2017	2016
	$	$
Short-term employee benefits*	**2,459,766**	2,799,224
Long-term employee benefits	**213,134**	203,651
	2,672,900	3,002,875

There are no other transactions with key management personnel (2016: $nil).

* The 2017 amount includes termination benefits of $85,735 (2016: $nil)

13 Related party transactions

(a) Transactions with related parties

The following transactions occurred with related parties:

	2017 $	2016 $
Management fees paid to/(received from):		
Latitude Financial Services Australia Holdings Pty Ltd	**2,668,570**	3,011,057
Hallmark General Insurance Company Ltd	**1,989,855**	3,368,650
Cross charges paid to:		
Latitude Financial Services Australia Holdings Pty Ltd	**2,206,520**	513,758
Latitude Financial Services Ltd - NZ	**206,202**	271,595
Commission paid to:		
Latitude Personal Finance Pty Ltd	**1,247,081**	1,316,133
Latitude Finance Australia	**1,024,930**	924,288
Latitude Financial Services Ltd - NZ	**1,144,149**	1,015,354
Dividend (received)/paid:		
Hallmark General Insurance Company Ltd	**(12,600,003)**	(24,700,000)
Latitude Personal Finance Pty Ltd	**30,780,000**	22,900,000
Latitude Insurance Holdings Pty Ltd	**37,100,000**	-

(b) Outstanding balances with related parties

	2017 $	2016 $
Receivables/(payables)		
Latitude Financial Services Australia Holdings Pty Ltd	**(1,721,389)**	(126,537)
Latitude Personal Finance Pty Ltd	**425,114**	353,784
Latitude Finance Australia	**290,268**	333,196
KVD New Zealand Ltd	**311,889**	262,343
Hallmark General Insurance Company Ltd	**(538,665)**	(533,257)

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 2017, 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 2017 or prior years.

14 Disaggregated information on life insurance business by fund

	Non-investment linked Statutory Fund 1 $'000	Non-investment linked Statutory Fund 2 $'000	Non-investment linked Total $'000	Shareholder Fund $'000	Total $'000
2017					
Financial assets	33,801	8,451	**42,252**	12,567	**54,819**
Life insurance contract liabilities	(19,005)	(4,637)	**(23,642)**	-	**(23,642)**
Other liabilities	(3,609)	(1,091)	**(4,700)**	(166)	**(4,866)**
Retained earnings	(5,289)	(1,774)	**(7,063)**	(11,903)	**(18,966)**
Premium revenue	(20,967)	(8,144)	**(29,111)**	-	**(29,111)**
Investment revenue	(831)	(262)	**(1,093)**	(34,187)	**(14,580)**
Claims expense	9,767	3,441	**13,208**	-	**13,208**
Movement in policy liabilities	(2,642)	366	**(2,276)**	-	**(2,276)**
Other operating expenses	6,708	2,406	**9,114**	-	**9,114**
Operating profit before tax	(7,965)	(2,193)	**(10,158)**	(34,187)	**(23,645)**
Operating profit after tax	(5,575)	(1,579)	**(7,154)**	(33,921)	**(20,375)**
2016					
Financial assets	44,694	12,975	**57,669**	154,099	**211,768**
Life insurance contract liabilities	(21,636)	(4,524)	**(26,160)**	-	**(26,160)**
Other liabilities	(3,850)	(755)	**(4,605)**	-	**(4,605)**
Retained earnings	(14,214)	(6,395)	**(20,609)**	(87,122)	**(107,731)**
Premium revenue	(21,194)	(7,377)	**(28,571)**	-	**(28,571)**
Investment revenue	(818)	(274)	**(1,092)**	(25,610)	**(26,702)**
Claims expense	10,982	3,200	**14,182**	-	**14,182**
Movement in policy liabilities	(3,141)	(470)	**(3,611)**	-	**(3,611)**
Other operating expenses	7,041	2,379	**9,420**	41	**9,461**
Operating profit before tax	(7,130)	(2,542)	**(9,672)**	(25,569)	**(35,241)**
Operating profit after tax	(4,671)	(1,830)	**(6,501)**	(24,640)	**(31,141)**

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 is:

800 Collins Street
Melbourne VIC 3008
Australia

and principal place of business is:

Level 7
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 6 March 2018.

