

**Hallmark General Insurance  
Company Ltd New Zealand Branch  
Financial statements  
for the period 5 April 2011 to  
31 December 2011**

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## Directors' report

Your Directors present their report together with the financial statements of Hallmark General Insurance Company Ltd New Zealand Branch ("the Branch"), for the period 5th April 2011 to 31st December 2011 and the auditor's report thereon.

Signed in accordance with a resolution of the Board of Directors.

Sign



Name: Angela Julie Hunter  
Position: Director  
Sydney, Australia  
Date: 31 May 2012

Sign



Name: Raymond Bruce Willing (Chairman)  
Position: Director  
Sydney, Australia  
Date: 31 May 2012



## Independent Auditor's Report.

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

### Report on the Financial Statements

We have audited the accompanying financial statements of Hallmark General Insurance Company Ltd New Zealand Branch ("the Branch") on pages 3 to 6. The financial statements comprise the statement of financial position as at 31 December 2011 and the statement of comprehensive income and changes in equity for the period from 5 April 2011 to 31 December 2011, and a summary of significant accounting policies and other explanatory information.

### *Directors' Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

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

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

Other than in our capacity as auditors we have no relationship with, or interests in, the Branch.



***Opinion***

In our opinion the financial statements of Hallmark General Insurance Company Limited New Zealand Branch on pages 3 to 6:

- comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of the financial position of the Branch as at 31 December 2011 and of its financial performance for the period from 5 April 2011 to 31 December 2011.

**Report on Other Legal and Regulatory Requirements**

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

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

*KPMG*

KPMG

Sydney, Australia

28 May 2012

Hallmark General Insurance Company Ltd New Zealand Branch  
Statement of comprehensive income  
For the period 5 April 2011 to 31 December 2011

	2011 \$'000
Insurance premium revenue	-
Outwards reinsurance premium expense	-
<b>Net premium revenue</b>	<u>-</u>
Claims expense	-
Reinsurance and other recoveries revenue	-
<b>Net Claims incurred</b>	<u>-</u>
Acquisition costs	-
Other underwriting expenses	-
<b>Underwriting result</b>	<u>-</u>
<b>Profit before income tax</b>	<u>-</u>
<b>Profit for the period</b>	-
Other comprehensive income for the period, net of tax	-
<b>Total comprehensive income for the period</b>	<u>-</u>
<b>Total comprehensive income for the period is attributable to:</b>	
Owners of Hallmark General Insurance Company Ltd New Zealand Branch	<u>-</u>
	<u>-</u>

Hallmark General Insurance Company Ltd New Zealand Branch  
Statement of financial position  
As at 31 December 2011

	2011 \$'000
<b>ASSETS</b>	
Cash and cash equivalents	-
Trade and other receivables	-
Deferred acquisition costs	-
<b>Total assets</b>	<u>-</u>
<b>LIABILITIES</b>	
Trade and other payables	-
Outstanding claims liability	-
Unearned premium liability	-
<b>Total liabilities</b>	<u>-</u>
<b>Net assets</b>	<u>-</u>
<b>EQUITY</b>	
Retained earnings	-
<b>Total equity</b>	<u>-</u>

**Hallmark General Insurance Company Ltd New Zealand Branch**  
**Statement of changes in equity**  
**For the period 5 April to 31 December 2011**

	Retained earnings \$'000	Total equity \$'000
Balance as at 5 April 2011	-	-
Total comprehensive income for the period	<u>-</u>	<u>-</u>
Balance at 31 December 2011	<u>-</u>	<u>-</u>

## 1 Notes

### Company 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 GE Capital Finance Australasia Pty Ltd.

The ultimate parent entity of Hallmark General Insurance Company Ltd is General Electric Company.

The financial statements were authorised for issue by the directors on 28th May 2012. The directors have the power to amend and reissue the financial statements.

### Statement of compliance

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

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2011, 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.

### Basis of preparation

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).

## 2 Matters subsequent to the end of the financial year

Effective 5th March 2012, the Branch commenced insurance activities in New Zealand when the insurance portfolio of Simply Insurance New Zealand Limited was transferred to the Branch as on that date.

There were no other items, transactions or events of a material and unusual nature which, in the opinion of Directors of the Branch, are likely to have a significant effect on the Branch's operations, or the state of affairs of the Branch in future financial years.



**Hallmark General Insurance  
Company Ltd**

ABN 82 008 477 647

**Annual report  
for the year ended 31 December 2011**

## Directors' report

Your Directors present their report together with the financial statements of Hallmark General Insurance Company Ltd ("the Company") for the year ended 31 December 2011 and the auditor's report thereon.

### Directors

The following persons were Directors of the Company during the financial year and up to the date of this report, unless otherwise stated:

Raymond Bruce Willing (Chairman)  
Pieter Jonathan Lindhout (Resigned 31 August 2011)  
Philip Stuart Douglas Purcell  
Neil William Smart  
Paul Brian McCann (Appointed 27 April 2011)  
Scott Kingsley Miller (Appointed 1 September 2011) (Resigned 29 February 2012)  
Angela Julie Hunter (Appointed 1 March 2012)

### Company information

Hallmark General Insurance Company Ltd is a company limited by shares, incorporated and domiciled in Australia. The registered office of the Company is located at Level 12, 255 George St, Sydney, NSW 2000.

### Principal activities

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

### Dividends

No dividends were paid or declared by the Company in respect of the financial year ended 31 December 2011 (2010: \$Nil)

### Review of results and operations

The operating profit of the Company for the financial year after income tax was \$12,976,000 (2010: \$15,017,000).

Business performance was driven by ongoing growth in the personal loans portfolio which was partly offset by softer conditions in the Cards channels (where customers continue to deleverage), and the impact of implementing price caps on the card portfolio in late 2010. A one off amount in premium revenues in 2010 of \$3,980,000 had a positive impact on the financials in 2010. Excluding this one off, core growth in premium revenues for 2011 was in excess of \$1,700,000 versus 2010.

The volume of customer claims has remained relatively consistent year on year although there has been a shift in the mix with a higher percentage of price protection claims coming through in the year. A relatively stable economic environment for the year has resulted in increased returns on the investment portfolio.

The company has continued to invest in a number of key areas including distribution and improving operational efficiency. A focus on simplification and process improvement has seen a lift in customer service ratings for claimants. This will remain an area of focus to ensure this becomes a competitive advantage. A number of new products are currently under development with plans to launch a broader range of products across key distribution touch-points in 2013.

### 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.

### Matters subsequent to the end of the financial year

Effective 5th March 2012, the insurance portfolio of Simply Insurance New Zealand Limited was transferred to and underwritten by the Company. The total net assets of the Company was not significantly affected by this transaction as equivalent amounts of both assets and liabilities were transferred on this date.

There were no other items, transactions or events of a material and unusual nature which, in the opinion of the Directors of the Company, are likely to have significant effect on the Company's operations, the results of those operations, or the state of affairs of the Company in future financial years.

### Likely developments and expected results of operations

Information on likely developments in the operations of the Company and the expected results of those operations in future financial years have not been included in this financial report because the Directors believe it would be likely to result in unreasonable prejudice to the Company.

