BUDDLEFINDLAY
NEW ZEALAND LAWYERS

13 April 2017

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

From
Frank Porter
Grace Alexander

By Electronic Upload

Hallmark General Insurance Company Limited – Financial Statements for the year ended 31 December 2016

1. We act for Hallmark General Insurance Company Limited (company number 3346111) ("**Hallmark General**").

2. We **enclose** for registration the following documents in respect of Hallmark General for the year ended 31 December 2016:

   (a) audited financial statements for Hallmark General, a copy of the independent auditor's report and a copy of the appointed actuary's report (as required by section 78 of the Insurance (Prudential Supervision) Act 2010) in relation to the same; and

   (b) audited financial statements for Hallmark General's New Zealand branch, a copy of the independent auditor's report and a copy of the appointed actuary's report (as required by section 78 of the Insurance (Prudential Supervision) Act 2010) in relation to the same.

3. The financial statements listed above have been prepared in reliance on the Financial Markets Conduct (Overseas Registered Banks and Licensed Insurers) Exemption Notice 2015.

4. Please contact the writer if you have any queries in relation to the above.

Yours faithfully
Buddle Findlay

Grace Alexander
Solicitor
Direct: 64 9 363 1037
Email: grace.alexander@buddlefindlay.com

Hallmark General Insurance Company Ltd
ABN 82 008 477 647

Annual financial statements for the year ended 31 December 2016

Hallmark General Insurance Company Ltd ABN 82 008 477 647
Financial report - 31 December 2016

Contents

The directors present their report together with the financial statements of Hallmark General Insurance Company Ltd (the Company) for the year ended 31 December 2016 and the auditor's report thereon.

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

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

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

Review of operations
Total comprehensive income of the Company was $11,854,000 (2015: $15,187,000).

This result was driven by a decline in premium revenue of $4,652,000 across all channels in Australia and New Zealand (excluding the cards portolio in Australia). Investment income has decreased by $916,000 impacted by lower investment holdings and yields. The overall decline in income was offset by a decrease in underwriting expenses of $1,907,000.

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

Dividends
Dividends amounting to $24,700,000 were paid by the Company in respect of the financial year 31 December 2016 (2015: $nil).

Matters subsequent to the end of the financial year
No matter or circumstance has arisen since 31 December 2016 that has significantly affected, or may significantly affect:

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

Likely developments and expected results of operations
The Company will continue to operate in its existing business, being General Insurance, in the next financial year, but notes that the regulatory focus around Consumer Credit Insurance has potential to result in changes to the business operations in future years, which are being closely monitored. The company has completed a significant proportion of the activities under the Transitional Services Agreement to transition from GE provided services to KVD. It is also noted that a new independent director (Chair of the Hallmark Board) will be appointed from the 20th March 2017.

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.

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 24th November 2016.

Subsequently, the ultimate parent entity, KVD Australia Holdco Pty Ltd, has agreed to pay premiums on behalf of the Company, in respect of directors' and officers' liability insurance (non-indemnifiable coverage only) in respect of the period ending 25 November 2017.

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 is required under section 307C of the *Corporations Act 2001*, forms part of the directors' report for the year ended 31 December 2016 and is set out on page 4.

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.

JoAnne Maree Stephenson (Chairman)
Director
Sydney
20 March 2017

Anna Elizabeth Gladman (Managing Director)
Director
Sydney
20 March 2017

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

To the Directors of Hallmark General Insurance Company Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 December 2016 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

I. Moyser

Ian Moyser
Partner

Sydney
20 March 2017

Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2016

	Notes	2016 $'000	2015 $'000
Insurance premium revenue		**56,552**	61,165
Outwards reinsurance premium revenue/(expense)		**(2)**	37
Net insurance premium revenue	1(a)	**56,550**	61,202
Claims expenses		**12,439**	12,203
Net claims incurred	1(b)	**12,439**	12,203
Acquisition costs		**11,250**	12,327
Administration expenses		**19,220**	20,050
Underwriting expenses		**30,470**	32,377
Underwriting result		**13,641**	16,622
Investment income	1(c)	**3,447**	4,363
Investment expenses		**(233)**	(214)
Other (expenses)/income		**(159)**	(52)
Profit before income tax	1(d)	**16,696**	20,719
Income tax expense	1(e)	**5,144**	5,605
Profit for the year		**11,552**	15,114
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		**302**	73
Total items that may be reclassified subsequently to profit or loss		**302**	73
Other comprehensive income for the year, net of tax		**302**	73
Total comprehensive income for the year		**11,854**	15,187
Profit is attributable to:			
Owners of Hallmark General Insurance Company Ltd		**11,552**	15,114
		11,552	15,114
Total comprehensive income for the year is attributable to:			
Owners of Hallmark General Insurance Company Ltd		**11,854**	15,187
		11,854	15,187

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

Hallmark General Insurance Company Ltd
Statement of Financial Position
As at 31 December 2016

	Notes	2016 $'000	2015 $'000
ASSETS			
Current assets			
Cash and cash equivalents	2(a)	**164,436**	172,644
Trade and other receivables	2(b)	**834**	954
Current tax assets		**-**	18
Deferred acquisition costs	2(c)	**7,084**	7,541
Total current assets		**172,354**	181,157
Non-current assets			
Deferred acquisition costs	2(c)	**6,587**	7,236
Deferred tax assets	3(a)	**1,290**	1,060
Total non-current assets		**7,877**	8,296
Total assets		**180,231**	189,453
LIABILITIES			
Current liabilities			
Trade and other payables	2(d)	**1,115**	346
Current tax liabilities		**667**	-
Provisions	3(b)	**2,710**	899
Outstanding claims liability	2(f)	**8,389**	8,509
Unearned premium liability	2(g)	**34,398**	36,143
Total current liabilities		**47,279**	45,897
Non-current liabilities			
Trade and other payables	2(d)	**55**	71
Outstanding claims liability	2(f)	**4,891**	4,638
Unearned premium liability	2(g)	**31,984**	34,683
Total non-current liabilities		**36,930**	39,392
Total liabilities		**84,209**	85,289
Net assets		**96,022**	104,164
EQUITY			
Contributed equity	4(a)	**2,000**	2,000
Reserves	4(b)	**60,675**	55,669
Retained earnings		**33,347**	46,495
Total equity		**96,022**	104,164

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

	Attributable to owners of Hallmark General Insurance Company Ltd			
	Contributed equity $'000	**Reserves $'000**	**Retained earnings $'000**	**Total equity $'000**
Balance at 1 January 2015	2,000	56,110	31,381	89,491
Profit for the year	-	-	15,114	15,114
Other comprehensive income	-	73	-	73
Total comprehensive income for the year	-	73	15,114	15,187
Tax consolidation reserve	-	(514)	-	(514)
Balance at 31 December 2015	2,000	55,669	46,495	104,164
Balance at 1 January 2016	2,000	55,669	46,495	104,164
Profit for the year	-	-	11,552	11,552
Other comprehensive income	-	302	-	302
Total comprehensive income for the year	-	302	11,552	11,854
Dividends paid	-	-	(24,700)	(24,700)
Tax consolidation reserve	-	4,704	-	4,704
Balance at 31 December 2016	2,000	60,675	33,347	96,022

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

	Notes	2016 $'000	2015 $'000
Cash flows from operating activities			
Net premium received		**51,866**	46,163
Outward reinsurance expense		**(2)**	37
Claims paid		**(12,373)**	(12,895)
Payments to suppliers and employees		**(27,228)**	(32,184)
Interest received		**3,499**	4,501
Income taxes allocated from tax consolidated group		**14**	(5,282)
Net cash inflow from operating activities	5(a)	**15,776**	340
Net cash inflow from investing activities		**-**	-
Cash flows from financing activities			
Dividends paid to company's shareholders		**(24,700)**	-
Net cash (outflows) from financing activities		**(24,700)**	-
Net (decrease)/increase in cash and cash equivalents		**(8,924)**	340
Cash and cash equivalents at 1 January		**172,644**	170,517
Effects of exchange rate changes on cash and cash equivalents		**716**	1,787
Cash and cash equivalents at 31 December	2(a)	**164,436**	172,644

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 relating to financial performance that management considers most relevant in the context of the operations of the Company.

1 Profit or loss information

(a) Net insurance premium revenue

	2016 $'000	2015 $'000
Gross written premium	**51,795**	46,810
Movement in unearned premiums	**4,757**	14,355
Outwards reinsurance premium revenue/(expense)	**(2)**	37
Net premium revenue	**56,550**	61,202

(b) Net claims incurred

	2016			**2015**		
	Current Year $'000	**Prior Years $'000**	**Total $'000**	**Current Year $'000**	**Prior Years $'000**	**Total $'000**
Gross claims incurred and related expenses - undiscounted	13,131	(708)	12,423	13,397	(1,242)	12,155
Discount and discount movement - gross claims incurred	(161)	177	16	(170)	218	48
	12,970	(531)	12,439	13,227	(1,024)	12,203
Net claims incurred	**12,970**	**(531)**	**12,439**	**13,227**	**(1,024)**	**12,203**

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

1 Profit or loss information (continued)

(c) Investment income

	2016 $'000	2015 $'000
Interest income	3,447	4,363
Total investment income	3,447	4,363

(d) Profit before income tax

	2016 $'000	2015 $'000
Profit before income tax includes the following specific expenses:		
Employee costs		
Personnel cost	6,772	6,843
Contribution to superannuation fund	562	534
Change in annual and long service leave provision	(48)	18
Other administrative expenses		
Marketing fees	1,105	820
Management fees	6,707	9,324

(e) Income tax expense

(i) Income tax expense

	2016 $'000	2015 $'000
Current tax expense	4,589	4,555
Deferred tax expense (note 3(a))	(459)	(11)
Adjustments for current tax of prior years	1,014	58
Additional exit payment adjustment	-	1,003
Income tax expense	5,144	5,605

1 Profit or loss information (continued)

(e) Income tax expense (continued)

(ii) Reconciliation of income tax expense to prima facie tax payable

	2016 $'000	2015 $'000
Profit from continuing operations before income tax expense	**16,696**	20,719
Tax at the Australian tax rate of 30% (2015: 30%) and tax at the New Zealand tax rate of 28% (2015: 28%)	**4,906**	6,081
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Non taxable income	**(781)**	(1,537)
	4,125	4,544
Foreign exchange difference on translation	**5**	-
Adjustments for current tax of prior periods	**1,014**	58
Additional exit payment adjustment	**-**	1,003
Income tax expense	**5,144**	5,605

Balance sheet management

This section provides additional information about those individual line items in the statement of financial position 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

	2016 $'000	2015 $'000
Current assets		
Cash at bank	**8,841**	8,943
Short term deposits	**155,595**	163,701
Total cash and cash equivalents	**164,436**	172,644

(b) Trade and other receivables

	2016 $'000	2015 $'000
Current assets		
Other receivables	**834**	954
Total trade and other receivables	**834**	954

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.

