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Hallmark Life Insurance Company Ltd

ABN 87 008 446 884

Annual report
for the year ended 31 December 2010

Directors' report

Your Directors present their report together with the financial statements of Hallmark Life Insurance Company Ltd ("the Company") for the year ended 31 December 2010 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:

Raymond Bruce Willing (Chairman)
Pieter Lindhout
Philip Stuart Douglas Purcell
Neil William Smart
Lisa Ellen Davis (Resigned 21 December 2010)

Officers who were previously part of the Audit Firm
Neil W Smart, a Director of the Company, was formerly a partner of KPMG. He retired from KPMG on 31 December 2002.

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

Dividends
Dividends paid to members during the financial year were as follows:

	2010 $'000	2009 $'000
No dividend was paid for the year ended 31 December 2010 (2009: $NIL per fully paid share)	-	-

Review of operations
The operating profit of the Company for the financial year after income tax was $13,858,000 (2009: $86,019,000).

Overall profit for the year was down due to the one-off nature of the dividend payment received in 2009. Growth was strong, largely driven by the Personal Loan channel which was up 12% year on year. Conditions are more muted in the Cards channels where customers continue to deleverage with consumer sentiment continuing to undermine growth for our Retail partners.

Operating expenses have increased year on year largely driven by changes in the methodology to more accurately reflect the costs of services provided by the GE Capital group (GECFA).

Finally, Investment returns were also lower due to the fact that 2009's returns were inflated by portfolio gains achieved off the back of record lows experienced during the global financial crisis.

The company has continued to invest in a number of key areas including distribution, opening new sales channels, new product research and development and improving operational efficiency. A focus on simplification and process improvement has seen good improvements 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 were piloted in the year with plans to launch a broader range of products across key distribution touch-points next year.

Significant changes in the state of affairs
An issue was identified and resolved between the company and GE Money relating to the payment of refunds on the default of the underlying Personal Loan. Legal advice into the treatment of these 'charged off' policies suggested that the company was not entitled to cancel the policy. To ensure no impact on the financial results for the year the unearned premium has been recovered. Throughout the period when policies were cancelled the company has continued to pay claims. The Company has also an agreement with GE Money which will enable the company to recover any material liability that might eventuate from the policies which were subject to the default of the underlying personal loan in previous periods should there be a need to do so.

There were otherwise no significant changes to the state of affairs of the company to report during the financial year.

Matters subsequent to the end of the financial year
From the end of the financial year to the date of this report, there were no 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
There has been no substantial change in business operations and none are expected in the coming financial year. Further 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 these financial statements because the Directors believe it would be likely to result in unreasonable prejudice to the Company.

Directors' benefits
Since the end of the previous financial year, no Director of the Company has received or become entitled to receive a benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors shown in the accounts, or the fixed salary of a full-time employee of the Company) by reason of a contract entered into by the Company or a body corporate that was related to the Company when the contract was made or when the Director is a member, or an entity in which a Director has a substantial financial interest.

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 parent entity) paid an insurance premium in respect of a contract insuring all officers of the Australian economic entity. 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 economic entity.

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 lead auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 4.

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.

This report is made in accordance with a resolution of Directors.

R B Willing (Chairman)
Director

Pieter Lindhout
Director

Sydney
Date: 24 March 2011

KPMG

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

To: the directors of Hallmark Life Insurance Company Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 December 2010 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

David Kells
Partner

Sydney

24 March 2011

Hallmark Life Insurance Company Ltd ABN 87 008 446 884
Annual report - 31 December 2010

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Hallmark Life Insurance Company Ltd is a company limited by shares, incorporated and domiciled in Australia. Its principal place of business is:

Level 12, 255 George Street
Sydney NSW 2000

Registered office is:

572 Swan Street
Richmond VIC 3121

A description of the nature of the Company's operations and its principal activities is included in the Directors' report on page 1.

The financial report was authorised for issue by the Directors on the 24 March 2011.