**Indemnification and insurance of Directors and Officers**

The Constitution of the Company states that to the extent permitted by law and without limiting the powers of the Company, the Company must indemnify each person who is, or has been, a Director, Principal Executive Officer or Secretary of the Company against any liability which results from facts or circumstances relating to the person serving or having served in that capacity:

- a) incurred on or after 15 April 1994 by any person other than the Company or a related body corporate, which does not arise out of conduct involving a lack of good faith; and
- b) for costs and expenses incurred by the person in defending proceedings, whether civil or criminal, in which judgement is given in favour of the person or in which the person is acquitted, or in connection with any application in relation to such proceedings in which the court grants relief to the person under the Law.

During the financial year, General Electric Company (ultimate chief entity) paid an insurance premium in respect of a contract insuring all officers of the Company. The liabilities insured include costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Company.

In accordance with normal commercial practice disclosure of the total amount of premium payable under the insurance contract is prohibited by a confidentiality clause in the contract.

During the reporting period, the Company approved and entered into a Deed of Indemnity and Access with the Managing Director, the Company Secretary and each of the Responsible Officers.

**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*.

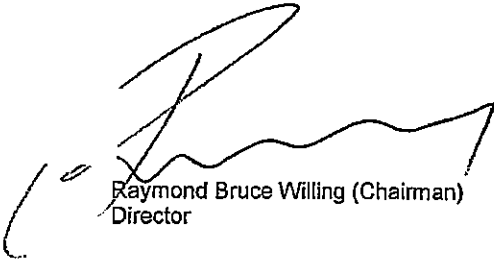
**Lead auditor's independence declaration**

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 3.


**Rounding of amounts**

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

Signed in accordance with a resolution of the Board of Directors.



Raymond Bruce Willing (Chairman)  
Director



Neil William Smart  
Director

Sydney  
Date: 14 March 2012



*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 2011 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



Andrew Reeves  
*Partner*

Sydney

14 March 2012

**Hallmark General Insurance Company Ltd**  
**Statement of comprehensive income**  
**For the year ended 31 December 2011**

	Notes	2011 \$'000	2010 \$'000
Insurance premium revenue		41,355	43,611
Outwards reinsurance premium expense		<u>(46)</u>	<u>(23)</u>
Net insurance premium revenue	5	<u>41,309</u>	<u>43,588</u>
Claims expenses		7,844	6,783
Reinsurance and other recoveries		<u>(1)</u>	<u>-</u>
Net claims incurred	6	<u>7,843</u>	<u>6,783</u>
Acquisition costs		8,043	7,352
Administration expenses		<u>14,527</u>	<u>14,404</u>
<b>Underwriting expenses</b>		<u>22,570</u>	<u>21,756</u>
<b>Underwriting result</b>		10,896	15,049
Investment income	7	7,279	6,404
Investment expenses		<u>(339)</u>	<u>(262)</u>
Other income		<u>16</u>	<u>11</u>
<b>Profit before income tax</b>	8	17,852	21,202
Income tax expense	9	<u>4,876</u>	<u>6,185</u>
<b>Profit for the year after income tax expense</b>		<u>12,976</u>	<u>15,017</u>
<b>Other comprehensive income for the year, net of tax</b>		<u>-</u>	<u>-</u>
<b>Total comprehensive income for the year</b>		<u>12,976</u>	<u>15,017</u>
<b>Total comprehensive income for the year is attributable to:</b>			
Owners of Hallmark General Insurance Company Ltd		<u>12,976</u>	<u>15,017</u>
		<u>12,976</u>	<u>15,017</u>

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

**Hallmark General Insurance Company Ltd**  
**Statement of financial position**  
**As at 31 December 2011**

	Notes	2011 \$'000	2010 \$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	10	8,412	10,584
Trade and other receivables	11	11,430	8,800
Financial assets at fair value through profit or loss	12	148,577	159,695
Deferred acquisition costs	13	<u>7,109</u>	<u>7,026</u>
<b>Total current assets</b>		<u><b>175,528</b></u>	<u><b>186,105</b></u>
<b>Non-current assets</b>			
Financial assets at fair value through profit or loss	14	25,323	-
Deferred acquisition costs	13	5,816	5,099
Deferred tax asset	15	3,086	1,536
Intangible assets	16	<u>-</u>	<u>58</u>
<b>Total non-current assets</b>		<u><b>34,225</b></u>	<u><b>6,693</b></u>
<b>Total assets</b>		<u><b>209,753</b></u>	<u><b>192,798</b></u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	17	13,413	12,889
Provisions	18	798	781
Unearned commission income	19	1	2
Outstanding claims liability	20	5,223	5,601
Unearned premium liability	21	<u>32,761</u>	<u>31,975</u>
<b>Total current liabilities</b>		<u><b>52,196</b></u>	<u><b>51,248</b></u>
<b>Non-current liabilities</b>			
Trade and other payables	22	40	211
Provisions	23	149	165
Outstanding claims liability	20	2,697	2,441
Unearned premium liability	21	<u>26,719</u>	<u>23,204</u>
<b>Total non-current liabilities</b>		<u><b>29,605</b></u>	<u><b>26,021</b></u>
<b>Total liabilities</b>		<u><b>81,801</b></u>	<u><b>77,269</b></u>
<b>Net assets</b>		<u><b>127,952</b></u>	<u><b>115,529</b></u>
<b>EQUITY</b>			
Issued capital	24	2,000	2,000
Reserves	25	44,009	44,562
Retained earnings		<u>81,943</u>	<u>68,967</u>
<b>Total equity</b>		<u><b>127,952</b></u>	<u><b>115,529</b></u>

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

**Hallmark General Insurance Company Ltd**  
**Statement of changes in equity**  
**For the year ended 31 December 2011**

Notes	Issued capital \$'000	Reserves \$'000	Retained earnings \$'000	Total equity \$'000
<b>Balance at 1 January 2010</b>	2,000	38,856	53,950	94,806
Total comprehensive income for the year	-	-	15,017	15,017
<b>Transactions with owners in their capacity as owners</b>				
Current tax liability transferred to head entity	-	5,706	-	5,706
<b>Balance at 31 December 2010</b>	<u>2,000</u>	<u>44,562</u>	<u>68,967</u>	<u>115,529</u>
<b>Balance at 1 January 2011</b>	2,000	44,562	68,967	115,529
Total comprehensive income for the year	-	-	12,976	12,976
<b>Transactions with owners in their capacity as owners</b>				
Current tax liability transferred to head entity	-	(553)	-	(553)
<b>Balance at 31 December 2011</b>	<u>2,000</u>	<u>44,009</u>	<u>81,943</u>	<u>127,952</u>