(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.

15 Summary of significant accounting policies (continued)

(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.

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 an explicit allowance for deferred acquisition costs and a reserve for IBNR's. Where used, the accumulation method is considered to be a reasonable approximation of liabilities had they been determined on a projection basis. A summary of the significant actuarial methods and assumptions used is contained in note 6.

15 Summary of significant accounting policies (continued)

(c) Critical estimates, judgements and errors (continued)

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:

(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.

15 Summary of significant accounting policies (continued)

(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

- 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.

15 Summary of significant accounting policies (continued)

(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

The Company is a member of the KVD Australia Holdco Pty Ltd income tax consolidated group.
The KVD Australia Holdco Pty Ltd income tax consolidated group incorporates the Company, Latitude Insurance Holdings Pty Limited, Hallmark General Insurance Company Ltd and several other related entities. The implementation date of the income tax consolidated group was 15 June 2015.

The current and deferred tax amounts for the consolidated group are allocated amongst the entities in the group using a modified 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.

For the financial year ended 31 December 2017, the members of the tax consolidated group continue to be subject to 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 requires payments to the head entity in respect of the group tax liability equal to the relative proportion of taxable income of the member of the income tax consolidated group. Where a 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.

Any difference between the net tax liability amount recognised on a modified separate taxpayer within the group approach and the actual tax funding agreement amount payable is recognised by the Company equity contribution or distribution.

The members of the tax consolidated group are subject to a tax sharing agreement as prescribed by the tax consolidation legislation. This agreement 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.

15 Summary of significant accounting policies (continued)

(h) Income tax (continued)

New Zealand branch

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

15 Summary of significant accounting policies (continued)

(h) Income tax (continued)

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.

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.

15 Summary of significant accounting policies (continued)

(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.

(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.

(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.

15 Summary of significant accounting policies (continued)

(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.

(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)/Inland Revenue Department (IRD). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

15 Summary of significant accounting policies (continued)

(v) Goods and services tax (GST) (continued)

Receivables and payables are stated inclusive of GST. The net amount of GST recoverable from, or payable to, the tax authoroties (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/IRD, are classified as operating cash flows.

(w) Rounding of amounts

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

(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 2017, 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.

- AASB 16 Leases, which becomes mandatory for the Company's 2019 financial statements and introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is a low value. A lessee is required to recognise a right-of-use asset representing its obligations to make lease payments. The Company does not plan to adopt this standard early and the extent of the impact has not been determined.

- AASB 17 Insurance Contracts, which becomes mandatory for the Company's 2021 financial statements will significantly change the principles for the recognition, measurement, presentation and disclosure of insurance contracts from the current accounting standards (AASB 4 Insurance Contracts and AASB 1038 Life Insurance Contracts). 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 6 to 45 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 2017 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:

Jennifer Anne Boddington (Chairperson)
Director
Sydney
6 March 2018

Shaun Patrick Feely (Chief Executive Officer)
Director
Sydney
6 March 2018

Independent Auditor's Report

To the shareholders of Hallmark Life Insurance Company Limited

Opinion

We have audited the ***Financial Report*** of Hallmark Life Insurance Company Limited (The Company).

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

- giving a true and fair view of the Company's financial position as at 31 December 2017 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Statement of Financial Position as at 31 December 2017;
- Statement of Profit or Loss and other comprehensive income, Statement of Changes in Equity, and Statement of Cash Flows for the year then ended;
- Notes including a summary of significant accounting policies;
- Director's Declaration.

Basis for opinion

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

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

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

Other Information

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

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

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

KPMG

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

• preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*.

• implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement whether due to fraud or error.