Hallmark Life Insurance Company Ltd
Statement of comprehensive income
For the year ended 31 December 2010

	Notes	2010 $'000	2009 $'000
Insurance premium revenue	5	51,472	43,460
Outwards reinsurance premium expense		(722)	(816)
Net insurance premium revenue		50,750	42,644
Other revenue from ordinary activities		-	30
Investment income	6	10,599	81,497
Net revenue		61,349	124,171
Claims expenses	7	(23,396)	(22,119)
Reinsurance and other recoveries revenue		889	606
Net life insurance claims expense		(22,507)	(21,513)
(Increase)/decrease in gross policy liabilities	22	(4,721)	1,011
Decrease in reinsurers share of policy liabilities	22	(31)	(73)
		(4,752)	938
Administration expenses	8	(15,275)	(12,881)
Total claims and expenses		(42,534)	(33,456)
Profit before income tax expense		18,815	90,715
Income tax expense	9	(4,957)	(4,696)
Profit for the year attributable to the members of the entity		13,858	86,019
Other comprehensive income for the year, net of tax			
Exchange differences on translation of foreign operations		(1,092)	(1,261)
Total comprehensive income for the year		12,766	84,758
Total comprehensive income for the year is attributable to:			
Owners of Hallmark Life Insurance Company Ltd		12,766	84,758
Non-controlling interest		-	-
		12,766	84,758

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

Hallmark Life Insurance Company Ltd
Statement of financial position
As at 31 December 2010

	Notes	2010 $'000	2009 $'000
ASSETS			
Cash	12	**12,191**	8,105
Receivables	13	**4,623**	4,686
Financial assets at fair value through profit and loss	14	**237,016**	223,538
Reinsurance and other recoveries receivable	15	**698**	302
Gross policy liability ceded under reinsurance	22(a)	**183**	214
Intangible assets	16	**6**	403
Deferred tax assets	17	**1,537**	1,076
Investment in controlled entity	18	**93,388**	87,682
Total assets		**349,842**	326,006
LIABILITIES			
Creditors and borrowings	20	**7,398**	9,670
Policy claims in the process of settlement	21	**5,110**	5,440
Gross policy liabilities	22(a)	**32,761**	28,582
Deferred tax liabilities	23	**1,167**	1,169
Total liabilities		**46,436**	44,861
Net assets		**303,206**	281,145
EQUITY			
Issued capital	24	**10,100**	10,100
Reserves	25	**60,545**	52,342
Retained earnings		**232,561**	218,703
Total equity		**303,206**	281,145

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

Hallmark Life Insurance Company Ltd
Statement of changes in equity
For the year ended 31 December 2010

	Notes	Issued capital $'000	Reserves $'000	Retained earnings $'000	Total equity $'000
Balance at 1 January 2009		10,100	50,418	132,684	193,202
Total comprehensive income for the year		-	(1,261)	86,019	84,758
Transactions with owners in their capacity as owners:					
Current tax liabilitiy transferred to Head Entity		-	3,185	-	3,185
Balance at 31 December 2009		10,100	52,342	218,703	281,145
Balance at 1 January 2010		10,100	52,342	218,703	281,145
Total comprehensive income for the year		-	(1,092)	13,858	12,766
Transactions with owners in their capacity as owners:					
Current tax liabilitiy transferred to Head Entity		-	9,295	-	9,295
Balance at 31 December 2010		10,100	60,545	232,561	303,206

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

Hallmark Life Insurance Company Ltd
Statement of cash flows
For the year ended 31 December 2010