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

**Hallmark General Insurance Company Ltd**  
**Statement of cash flows**  
**For the year ended 31 December 2011**

	Notes	2011 \$'000	2010 \$'000
<b>Cash flows from operating activities</b>			
Net premium received		43,282	57,049
Other income received		-	11
Outward reinsurance expense		(46)	(23)
Claims paid		(7,965)	(7,512)
Payments to suppliers and employees		(26,920)	(19,554)
Interest received		8,110	6,611
Dividends received		869	805
Income taxes allocated from tax consolidated group		<u>(3,339)</u>	<u>(159)</u>
<b>Net cash inflow from operating activities</b>	<b>30</b>	<b><u>13,991</u></b>	<b><u>37,228</u></b>
<b>Cash flows from investing activities</b>			
Payments for financial assets		(25,465)	(7,564)
Proceeds from sale of financial assets		<u>21,024</u>	<u>8,868</u>
<b>Net cash (outflow)/inflow from investing activities</b>		<b><u>(4,441)</u></b>	<b><u>1,304</u></b>
<b>Cash flows from financing activities</b>			
		<u>-</u>	<u>-</u>
<b>Net cash (outflow)/inflow from financing activities</b>		<b><u>-</u></b>	<b><u>-</u></b>
<b>Net increase in cash and cash equivalents</b>			
		9,550	38,532
Cash and cash equivalents at the beginning of the year		<u>130,555</u>	<u>92,023</u>
<b>Cash and cash equivalents at end of year</b>	<b>10</b>	<b><u>140,105</u></b>	<b><u>130,555</u></b>

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



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## 1 Summary of significant accounting policies

### General information

Hallmark General Insurance Company Ltd (the "Company") is a company domiciled in Australia having its operations in Australia.

Hallmark General Insurance Company Ltd is owned by Hallmark Life Insurance Company Ltd with 99.99% majority interest and AVCO Access Pty Ltd with 0.01% minority interest. The Company's ultimate parent entity is the General Electric Company, which is incorporated in the United States of America.

The financial statements were authorised for issue by the directors on 14 March 2012. The directors have the power to amend and reissue the financial statements.

### Statement of compliance

This financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board (AASB) and with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2011, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Company, except for:

- Revised AASB 9 Financial Instruments (addressing accounting for financial liabilities and the derecognition of financial assets and financial liabilities) and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (effective 1 January 2015). The standard is not applicable until 1 January 2015 and the Company is yet to assess its full impact. The Company has not yet decided when to adopt AASB 9.

### (a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Estimates and judgements are determined using historical information and other factors, including a reasonable expectation of future events. Estimates, where applied, are subject to continuing evaluation for appropriateness. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are detailed in note 2.

Where appropriate, comparative information has been reclassified to be consistent with current year presentation.

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

### (b) Revenue

Revenue is measured at the fair value of the consideration received or receivable. The Company recognises revenue when it is probable that the economic benefits will flow to the Company and the revenue amount can be reliably measured. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. In addition, the following specific recognition criteria apply to revenue streams:

#### (i) Premium revenue

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

Premium is recognised in the Statement of Comprehensive Income 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.

## 1 Summary of significant accounting policies (continued)

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 as an 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 any franking credits. Assets are designated at fair value through profit and loss and the related net realised and unrealised gains and losses are included in the Statement of Comprehensive Income as investment revenue.

### (c) Claims

The Company's claims liability is measured as the present value of expected future payments relating to claims incurred at the reporting date. The expected future payments include those estimates in relation to claims incurred but not enough reported (IBNER's) and claims incurred but not reported (IBNR's) based on past experience.

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

The claims liability is measured based on the advice of valuations performed by the Appointed Actuary whose key assumptions are outlined in note 3.

### (d) Expenses

Expenses are recognised in the Statement of Comprehensive Income 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 end of the reporting period 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 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

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

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

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

## 1 Summary of significant accounting policies (continued)

Deferred tax assets and liabilities are recognised on gross basis. 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

GE Finance Holdings Hold Co Pty Limited is the head entity in a tax consolidated group incorporating the Company, its subsidiary and several other related entities. The implementation date of the income tax consolidations regime for the income tax consolidated group was 1 July 2003.

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

For financial years ending on or after 31 December 2011 the members of the income tax consolidated group have entered into a tax funding agreement which sets out the funding obligations of the members of the income tax consolidated group in respect of tax amounts. The tax funding agreement requires the Company and its subsidiary (member) to make payments to GE Capital Finance Australasia Pty Limited in respect of the group tax liability equal to the relative proportion of taxable income of each relevant company. Where the member of the income tax consolidated group recognises a taxable loss, the funding amount is nil with no compensation for the tax losses unless the member is subject to prudential regulation by APRA, in which case the regulated entity will be compensated for its tax losses.

The liabilities arising for the member under a tax funding agreement are recognised as amounts payable to the GE Capital Finance Australasia Pty Limited. Any difference between the net tax amounts recognised on a separate taxpayer within the group approach and the actual tax funding agreement amount payable is treated as an equity transaction.

The members of the income tax consolidated group have also entered into a tax sharing agreement under the income tax consolidation legislation which sets out the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations.

### (h) Cash and cash equivalents

For the purposes of the Statement of Cash Flows, cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and bank overdrafts. Bank overdrafts are classified within borrowings in current liabilities on the Statement of Financial Position.

### (i) Trade and other receivables

All premiums 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 4.

### (l) Assets backing general insurance liabilities

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

## 1 Summary of significant accounting policies (continued)

### (m) Financial assets

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

Financial assets designated at fair value through profit or loss and are initially recognised at fair value, excluding transaction costs, which are expensed in the Statement of Comprehensive Income 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 Statement of Comprehensive Income in the period in which they arise.

#### (i) Short term deposits

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

#### (ii) Listed equity securities

When available, the Company uses quoted market prices to determine the fair value of listed equity securities by reference to the "bid" price of that security as quoted on its primary exchange on the day of valuation.

#### (iii) Unlisted fixed interest securities

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

All financial instruments are required to be further categorised under AASB 7 Financial Instruments; Disclosures, according to the availability of observable market inputs used in the measurement of their fair values, which is detailed further in note 4(d).

### (n) Intangible assets

Intangibles with finite useful lives comprise computer development costs and are shown in the Statement of Financial Position at cost.

Internal and external costs directly incurred in the purchase or development of computer software, including subsequent upgrades and enhancements, are capitalised following completion of technical feasibility and where the Company has an intention and ability to use the asset. Capitalised software is amortised from the time the software is completed and held ready for use.

Intangibles are amortised on a straight-line basis over their useful lives as follows:

Software development costs	2.5 - 5 years (2010: 2.5 - 5 years)
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### (o) Impairment of assets

Intangible assets with indefinite useful lives and tangible assets are assessed annually for indicators of impairment.

An impairment loss is recognised when the carrying amount of an asset exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Impairment losses are recognised in the Statement of Comprehensive Income, 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 Statement of Comprehensive Income.

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 Statement of Comprehensive Income.

### (p) 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.

## 1 Summary of significant accounting policies (continued)

### (q) Outstanding claims liability

The liability for outstanding claims covers the expected future payments in relation to claims reported but not yet paid, IBNR's and claims incurred but not enough reported ("IBNER") 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% (2010: 90%) confidence level.

### (r) Liability adequacy test

The adequacy of the insurance contract liabilities are evaluated each year. The insurance contract test considers current estimates of all contractual and related cash flows. If it is determined using best estimate assumptions that a shortfall exists, it is immediately recognised in the Statement of Comprehensive Income. Refer to note 20(e).