2 Financial assets and financial liabilities (continued)

(c) Deferred acquisition costs

	2016 $'000	2015 $'000
Current assets		
Deferred acquisition costs	7,084	7,541
Non-current assets		
Deferred acquisition costs	6,587	7,236

	2016 $'000	2015 $'000
Reconciliation of changes in deferred acquisition costs:		
Opening balance at 1 January	14,777	18,242
Acquisition costs incurred during the year	4,073	2,843
Amortisation charged to income	(5,179)	(6,308)
Closing balance at 31 December	13,671	14,777

* Acquisition costs incurred during the year and Amortisation charged to income relate to the Personal loans portfolios (excludes Cards portfolios) as there were no deferred acquisition costs as at 31 December 2016 and 31 December 2015 for Cards portfolios.

(d) Trade and other payables

	2016 $'000	2015 $'000
Current liabilities		
Trade payables	53	19
Other payables	1,062	327
	1,115	346
Non-current liabilities		
Other payables	55	71

The carrying value disclosed above approximates fair value at end of the reporting period.
These balances include amounts payable to related parties (note 13(b)).

(e) Unearned commission income

	2016 $'000	2015 $'000
Opening balance at 1 January	-	2
Commission income on premium earned during the year	-	(2)
Closing balance at 31 December	-	-

2 Financial assets and financial liabilities (continued)

(f) Outstanding claims liability

	2016 $'000	2015 $'000
Central estimate	**9,752**	9,664
Risk margin	**2,364**	2,386
Claims handling expense	**1,420**	1,369
	13,536	13,419
Discount to present value	**(256)**	(272)
Gross outstanding claims liability	**13,280**	13,147
Current	**8,389**	8,509
Non-current	**4,891**	4,638
Total outstanding claims liability	**13,280**	13,147

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

Australia
The current year discount rate is 1.7% (2015: 2.0%).
The subsequent years discount rate is 1.7% - 4.5% (2015: 2.0% - 4.4%).
The weighted average expected term to settlement of the outstanding claims from the end of the reporting period is estimated to be 1.13 years (2015: 1.08 years).

New Zealand Branch
The current year discount rate is 2.27 % (2015: 2.65%)
The subsequent years discount rate is 2.27% (2015: 2.65%)
The weighted average expected term to settlement of the outstanding claims from the end of the reporting period is estimated to be 0.85 years (2015: 0.64 years)

(ii) Risk margin

Process for determining risk margin

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

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

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

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

The aggregate risk margin, after diversification allowance, is intended to achieve a 90% (2015: 90%) probability of sufficiency.

The risk margins applied to the major segments of the portfolio for 90% (2015: 90%) level of adequacy are:

2 Financial assets and financial liabilities (continued)

(f) Outstanding claims liability (continued)

Process for determining risk margin (continued)

	2016 %	2015 %
Australia		
Consumer credit insurance - disability	**18.8**	19.0
Consumer credit insurance - unemployment	**46.8**	46.9
New Zealand		
Consumer credit insurance - disability	**26.7**	26.7
Consumer credit insurance - unemployment	**60.7**	60.7

(iii) Reconciliation of movement in discounted outstanding claims liability

	2016			2015		
	Gross $'000	**Reinsurance $'000**	**Net $'000**	Gross $'000	Reinsurance $'000	Net $'000
Balance at 1 January	**13,147**	**-**	**13,147**	13,719	-	13,719
Current year claims incurred	**12,970**	**-**	**12,970**	13,227	-	13,227
Change in previous years claims	**(531)**	**-**	**(531)**	(1,024)	-	(1,024)
Current year claims paid / reinsurance recovered	**(4,872)**	**-**	**(4,872)**	(4,631)	-	(4,631)
Previous year claims paid / reinsurance recovered	**(7,434)**	**-**	**(7,434)**	(8,144)	-	(8,144)
	13,280	**-**	**13,280**	13,147	-	13,147
Effect of change in discount rate						
Closing balance at 31 December	**13,280**	**-**	**13,280**	13,147	-	13,147

(iv) Claims development tables

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

2 Financial assets and financial liabilities (continued)

(f) Outstanding claims liability (continued)

Gross

Reporting Year	2012 and prior* $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000	Total $'000
Estimate of gross ultimate claims cost						
At end of reporting year	48,962	11,614	12,818	12,284	12,291	
One year later	44,138	10,626	11,600	11,062		
Two years later	44,868	10,934	12,365			
Three years later	45,849	11,363				
Four years later	46,610					
Current estimate of cumulative claims	46,610	11,363	12,365	11,062	12,291	93,691
Cumulative payments to date	(46,430)	(10,816)	(10,906)	(8,602)	(4,820)	(81,574)
Undiscounted claims handling expenses	22	67	178	296	856	1,419
Gross outstanding claims - undiscounted	202	614	1,637	2,756	8,327	13,536
Discount impact	(2)	(8)	(28)	(56)	(162)	(256)
Gross outstanding claims - discounted	**200**	**606**	**1,609**	**2,700**	**8,165**	**13,280**

Net

Reporting Year	2012 and prior* $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000	Total $'000
Estimate of net ultimate claims cost						
At end of reporting year	48,962	11,614	12,818	12,284	12,291	
One year later	44,138	10,626	11,600	11,062		
Two years later	44,868	10,934	12,365			
Three years later	45,849	11,363				
Four years later	46,610					
Current estimate of cumulative claims	46,610	11,363	12,365	11,062	12,291	93,691
Cumulative payments to date	(46,430)	(10,816)	(10,906)	(8,602)	(4,820)	(81,574)
Undiscounted claims handling expenses	22	67	178	296	856	1,419
Net outstanding claims - undiscounted	202	614	1,637	2,756	8,327	13,536
Discount impact	(2)	(8)	(28)	(56)	(162)	(256)
Net outstanding claims - discounted	**200**	**606**	**1,609**	**2,700**	**8,165**	**13,280**

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

2 Financial assets and financial liabilities (continued)

(f) Outstanding claims liability (continued)

(v) Liability adequacy test

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

The probability of sufficiency adopted for LAT differs from the 90% (2015: 90%) probability of sufficiency adopted in determining the outstanding claims liabilities (refer to note 14(p)). The reason for this difference is that the former is in effect an impairment test used only to test the sufficiency of net premium liabilities whereas the latter is a measurement accounting policy used in determining the carrying value of the outstanding claims liabilities.

For the purposes of the liability adequacy test, the net premium liabilities at a 75% probability of sufficiency as at 31 December 2016 is $43,933,568 (2015: $46,696,651), therefore the liability adequacy test at reporting date resulted in a surplus for the company.

2 Financial assets and financial liabilities (continued)

(g) Unearned premium liability

	2016 $'000	2015 $'000
Balance as at 1 January	**70,826**	85,344
Premiums written during the year	**20,393**	15,551
Premiums earned during the year	**(24,837)**	(30,069)
Closing balance as at 31 December	**66,382**	70,826
Current	**34,398**	36,143
Non-current	**31,984**	34,683
Total unearned premium liability	**66,382**	70,826

* Premiums written and earned during the year relate to the Personal loans portfolios (excludes Cards portfolios) as there were no unearned premium liabilities as at 31 December 2016 and 31 December 2015 for Cards portfolios.

3 Non-financial assets and liabilities

(a) Deferred tax assets

	2016 $'000	2015 $'000
The balance comprises temporary differences attributable to:		
Employee entitlements	**389**	464
Operating accruals	**17**	108
Indirect claims handling expense	**326**	411
Provisions	**558**	-
Other	**-**	77
Total deferred tax assets	**1,290**	1,060

(i) Movements in deferred tax assets

Movements in deferred tax assets were as follows:

	2016 $'000	2015 $'000
Opening balance at 1 January	**1,060**	1,531
Charged to profit or loss (note 1(e))	**459**	11
Over provision in prior years	**(229)**	6
Additional exit payment adjustment	**-**	(488)
Closing balance at 31 December	**1,290**	1,060

3 Non-financial assets and liabilities (continued)

(b) Provisions

	2016 $'000	2015 $'000
Provisions - current		
Annual leave	**369**	401
Long service leave	**481**	498
Other Provisions	**1,860**	-
Total provisions - current	**2,710**	899

Total number of employees as at 31 December 2016: 60 (2015: 60)

4 Equity

(a) Contributed equity

Share capital

	2016 No. of Shares	2015 No. of Shares	2016 $'000	2015 $'000
Paid up ordinary shares	**10,001**	10,001	**2,000**	2,000

(i) 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.

(ii) Parent entities

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

4 Equity (continued)

(b) Reserves

	2016 $'000	2015 $'000
Foreign currency translation reserve	**1,246**	944
Tax consolidation reserve	**59,429**	54,725
Total reserves	**60,675**	55,669

(i) Movements in reserves

Movements in each class of reserves were as follows:

	2016 $'000	2015 $'000
Reserves		
Foreign currency translation reserve		
Opening balance at 1 January	**944**	871
Exchange differences on translation of foreign operations	**302**	73
Closing balance 31 December	**1,246**	944
Tax consolidation reserve		
Opening balance at 1 January	**54,725**	55,239
Current tax provision transferred to head entity	**4,704**	(514)
Closing balance 31 December	**59,429**	54,725

5 Cash flow information

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

	2016 $'000	2015 $'000
Profit for the year	**11,552**	15,114
Adjustments		
Effect of foreign exchange on cash and cash equivalents	**(716)**	(1,787)
Change in operating assets and liabilities:		
(Increase)/decrease in trade debtors	**72**	319
Increase/(decrease) in trade and other payables	**753**	(1,241)
(Increase)/decrease in other receivables	**48**	126
Decrease/(increase) in deferred acquisition costs	**1,106**	3,463
(Decrease)/increase in provisions	**1,811**	60
(Decrease)/increase in outstanding claim liability	**133**	(572)
(Decrease)/increase in unearned premium liability	**(4,444)**	(14,518)
(Decrease)/increase in tax consolidation reserve	**4,704**	(513)
(Decrease)/increase in foreign currency translation reserve	**302**	72
(Increase)/decrease in net deferred tax assets	**(230)**	471
(Decrease)/increase in current tax liability	**685**	(654)
Net cash inflow from operating activities	**15,776**	340

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 Company writes consumer credit insurances. These classes of business can be classified as follows:

Consumer credit insurance

The risks covered in this group include:

- Involuntary unemployment
- Disability
- Merchandise and price protection
- Stolen card cover

Process used to determine outstanding claims liabilities (actuarial methods)

The general approach to actuarial estimation of insurance liabilities is to analyse all available past experience, including the number of reported and finalised claims, timing and amounts of claim payments. This analysis allows patterns to be identified in the past experience. Based on this, development patterns associated with the run-off of outstanding claims and premium liabilities at the balance date can be estimated.