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

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

• to obtain reasonable assurance about whether the Financial Report free from material misstatement, whether due to fraud or error; and

• to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the Audit of the Financial Report is located at the Auditing and Assurance Standards Board Website at: http://www.auasb.gov.au/auditors_files/ar3.pdf. This description forms part of our Auditor's Report

KPMG

KPMG

Ian Moyser

Partner

Sydney

6 March 2018

Hallmark Life Insurance Company Ltd
New Zealand Branch

Annual financial statements
for the year ended 31 December 2017

Hallmark Life Insurance Company Ltd New Zealand Branch

Financial report - 31 December 2017

Contents

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 2017 and the auditor's report thereon.

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

Jennifer Anne Boddington (Chairperson)
Director
Sydney
6 March 2018

Shaun Patrick Feely (Chief Executive Officer)
Director
Sydney
6 March 2018

Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2017

	Notes	2017 $'000	2016 $'000
Insurance premium revenue	1(a)	**8,763**	7,891
Outwards reinsurance premium expense		**-**	(1)
Net insurance premium revenue		**8,763**	7,890
Investment income	1(b)	**283**	294
Total revenue		**9,046**	8,184
Claims expenses	1(c)	**3,699**	3,420
Net increase/(decrease) in policy liabilities		**393**	(499)
Administration expenses	1(d)	**2,585**	2,553
Total claims and expenses		**6,677**	5,474
Profit before income tax		**2,369**	2,710
Income tax expense	1(e)	**663**	759
Profit for the year		**1,706**	1,951
Total comprehensive income for the year		**1,706**	1,951
Profit is attributable to:			
Owners of Hallmark Life Insurance Company Ltd New Zealand Branch		**1,706**	1,951
		1,706	1,951
Total comprehensive income for the year is attributable to:			
Owners of Hallmark Life Insurance Company Ltd New Zealand Branch		**1,706**	1,951
		1,706	1,951

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

Statement of Financial Position
As at 31 December 2017

	Notes	2017 $'000	2016 $'000
ASSETS			
Cash and cash equivalents	2(a)	**9,024**	13,451
Trade and other receivables	2(b)	**263**	522
Total assets		**9,287**	13,973
LIABILITIES			
Trade and other payables	2(d)	**711**	833
Current tax liabilities		**195**	192
Deferred tax liabilities	3(a)	**291**	244
Gross policy liabilities	2(c)(i)	**5,097**	4,704
Total liabilities		**6,294**	5,973
Net assets		**2,993**	8,000
EQUITY			
Retained earnings		**2,993**	8,000
Total equity		**2,993**	8,000

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 Changes in Equity
For the year ended 31 December 2017

	Attributable to owners of Hallmark Life Insurance Company Ltd New Zealand Branch	
	Retained earnings $'000	**Total equity $'000**
Balance at 1 January 2016	6,049	6,049
Profit for the year	1,951	1,951
Other comprehensive income	-	-
Total comprehensive income for the year	**1,951**	**1,951**
Balance at 31 December 2016	**8,000**	**8,000**
Balance at 1 January 2017	8,000	8,000
Profit for the year	1,706	1,706
Other comprehensive income	-	-
Total comprehensive income for the year	**1,706**	**1,706**
Transactions with owners in their capacity as owners:		
Dividends paid	(6,713)	(6,713)
Balance at 31 December 2017	**2,993**	**2,993**

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

Statement of Cash Flows
For the year ended 31 December 2017

	Notes	2017 $'000	2016 $'000
Cash flows from operating activities			
Premiums received		6,439	5,667
Claims paid		(1,133)	(948)
Payments to suppliers and employees		(1,434)	(1,470)
Interest received		260	280
Income taxes paid		(613)	(542)
Fees and commissions paid		(1,233)	(1,086)
Net cash inflow from operating activities	4(a)	2,286	1,901
Cash flows from investing activities			
Dividends paid to company's shareholders		(6,713)	-
Net cash (outflow) inflow from investing activities		(6,713)	-
Net cash inflow from financing activities		-	-
Net (decrease) increase in cash and cash equivalents		(4,427)	1,901
Cash and cash equivalents at 1 January		13,451	11,550
Cash and cash equivalents at 31 December	2(a)	9,024	13,451