### (s) 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 Statement of Comprehensive Income. Refer to note 20(e).

### (t) Employee benefits

#### (i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the end of the reporting period are recognised in other payables in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled.

#### (ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

#### (iii) Retirement benefit obligations

All employees of the Company are entitled to benefits on retirement, disability or death from a superannuation plan. The defined contribution plan receives fixed contributions from the Company and the Company's legal or constructive obligation is limited to these contributions. The employees of the Company are all members of the defined contribution plan.

Contributions to the defined contribution fund are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

## 1 Summary of significant accounting policies (continued)

### (u) Foreign currency translation and functional currency

#### *Functional and presentation currency*

Items included in the Financial Statements of the Company are measured using the currency of the primary economic environment in which the Company operates ("the functional currency").

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

#### *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income.

Non-monetary items 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.

### (v) Goods and services tax ("GST")

Revenues, expenses and assets are recognised net of the amount of goods and services tax ("GST"), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of GST. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the Statement of Financial Position.

Cash flows are reported on a gross basis. The GST components of cash flows arising from investing and financing activities, which are recoverable from, or payable to, the ATO are classified as operating cash flows.

### (w) Rounding of amounts

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

## 2 Accounting judgements and estimates

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 20.

#### *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 claims 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.

## 2 Accounting judgements and estimates (continued)

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 3.

## 3 Actuarial assumptions and methods

The Company writes the following lines of business :

### Consumer credit insurances

The risks covered in this group include:

- Involuntary Unemployment
- Disability

### Others

- Total Loss Protection (GAP)
- 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:

- (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.



### 3 Actuarial assumptions and methods (continued)

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

#### Consumer credit insurances

##### *Involuntary unemployment and disability - branch*

In determining the central estimate of the outstanding claims liabilities, separate analyses were performed on the open (including pending) and IBNR claims.

The individual claimant projection method was adopted for the open and pending claims. This method examines the likelihood of claimants remaining on benefit from month to month and applies an expected future claim duration to the actual level of monthly benefits for individual claims. For pending claims, an additional assumption was made on the probability of the claim being accepted in the first place ("claims acceptance rate").

For IBNR claims, the central estimate of the outstanding claims liabilities is estimated by assuming a number of IBNR claims to be reported by insurance term, underwriting period, accident period and reporting period. The individual claimant projection method is then applied with an assumed average monthly benefit and claims acceptance rate.

##### *Involuntary unemployment and disability - non branch*

Aggregate projection methods such as Payment Per Claim Incurred ("PPCI") and Payment Per Claim Open ("PCO") are adopted for assessing the outstanding claims of non branch portfolios.

#### Others

The standard actuarial projection technique of Payment Per Claim Finalised was adopted in the determination of the central estimate of the outstanding claims liability for this risk, where claims are generally finalised with the payment of a single lump sum amount.

#### 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:

	2011 Unemployment*	2011 Disability*	2011 GAP/Price Protection	2010 Unemployment*	2010 Disability*	2010 GAP/Price Protection
Average term to settlement*	1.9 months	6.3 months	4-5 months	2.1 months	10.5 months	3-5 months
Average monthly benefits/average claim size*	\$223-778 per month	\$223-785 per month	\$678	\$223-750 per month	\$223-750 per month	\$961
Expense rate	17%	17%	17%	16%	16%	16%
Discount rate	2.9%-4.8% pa	2.9%-4.8% pa	2.9%-4.8% pa	4.9%-6.3% pa	4.9%-6.3% pa	4.9%-6.6% pa

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

#### Process used to determine actuarial assumptions

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

##### *Average weighted term to settlement from the end of the reporting period*

For unemployment and disability claims, the average weighted term to settlement represents the amount of time needed for the outstanding claims liability to run off completely, taking into account future claim terminations. This is based on claim termination analysis performed on the historical claims experiences. The claim termination analysis is performed separately for unemployment and disability.

Termination rates by duration from the date of incident are adopted and these are used to derive the probability of payment on each claim for each month into the future. This projection produces the average weighted term to settlement.

### 3 Actuarial assumptions and methods (continued)

#### *Average monthly benefits / Average claim size*

The average monthly benefit and average claim size assumption is used in the estimation of the outstanding claims liability relating to IBNR claims. For disability and unemployment claims the average monthly benefit assumption is determined after analysing the historical relativity of the average monthly benefit for claims to the average monthly benefit for all policies underwritten (from the same period as those that result in claims).

#### *Expense rate*

The adopted claims handling expense rate of 17% (2010:16%) of the projected gross claim payments, was determined based on the results of an expense investigation carried out in 2011.

#### *Discount rate*

The central estimates of the outstanding claims liabilities were 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 2011 as provided by the Australian Financial Review.

#### **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.

<b>2011</b>				
<b>Key actuarial assumptions</b>	<b>Changes</b>		<b>Impact on net outstanding claims liabilities (\$000's)</b>	<b>Impact on total outstanding claims liabilities (%)</b>
Claim Termination Rate*	Reduce the Branch Credit termination rates by 10%		213	4.3
Average Monthly Benefits*	Increase the Branch Credit Insurances IBNR average monthly benefits by 10%		160	3.2
Number of IBNR Claims*	Increase the number of Branch Credit Insurances IBNR claims by 10%		160	3.2
Claims handling expense rate	Increase from 17% to 20%		149	3.0
<b>2010</b>				
Claim Termination Rate*	Reduce the Branch Credit termination rates by 10%		582	10.5
Average Monthly Benefits*	Increase the Branch Credit Insurances IBNR average monthly benefits by 10%		132	2.4
Number of IBNR Claims*	Increase the number of Branch Credit Insurances IBNR claims by 10%		132	2.4
Claims handling expense rate	Increase from 16% to 20%		188	3.4

\* Branch credit insurance only

#### **Impact of changes to valuation approach and key assumptions**

For the consumer credit insurance, changes to the valuation approach and key assumptions in the December 2011 valuation include:

Splitting claim termination rates for active claims and IBNR claims separately to reflect the different emerging experience between the two portfolios.

## 4 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 terms 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.

### 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 GPS 220 Risk Management for General Insurers and GPS 230 Reinsurance Management for General Insurers issued by the Australian Prudential Regulation Authority (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 whilst ensuring the Company's 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 appropriate premium cover to ensure 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 minor reinsurance policies relating to Accidental Death and Warranty products. Given the capital position of the Company and estimated Maximum Event Retention of \$12.32 million at 31 December 2011 (2010: \$11.60 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 to maintain the performance and profitability of these processes.

#### (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.

### Capital management

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

#### 4 Risk management (continued)

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 assets well 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 note 26.

##### Financial risk management

###### (a) 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 future 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. The Investment Committee and the Investment Manager conduct 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 ReMS Strategy. Counterparties must have a 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 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 29).