	Notes	2010 $'000	2009 $'000
Cash flows from operating activities			
Premium received		51,428	43,591
Reinsurance and other recoveries		520	605
Outward reinsurance expense		(692)	(874)
Claims paid		(23,642)	(21,611)
Fees and commissions paid		(5,210)	(4,399)
Interest received		10,551	5,765
Dividends received		387	73,371
Other income		-	30
Income tax paid		(2,067)	(2,627)
Payments to suppliers and employees		(11,259)	(5,718)
Net cash inflow from operating activities	32	20,016	88,133
Cash flows from investing activities			
Payments for financial assets		(10)	(41,180)
Proceeds from sale of financial assets		8,313	7,310
Net cash inflow/(outflow) from investing activities		8,303	(33,870)
Net increase in cash and cash equivalents		28,319	54,263
Cash and cash equivalents at the beginning of year		169,069	116,570
Effects of exchange rate changes on cash and cash equivalents		(1,486)	(1,764)
Cash and cash equivalents at end of year	12	195,902	169,069

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

Contents of the notes to the financial statements

1 Summary of significant accounting policies

General information

Hallmark Life Insurance Company Ltd (the "Company") is a company domiciled in Australia having its operations in Australia and New Zealand.

Hallmark Life Insurance Company Ltd is a subsidiary of General Electric Company, its ultimate parent entity. The Company's immediate parent entity is GE Capital Finance Australasia Pty Ltd, incorporated in Australia.

The Company is registered under the Life Insurance Act 1995.

Statement of compliance

This general purpose financial report covers the Company and its Branch as a single entity and has been prepared in accordance with Australian Accounting Standards ("AASBs") (including Australian Interpretations) adopted by the Australian Accounting Standards Board and the Corporations Act 2001. The financial statements also comply with International Financial Reporting Standards (IFRSs) and Interpretations adopted by the International Accounting Standards Board (IASB).

The Company has applied the exemption from consolidation in accordance with AASB 127. In accordance with AIFRS, consolidated financial statements are prepared by the Company's immediate parent entity, GE Capital Finance Australasia Pty Ltd.

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

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 (updated by CO 05/641 effective 28 July 2005) and in accordance with that Class Order, amounts in the financial statements and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

(a) Basis of preparation

The financial statements are presented in Australian dollars, rounded to the nearest thousand, or in certain cases, to the nearest dollar.

The preparation of financial statements in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied by the Company.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Judgements made by management in the application of Australian Accounting Standards that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 2.

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

1 Summary of significant accounting policies (continued)

(b) Principles for life insurance business

Activities of the life insurance operations

The life insurance operations of the Company are conducted within separate statutory funds as required by the Life Insurance Act 1995 and are reported in aggregate with the Shareholders' Fund in the statement of comprehensive income, statement of financial position and statement of cash flows of the Company. The life insurance operations of the Company comprise the selling and administration of life insurance contracts only.

Life insurance contracts involve the acceptance of significant insurance risk. Insurance risk is defined as significant if and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (i.e. have no discernible effect on the economics of the transaction). Insurance contracts include those where the insured benefit is payable on the occurrence of a specified event such as death, injury or disability caused by accident or illness. The insured benefit is either not linked or only partly linked to the market value of the investments held by the Company, and the financial risks are substantially borne by the Company.

Restrictions on assets

Monies held in the statutory funds are subject to the distribution and transfer restrictions and other requirements of the Life Insurance Act 1995.

(c) Revenue

Life insurance premiums

Premiums all relate to providing services, including the bearing of risks, and are accordingly treated as revenue in the statement of comprehensive income as follows:

- premiums with no due date are recognised as revenue when received;

- premiums with a regular due date are recognised as revenue on an accruals basis;

- premiums due after, but received before the end of the financial year, where applicable, are shown as "Premiums in Advance" in the statement of financial position; and

- unpaid premiums are only recognised as revenue during the days of grace or where secured by the surrender value of the policy and are reported as "Outstanding Premiums" in the statement of financial position.

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.

(d) Outward reinsurance premium

Premium ceded to reinsurers is recognised as an expense in accordance with the pattern of reinsurance service received. Accordingly, a portion of outwards reinsurance premium is treated at the reporting date as deferred reinsurance expense.

(e) Claims

Claims incurred all relate to providing services, including the bearing of risks, and are accordingly treated as expenses in the statement of comprehensive income.