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

Contents of the notes to the financial statements

Financial performance

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

1 Profit or loss information

(a) Insurance premium revenue

	2017 $'000	2016 $'000
Direct life insurance premiums	8,763	7,891
Outwards reinsurance premium expense	-	(1)
Total insurance premium revenue	8,763	7,890

(b) Investment income

	2017 $'000	2016 $'000
Interest income	283	294
Total investment income	283	294

(c) Claims expenses

	2017 $'000	2016 $'000
Death and disability	1,047	936
Unemployment	46	12
Terminations of policies	2,606	2,472
Total claims expenses	3,699	3,420

(d) Administration expenses

	2017 $'000	2016 $'000
Policy maintenance	1,218	1,424
Foreign exchange (gains)	69	7
Policy acquisition cost - others	67	33
Policy acquisition cost - commission	1,231	1,086
Investment management expenses	-	3
Total administration expenses	2,585	2,553

1 Profit or loss information (continued)

(e) Income tax expense

(i) Income tax expense

	2017 $'000	2016 $'000
Current tax expense	630	775
Deferred tax (note 3(a))	47	(16)
Adjustments for current tax of prior periods	(14)	-
Income tax expense	663	759

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

	2017 $'000	2016 $'000
Profit from continuing operations before income tax expense	2,369	2,710
Tax at the New Zealand tax rate of 28% (2016 - 28%)	663	759
Income tax expense	663	759

(f) Statement of sources of operating profit

	2017 $'000	2016 $'000
The shareholders' operating profit after income tax of the statutory funds is represented by:		
Investment earnings on shareholders' retained and capital	110	120
Emergence of shareholders' planned profits	1,138	847
Experience profit	456	984
Shareholders' operating profit after income tax	1,704	1,951

Balance sheet management

This section provides additional information about those individual line items in the financial statements relating to financial peformance 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

	2017 **$'000**	2016 $'000
Cash at bank	**492**	2,850
Short term deposits	**8,532**	10,601
Total cash and cash equivalents	**9,024**	13,451

(b) Trade and other receivables

	2017 **$'000**	2016 $'000
Investment income accrued and receivable	**49**	40
Other receivables	**214**	482
Total trade and other receivables	**263**	522
Classification of total trade and other receivables		
Current	**263**	522
Non-current	**-**	-
	263	522

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

2 Financial assets and financial liabilities (continued)

(c) Policy liabilities

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

	2017 $'000	2016 $'000
Gross life insurance contract liabilities		
Balance at 1 January	**4,704**	5,203
Increase/(Decrease) in life insurance contract liabililities reflected in the profit or loss	**393**	(499)
Closing balance at 31 December	**5,097**	4,704
Classification of total life insurance contract liabilities		
Current	**3,266**	2,874
Non-current	**1,831**	1,830
	5,097	4,704

(ii) Components of net life insurance contract liabilities

	2017 $'000	2016 $'000
Best estimate liability - for non investment linked business		
Future policy benefits (Note (2) below)	**6,085**	5,335
Unrecouped acquisition expenses	**(988)**	(631)
Total best estimate liability	**5,097**	4,704
Value of future shareholder profit margins (Note 1 below)	**-**	-
Net policy liabilities	**5,097**	4,704

(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.

2 Financial assets and financial liabilities (continued)

(c) Policy liabilities (continued)

(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 Australian Prudential Regulation Authority's (APRA) Life and General Insurance Capital Standards (LAGIC). The required level of capital for regulatory purposes (the prescribed capital amount or PCA) is intended to take account of the full range of risks to which a life insurer is exposed and a life company must ensure that the life company and each of its statutory funds has, at all times, a capital base in excess of its PCA (plus any additional amount as required by (APRA)).

The excess of the branch's capital base over the PCA as at 31 December 2017 was $2.3 million (2016: $8.0 million).