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

	Investment grade \$'000	Non- investment grade satisfactory \$'000	Non-investment grade unsatisfactory \$'000	Total neither past due nor impaired \$'000	Past due or impaired \$'000	Total \$'000
<b>2011</b>						
<b>Financial assets</b>						
Cash	8,412	-	-	8,412	-	8,412
Trade and other receivables	-	11,430	-	11,430	-	11,430
Financial assets at fair value through profit or loss						
Equity securities	16,884	-	-	16,884	-	16,884
Short-term deposits	131,693	-	-	131,693	-	131,693
Fixed interest securities	25,323	-	-	25,323	-	25,323
<b>Total credit risk exposure</b>	<b>182,312</b>	<b>11,430</b>	<b>-</b>	<b>193,742</b>	<b>-</b>	<b>193,742</b>

**4 Risk management (continued)**

	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
<b>2010</b>						
<b>Financial assets</b>						
Cash	10,584	-	-	10,584	-	10,584
Trade and other receivables	-	8,800	-	8,800	-	8,800
Financial assets at fair value through profit or loss						
Equity securities	19,289	-	-	19,289	-	19,289
Short-term deposits	119,971	-	-	119,971	-	119,971
Fixed interest securities	<u>20,435</u>	-	-	<u>20,435</u>	-	<u>20,435</u>
<b>Total credit risk exposure</b>	<b><u>170,279</u></b>	<b><u>8,800</u></b>	<b><u>-</u></b>	<b><u>179,079</u></b>	<b><u>-</u></b>	<b><u>179,079</u></b>

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

	AAA \$'000	AA \$'000	A \$'000	BBB \$'000	Not rated \$'000	Total \$'000
<b>2011</b>						
<b>Financial assets</b>						
Cash	-	-	8,412	-	-	8,412
Trade and other receivables*	-	-	-	-	11,430	11,430
Financial assets at fair value through profit or loss						
Equity securities	-	4,568	7,548	3,294	1,474	16,884
Short-term deposits	-	-	131,693	-	-	131,693
Fixed interest securities	-	<u>25,323</u>	-	-	-	<u>25,323</u>
<b>Total credit risk exposure</b>	<b><u>-</u></b>	<b><u>29,891</u></b>	<b><u>147,653</u></b>	<b><u>3,294</u></b>	<b><u>12,904</u></b>	<b><u>193,742</u></b>
<b>2010</b>						
<b>Financial assets</b>						
Cash	-	-	10,584	-	-	10,584
Trade and other receivables*	-	-	-	-	8,800	8,800
Financial assets at fair value through profit or loss						
Equity securities	-	4,973	6,166	5,379	2,771	19,289
Short-term deposits	-	-	119,971	-	-	119,971
Fixed interest securities	-	<u>20,435</u>	-	-	-	<u>20,435</u>
<b>Total credit risk exposure</b>	<b><u>-</u></b>	<b><u>25,408</u></b>	<b><u>136,721</u></b>	<b><u>5,379</u></b>	<b><u>11,571</u></b>	<b><u>179,079</u></b>

\* No receivables are past due or impaired at balance date. (2010: Nil)

**(b) 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.

#### 4 Risk management (continued)

	Up to a year \$'000	1-2 years \$'000	2-5 years \$'000	Over 5 years \$'000	No term \$'000	Total \$'000
<b>2011</b>						
Trade and other payables	13,413	40	-	-	-	13,453
Outstanding claims liabilities	<u>5,223</u>	<u>1,730</u>	<u>947</u>	<u>20</u>	-	<u>7,920</u>
<b>Net principal liabilities</b>	<b><u>18,636</u></b>	<b><u>1,770</u></b>	<b><u>947</u></b>	<b><u>20</u></b>	<b>-</b>	<b><u>21,373</u></b>
<b>2010</b>						
Trade and other payables	12,889	-	211	-	-	13,100
Outstanding claims liabilities	<u>5,601</u>	<u>1,613</u>	<u>797</u>	<u>31</u>	-	<u>8,042</u>
<b>Net principal liabilities</b>	<b><u>18,490</u></b>	<b><u>1,613</u></b>	<b><u>1,008</u></b>	<b><u>31</u></b>	<b>-</b>	<b><u>21,142</u></b>

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

#### (c) 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.

##### (i) Currency risk

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

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

##### (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.

	Change in variables %	Impact on profit before tax \$'000	Impact on Equity				Total \$'000
			Up to a year \$'000	1-2 years \$'000	2-5 years \$'000	Over 5 years \$'000	
<b>2011</b>							
<b>Financial assets</b>							
Short term deposits	-1 %	(1,317)	(922)	-	-	-	(922)
Fixed interest securities	-1 %	<u>(253)</u>	-	-	<u>(177)</u>	-	<u>(177)</u>
		<u>(1,570)</u>	<u>(922)</u>	-	<u>(177)</u>	-	<u>(1,099)</u>
<b>2010</b>							
<b>Financial assets</b>							
Short term deposits	-1 %	(1,200)	(840)	-	-	-	(840)
Fixed interest securities	-1 %	<u>(204)</u>	<u>(143)</u>	-	-	-	<u>(143)</u>
		<u>(1,404)</u>	<u>(983)</u>	-	-	-	<u>(983)</u>

##### (iii) Price risk

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

The following table analyses the impact of a reasonable possible movement in market prices on the Company's operating results.

#### 4 Risk management (continued)

	Change in variables %	Impact on profit before tax \$'000	Impact on Equity				Total \$'000
			Up to a year \$'000	1-2 years \$'000	2-5 years \$'000	Over 5 years \$'000	
<b>2011</b>							
<b>Financial assets</b>							
Equity securities	-1 %	(169)	(118)	-	-	-	(118)
		<u>(169)</u>	<u>(118)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(118)</u>
<b>2010</b>							
<b>Financial assets</b>							
Equity securities	-1 %	(193)	(135)	-	-	-	(135)
		<u>(193)</u>	<u>(135)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(135)</u>

#### (d) Fair value measurement

The table below classifies the financial instruments held at fair value at balance date, according to the fair value hierarchy. The hierarchy reflects the availability of observable market inputs for the valuation of each particular class of financial instrument. The three levels are defined as follows:

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

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>2011</b>				
Financial assets designated at fair value through profit or loss	16,884	157,016	-	173,900
	<u>16,884</u>	<u>157,016</u>	<u>-</u>	<u>173,900</u>
<b>2010</b>				
Financial assets designated at fair value through profit or loss	19,289	140,406	-	159,695
	<u>19,289</u>	<u>140,406</u>	<u>-</u>	<u>159,695</u>

#### 5 Net insurance premium revenue

	2011 \$'000	2010 \$'000
<b>Premium revenue</b>		
Gross written premium	45,656	50,040
Movement in unearned premiums	(4,301)	(10,409)
Other premium revenue	-	3,980
Outwards reinsurance premiums	(46)	(23)
Net premium revenue	<u>41,309</u>	<u>43,588</u>

Other premium revenue for the year ended 31 December 2010 represents a one off amount of \$3,980,000 received from GE Personal Finance Pty Ltd in relation to amounts previously incorrectly refunded under an internal arrangement.