Claims are recognised when the liability to the policyholders under the policy contract has been established. Claims recognition is based upon:

- cost estimates for losses reported prior to the close of the accounting period; and
- estimated incurred, but not reported losses, based upon past experience.

1 Summary of significant accounting policies (continued)

(f) Basis of expense apportionment

Apportionment of expenses have been made as follows:

- all expenses have been apportioned between policy acquisition, policy maintenance and investment management in line with the principles set out in the Prudential Standard LPS 1.04 Valuation of Policy Liabilities issued by the Australian Prudential Regulation Authority ("APRA").

- expenses, which are directly attributable to an individual policy or product, are allocated directly to the statutory fund within which that class of business is conducted; and

- all indirect expenses charged to the statement of comprehensive income are equitably apportioned to each class of business.

The apportionment is in accordance with Division 2 Part 6 of the Life Insurance Act 1995.

(g) Income tax

Australian companies

Income tax in the statement of comprehensive income for the periods presented comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

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

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

Deferred tax assets and liabilities are recognised on a gross basis. 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 Capital Finance Australasia Pty Ltd, is the head entity in a tax consolidated group incorporating the Company, its subsidiary and several other related entities. The implementation date of the tax consolidations system for the 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 bought forward and intercompany debt forgiveness transactions.

For financial years ending on or after 31 December 2005 the members of the tax consolidated group have entered into a tax funding agreement which sets out the funding obligations of the members of the tax consolidated group in respect of tax amounts. The tax funding agreement requires the Company and its subsidiary (member) to make payments to the head entity in respect of the group tax liability equal to the relative proportion of taxable income of each relevant company. Where the member of the 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 head entity. 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 tax consolidated group have also entered into a tax sharing agreement under the tax consolidation legislation which sets out the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations.

1 Summary of significant accounting policies (continued)

(g) Income tax (continued)

NZ branch

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

Current income tax rate for NZ business is 30% (2009: 30%).

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

Statutory funds

Taxation bases

The principal elements for the calculation of the taxable income for each class of business for the different bases for calculating tax are as follows:

Assessable income

Other business - Accident and disability premiums earned and investment income.

Shareholder funds and ordinary life insurance business - Earned premiums and investment income.

New Zealand business - The greater of the life insurer base (investment income less expenses plus underwriting profit), and the policyholder base (net value added to policies plus underwriting profit, grossed up for tax). This applies up to 30 June 2010 after which the new income tax rules come into effect.

The gains and losses on sale of investments are taxed primarily under the ordinary income provisions, with the capital gains tax provisions potentially applying depending on the circumstance.

Allowable deductions

The allowable deductions for each taxable class of business in Australia include:

- Acquisition costs
- Other expenses referable to the business
- An allocation of the general management expenses of the Company

These deductions are then allocated to each class of business in accordance with the basis specified in the Income Tax Assessment Act.

Allowable deductions in respect of "other business" within the Australian Life Fund also include accident and disability claims and the movement during the period in the policy liability in respect of that business. Allowable deductions for all insurance products include claims and the movement during the period in the policy liability.

(h) Foreign currency translation

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at the end of the reporting period are translated at the rates of exchange ruling on that date.

Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account as exchange gains or losses in the statement of comprehensive income in the financial year in which the exchange rates change.

1 Summary of significant accounting policies (continued)

The results and financial position of a branch of the Company (none of which has the currency of a hyperinflationary economy) that has a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing rate at the reporting date
- income and expenses are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

(i) Assets backing policy liabilities

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

Financial assets

Financial assets with the exception of the controlled entity, are classified at fair value through profit or loss. Initial recognition is at cost and subsequent measurement is at fair value. Unrealised profits and losses on subsequent measurement to fair value are recognised in the statement of comprehensive income unless otherwise stated below. Fair value is determined as follows:

- Cash assets and bank overdrafts are carried at face value of the amounts deposited or drawn. The carrying amounts of cash assets and bank overdrafts approximate to their fair value. For the purposes of statement of cash flows, cash includes cash on hand, deposits held at call with banks and investments in money market instruments, net of bank overdrafts.