The determination of outstanding claims liabilities involves two steps:

6 Actuarial assumptions and methods (continued)

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

(i) The determination of the central estimate of outstanding claims at the balance date. The central estimate of outstanding claims includes an allowance for claims incurred but not reported (IBNR) and the further development of reported claims, also known as incurred but not enough reported (IBNER).

The central estimate has no deliberate bias towards either over or under estimation. Generally speaking, this means that the central estimate is assessed to have a 50% chance of adequacy.

(ii) The determination of a risk margin and claims handling expense provision to be added to the central estimates of outstanding claims.

The estimation of the Outstanding Claims Liabilities involves the use of the following standard aggregate projection methods :

- Payment Chain Ladder ("PCL")
- Payment Per Claim Incurred ("PPCI")
- Payment Per Claim Finalised ("PPCF")
- Payment Per Claim Handled ("PPCH")
- Bornheutter Ferguson ("BF")

A blend of the projection methods is adopted based on the nature of the claims within each portfolio to estimate the appropriate Outstanding Claims.

Actuarial assumptions

The personal line insurances are currently in run off and the outstanding claims liability is immaterial. The key actuarial assumptions for the determination of the outstanding claims liabilities of the consumer credit insurances are as follows:

	2016 **Disability (excl Credit Cards)**	**2016** **Unemployment (excl Credit Cards)**	2015 Disability (excl Credit Cards)	2015 Unemployment (excl Credit Cards)
Number of future finalisations	**670**	**313**	739	306
Average claim size*	**$4,000-$8,600**	**$1,400-$1,900**	$3,500-$7,000	$1,400-$1,800
Expense rate	**13%**	**13%**	13%	13%
Discount rate	**1.7%pa-4.5%pa**	**1.7%pa-4.5%pa**	2.0%pa-4.4%pa	2.0%pa-4.4%pa

* varies depending on the insurance terms of the policy and underwriting period

	2016 **Disability (Credit Cards)**	**2016** **Unemployment (Credit Cards)**	**2016** **Price Protection**	2015 Disability (Credit Cards)	2015 Unemployment (Credit Cards)	2015 Price Protection
Number of future finalisations	**290**	**296**	**483**	282	332	492
Average claim size*	**$2,000-$2,200**	**$1,900-$2,100**	**$100**	$2,000-$2,500	$1,900	$100
Expense rate	**13%**	**13%**	**13%**	13%	13%	13%
Discount rate	**1.7%pa-4.5%pa**	**1.7%pa-4.5%pa**	**1.7%pa-4.5%pa**	2.0%pa-4.4%pa	2.0%pa-4.4%pa	2.0%pa-4.4%pa

6 Actuarial assumptions and methods (continued)

Process used to determine actuarial assumptions

A description of the processes used to determine the above key actuarial assumptions is provided below:

- *Number of future finalisations*
  The number of future finalisations has been based on an analysis of historical claim reports and finalisation rates. This then enables the future numbers of reports, handled claims and finalisations to be projected.

- *Average claim size*
  The adopted average claim size has been based on historic ratios of claim payments to factors such number of claims reported, handled or finalised.

- *Expense rate*
  The adopted claims handling expense rate of 13% (2015:13%) of the projected gross claim payments, was determined based on the results of an expense investigation carried out in 2016.

- *Discount rate*
  The central estimate of the Outstanding Claims Liabilities have been discounted to allow for future investment income attributable to the liabilities during the run off period. The future investment earnings assumptions are estimates of the future annual risk free rates of return. They have been derived from the yield curve on Australian Government Bonds as at 31 December 2016 as provided by the Reserve Bank of Australia.

Sensitivity analysis

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

Key actuarial assumptions	Changes	Impact on net outstanding claims liabilities ($000's)	Impact on total outstanding claims liabilities (%)
2016			
Reported claims chain ladder factor	Increase the chain ladder factor by 10%	+172	+1.6
Discount rate	Decrease discount rate by 1%	+122	+1.1
Claims handling expense rate	Increase from 13% to 17%	+416	+3.8
2015			
Claim termination rate*	Reduce the branch credit termination rates by 10%	877	10.3
Average monthly benefits*	Increase the branch credit insurances IBNR average monthly benefits by 10%	350	4.1
Number of IBNR claims*	Increase the number of branch credit insurances IBNR claims by 10%	350	4.1
Claims handling expense rate	Increase from 13% to 17%	327	3.8

* Branch credit insurance only

6 Actuarial assumptions and methods (continued)

New Zealand Branch

The Company writes the following lines of business in New Zealand:

Consumer credit insurances

The risks covered in this group include:

- Involuntary unemployment
- Disability
- Merchandise and price protection
- Stolen card cover

Effective 5 March 2012, the insurance business of Simply Insurance New Zealand Limited ("SINZ"), a partner company within the GE Capital Group, was transferred into Hallmark General Insurance Company Ltd. This business now operates as a branch in New Zealand.

Process used to determine outstanding claims liabilities (actuarial methods)

The general approach to actuarial estimation of insurance liabilities is to analyse all available past experience, including numbers of reported and finalised claims, amounts of claim payments, changes in case estimates and incurred loss ratios. This analysis allows patterns to be identified in the past experience. Based on this, development patterns associated with the run-off of outstanding claims and premium liabilities at the balance date can be estimated.

The determination of outstanding claims liabilities involves two steps:

(i) The determination of the central estimate of outstanding claims at the balance date. The central estimate of outstanding claims includes an allowance for incurred but not reported (IBNR) claims and the further development of reported claims.

The central estimate has no deliberate bias towards either over or under estimation. Generally speaking, this means that the central estimate is assessed to have a 50% chance of adequacy.

(ii) The determination of a risk margin and claims handling expense provision to be added to the central estimates of outstanding claims.

The estimation of outstanding claims liabilities involves the use of the following standard aggregate projection methods :

- Payment Chain Ladder ("PCL")
- Payment Per Claim Incurred ("PPCI")
- Payment Per Claim Finalised ("PPCF")
- Payment Per Claim Handled ("PPCH")
- Bornheutter Ferguson ("BF")

A blend of the projection methods is adopted based on the nature of the claims within each portfolio to estimate the appropriate Outstanding Claims.

Actuarial assumptions

The key actuarial assumptions for the determination of the outstanding claims are as follows:

6 Actuarial assumptions and methods (continued)

Actuarial assumptions (continued)

	2016 Disability (excl credit cards)	2016 Unemployment (excl credit cards)	2015 Disability (excl credit cards)	2015 Unemployment (excl credit cards)
Number of future finalisations	213	91	241	95
Average claim size*	$4,000-$4,500	$1,000-$1,400	$3,200-$4,700	$900-$1,400
Expense rate	13%	13%	13%	%13
Discount rate	2.27%	2.27%	2.65%	2.65%

* Varies depending on the insurance terms of the policy and underwrting period.

	2016 Disability (credit cards)	2016 Unemployment (credit cards)	2016 Merchandise protection, price protection and stolen cards (credit cards)	2015 Disability (credit cards)	2015 Unemployment (credit cards)	2015 Merchandise protection, price protection and stolen cards (credit cards)
Number of future finalisations	95	93	37	108	109	51
Average claim size	$2,800	$1,800	$200	$2,400	$1,800	$230
Expense rate	13%	13%	13%	13%	13%	13%
Discount rate	2.27% pa	2.27% pa	2.27% pa	2.65% pa	2.65% pa	2.65% pa

Other assumptions

The outstanding claims provision includes a claim handling expense of 15% and an additional 1% for medical expenses, with a prudential margin calculated at a 90% probability of adequacy.

Process used to determine actuarial assumptions

A description of the processes used to determine the above key actuarial assumptions is provided below:

- *Number of future finalisations*
  The number of future finalisations has been based on an analysis of historical claim reports and finalisation rates. This then enables the future numbers of reports, handled claims and finalisations to be projected.

- *Average claim size*
  The adopted average claim size has been based on historic ratios of claim payments to factors such number of claim reported, claim finalised or handled.

- *Expense rate*
  The adopted claims handling expense rate of 13% of the projected gross claim payments, was determined based on the results of an expense investigation carried out in 2016. An additional 1% for medical expenses is applied to disability claims.

- *Discount rate*
  The central estimates of the outstanding claims liabilities for the periodic benefits were discounted to allow for future investment income attributable to the liabilities during the run off period. The discount factor was based on the annual risk free rates of return from the yield curve on New Zealand Government Bonds.

6 Actuarial assumptions and methods (continued)

Process used to determine actuarial assumptions (continued)

(continued)

Sensitivity analysis

The outstanding claims liabilities included in the reported results are calculated based on the key actuarial assumptions as disclosed above. The movement in any of the above key actuarial assumptions will impact the performance and equity of the Company. The table below describes how a change in each of the assumptions will affect the outstanding claims liabilities. The outstanding claims liabilities are on a discounted basis and include claim handling expenses and a risk margin at the 90% probability of adequacy.

Impact of changes in assumptions for credit cards on total outstanding claims provision:

Key actuarial assumptions	**Changes**	**Impact on net claims provision ($000's)**	**Impact on total net claims provision (%)**
Chain ladder factor	Increase the chain ladder factors by 10%	+37	+1.5%
Discount rate	Decrease discount rate by 1%	+25	+1.0%
Claims handling expense rate	Increase from 13% to 17%	+102	+4.0%

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 or loss information has been included where relevant to add further context.

(a) Transition Risk

In 2015, it was noted that operational risk exposures were higher as a result of services being provided under the Transitional Services Agreement (TSA) with GE transferring to Latitude. A large proportion of these services have now been transitioned to Latitude, with remaining services due for completion by June 2017. No material incidents have resulted 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:

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

(iii) Trade and other receivables

The Company's maximum credit risk exposure at balance date is limited to the carrying amount of the financial assets as stated in the statement of financial position. The Company does not have a significant concentration of credit risk with any counterparty, other than related parties (See note 13).