**6 Net claims incurred**

	Current Year \$'000	2011 Prior Years \$'000	Total \$'000	Current Year \$'000	2010 Prior Years \$'000	Total \$'000
<b>Claim expenses</b>						
Gross claims incurred and related expenses - undiscounted	8,726	(980)	7,746	9,136	(2,321)	6,815
Discount and discount movement - gross claims incurred	<u>(171)</u>	<u>259</u>	<u>98</u>	<u>(255)</u>	<u>223</u>	<u>(32)</u>
	<u>8,555</u>	<u>(711)</u>	<u>7,844</u>	<u>8,881</u>	<u>(2,098)</u>	<u>6,783</u>
Reinsurance and other recoveries expense/(revenue) - undiscounted	<u>(1)</u>	<u>-</u>	<u>(1)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net claims incurred</b>	<u>8,554</u>	<u>(711)</u>	<u>7,843</u>	<u>8,881</u>	<u>(2,098)</u>	<u>6,783</u>

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.

**7 Investment income**

	2011 \$'000	2010 \$'000
<b>Financial assets at fair value through profit or loss</b>		
Interest income	8,366	6,772
Realised net losses	(707)	(824)
Unrealised net (losses)/gains	(1,250)	(353)
Dividend income	870	809
<b>Total investment income</b>	<u>7,279</u>	<u>6,404</u>

**8 Profit before income tax**

	2011 \$'000	2010 \$'000
<b>Profit before income tax includes the following specific expenses:</b>		
<i>Amortisation</i>		
Software development costs	156	485
<i>Employee costs</i>		
Personnel cost	8,483	7,444
Contribution to superannuation fund	671	550
Change in annual and long service leave provision	11	105
<i>Other administrative expenses</i>		
Marketing	8	470
Temporary staff	152	345
Management fee	3,702	2,980



**9 Income tax expense**

	2011 \$'000	2010 \$'000
<b>(a) Income tax expense</b>		
Current tax expense	6,072	5,927
Deferred tax expense (note 15)	(909)	524
(Over)/under provided in prior years	<u>(287)</u>	<u>(266)</u>
	<u>4,876</u>	<u>6,185</u>
<b>(b) Reconciliation of income tax expense to prima facie tax payable</b>		
Profit from continuing operations before income tax expense	<u>17,852</u>	<u>21,202</u>
Tax at the Australian tax rate of 30% (2010: 30%)	5,356	6,361
Tax effect of amounts which are not deductible in calculating taxable income:		
Imputation credits	90	90
Entertainment	18	-
Tax offset for franked dividends	<u>(301)</u>	<u>-</u>
	5,163	6,451
(Over)/under provision in prior years	<u>(287)</u>	<u>(266)</u>
Income tax expense	<u>4,876</u>	<u>6,185</u>

**10 Cash and cash equivalents**

	2011 \$'000	2010 \$'000
Cash at bank	<u>8,412</u>	<u>10,584</u>

**(a) Reconciliation to cash at the end of the year**

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:

Cash at bank	8,412	10,584
Short term deposits (note 12)	<u>131,693</u>	<u>119,971</u>
Balances per statement of cash flows	<u>140,105</u>	<u>130,555</u>

The carrying amount for cash and cash equivalents equals the fair value.

**11 Trade and other receivables**

	2011 \$'000	2010 \$'000
Trade debtors	3,018	5,178
Other receivables	8,412	3,613
Prepayment	<u>-</u>	<u>9</u>
	<u>11,430</u>	<u>8,800</u>

These balances include amounts receivable from related parties (note 29).  
The carrying value disclosed above approximates fair value at end of the reporting period.

**12 Financial assets at fair value through profit or loss - current assets**

	2011 \$'000	2010 \$'000
Equity securities-listed	16,884	19,289
Short term deposits	131,693	119,971
Fixed interest securities	<u>-</u>	<u>20,435</u>
	<u>148,577</u>	<u>159,695</u>

**13 Deferred acquisition costs**

	2011 \$'000	2010 \$'000
<b>Deferred acquisition costs:</b>		
Current	7,109	7,026
Non-current	<u>5,816</u>	<u>5,099</u>
	<u>12,925</u>	<u>12,125</u>
<b>Reconciliation of changes in deferred acquisition costs:</b>		
Balance at 1 January	12,125	9,834
Acquisition costs incurred during the year	8,843	9,643
Amortisation charged to income	<u>(8,043)</u>	<u>(7,352)</u>
Balance at 31 December	<u>12,925</u>	<u>12,125</u>

**14 Financial assets at fair value through profit or loss - non-current assets**

	2011 \$'000	2010 \$'000
Fixed interest securities	<u>25,323</u>	<u>-</u>

**15 Deferred tax asset**

	2011 \$'000	2010 \$'000
<b>The balance comprises temporary differences attributable to:</b>		
Financial assets at fair value through profit or loss	1,876	1,373
Employee entitlements	455	457
Operating accruals	908	157
Indirect claims handling expense	335	321
Interest and dividend receivable	(496)	(367)
Intangible assets	-	(7)
Other	<u>8</u>	<u>(398)</u>
	<u>3,086</u>	<u>1,536</u>

**15 Deferred tax asset (continued)**

	2011 \$'000	2010 \$'000
Balance at 1 January	1,536	1,856
Charged to the profit or loss (note 9)	909	(524)
Under/(over) provision in prior years	<u>641</u>	<u>204</u>
Closing balance at 31 December	<u>3,086</u>	<u>1,536</u>

**16 Intangible assets**

	Software development costs \$'000
<b>At 1 January 2010</b>	
Cost	3,486
Accumulated amortisation	<u>(2,943)</u>
Net book amount	<u>543</u>
<b>Year ended 31 December 2010</b>	
Opening net book amount	543
Amortisation charge	<u>(485)</u>
Closing net book amount	<u>58</u>
<b>At 31 December 2010</b>	
Cost	3,486
Accumulated amortisation and impairment	<u>(3,428)</u>
Net book amount	<u>58</u>
<b>Year ended 31 December 2011</b>	
Opening net book amount	58
Amortisation charge	<u>(58)</u>
Closing net book amount	<u>-</u>
<b>At 31 December 2011</b>	
Cost	3,486
Accumulated amortisation and impairment	<u>(3,486)</u>
Net book amount	<u>-</u>

**17 Trade and other payables - current liabilities**

	2011 \$'000	2010 \$'000
Trade payables	626	572
Other payables	<u>12,787</u>	<u>12,317</u>
	<u>13,413</u>	<u>12,889</u>

The carrying value disclosed above approximates fair value at end of the reporting period. These balances include amounts payable to related parties (note 29).

**18 Provisions - current liabilities**

	2011 \$'000	2010 \$'000
<b>Employee entitlements</b>		
Long service leave	313	247
Annual leave	<u>485</u>	<u>534</u>
Total employee entitlements	<u>798</u>	<u>781</u>

**19 Unearned commission income**

	2011 \$'000	2010 \$'000
Balance at 1 January	2	3
Commission income on premium earned during the year	<u>(1)</u>	<u>(1)</u>
Balance at 31 December	<u>1</u>	<u>2</u>

**20 Outstanding claims liability**

	2011 \$'000	2010 \$'000
Central estimate	6,170	6,366
Risk margin	846	905
Claims handling expense	<u>1,151</u>	<u>1,117</u>
	8,167	8,388
Discount to present value	<u>(247)</u>	<u>(346)</u>
Gross outstanding claims liability	<u>7,920</u>	<u>8,042</u>
Current	5,223	5,601
Non-current	<u>2,697</u>	<u>2,441</u>
	<u>7,920</u>	<u>8,042</u>

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

The current year discount rate is 3.5% (2010: 4.7%).