- Shares and fixed interest securities are initially recognised at cost and the subsequent fair value is taken as the quoted bid price of investment.

- 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.

- Receivables are carried at book value, which is the best estimate of fair value, as they are settled within a short period.

- Investment in the controlled entity is carried at deemed cost.

(j) 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 profit or loss, unless an asset has previously been re-valued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the 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.

(k) Intangible assets

Intangibles with finite useful life 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.

1 Summary of significant accounting policies (continued)

(k) Intangible assets (continued)

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

Software development costs	2.5 - 5 years (2009: 2.5 - 5 years)

(l) Cash and cash equivalents

For statement of cash flows presentation purposes, 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 which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

(m) Trade receivables

All premium and other debtors are recognised at the amounts receivable as they are due for settlement no more than 30 days from the date of recognition. The carrying amount of receivables approximates net fair value. Collectability of premium and other debtors is reviewed on an ongoing basis.

(n) Reinsurance and other recoveries receivables

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid and incurred but not yet reported ("IBNRs") are recognised as revenue.

Recoveries receivable are assessed in a manner similar to the assessment of the liability for outstanding claims and policy liabilities.

(o) Trade and other payables

Liabilities are recognised for amounts to be paid in the future for goods and services received. Trade accounts are unsecured and are usually settled within 90 days of recognition.

(p) Goods and services tax

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 with the amounts of GST included.

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 included in the statement of cash flows 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.

The GST rates in New Zealand increased from 12.5% to 15%, effective 1 October 2010.

(q) Liability adequacy test

The adequacy of the insurance contract liabilities are evaluated each year. The insurance contract test considers current estimates of all contractual and related cash flows. If it is determined using best estimate assumptions that a shortfall exists, it is immediately recognised in the statement of comprehensive income.

(r) Policy liabilities

Policy liabilities for life insurance contracts in the statement of financial position and the increase/(decrease) in policy liabilities for life insurance contracts in the statement of comprehensive income have been calculated using the Margin on Services methodology outlined in Note 2(a).

1 Summary of significant accounting policies (continued)

(s) Policy acquisition costs

The fixed and variable costs of acquiring new life insurance contract business are deferred to the extent that such costs are deemed recoverable from future premiums or policy charges (as appropriate for each policy class). These costs include commission, policy issue and underwriting costs, agency expenses, certain specific advertising costs, and other sales costs. Acquisition costs deferred are limited to the lesser of the actual costs incurred and the allowance for the recovery of such costs in the premium or policy charges.

The actual acquisition costs incurred are recorded in the statement of comprehensive income. The value and future recovery of these costs is assessed in determining the policy liabilities. This has the effect that acquisition costs deferred are amortised over the period that they will be recovered from premiums or policy charges.

(t) Issued capital

Ordinary share capital is recognised at fair value of consideration received by the Company. Ordinary shareholders have the right to receive the dividends as declared and, in the event of winding up of the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at the meeting of the Company.

(u) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2010, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Company, except for AASB 9 Financial Instruments, which becomes mandatory for the Company's 2013 financial statements and could change the classification and measurement of financial assets. The Company does not plan to adopt this standard early and the extent of the impact has not been determined.

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 where critical accounting estimates are applied are noted below.

(a) Life insurance contract liabilities

The financial reporting methodology used to determine the fair value of life insurance contract liabilities is referred to as Margin on Services (MoS).

Under MoS the excess of premium received over claims and expenses ('the margin') is recognised over the life of the contract in a manner that reflects the pattern of risk accepted from the policyholder ('the service'), hence the term Margin on Services. The movement in life insurance contract liabilities recognised in the statement of comprehensive income reflects the planned release of this margin.

The life insurance contract liabilities have been determined using the accumulation method. A summary of the significant actuarial methods and assumptions used is contained in Note 3.