7 Financial risk management (continued)

(b) Credit risk (continued)

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

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	164,436	-	-	164,436	-	164,436
Trade and other receivables	-	834	-	834	-	834
Total credit risk exposure	**164,436**	**834**	**-**	**165,270**	**-**	**165,270**

2015	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	172,644	-	-	172,644	-	172,644
Trade and other receivables	-	954	-	954	-	954
Total credit risk exposure	**172,644**	**954**	**-**	**173,598**	**-**	**173,598**

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

The table below classifies the financial assets of the Company by counterparty credit rating:

2016	AAA $'000	AA $'000	A $'000	BBB $'000	Not rated $'000	Total $'000
Financial Assets						
Cash and cash equivalents	-	-	164,436	-	-	164,436
Trade and other receivables*	-	-	-	-	834	834
Total credit risk exposure	**-**	**-**	**164,436**	**-**	**834**	**165,270**

2015	AAA $'000	AA $'000	A $'000	BBB $'000	Not rated $'000	Total $'000
Financial Assets						
Cash and cash equivalents	-	-	172,644	-	-	172,644
Trade and other receivables*	-	-	-	-	954	954
Total credit risk exposure	**-**	**-**	**172,644**	**-**	**954**	**173,598**

* The receivables are largely with related parties (see note 13(b)).

7 Financial risk management (continued)

(b) Credit risk (continued)

No receivables are past due or impaired at balance date (2015: 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.

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:

2016	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	1,115	55	-	-	-	1,170
Outstanding claims liabilities	8,389	3,017	1,865	9	-	13,280
Net principal liabilities	**9,504**	**3,072**	**1,865**	**9**	**-**	**14,450**

2015	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	346	71	-	-	-	417
Outstanding claims liabilities	8,509	2,825	1,777	36	-	13,147
Net principal liabilites	**8,855**	**2,896**	**1,777**	**36**	**-**	**13,564**

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.

7 Financial risk management (continued)

(d) Market risk (continued)

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

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

	2016 $'000 NZD	2015 $'000 NZD
Total assets denominated in New Zealand dollars:	**40,072**	45,370
Total liabilities denominated in New Zealand dollars:	**23,459**	24,155

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

	2016 $'000 AUD	2015 $'000 AUD
Strengthening of the AUD against the NZD will (decrease) equity by:	**(1,598)**	(1,991)
Strengthening of the AUD against the NZD will (decrease) profit by:	**(573)**	(589)

A 10% weakening in the value of the AUD against the NZD at the balance date would have had the equal but opposite effect to the amounts shown above.

The following exchange rates applied during the year :

	Average rate		**Reporting date rate**	
	2016	2015	**2016**	2015
NZD1 = AUD	**0.935**	0.929	**0.962**	0.938

7 Financial risk management (continued)

(d) Market risk (continued)

(i) Currency risk (continued)

(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 Company's operating results.

2016	Carrying Amount	Change in variables	Impact on profit before tax	Impact on Equity				Total
				Up to a year	1-2 years	2-5 years	Over 5 years	
	$'000	%	$'000	$'000	$'000	$'000	$'000	$'000
Financial assets								
Short term deposits	155,595	-1	(1,556)	(1,089)	-	-	-	(1,089)
	155,595		**(1,556)**	**(1,089)**	**-**	**-**	**-**	**(1,089)**

2015	Carrying Amount	Change in variables	Impact on profit before tax	Impact on Equity				Total
				Up to a year	1-2 years	2-5 years	Over 5 years	
	$'000	%	$'000	$'000	$'000	$'000	$'000	$'000
Financial assets								
Short term deposits	163,701	-1	(1,637)	(1,146)	-	-	-	(1,146)
	163,701		**(1,637)**	**(1,146)**	**-**	**-**	**-**	**(1,146)**

The analysis is performed on the same basis for 2015 and assumes that all other variables remain the same.

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 the Australian Prudential Regulation Authority (APRA). The Company calculates its capital position according to the relevant Prudential standards which ensures sufficient capital is maintained to meet policyholder obligations. 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 capital levels 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 8(b).

(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 insurance.

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

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

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

(i) Underwriting strategy

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

(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.

There are three immaterial reinsurance policies relating to accidental death and warranty products. Given the capital position of the Company and estimated insurance concentration risk charge of $16.35 million (NZ Branch $4.87 million) at 31 December 2016 (2015: $18.10 million, NZ Branch $5.24 million), the Company has adopted the position that catastrophe cover is not required.

(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.

8 Capital management (continued)

(b) Capital adequacy

The Company is required to hold prudential reserves, over and above the general insurance contract liabilities, as a buffer against adverse future experience and poor investment returns. Life and General Insurers are required to follow the relevant Prudential Standards as prescribed by APRA. The required level of capital for regulatory purposes (the prudential capital amount, or PCA) is intended to take account of the full range of risks to which a general insurer is exposed and a general company must ensure that the general company has, at all times, a capital base in excess of its PCA (plus any additional amount as required by APRA).

The excess of the Company's capital base over the PCA as at 31 December 2016 was $73.5 million (2015: $79.8 million).

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

	2016 $'000	2015 $'000
(a) Capital base	**101,769**	110,360
(b) Prescribed capital amount	**28,250**	30,599
Capital in excess of prescribed capital amount = (a) - (b)	**73,519**	79,761
Capital adequacy multiple = (a)/(b)	**3.60**	3.61

	2016 $'000	2015 $'000
Capital base:		
Net assets	96,022	104,164
Regulatory adjustment applied in the calculation of tier 1 capital	5,747	6,196
Common equity Tier 1 Capital	101,769	110,360
Prescribed capital amount:		
Insurance risk charge	8,570	9,055
Insurance concentration risk charge	16,351	17,924
Asset risk charge	3,651	5,018
Asset concentration risk charge	-	-
Operational risk charge	2,351	2,188
Aggregation benefit	(2,673)	(3,586)
Prescribed capital amount	28,250	30,599

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 Contingent assets and contingent liabilities

No contingent assets or contingent liabilities existed as at 31 December 2016 (2015: $nil).

10 Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 31 December 2016 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:

(a) Audit and other assurance services

	2016	2015
	$	$
Amounts received or due and receivable by auditors of the Company (KPMG Australia) for:		
Audit and review of financial statements	**87,832**	92,015
Other assurance services:		
APRA Return	**21,927**	22,971
AFSL Audit	**3,926**	4,113
Total remuneration for audit and other assurance services	**113,685**	119,099

Audit fees in 2016 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

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

(ii) Other executives

Aliessa Pritchard
Rachel Perry
Julie Taylor
Karen Parkin
Cath Mortlock
Shelly Slater

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.

12 Key management personnel disclosures (continued)

Key management personnel compensation (continued)

	2016 $	2015 $
Short-term employee benefits*	**2,799,224**	3,013,252
Long-term employee benefits	**203,651**	249,804
Equity compensation benefits	**-**	1,420
	3,002,875	3,264,476

There are no other transactions with key management personnel (2015: $nil).

* The 2016 amount does not include termination benefits (2015: $265,999)

13 Related party transactions

(a) Transactions with related parties

The following transactions occurred with related parties:

	2016 $	2015 $
Management fees paid to/(received from):		
GE Capital Finance Australasia Pty Ltd	**-**	12,031,497
Latitude Financial Services Australia Holdings Pty Ltd	**8,768,738**	76,020
Hallmark Life Insurance Company Ltd	**(3,368,650)**	(2,289,035)
Cross charges paid to:		
GE Capital Finance Australasia Pty Ltd	**3,132,404**	3,462,567
Transactional sales costs paid to:		
GE Capital Finance Australasia Pty Ltd	**-**	1,461,538
Latitude Financial Services Australia Holdings Pty Ltd	**1,182,555**	330,791
Administration Recharge paid to:		
Latitude Financial Services Ltd - NZ	**593,746**	-
Commission paid to:		
GE Personal Finance Pty Ltd	**-**	2,185,504
Latitude Personal Finance Pty Ltd	**2,833,015**	387,195
GE Capital Finance Australia	**-**	3,150,097
Latitude Finance Australia	**4,489,261**	310,485
GE Finance and Insurance (NZ)	**-**	2,095,321
Latitude Financial Services Ltd - NZ	**2,753,014**	217,432
Royalty paid:		
GE Capital Registry, Inc.	**-**	135,753
Dividend paid/(received):		
Hallmark Life Insurance Company Ltd - shareholder	**24,700,000**	-

13 Related party transactions (continued)

(b) Outstanding balances with related parties

	2016 $	2015 $
Receivables/(payables)		
Latitude Financial Services Australia Holdings Pty Ltd	**(2,099,557)**	(2,103,840)
Latitude Personal Finance Pty Ltd	**716,104**	1,219,945
Hallmark Life Insurance Company Ltd	**533,257**	81,016
Latitude Finance Australia	**1,388,562**	1,583,296
Latitude Financial Services Ltd - NZ	**852,184**	1,185,874

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 2016, there are no amounts outstanding owed by Hallmark General Insurance Company Ltd 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 Hallmark General Insurance Company Ltd during 2016 or prior years.

14 Summary of significant accounting policies

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

The Company is registered under the Insurance Act 1973.

Its registered office is:

572 Swan Street
Burnley VIC 3121
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.

These financial statements are presented in Australian dollars, which is the Company's functional currency.

The financial statements were authorised for issue by directors on 20 March 2017.

(a) Basis of preparation

Statement of compliance

These general purpose financial statements of the Company have been prepared in accordance with Australian Accounting Standards (AASBs) issued by the Australian Accounting Standards Board (AASB), and the *Corporations Act 2001*. The financial statements also comply with International Financial Reporting Standards (IFRSs) adopted by the International Accounting Standards Board (IASB).

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

Changes in accounting policies and disclosures

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

Basis of measurement

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

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.

Key sources of estimation uncertainty

The key area of estimation uncertainty for the Company is in its estimation of outstanding claims and reinsurance recoveries. These are discussed in detail in note 2(f).

14 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

The ultimate liability arising from claims made under insurance contracts

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

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

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

- changes in the economic environment
- changes in the mix of business
- medical and technological developments
- changes in benefit structures
- changes in claims management practice

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

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

The determination of an appropriate outstanding claims liability and the specific assumptions used are detailed in note 6.

(b) 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:

14 Summary of significant accounting policies (continued)

(b) Revenue recognition (continued)

(i) Premium revenue

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

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

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

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

(ii) Investment income

All investment income is recognised as revenue on an accruals basis. Interest income 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 are included in the profit or loss as investment revenue.