The available assets in the statutory fund have also exceeded the Prudential Capital Requirement at all times during the year ending 31 December 2017.

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

	2017 $'000	2016 $'000
(a) Capital base	**2,882**	8,222
(b) Prescribed capital amount	**311**	261
Capital in excess of prescribed capital amount = (a) - (b)	**2,571**	7,961
Capital adequacy multiple = (a)/(b)	**9.26**	31.50
Capital base:		
Net assets	**2,993**	8,000
Add: Difference between adjusted policy liabilities and policy liabilities	**(111)**	222
Less: Elimination of any excess DTAs over DTLs	**-**	-
Equals: Capital base	**2,882**	8,222
Prescribed capital amount:		
Asset risk charge	**43**	30
Operational risk charge	**268**	231
Prescribed capital amount	**311**	261

2 Financial assets and financial liabilities (continued)

(d) Trade and other payables

	2017 **$'000**	2016 $'000
Trade payables	**-**	1
Other payables	**86**	161
Policy claims in the process of settlement	**625**	671
Total trade and other payables	**711**	833
Classification of total trade and other payables		
Current	**654**	772
Non-current	**57**	61
	711	833

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

3 Non-financial assets and liabilities

(a) Deferred tax liabilities

	2017 **$'000**	2016 $'000
Non-current		
***The balance comprises temporary differences attributable to*:**		
Deferred commission	**291**	244
Deferred tax liabilities are classified as non-current		
Movements in deferred tax liabilities were as follows:		
Opening balance at 1 January	**244**	260
Under/(over) provision in prior years	**47**	(16)
Closing balance at 31 December	**291**	244

4 Cash flow information

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

	2017 $'000	2016 $'000
Profit for the year	**1,706**	1,951
Change in operating assets and liabilities:		
(Increase)/decrease in trade and other receivables	259	235
(Decrease)/increase in trade and other payables	(122)	(3)
(Decrease)/increase in current tax liabilities	3	233
(Decrease) in deferred tax liabilities	47	(16)
(Decrease)/increase in gross policy liabilities	393	(499)
Net cash (outflow)/inflow from operating activities	2,286	1,901

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 2017. 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 1995).

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 1995. The prudential standard requires the policy liabilities to be calculated in a way which allows for the systematic release of planned margins as services are provided to policy owners.

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

Product groups	Method (projection or other)	Profit carriers
Lump sum risk	Accumulation (2016: Accumulation)	Claims (implied)
Disability and involuntary unemployment income	Accumulation (2016: 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	1.88% (2016: 2.00%)
5 years	2.26% (2016: 2.69%)

(b) Inflation rates

Allowance for future inflation of 2.0% p.a. is assumed (2016: 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 2018. 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 2016.

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$1,886, unemployment = NZ$816), a claims handling expense rate of 11.5% (2016: 13%) of the projected gross claim payments (based on expense investigation) and a discount rate of 1.89% (2016: 2.27%) (based on the 2 year New Zealand Government bond yield as at 31 December 2017). 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	42% p.a. (2016: 46% p.a.)
Single premium term life insurances	<1% p.a. (2016: <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 2017, 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.

	Impact on profit or loss		Impact on equity	
2017	**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%	8	8	8	8
Lapse rate- improving by 5%	(8)	(8)	(8)	(8)
Expenses- worsening by 5%	(42)	(42)	(42)	(42)
Expenses- improving by 5%	42	42	42	42

	Impact on profit or loss		Impact on equity	
2016	**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%	(32)	(32)	(32)	(32)
Mortality/morbidity- improving by 5%	32	32	32	32
Lapse rate- worsening by 5%	10	10	10	10
Lapse rate- improving by 5%	(10)	(10)	(10)	(10)
Expenses- worsening by 5%	(49)	(49)	(49)	(49)
Expenses- improving by 5%	(32)	(32)	(32)	(32)

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

Latitude completed the exit of its transitional services agreement (TSA) with GE in July 2017. There were no material incidents (including business disruptions) resulting from the transition.