The subsequent years discount rate is 2.9% - 4.9% (2010: 4.7% - 6.0%).

The weighted average expected term to settlement of the outstanding claims from the end of the reporting period is estimated to be 0.89 years (2010: 0.92 years).

**(b) 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;

## 20 Outstanding claims liability (continued)

- 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 with the appropriate reinsurance recoveries allowed for.

The aggregate risk margin, after diversification allowance, is intended to achieve a 90% (2010: 90%) probability of sufficiency.

The risk margins applied to the major segments of the portfolio for 90% (2010: 90%) level of adequacy are:

	2011 %	2010 %
<i>Risk margin applied</i>		
Consumer credit insurance - disability	12.3	12.5
Consumer credit insurance - unemployment	30.0	30.4

### (c) Reconciliation of movement in discounted outstanding claims liability

	Gross \$'000	2011 Reinsurance \$'000	Net \$'000	Gross \$'000	2010 Reinsurance \$'000	Net \$'000
Balance at 1 January	8,042	-	8,042	8,771	-	8,771
Current year claims incurred	8,555	-	8,555	8,881	-	8,881
Change in previous years claims	(791)	-	(791)	(2,139)	-	(2,139)
Current year claims paid/ reinsurance recovered	(3,056)	-	(3,056)	(3,008)	-	(3,008)
Previous year claims paid/ reinsurance recovered	(4,909)	-	(4,909)	(4,504)	-	(4,504)
Discounted outstanding claims at previous discount rate	7,841	-	7,841	8,001	-	8,001
Effect of change in discount rate	79	-	79	41	-	41
Balance at 31 December	<u>7,920</u>	<u>-</u>	<u>7,920</u>	<u>8,042</u>	<u>-</u>	<u>8,042</u>

### (d) 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.

## 20 Outstanding claims liability (continued)

### i) Gross

Accident year	2007 and prior \$'000	2008 \$'000	2009 \$'000	2010 \$'000	2011 \$'000	Total \$'000
<b>Estimate of ultimate claims cost</b>						
At end of accident year	42,658	7,088	8,861	7,655	7,564	
One year later	37,507	6,280	6,870	6,831	-	
Two years later	38,758	6,213	6,916	-	-	
Three years later	36,577	6,188	-	-	-	
Four years later	36,573	-	-	-	-	
Current estimate of cumulative claims cost	36,573	6,188	6,916	6,831	7,564	64,072
Cumulative payments	(36,545)	(6,077)	(6,497)	(5,246)	(2,710)	(57,075)
Undiscounted claim handling expenses	4	18	69	264	816	1,171
<b>Gross Outstanding Claims-Undiscounted</b>	<b>32</b>	<b>129</b>	<b>488</b>	<b>1,849</b>	<b>5,670</b>	<b>8,168</b>
Discount impact						(248)
<b>Gross Outstanding claims - discounted</b>						<b>7,920</b>

### ii) Net

Accident year	2007 and prior \$'000	2008 \$'000	2009 \$'000	2010 \$'000	2011 \$'000	Total \$'000
<b>Estimate of ultimate claims cost</b>						
At end of accident year	39,623	7,088	8,861	7,655	7,564	
One year later	36,789	6,280	6,870	6,831	-	
Two years later	35,557	6,213	6,916	-	-	
Three years later	35,745	6,188	-	-	-	
Four years later	35,926	-	-	-	-	
Current estimate of cumulative claims cost	35,926	6,187	6,916	6,831	7,564	63,424
Cumulative payments	(35,898)	(6,077)	(6,497)	(5,245)	(2,710)	(56,427)
Undiscounted claims handling expenses	4	18	69	264	816	1,171
<b>Net Outstanding Claims-Undiscounted</b>	<b>32</b>	<b>128</b>	<b>488</b>	<b>1,850</b>	<b>5,670</b>	<b>8,168</b>
Discount impact						(248)
<b>Net outstanding claims - discounted</b>						<b>7,920</b>

### (e) 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 2011 is \$42,228,000 (2010: \$40,917,000), therefore the liability adequacy test at reporting date resulted in a surplus for the company.

**21 Unearned premium liability**

	2011 \$'000	2010 \$'000
Balance as at 1 January	55,179	44,770
Premium written during the year	45,656	50,040
Premiums earned during the year	<u>(41,355)</u>	<u>(39,631)</u>
Balance as at 31 December	<u>59,480</u>	<u>55,179</u>
Current	32,761	31,975
Non-current	<u>26,719</u>	<u>23,204</u>
	<u>59,480</u>	<u>55,179</u>

**22 Trade and other payables - non current liabilities**

	2011 \$'000	2010 \$'000
Trade payables	-	52
Other payables	<u>40</u>	<u>159</u>
	<u>40</u>	<u>211</u>

**23 Provisions - non current liabilities**

	2011 \$'000	2010 \$'000
Employee entitlements:		
Long service leave	<u>149</u>	<u>165</u>
	<u>149</u>	<u>165</u>

Total Number of Employees 2011: 72 (2010: 73)

**24 Issued capital**

	2011 \$'000	2010 \$'000
(a) Share capital		
Ordinary shares		
10,001 Paid up ordinary shares (2010:10,001)	<u>2,000</u>	<u>2,000</u>
(b) Ordinary shares		

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.

**25 Tax consolidation reserve**

	2011 \$'000	2010 \$'000
Tax consolidation reserve	<u>44,009</u>	<u>44,562</u>

## 26 Capital adequacy

Prudential standard GPS 110 issued by the Australian Prudential Regulation Authority (APRA) requires additional disclosure in the annual financial statements to improve policyholders and market understanding of the Company's capital adequacy. As at 31 December 2011, the capital base, minimum capital requirement and capital adequacy multiple, as calculated applying the APRA prudential standards, were as follows:

	2011 \$'000	2010 \$'000
<b>Tier 1 capital</b>		
Paid up ordinary shares	2,000	2,000
Retained earnings brought forward	68,967	53,950
Current year earnings	12,976	15,017
General reserve (tax consolidation reserve)	44,009	44,562
Excess technical provisions (net of tax)	<u>3,289</u>	<u>1,579</u>
	<u>131,241</u>	<u>117,108</u>
Less: deductions	<u>(3,086)</u>	<u>(1,594)</u>
Net Tier 1 capital	<u>128,155</u>	<u>115,514</u>
<b>Tier 2 capital</b>		
Less: deductions	-	-
Net Tier 2 capital	-	-
<b>Total Capital Base</b>	<u>128,155</u>	<u>115,514</u>
<b>Capital Requirement</b>		
Minimum capital requirement	<u>29,646</u>	<u>28,213</u>
Capital Adequacy Multiple	<u>4.32</u>	<u>4.09</u>

### Excess technical provisions

The liability required by GPS 110 for prudential reporting purposes differs from accounting purposes. As described in note 1(q) the Company 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%.