(c) 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 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.

(d) Other expenses

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

(e) 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)

(f) Deferred acquisition costs

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

(g) 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, Hallmark Life 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 2016, 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.

14 Summary of significant accounting policies (continued)

(g) Income tax (continued)

Tax consolidation (continued)

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.

New Zealand branch

The income tax expense for the period is the tax payable on the current period's taxable income based on the notional income tax rate.

Taxation basis

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

(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 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.

(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 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).

(l) Assets backing general insurance liabilities

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

14 Summary of significant accounting policies (continued)

(m) Financial assets

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

(n) 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 cost 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.

(o) 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.

(p) Outstanding claims liability

The liability for outstanding claims covers the expected future payments for claims including IBNR and IBNER claims and the anticipated direct and indirect costs of settling these claims.

The liability for outstanding claims is subject to yearly actuarial review. The general approach to the actuarial estimation of outstanding claims is to analyse all available past experience. Based on this, the expected future payments are determined and discounted to present value using a risk free rate.

The provision for the outstanding claims liability also contains a risk margin to reflect the inherent uncertainty in the central estimate. The risk margin increases the probability that the net liability is adequately provided for to a 90% (2015: 90%) confidence level.

(q) 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. Refer to note 2(f)(v).

14 Summary of significant accounting policies (continued)

(r) Unexpired risk liability

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

Unexpired risk liability, if any, remaining after writing off deferred acquisition costs is recognised immediately in the profit or loss. Refer to note 2(f)(v).

(s) Employee benefits

(i) Short term employee benefits

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

(ii) Other long-term employee benefit obligations

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

Liabilities for employee entitlements, which are not expected to be wholly settled within 12 months, are discounted using the rates attaching to Australian Commonwealth Government securities at balance date, which most closely match the terms of maturity of the related liabilities.

In determining the liability for employee entitlements, consideration has been given to future increases in wage and salary rates, and the Company's experience with staff tenure. Related on-costs have also been included in the liability.

(iii) Defined contribution plans

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

(t) 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.

14 Summary of significant accounting policies (continued)

(t) Foreign currency translation and functional currency (continued)

Transactions and balances (continued)

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:

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 in other comprehensive income, and accumulated in a separate component of equity.

(u) Goods and services tax (GST)

GST legislation was passed in New Zealand introducing GST on off-shore supplier of services from 1 October 2016.

All revenues and expenses (being effective only from 1 October in New Zealand) are recognised net of the amount of goods and service tax (GST), except where the amount of GST incurred is not recoverable from Inland Revenue Department (IRD) and the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of GST. The net amount of GST recoverable from, or payable to, the tax authorities (i.e. ATO and IRD) is included as a current asset or liability in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing orfinancing activities which are recoverable from, or payable to, the tax authorities, are classified as operating cash flows.

(v) 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.

14 Summary of significant accounting policies (continued)

(w) New accounting standards and interpretations

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, 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.

Directors' Declaration

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

(a) the financial statements and notes set out on pages 5 to 48 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 2016 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 14; and

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

Signed in accordance with a resolution of directors:

JoAnne Maree Stephenson (Chairman)
Director
Sydney
20 March 2017

Anna Elizabeth Gladman (Managing Director)
Director
Sydney
20 March 2017

Independent Auditor's Report

To the shareholders of Hallmark General Insurance Company Limited

Report on the audit of the Financial Report

Opinion

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

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

- giving a true and fair view of the Company's financial position as at 31 December 2016 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 2016
- 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
- Directors' Declaration.

Basis for opinion

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

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

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

Other information

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

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

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express 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.

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

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

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

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

20 March 2017

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working world

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

16 March 2017

Hallmark General Insurance Company Ltd:
Appointed Actuary signoff of financial statements and financial condition as at 31 December 2016 for New Zealand reporting purposes

Dear Directors

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

On 19 September 2014, HGIC appointed me, Richard Yee of Ernst & Young to be HGIC's Appointed Actuary. The Appointed Actuary role is as described by the Insurance Act 1973, related Prudential Standards and Prudential Practice Guides current at 31 December 2016, and by the New Zealand Insurance (Prudential Supervision) Act 2010 (the Act). I have no relationship with HGIC other than being its Appointed Actuary.

It is the responsibility of the Appointed Actuary to provide advice to the Board of a general insurer on the value of its insurance liabilities and the preparation of the actuarial information contained in its financial statements. The Appointed Actuary must provide written advice to the Board of the insurer on the value of insurance liabilities in accordance with APRA's Prudential Standard GPS320, Actuarial and Related Matters.

As part of my responsibilities, I have produced a report on HGIC's insurance liabilities and financial condition, the Financial Condition Report (FCR), as at 31 December 2016, dated 6 March 2017. The scope of the FCR is to provide the Board and management with an objective assessment of the financial condition of the Australian and New Zealand business within HGIC as at 31 December 2016. The FCR identifies and assesses the material risks facing HGIC and includes discussion of relevant risk mitigants.

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

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

Financial Statements – HGIC Company

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

a. Unearned premium liability and liability adequacy test

b. Net outstanding claims liability

c. Reinsurance and any other recovery assets

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d. Deferred acquisition cost or deferred fee revenue

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

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

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

In my opinion and from an actuarial perspective:

a. The actuarial information contained in the HGIC financial statements has been appropriately included in those statements; and

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

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

Financial Condition Report

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

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

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

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

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

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

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

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

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

HGIC is in a very strong financial position as at 31 December 2016, with available capital exceeding the target surplus. Capital requirements are expected to be met over the year and also in subsequent years, and hence no reporting under Section 24 of the Act is required. In my opinion HGIC is maintaining a solvency margin consistent with the requirements under section 21(2) (b) of the Act. HGIC does not underwrite any life insurance products. As such no opinion under Section 78(h) of the Act is required.

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

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

Yours sincerely,

Richard Yee

Richard Yee, FIAA, FNZSA
Appointed Actuary, Hallmark General Insurance Company Ltd

Hallmark General Insurance Company Ltd
New Zealand Branch

Annual financial statements
for the year ended 31 December 2016

Hallmark General Insurance Company Ltd New Zealand Branch
Financial report - 31 December 2016

Contents

The directors present their report together with the financial statements of Hallmark General Insurance Company Ltd New Zealand Branch for the year ended 31 December 2016 and the auditor's report thereon.

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

JoAnne Maree Stephenson (Chairman)
Director
Sydney
20 March 2017

Anna Elizabeth Gladman (Managing Director)
Director
Sydney
20 March 2017

Hallmark General Insurance Company Ltd New Zealand Branch
Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2016

	Notes	2016 $'000	2015 Restated* $'000
Insurance premium revenue		**16,291**	18,477
Net insurance premium revenue	1(a)	**16,291**	18,477
Claims expenses		**2,295**	2,676
Net claims incurred	1(b)	**2,295**	2,676
Acquisition costs		**3,590**	4,049
Administration expenses		**4,195**	6,042
Underwriting expenses		**7,785**	10,091
Underwriting result		**6,211**	5,710
Investment income	1(c)	**837**	1,294
Investment expenses		**(12)**	(14)
Other income		**(194)**	(121)
Profit before income tax		**6,842**	6,869
Income tax expense	1(d)	**712**	526
Profit for the year		**6,130**	6,343
Other comprehensive income for the year, net of tax		**-**	-
Total comprehensive income for the year		**6,130**	6,343
Profit is attributable to:			
Owners of Hallmark General Insurance Company Ltd New Zealand Branch		**6,130**	6,343
		6,130	6,343
Total comprehensive income for the year is attributable to:			
Owners of Hallmark General Insurance Company Ltd New Zealand Branch		**6,130**	6,343
		6,130	6,343

* See note 8 for further information on the restatement.

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

Hallmark General Insurance Company Ltd New Zealand Branch
Statement of Financial Position
As at 31 December 2016

	Notes	2016 $'000	31 December 2015 Restated* $'000	1 January 2015 Restated* $'000
ASSETS				
Current assets				
Cash and cash equivalents	2(a)	**34,566**	40,493	40,002
Trade and other receivables	2(b)	**1,425**	134	291
Current tax assets		**-**	18	-
Deferred acquisition costs	2(c)	**2,326**	2,552	3,326
Total current assets		**38,317**	43,197	43,619
Non-current assets				
Deferred acquisition costs	2(c)	**1,755**	2,173	3,071
Total non-current assets		**1,755**	2,173	3,071
Total assets		**40,072**	45,370	46,690
LIABILITIES				
Current liabilities				
Trade and other payables	2(d)	**753**	131	443
Current tax liabilities		**693**	-	676
Outstanding claims liability	2(e)	**1,778**	2,234	2,341
Unearned premium liability	2(f)	**11,087**	11,352	14,334
Total current liabilities		**14,311**	13,717	17,794
Non-current liabilities				
Outstanding claims liability	2(e)	**784**	768	792
Unearned premium liability	2(f)	**8,364**	9,670	13,232
Total non-current liabilities		**9,148**	10,438	14,024
Total liabilities		**23,459**	24,155	31,818
Net assets		**16,613**	21,215	14,872
EQUITY				
Retained earnings		**16,613**	21,215	14,872
Total equity		**16,613**	21,215	14,872

* See note 8 for further information on the restatement.

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

Hallmark General Insurance Company Ltd New Zealand Branch
Statement of Changes in Equity
For the year ended 31 December 2016

	Attributable to owners of Hallmark General Insurance Company Ltd New Zealand Branch	
	Retained earnings Restated* $'000	**Total equity Restated* $'000**
Balance at 1 January 2015	14,872	14,872
Profit for the year	6,343	6,343
Total comprehensive income for the year	**6,343**	**6,343**
Balance at 31 December 2015	**21,215**	**21,215**
Balance at 1 January 2016	21,215	21,215
Profit for the year	6,130	6,130
Total comprehensive income for the year	**6,130**	**6,130**
Transactions with owners in their capacity as owners:		
Dividends paid	(10,732)	(10,732)
Balance at 31 December 2016	**16,613**	**16,613**

* Refer to note 8 for further information on the restatement.