(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 (continued)

(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 Investment Policy. Management conducts a regular review of the investment holdings, compliance is monitored and exposures or breaches are reported to the board. The mandate is reviewed regularly for pertinence and for changes in the risk environment.

The branch only invests with counterparties that have a credit rating of at least 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.

2017	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	9,024	-	-	9,024	-	9,024
Trade and other receivables	-	263	-	263	-	263
Total credit risk exposure	**9,024**	**263**	**-**	**9,287**	**-**	**9,287**

2016	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	13,451	-	-	13,451	-	13,451
Trade and other receivables	-	522	-	522	-	522
Total credit risk exposure	**13,451**	**522**	**-**	**13,973**	**-**	**13,973**

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

7 Financial risk management (continued)

(b) Credit risk (continued)

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

2017	AAA $'000	AA $'000	A $'000	BBB $'000	Not rated $'000	Total $'000
Financial Assets						
Cash	-	-	9,024	-	-	9,024
Trade and other receivables*	-	-	-	-	263	263
Total credit risk exposure	-	-	9,024	-	263	9,287
2016						
Financial Assets						
Cash	-	-	13,451	-	-	13,451
Trade and other receivables*	-	-	-	-	522	522
Total credit risk exposure	-	-	13,451	-	522	13,973

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

No receivables are past due or impaired at balance date (2016: Nil).

(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.

2017	Up to a year $'000	1-2 years $'000	2-5 years $'000	Over 5 years $'000	No term $'000	Total $'000
Trade and other payables	86	-	-	-	-	86
Policy claims in process of settlement	568	43	14	-	-	625
Gross policy liabilities	3,266	1,135	530	166	-	5,097
Net principal liabilities	**3,920**	**1,178**	**544**	**166**	**-**	**5,808**

7 Financial risk management (continued)

(c) Liquidity risk (continued)

Maturities of financial liabilities (continued)

2016

Trade and other payables	162	-	-	-	-	162
Policy claims in process of settlement	610	46	15	-	-	671
Gross policy liabilities	2,874	1,066	613	151	-	4,704
Net principal liabilities	**3,646**	**1,112**	**628**	**151**	**-**	**5,537**

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 Investment policy. The Investment policy document outlines the level of acceptable market risk, including counterparty ratings that apply to the investment activities of the branch's financial instruments.

(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.

(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**	
2017	**$'000**	**%**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Financial assets								
Short term deposits	8,532	-1	(85)	(61)	-	-	-	(61)
	8,532		(85)	(61)	-	-	-	(61)

7 Financial risk management (continued)

(d) Market risk (continued)

(ii) Interest rate risk (continued)

2016	Carrying amount $'000	Change in variables %	Impact on profit before tax $'000	Impact on equity: Up to a year $'000	Impact on equity: 1-2 years $'000	Impact on equity: 2-5 years $'000	Impact on equity: Over 5 years $'000	Total $'000
Financial assets								
Short term deposits	10,601	-1	(106)	(76)	-	-	-	(76)
	10,601		**(106)**	**(76)**	**-**	**-**	**-**	**(76)**

This analysis is performed on the same basis for 2016 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. (2016: 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(c)(iii).

8 Capital management (continued)

(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.

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.

8 Capital management (continued)

Insurance risk management (continued)

(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 2017, the branch had no contingencies (2016: nil).

10 Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 31 December 2017 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.

13 Related party transactions

(a) Transactions with related parties

The following transactions occurred with related parties:

	2017 $	2016 $
Management fees paid to:		
Hallmark Life Insurance Company Ltd	**969,072**	1,033,586
Host Insurance depreciation and administrative costs recharges:		
Latitude Financial Services Ltd - NZ	**220,891**	290,208
Commission paid to:		
Latitude Financial Services Ltd - NZ	**1,231,414**	1,085,831
Dividends paid/(received):		
Hallmark Life Insurance Company Ltd - Shareholder	**6,713,480**	-

(b) Outstanding balances with related parties

	2017 $	2016 $
Receivables/(payables)		
Hallmark General Insurance Company Ltd	**(128,672)**	208,717
Latitude Financial Services Ltd - NZ	**342,796**	272,757

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 Insurance Holdings 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 6 March 2018.