## 27 Key management personnel disclosures

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

### (i) Directors

Raymond Bruce Willing  
Pieter Jonathan Lindhout  
Philip Stuart Douglas Purcell  
Neil William Smart  
Paul Brian McCann  
Scott Kingsley Miller

### (ii) Other Executives

Sally Ann Denby  
Rosalyn Patrice Exley  
Brett Leslie Hawgood  
Martha Josephine Ryan  
Julie Anne Winkler  
Rebecca Jane Henderson  
Adrian Wake  
Bianca McClean Bates  
Kevin Peter Smith



## 27 Key management personnel disclosures (continued)

### (a) 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.

	2011 \$	2010 \$
Short-term employee benefits	2,417,735	2,132,402
Long-term employee benefits	176,296	171,995
Equity compensation benefits	<u>90,919</u>	<u>102,229</u>
	<u>2,684,950</u>	<u>2,406,626</u>

There are no other transactions with key management personnel.

## 28 Remuneration of auditors

	2011 \$	2010 \$
<b>(a) Audit services</b>		
KPMG		
Audit and review of financial statements	<u>73,630</u>	<u>71,140</u>
	<u>73,630</u>	<u>71,140</u>
<b>(b) Non-audit services</b>		
KPMG		
APRA Return	9,370	9,055
AFSL Audit	5,687	5,495
Actuarial External Peer Review	<u>39,500</u>	<u>38,000</u>
	<u>54,557</u>	<u>52,550</u>
<b>Total remuneration for audit and other assurance services</b>	<u>128,187</u>	<u>123,690</u>

## 29 Related party transactions

### (a) Parent entities

Hallmark Life Insurance Company Ltd is the majority shareholder of Hallmark General Insurance Company Ltd. The name of the Company's Australian parent entity is GE Capital Finance Australasia Pty Ltd and the Company's ultimate parent entity is General Electric Company, which is incorporated in the United States of America.

### (b) Transactions with related parties:

The following transactions occurred with related parties:

	2011 \$	2010 \$
<i>Management fees paid to/(received from):</i>		
GE Personal Finance Pty Ltd	835,976	835,976
Hallmark Life Insurance Company Ltd	(2,452,166)	(3,170,747)
Simply Insurance New Zealand Ltd	(2,571,813)	(1,601,223)
GE Capital Finance Australasia Pty Ltd	<u>7,890,435</u>	<u>6,915,938</u>

**29 Related party transactions (continued)**

	2011 \$	2010 \$
<i>Claims handling fees paid to:</i>		
GE Personal Finance Pty Ltd	-	158,250
<i>Cross charges paid to:</i>		
GE Personal Finance Pty Ltd	59,192	101,034
GE Capital Finance Australasia Pty Ltd	6,000,835	5,982,150
General Electric Company	-	2,038
<i>Royalty paid:</i>		
GE Capital Registry, Inc.	185,183	170,231
<i>Transactional sales costs paid to:</i>		
GE Capital Finance Australasia Pty Ltd	2,933,014	2,563,001
<i>Share-based payments</i>		
GE Personal Finance Pty Ltd	-	3,980,000
<i>Commission paid to:</i>		
Avco Access Pty Ltd	1,755	2,438
GE Personal Finance Pty Ltd	5,051,350	6,286,229
GE Finance Australasia Pty Ltd	718,902	641,276
GE Capital Finance Australia	1,361,508	972,875

**(c) Outstanding balances with related parties:**

The following balances are outstanding at the end of the reporting period in relation to transactions with related parties:

	2011 \$	2010 \$
<i>Receivables/(payables)</i>		
Avco Access Pty Ltd	3,388	3,167
GE Capital Finance Australasia Pty Ltd	(825,795)	(4,519,144)
GE Finance Australasia Pty Ltd	-	(164,403)
GE Personal Finance Pty Ltd	1,721,676	2,637,608
Hallmark Life Insurance Company Ltd	5,414,081	2,417,001
Simply Insurance New Zealand Ltd	1,504,331	(44,482)
GE Capital Finance Australia	2,602,984	2,740,136

No provision 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 2011, there are no amounts outstanding owed by Hallmark General Insurance Company Ltd to GE Capital Finance Australasia Pty Ltd or to other related parties which are not reflected in the accounts, and there are no further amounts to be charged by GE Capital Finance Australasia Pty Ltd or by other related parties in relation to services provided to Hallmark General Insurance Company Ltd during 2011 or prior years.

### 30 Reconciliation of profit after income tax to net cash flows from operating activities

	2011 \$'000	2010 \$'000
Profit for the year	12,976	15,017
Adjustments		
Depreciation and amortisation	58	485
Realised losses on sale of financial assets	707	824
Unrealised losses/(gains) in value of financial assets	1,251	353
<b>Change in operating assets and liabilities</b>		
Decrease in trade debtors	2,160	3,029
Decrease/(increase) in other receivables	(4,790)	3,005
Increase in deferred acquisition costs	(800)	(2,291)
Decrease in net deferred tax assets/(liabilities)	(1,550)	320
Increase in creditors and borrowings	353	999
Increase in employees entitlements	1	102
Decrease in unearned commission income	(1)	(1)
(Decrease)/increase in outstanding claim liability	(122)	(729)
Increase in unearned premium liability	4,301	10,409
Increase in tax consolidation reserve	(553)	5,706
<b>Net cash inflow/(outflow) from operating activities</b>	<b><u>13,991</u></b>	<b><u>37,228</u></b>

### 31 Contingent liabilities

No contingent liabilities existed as at 31 December 2011 (2010: \$Nil).

### 32 Matters subsequent to the end of the financial year

Effective 5th March 2012, the insurance portfolio of Simply Insurance New Zealand Limited was transferred to and underwritten by the Company. The total net assets of the Company was not significantly affected by this transaction as equivalent amounts of both assets and liabilities were transferred on this date.

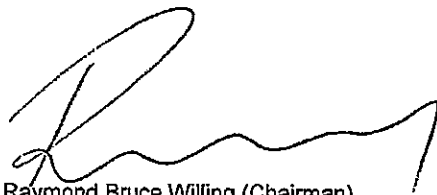
From the end of the financial year to the date of this report, there were no other items, transactions or events of a material and unusual nature which, in the opinion of the Directors of the Company, are likely to have significant effect on the Company's operations, the results of those operations, or the state of affairs of the Company in future financial years.

**Directors' declaration for the year ended 31 December 2011**

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

- (a) the financial statements and notes set out on pages 4 to 34 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 2011 and of its performance for the financial year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
- (b) the financial statements also comply with International Financial Reporting Standards as disclosed in note 1; and
- (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors:



Raymond Bruce Willing (Chairman)  
Director



Neil William Smart  
Director

Sydney  
Date: 14 March 2012



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

### Report on the financial report

We have audited the accompanying financial report of Hallmark General Insurance Company Ltd (the Company), which comprises the statement of financial position as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, notes 1 to 32 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

#### *Directors' responsibility for the financial report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In note 1, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

#### *Auditor's responsibility*

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

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

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

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



*Independence*

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

*Auditor's opinion*

In our opinion:

- (a) the financial report of Hallmark General Insurance Company Ltd is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the Company's financial position as at 31 December 2011 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1.

**KPMG**

KPMG

Andrew Reeves  
*Partner*

Sydney

14 March 2012