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

Hallmark General Insurance Company Ltd New Zealand Branch
Statement of Cash Flows
For the year ended 31 December 2016

	Notes	2016 $'000	2015 $'000
Cash flows from operating activities			
Net premiums received		13,410	11,934
Claims paid		(2,735)	(2,807)
Payments to suppliers and employees		(6,726)	(10,087)
Interest received		856	1,451
Net cash inflow from operating activities	3(a)	4,805	491
Net cash inflow/ from investing activities		-	-
Cash flows from financing activities			
Dividends paid to company's shareholders		(10,732)	-
Net cash (outflow) inflow from financing activities		(10,732)	-
Net (decrease)/increase in cash and cash equivalents		(5,927)	491
Cash and cash equivalents at 1 January		40,493	40,002
Cash and cash equivalents at 31 December	2(a)	34,566	40,493

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) Net insurance premium revenue

	2016 **$'000**	2015 Restated $'000
Gross written premium	**14,720**	11,932
Movement in unearned premiums	**1,571**	6,545
Net premium revenue	**16,291**	**18,477**

(b) Net claims incurred

	2016			**2015**		
	Current Year $'000	**Prior Years $'000**	**Total $'000**	**Current Year $'000**	**Prior Years $'000**	**Total $'000**
Gross claims incurred and related expenses - undiscounted	3,178	(885)	2,293	3,322	(665)	2,657
Discount and discount movement - gross claims incurred	(33)	35	2	(37)	56	19
	3,145	(850)	2,295	3,285	(609)	2,676
Net claims incurred	**3,145**	**(850)**	**2,295**	**3,285**	**(609)**	**2,676**

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

(c) Investment income

	2016 **$'000**	2015 $'000
Interest income	**837**	1,294
Total investment income	**837**	1,294

1 Profit or loss information (continued)

(d) Income tax expense

(i) Income tax expense

	2016 $'000	2015 $'000
Current tax expense	712	531
(Over) provided in prior years	-	(5)
Income tax expense	712	526

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

	2016 $'000	2015 Restated $'000
Profit from continuing operations before income tax expense	6,842	6,869
Tax at the New Zealand tax rate of 28% (2015 - 28%)	1,916	1,923
	-	-
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Tax effect of non-assessable income	(1,204)	(1,392)
	712	531
Adjustments for current tax of prior periods	-	(5)
Income tax expense	712	526

Balance sheet management

This section provides additional information about those individual line items in the statement of financial position 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

	2016 $'000	2015 $'000
Current assets		
Cash at bank	1,461	1,367
Short term deposits	33,105	39,126
Total cash and cash equivalents	34,566	40,493

2 Financial assets and financial liabilities (continued)

(b) Trade and other receivables

	2016 $'000	2015 $'000
Current assets		
Other receivables	**1,425**	134
Total trade and other receivables	**1,425**	134

These balances include amounts receivable from related parties (note 13).
The carrying value disclosed above approximates fair value at end of the reporting period.

(c) Deferred acquisition costs

	2016 $'000	2015 Restated $'000
Current assets		
Deferred acquisition costs	**2,326**	2,552
Non-current assets		
Deferred acquisition costs	**1,755**	2,173
Total deferred acquisition costs	**4,081**	4,725

(i) Movements in deferred acquisition costs

Movements in deferred acquisition costs were as follows:

Deferred acquisition costs	2016 $'000	2015 Restated $'000
Balance at 1 January	**4,725**	6,513
Acquisition costs incurred during the year	**1,326**	655
Amortisation charged to income	**(1,970)**	(2,443)
Closing balance at 31 December	**4,081**	4,725

* Acquisition costs incurred during the year and Amortisation charged to income relate to the Personal loans portfolios (excludes Cards portfolios) as there were no deferred amortisation costs as at 31 December 2016 and 31 December 2015 for Cards portfolios.

(d) Trade and other payables

	2016 $'000	2015 $'000
Other payables	**753**	131

The carrying value disclosed above approximates fair value at end of the reporting period.
These balances include amounts payable to related parties (note 13).

2 Financial assets and financial liabilities (continued)

(e) Outstanding claims liability

	2016 **$'000**	2015 $'000
Central estimate	**1,708**	2,010
Risk margin	**632**	769
Claims handling expense	**271**	274
	2,611	3,053
Discount to present value	**(49)**	(51)
Gross outstanding claims liability	**2,562**	3,002
Current	**1,778**	2,234
Non-current	**784**	768
Total outstanding claims liability	**2,562**	**3,002**

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

The current year discount rate is 2.27%
The subsequent years discount rate is 2.27%.

The weighted average expected term to settlement of the outstanding claims from the end of the reporting period is estimated to be 0.85 years (2015: 0.64 years).

(ii) Risk margin

Process for determining risk margin

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

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

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

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

The aggregate risk margin, after diversification allowance, is intended to achieve a 90% (2015: 90%) probability of sufficiency.

The risk margins applied to the major segments of the portfolio for 90% (2015: 90%) level of adequacy are:

	2016 **$'000**	2015 $'000
Consumer credit insurance - disability	**26.7%**	26.7%
Consumer credit insurance - unemployment	**60.7%**	60.7%

2 Financial assets and financial liabilities (continued)

(e) Outstanding claims liability (continued)

(iii) Reconciliation of movement in discounted outstanding claims liability

Accident Year Ending 31 December

	2016			2015		
	Gross $'000	**Reinsurance $'000**	**Net $'000**	Gross $'000	Reinsurance $'000	Net $'000
Balance at 1 January	**3,002**	-	**3,002**	3,133	-	3,133
Current year claims incurred	**3,145**	-	**3,145**	3,285	-	3,285
Change in previous years claims	**(850)**	-	**(850)**	(609)	-	(609)
Current year claims paid / reinsurance recovered	**(1,337)**	-	**(1,337)**	(1,007)	-	(1,007)
Previous year claims paid / reinsurance recovered	**(1,398)**	-	**(1,398)**	(1,800)	-	(1,800)
Closing balance at 31 December	**2,562**	-	**2,562**	3,002	-	3,002

(iv) Claims development tables

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

Gross Ultimate Claims Cost

Reporting Year	**2012 and prior $'000**	**2013 $'000**	**2014 $'000**	**2015 $'000**	**2016 $'000**	**Total $'000**
Estimate of gross ultimate claims cost						
At end of accident year			3,328	3,132	2,880	
One year later		2,218	2,946	2,295		
Two years later	3,519	2,217	2,907			
Three years later	3,579	2,253				
Four years later	3,716					
Five years later	1,500					
Six years later	396					
Current estimate of cumulative claims	3,754	2,253	2,907	2,295	2,880	14,089
Cumulative payments to date	(3,733)	(2,201)	(2,705)	(1,883)	(1,228)	(11,750)
Undiscounted claims handling expenses	2	7	23	50	189	271
Gross outstanding claims - undiscounted	23	59	225	462	1,841	2,610
Discount impact	-	(1)	(3)	(10)	(34)	(48)
Gross outstanding claims - discounted	23	58	222	452	**1,807**	**2,562**

Net ultimate claims cost

2 Financial assets and financial liabilities (continued)

(e) Outstanding claims liability (continued)

(iv) Claims development tables (continued)

Reporting Year	**2012 and prior $'000**	**2013 $'000**	**2014 $'000**	**2015 $'000**	**2016 $'000**	**Total $'000**
Estimate of net ultimate claims cost						
At end of accident year			3,328	3,132	2,880	
One year later		2,218	2,946	2,295		
Two years later	3,519	2,217	2,907			
Three years later	3,579	2,253				
Four years later	3,716					
Current estimate of cumulative claims	3,754	2,253	2,907	2,295	2,880	14,089
Cumulative payments to date	(3,733)	(2,201)	(2,705)	(1,883)	(1,228)	(11,750)
Undiscounted claims handling expenses	2	7	23	50	189	271
Net outstanding claims - undiscounted	23	59	225	462	1,841	2,610
Discount impact	-	(1)	(3)	(10)	(34)	(48)
Net outstanding claims - discounted	23	58	222	452	**1,807**	**2,562**

(v) Liability adequacy test

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

For the purposes of the liability adequacy test, the net premium liabilities at a 75% probability of sufficiency as at 31 December 2016 is $12,541,985 (31 December 2015: $12,475,017), therefore the liability adequacy test at reporting date resulted in a surplus for the branch.

The probability of sufficiency adopted for LAT differs from the 90% (2015: 90%) probability of sufficiency adopted in determining the outstanding claims liabilities (refer note 13(p)). The reason for this difference is that the former is in effect an impairment test used only to test the sufficiency of net premium liabilities whereas the latter is a measurement accounting policy used in determining the carrying value of the outstanding claims liabilities.

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

(f) Unearned premium liability

	2016 $'000	2015 Restated $'000
Balance as at 1 January	**21,022**	27,565
Premiums written during the year	**6,616**	2,814
Premiums earned during the year	**(8,187)**	(9,357)
Closing balance as at 31 December	**19,451**	21,022
Current	**11,087**	11,352
Non-current	**8,364**	9,670
Total unearned premium liability	**19,451**	21,022

2 Financial assets and financial liabilities (continued)

(f) Unearned premium liability (continued)

* Premiums written and earned during the year relate to the Personal loans portfolios (excludes Cards portfolios) as there were no unearned premium liabilities as at 31 December 2016 and 31 December 2015 for Cards portfolios.

(g) Fair value measurement

There are no financial assets measured at fair value as at 31 December 2016. (2015: nil)

3 Cash flow information

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

	2016 **$'000**	2015 Restated $'000
Profit for the year	**6,130**	6,343
Adjustments		
Change in operating assets and liabilities:		
(Decrease)/increase in trade and other payables	**622**	(312)
(Increase)/ decrease in other receivables	**(1,291)**	157
Decrease/(increase) in deferred acquisition costs	**644**	1,672
Increase/ (decrease) in outstanding claim liability	**(440)**	(131)
(Decrease)/increase in unearned premium liability	**(1,571)**	(6,544)
(Decrease)/increase in current tax liability	**711**	(694)
Net cash (outflow)/ inflow from operating activities	**4,805**	491

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.

4 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.

Key sources of estimation uncertainty

The key area of estimation uncertainty for the branch is in its estimation of outstanding claims and reinsurance recoveries. These are discussed in detail in note 5.

The ultimate liability arising from claims made under insurance contracts

Provision is made at the year-end for the estimated cost of claims incurred but not settled at the end of the reporting period, including the cost of IBNR's to the branch.

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

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

- changes in the economic environment
- changes in the mix of business
- medical and technological developments
- changes in benefit structures

4 Critical estimates, judgements and errors (continued)

The ultimate liability arising from claims made under insurance contracts (continued)

- changes in claims management practice

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

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

The determination of an appropriate outstanding claims liability and the specific assumptions used are detailed in note 5.