(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).

14 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

Statement of compliance (continued)

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 Markets Conduct Act 2013 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:

(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.

14 Summary of significant accounting policies (continued)

(c) Revenue recognition (continued)

(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.

(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.

14 Summary of significant accounting policies (continued)

(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.

(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.

(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.

14 Summary of significant accounting policies (continued)

(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.

(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.

(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.

14 Summary of significant accounting policies (continued)

(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 2017, 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 branch'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 branch does not plan to adopt this standard early and the extent of the impact has not been determined.

- NZ IFRS 17 Insurance Contracts, which becomes mandatory for the branch's 2021 financial statements will significantly change the principles for the recognition, measurement, presentation and disclosure of insurance contracts from the current accounting standards (NZ IFRS 4 Insurance Contracts). The branch does not plan to adopt this standard early and the extent of the impact has not been determined.

(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.

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 29 are in accordance with the Financial Reporting Act 2013, including:

  (i) giving a true and fair view of the branch's financial position as at 31 December 2017 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:

Jennifer Anne Boddington (Chairperson)
Director
Sydney
6 March 2018

Shaun Patrick Feely (Chief Executive Officer)
Director
Sydney
6 March 2018

KPMG

Independent Auditor's Report

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

Report on the financial statements

Opinion

In our opinion, the accompanying financial statements of Hallmark Life Insurance Company Limited New Zealand Branch (the Branch) on pages 2 to 29:

i. present fairly in all material respects the Branch's financial position as at 31 December 2017 and its financial performance and cash flows for the year ended on that date; and

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

We have audited the accompanying financial statements which comprise:

— the statement of financial position as at 31 December 2017;

— the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended; and

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

Basis for opinion

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

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

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

Use of this independent auditor's report

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

Responsibilities of the Directors for the financial statements

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

- the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error and cash flows; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of thefinancial statements

Our objective is:

- to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

https://www.xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page8.aspx.

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

KPMG

KPMG

Ian Moyser
Partner

Sydney
6 March 2018

Building a better
working world

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26 February 2018

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 2017 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 2017, 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 2017, dated 26 February 2018. 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 2017. 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, submitted to the Board for approval on 5 March 2018, has been appropriately included in those statements; and

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

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

Financial Statements - HLIC New Zealand Branch (Statutory Fund 2)

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

a. The Policy Liability

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

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

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

e. The unvested policyholder benefits liability

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

Section 78 of the Act requires that the Appointed Actuary prepare a report in respect of the review required under Section 77. I confirm that the FCR, and its appendices, meets the requirements of section 78 of the Act, as it contains my advice regarding policy liabilities, reinsured policy liabilities, and deferred acquisition costs (implicit in the policy liabilities). The FCR also includes advice on IBNR and capital requirements, which form part of the financial statements. Separate input has been provided regarding actuarial inputs to tax calculations in New Zealand. No advice or review is required of unvested policyholder benefits liability, as HLIC does not write any participating products.

In my opinion and from an actuarial perspective:

a. The actuarial information contained in the HLIC New Zealand Branch financial statements, submitted to the Board for approval on 5 March 2018, 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 2017, with excess assets of A$7.3m above prudential capital requirements in Statutory Fund 1 and A$1.3m in Statutory Fund 2. Under Section 25 of LPS110, the Prescribed Capital Amount (PCA) of a life company is the sum of the fund-level PCA, subject to a minimum of $10m. An entity-level PCA adjustment of $8.9m at 31 December 2017 is required to meet the $10m PCA minimum following the divestment of Hallmark General Insurance Company in November 2017. Both statutory funds, as well as the Shareholders Fund and entity itself, have exceeded prudential capital requirements over the year to 31 December 2017.

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

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