5 Actuarial assumptions and methods

Impact of changes to valuation approach and key assumptions

The branch writes the following lines of business:

Consumer credit insurances

The risks covered in this group include:

- Involuntary unemployment
- Disability
- Merchandise and price protection
- Stolen card cover

Process used to determine outstanding claims liabilities (actuarial methods)

The general approach to actuarial estimation of insurance liabilities is to analyse available past experience, including numbers of reported and finalised claims, amount of claim payments, changes in case estimates and incurred loss ratios. This analysis allows patterns to be identified in the past experience. Based on this, development patterns associated with the run-off of outstanding claims and premium liabilities at the balance date can be estimated.

The determination of outstanding claims liabilities involves two steps:

(i) The determination of the central estimate of outstanding claims at the balance date. The central estimate of outstanding claims includes an allowance for IBNR claims and the further development of IBNER's.

The central estimate has no deliberate bias towards either over or under estimation. Generally speaking, this means that the central estimate is assessed to have a 50% chance of adequacy.

(ii) The determination of a risk margin and claims handling expense provision to be added to the central estimates of outstanding claims.

5 Actuarial assumptions and methods (continued)

The estimation of outstanding claims liabilities involves the use of the following standard aggregate projection methods :

- Payment Chain Ladder ("PCL")
- Payment Per Chain Incurred ("PPCI")
- Payment Per Claim Finalised ("PPCH")
- Payment Per Claim Handled ("PPCH")
- Bornheutter Ferguson ("BF")

A blend of the projection methods is adopted based on the nature od the claims within each portfolio to estimate the appropriate Outstanding Claims.

Actuarial assumptions

The key actuarial assumptions for the determination of the outstanding claims are as follows:

	2016 **Disability (excl credit cards)**	**2016** **Unemployment (excl credit cards)**	2015 Disability (excl credit cards)	2015 Unemployment (excl credit cards)
Number of future finalisations	**213**	**91**	241	95
Average claim size*	**$4,000-$4,500**	**$1,000-$1,400**	$3,200-$4,700	$900-$1,400
Expense rate	**13%**	**13%**	13%	13%
Discount rate	**2.27%pa**		2.65%pa	

* Varies depending on the insurance terms of the policy and underwrting period.

	2016 **Disability (credit cards)**	**2016** **Unemployment (credit cards)**	**2016** **Merchandise protection, price protection and stolen cards (credit cards)**	2015 Disability (credit cards)	2015 Unemployment (credit cards)	2015 Merchandise protection, Price protection and stolen cards (credit cards)
Number of future finalisations	**95**	**93**	**37**	108	109	51
Average claim size	**$2,800**	**$1,800**	**$200**	$2,400	$1,800	$230

Other assumptions

The outstanding claims provision includes a claim handling expense of 13% and an additional 1% for medical expenses, with a prudential margin calculated at a 90% probability of adequacy.

Process used to determine actuarial assumptions

A description of the processes used to determine the above key actuarial assumptions is provided below:

- *Number of future finalisations*
  The number of future finalisations has been based on an analysis of historical claim reports and finalisation rates. This then enables the future numbers of reports, handled claims and finalisations to be projected.

5 Actuarial assumptions and methods (continued)

Process used to determine actuarial assumptions (continued)

- *Average claim size*
  The adopted average claim size has been based on historic ratios of claims payments to factors such number of claim reported, claim finalised or handled.

- *Expense rate*
  The adopted claims handling expense rate of 13% (2015: 13%) of the projected gross claim payments, was determined based on the results of an expense investigation carried out in 2016. An additional 1% (2015: 1%) for medical expenses is applied to Disability claims.

- *Discount rate*
  The central estimates of the outstanding claims liabilities for the periodic benefits were discounted to allow for future investment income attributable to the liabilities during the run off period. The discount factor was based on the annual risk free rates of return from the yield curve on New Zealand government bonds.

Sensitivity analysis

The outstanding claims liabilities included in the reported results are calculated based on the key actuarial assumptions as disclosed above. The movement in any of the above key actuarial assumptions will impact the performance and equity of the branch. The table below describes how a change in each of the assumptions will affect the outstanding claims liabilities. The outstanding claims liabilities are on a discounted basis and include claim handling expenses and a risk margin at the 90% probability of adequacy.

Impact of changes in assumptions on total outstanding claims provision:

Key actuarial assumptions	Changes	Impact on outstanding claims liabilities ($000's)	Impact on total outstanding claims liabilities (%)
Chain ladder factor	Increase chain ladder factors by 10%	+37	+1.5%
Discount rate	Decrease discount rate by 1%	+25	+1.0%
Claims handling expense rate	Increase from 13% to 17%	+102	+4.0%

6 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

In 2015, it was noted that operational risk exposures were higher as a result of services being provided under the Transitional Services Agreement (TSA) with GE transferring to Latitude. A large proportion of these services have now been transitioned to Latitude, with remaining services due for completion by June 2017. No material incidents have resulted from the transition.

(b) Credit risk

6 Financial risk management (continued)

(b) Credit risk (continued)

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:

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

(iii) Trade and other receivables

The branch's maximum credit risk exposure at balance date is limited to the carrying amount of the financial assets as stated in the statement of financial position. The branch does not have a significant concentration of credit risk with any counterparty, other than related parties (see note 13).

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

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	34,566	-	-	34,566	-	34,566
Trade and other receivables	-	1,425	-	1,425	-	1,425
Total credit risk exposure	**34,566**	**1,425**	**-**	**35,991**	**-**	**35,991**

6 Financial risk management (continued)

(b) Credit risk (continued)

2015	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	40,493	-	-	40,493	-	40,493
Trade and other receivables	-	134	-	134	-	134
Total credit risk exposure	**40,493**	**134**	**-**	**40,627**	**-**	**40,627**

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

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

2016	AAA $'000	AA $'000	A $'000	BBB $'000	Not rated $'000	Total $'000
Financial Assets						
Cash and cash equivalents	-	-	34,566	-	-	34,566
Trade and other receivables*	-	-	-	-	1,425	1,425
Total credit risk exposure	**-**	**-**	**34,566**	**-**	**1,425**	**35,991**

2015	AAA $'000	AA $'000	A $'000	BBB $'000	Not rated $'000	Total $'000
Financial Assets						
Cash and cash equivalents	-	-	40,493	-	-	40,493
Trade and other receivables*	-	-	-	-	134	134
Total credit risk exposure	**-**	**-**	**40,493**	**-**	**134**	**40,627**

* No receivables are past due or impaired at balance date (2015: 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.

6 Financial risk management (continued)

(c) Liquidity risk (continued)

Maturities of financial liabilities (continued)

2016	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	753	-	-	-	-	753
Outstanding claims liabilities	1,778	508	275	1	-	2,562
Net principal liabilities	**2,531**	**508**	**275**	**1**	**-**	**3,315**
2015						
Trade and other payables	131	-	-	-	-	131
Outstanding claims liabilities	2,234	544	224	-	-	3,002
Net principal liabilities	**2,365**	**544**	**224**	**-**	**-**	**3,133**

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.

6 Financial risk management (continued)

(d) Market risk (continued)

(ii) Interest rate risk (continued)

2016	Carrying amount $'000	Change in variables %	Impact on profit or loss $'000	Impact on equity Up to a year $'000	1-2 years $'000	2-5 years $'000	Over 5 years $'000	Total $'000
Financial assets								
Short term deposits	33,105	(1)%	(331)	(238)	-	-	-	(238)
	33,105		(331)	(238)	-	-	-	(238)

2015	Carrying amount $'000	Change in variables %	Impact on profit or loss $'000	Impact on equity Up to a year $'000	1-2 years $'000	2-5 years $'000	Over 5 years $'000	Total $'000
Financial assets								
Short term deposits	39,126	(1)%	(391)	(282)	-	-	-	(282)
	39,126		(391)	(282)	-	-	-	(282)

This analysis is performed on the same basis for 2015 and assumes that all other variables remain the same.

7 Capital management

Capital consists of retained earnings.

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

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

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

In addition to the branch's target surplus policy, external capital requirements are set and regulated by the Australian Prudential Regulation Authority (APRA). The branch calculates its capital position according to the relevant Prudential Standards which ensures sufficient capital is maintained to meet policyholder obligations. An insurer's capital base is expected to be adequate for the size, business mix, complexity and risk profile of its business.

It is the branch's policy to hold capital levels 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 branch's capital position and the capital requirements of APRA, refer note 7(b).

(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 terms and conditions in any non-standard contracts that have a material impact on the financial statements.

The policies written consists mainly of consumer credit insurance.

7 Capital management (continued)

Insurance risk management

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

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

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

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

(i) Underwriting strategy

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

(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.

(b) Capital adequacy

The branch is required to hold prudential reserves, over and above the general insurance contract liabilities, as a buffer against adverse future experience and poor investment returns. Life and General Insurers are required to follow the relevant Prudential Standards as prescribed by APRA. The required level of capital for regulatory purposes (the prudential capital amount, or PCA) is intended to take account of the full range of risks to which a general insurer is exposed and a general company must ensure that the general company has, at all times, a capital base in excess of its PCA (plus any additional amount as required by APRA).

The excess of the branch's capital base over the PCA as at 31 December 2016 was $78.4 million (2015:$84.9 million).

7 Capital management (continued)

(b) Capital adequacy (continued)

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

	2016 **$'000**	2015 $'000
(a) Capital base	105,809	117,525
(b) Prescribed capital amount	29,371	32,585
Capital in excess of prescribed capital amount = (a) - (b)	**76,438**	84,940
Capital adequacy multiple = (a)/(b)	**3.60**	3.61

	2016 **$'000**	2015 $'000
Capital Base:		
Net Assets	99,834	110,926
Regulatory adjustment applied in the calculation of Tier 1 capital	5,975	6,599
Common Equity Tier 1 Capital	**105,809**	117,525
Prescribed capital amount:		
Insurance Risk Charge	8,911	9,643
Insurance Concentration Risk Charge	17,000	19,088
Asset Risk Charge	3,796	5,340
Asset Concentration Risk Charge	-	-
Operational Risk Charge	2,444	2,330
Aggregation benefit	(2,780)	(3,816)
Prescribed capital amount	**29,371**	32,585

Excess technical provisions

The liability required by GPS 110 for prudential reporting purposes differs from accounting purposes. As described in note 14(p) the branch applies risk margins to the central estimate of net outstanding claims to achieve a 90% confidence level. GPS 110 requires a prudential margin with a sufficiency of 75%.

8 Restatement of comparative financial information

During 2016 it was identified that the amortisation model applied to the Unearned premium liability and Deferred acquisition costs in prior years was not consistent with the pattern or risk expected under the contract. As a consequence, the Insurance premium revenue and Acquisition costs have been overstated, whilst the Unearned premium liability and Deferred acquisition costs have been understated in the 2015 financial statements. The issue has been corrected by restating each of the affected financial statement captions for prior period. The following table summarises the impact on the NZ Branch's financial statements in 2015:

	$'000 Previously reported	$'000 Adjustments	$'000 Restated
Statement of Financial Position			
1 January 2015			
Deferred acquisition costs	3,127	199	3,326
Others	40,293		40,293
Total current assets	**43,420**	**199**	**43,619**
Deferred acquisition costs	2,886	185	3,071
Total non-current assets	**2,886**	**185**	**3,071**
Total assets	**46,306**	**384**	**46,690**
Unearned premium liability	13,772	562	14,334
Others	3,460		3,460
Total current liabilities	**17,232**	**562**	**17,794**
Unearned premium liability	12,713	519	13,232
Others	792		792
Total non-current liabilities	**13,505**	**519**	**14,024**
Total liabilities	**30,737**	**1,081**	**31,818**
Retained Earnings	15,569	(697)	14,872
Total equity	**15,569**	**(697)**	**14,872**

	$'000 Previously reported	$'000 Adjustments	$'000 Restated
Statement of Financial Position			
31 December 2015			
Deferred acquisition costs	2,311	241	2,552
Others	40,645		40,645
Total current assets	**42,956**	**241**	**43,197**
Deferred acquisition costs	1,968	205	2,173
Total non-current assets	**1,968**	**205**	**2,173**
Total assets	**44,924**	**446**	**45,370**
Unearned premium liability	10,499	853	11,352
Others	2,365		2,365
Total current liabilities	**12,864**	**853**	**13,717**
Unearned premium liability	8,943	727	9,670
Others	768		768
Total non-current liabilities	**9,711**	**727**	**10,438**
Total liabilities	**22,575**	**1,580**	**24,155**
Retained Earnings	22,349	(1,134)	21,215
Total equity	**22,349**	**(1,134)**	**21,215**

8 Restatement of comparative financial information (continued)

(continued)

	$'000 Previously reported	$'000 Adjustments	$'000 Restated
Statement of Profit or Loss and Other Comprehensive Income			
For the year ended 31 December 2015			
Insurance premium revenue	18,976	(499)	18,477
Acquisition costs	4,111	(62)	4,049
Underwriting result	**14,865**	**(437)**	**14,428**
Others	8,085		8,085
Profit for the year	**6,780**	**(437)**	**6,343**
Total comprehensive income for the year	**6,780**	**(437)**	**6,343**

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 2016, the branch had no contingencies (2015: nil).

10 Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 31 December 2016 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 head office of the branch.

12 Key management personnel disclosures

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

13 Related party transactions

(a) Transactions with related parties

The following transactions occurred with related parties:

	2016 **$**	2015 $
Management fees paid to/(received from):		
Hallmark General Insurance Company Ltd	**3,526,033**	6,047,374
Commission paid to:		
GE Finance and Insurance NZ	**-**	2,210,361
Latitude Financial Services Ltd - NZ	**2,946,019**	238,820
Administration recharge paid to:		
Latitude Financial Services Ltd - NZ	**642,000**	-
Dividends paid/(received):		
Hallmark Life Insurance Company Ltd - Shareholder	**10,732,395**	-

13 Related party transactions (continued)

(b) Outstanding balances with related parties

	2016 $	2015 $
Receivables/(payables)		
Hallmark General Insurance Company Ltd	**350,695**	(1,331,143)
Latitude Financial Services Ltd - NZ	**886,012**	1,262,851
Latitude Financial Services Australia Holdings Pty Ltd	**(16,798)**	-

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

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

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

The branch is a for-profit entity and is primarily involved in the underwriting of general insurance risks.

The financial statements were authorised for issue by the directors on 20 March 2017.

(a) Basis of preparation

Statement of compliance

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

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

Basis of measurement

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

Changes in accounting policies and disclosures

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

(b) 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:

14 Summary of significant accounting policies (continued)

(b) Revenue recognition (continued)

(i) Premium revenue

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

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 unearned premium liabilities in the statement of financial position.

(ii) Investment income

All investment income is recognised as revenue on an accruals basis. Interest income is recognised on a time proportion basis using the simple interest method. Assets are designated at fair value through profit and loss and the related net realised and unrealised gains and losses are included in the profit or loss as investment revenue.

(c) Claims expenses

The branch's claims liability is measured as the present value of expected future payments relating to claims incurred at the reporting date. The expected future payments include those estimates in relation to claims incurred but not 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 5.

(d) Other expenses

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

(e) 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.

(f) Deferred acquisition costs

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

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 notional income tax rate.

Taxation basis

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

(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) 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.

(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 adversely affects the policyholder or other beneficiary, are classified as insurance contracts. The risks associated with Insurance contracts are detailed further in note 5.

(l) Assets backing general insurance liabilities

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

(m) Financial assets

The branch has elected to designate all its financial assets backing insurance policies at fair value through profit and 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.

14 Summary of significant accounting policies (continued)

(n) Impairment of assets

The carrying amount of the branch's assets which are in the scope of NZ IAS 36 Impairment of 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. 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) Outstanding claims liability

The liability for outstanding claims covers the expected future payments in relation to claims reported but not yet paid, IBNR's, IBNER's and the anticipated direct and indirect costs of settling these claims.

The liability for outstanding claims is subject to yearly actuarial review. The general approach to the actuarial estimation of outstanding claims is to analyse all available past experience. Based on this, the expected future payments are determined and discounted to present value using a risk free rate.

The provision for the outstanding claims liability also contains a risk margin to reflect the inherent uncertainty in the central estimate. The risk margin increases the probability that the net liability is adequately provided for to a 90% (2015: 90%) confidence level.

(q) 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. Refer to note 2(e)(v).

(r) Unexpired risk liability

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

Unexpired risk liability, if any, remaining after writing off deferred acquisition costs is recognised immediately in the profit or loss. Refer to note 2(e)(v).

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) Goods and services tax (GST)

GST legislation was passed introducing GST on off-shore supplier of services from 1 October 2016. All revenues and expenses from 1 October are recognised net of the amount of goods and service tax (GST), except where the amount of GST incurred is not recoverable from 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.

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

(u) New accounting standards and interpretations

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, 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 Company does not plan to adopt this standard early and the extent of the impact has not been determined.

(v) Rounding of amounts

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

14 Summary of significant accounting policies (continued)

(w) Comparative financial information

Certain comparative amounts in the Statement of profit or loss and other comprehensive income, Statement of financial position and Statement of changes in equity have been restated as a result of a correction of the overstatement of the Insurance premium revenue and acquisitions costs and the understatement of unearned premium liability and deferred acquisition costs (see note 8).

Directors' Declaration

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

(a) the financial statements and notes set out on pages 2 to 33 are in accordance with the *Financial Reporting Act 1993*, including:

  (i) giving a true and fair view of the branch's financial position as at 31 December 2016 and of its performance for the financial year ended on that date; and

(b) the financial statements also comply with International Financial Reporting Standards as disclosed in note 14; and

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

Signed in accordance with a resolution of directors:

JoAnne Maree Stephenson (Chairman)
Director
Sydney
20 March 2017

Anna Elizabeth Gladman (Managing Director)
Director
Sydney
20 March 2017

Independent Auditor's Report

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

Report on the financial statements

Opinion

In our opinion, the accompanying financial statements of Hallmark General Insurance Company Ltd New Zealand Branch (the Branch) on pages 2 to 33:

i. present fairly in all material respects the Branch's financial position as at 31 December 2016 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 2016;

— 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.

Emphasis of Matter

Without modifying our opinion expressed above, we draw attention to Note 8 to the financial statements which states the amounts reported in the previously issued 31 December 2015 financial statements have been restated and disclosed as comparative information in these financial statements. Our opinion is not modified in respect of this matter.

Use of this Independent Auditor's Report

This 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 report, or any of the opinions we have formed.

Responsibilities of the Directors for the financial statements

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

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

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

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

Auditor's Responsibilities for the Audit of the financial statements

Our objective is:

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

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

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

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

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

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

This description forms part of our Independent Auditor's Report.

KPMG

Ian Moyser
Partner

Sydney
20 March 2017

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

16 March 2017

Hallmark General Insurance Company Ltd:
Appointed Actuary signoff of financial statements and financial condition as at 31 December 2016 for New Zealand reporting purposes

Dear Directors

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

On 19 September 2014, HGIC appointed me, Richard Yee of Ernst & Young to be HGIC's Appointed Actuary. The Appointed Actuary role is as described by the Insurance Act 1973, related Prudential Standards and Prudential Practice Guides current at 31 December 2016, and by the New Zealand Insurance (Prudential Supervision) Act 2010 (the Act). I have no relationship with HGIC other than being its Appointed Actuary.

It is the responsibility of the Appointed Actuary to provide advice to the Board of a general insurer on the value of its insurance liabilities and the preparation of the actuarial information contained in its financial statements. The Appointed Actuary must provide written advice to the Board of the insurer on the value of insurance liabilities in accordance with APRA's Prudential Standard GPS320, Actuarial and Related Matters.

As part of my responsibilities, I have produced a report on HGIC's insurance liabilities and financial condition, the Financial Condition Report (FCR), as at 31 December 2016, dated 6 March 2017. The scope of the FCR is to provide the Board and management with an objective assessment of the financial condition of the Australian and New Zealand business within HGIC as at 31 December 2016. The FCR identifies and assesses the material risks facing HGIC and includes discussion of relevant risk mitigants.

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

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

Financial Statements – HGIC Company

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

a. Unearned premium liability and liability adequacy test

b. Net outstanding claims liability

c. Reinsurance and any other recovery assets

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d. Deferred acquisition cost or deferred fee revenue

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

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

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

In my opinion and from an actuarial perspective:

a. The actuarial information contained in the HGIC financial statements has been appropriately included in those statements; and

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

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

Financial Condition Report

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

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

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

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

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

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

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

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

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

HGIC is in a very strong financial position as at 31 December 2016, with available capital exceeding the target surplus. Capital requirements are expected to be met over the year and also in subsequent years,

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and hence no reporting under Section 24 of the Act is required. In my opinion HGIC is maintaining a solvency margin consistent with the requirements under section 21(2) (b) of the Act. HGIC does not underwrite any life insurance products. As such no opinion under Section 78(h) of the Act is required.

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

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

Yours sincerely,

Richard Yee

Richard Yee, FIAA, FNZSA
Appointed Actuary, Hallmark General Insurance Company Ltd