(b) Assets arising from reinsurance contracts

Assets arising from reinsurance contracts are also computed using the above methods. In addition, the recoverability of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as counterparty and credit risk. Impairment is recognised when there is objective evidence that the Company may not receive amounts due to it and these amounts can be reliably measured.

3 Summary of actuarial assumptions and methods

The effective date of the actuarial report on policy liabilities and solvency requirements is 31 December 2010. The actuarial report was prepared by Mr Stuart Gordon Turner, BEc, FIAA. The actuarial report indicates that Mr Turner is satisfied as to the accuracy of the data upon which policy liabilities have been determined.

The amount of policy liabilities has been determined in accordance with methods and assumptions disclosed in these financial statements and the requirements of the relevant accounting standards (which may differ from the requirements of the Life Insurance Act).

Policy liabilities for life insurance contracts have been calculated in accordance with Prudential Standard LPS 1.04 'Valuation of Policy Liabilities' issued by APRA under subsection 230A(1) of the Life Insurance Act. The Prudential Standard requires the policy liabilities are calculated in a way which allows for the systematic release of planned margins as services are provided to policy owners.

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

Product groups	Method (projection or other)	Profit carriers
Lump sum risk	Accumulation (2009: Accumulation)	Claims (implied)
Disability and involuntary unemployment income	Accumulation (2009: Accumulation)	Claims (implied)

Policy liabilities have been calculated as the provision for unearned premium, less a deferred acquisition cost item. The recognition rate of premium has been chosen to approximate the planned margin release that would be achieved through use of the projection method.

Disclosure of assumptions

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

(i) Discount rates

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

Australia	
90 days	5.02% (2009: 4.21%)
5 years	5.37% (2009: 5.25%)
New Zealand	
90 days	3.18% (2009: 2.78%)
5 years	4.76% (2009: 5.41%)

(ii) Inflation rates

Allowance for future inflation of 2.5% pa for Australia and New Zealand is assumed (2009: 2.5% pa).

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

(iii) Future expenses and indexation

Maintenance expense assumptions have been based on the experience in the current year and budgeted expenses for the year 2011. Inflation adjustments are consistent with the inflation assumption.

(iv) Mortality and morbidity

Mortality rates for risk products have been based on experience over recent years. A loss ratio approach (applied to earned premium) was adopted. The loss ratio used has not varied significantly from 2009.

3 Summary of actuarial assumptions and methods (continued)

(v) Disability and involuntary unemployment

The general approach to actuarial estimation of disability and involuntary unemployment liabilities (in the New Zealand statutory fund) is to analyse all available past experience. This analysis allows patterns to be identified in the past experience. Based on this, development patterns associated with the run-off of outstanding claims at the balance date can be estimated. The estimate of the outstanding claims includes an allowance for Claims Incurred but Not Reported (IBNR) and the further development of reported claims, a risk margin and claims handling expense provision. Actuarial methods such as Payment Per Claim Incurred (PPCI) and Payment Per Claim Open (PPCO) are adopted to estimate the outstanding claims.

The key actuarial assumptions for the determination of the outstanding claims liabilities are claim termination rate, average claim size (Disability = NZ$2,373, Unemployment = NZ$659), a claims handling expense rate of 16% of the projected gross claim payments (based on expense investigation) and a discount rate of 3.75% (based on the yields of 1 year and 2 year New Zealand Government bonds as at 31 December 2010). Across all classes, changes to the claim termination and average claim size assumptions would cause the most significant change to the liability estimate.

(vi) Voluntary discontinuance

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

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

Consumer credit insurances	49% p.a. (2009: 54% p.a.)
Single premium term life insurances	<1% p.a. (2009: <1% p.a.)
Regular premium term life insurances	15% p.a. (2009: 18% p.a.)

(vii) Solvency requirements

Solvency Reserves are amounts required to meet the prudential standards specified by the Life Insurance Act 1995 to provide protection to policy owners against the impact of fluctuations in unexpected adverse experience of the Company's business. The methods and bases used in determining the Solvency requirements were in accordance with the requirements of the Prudential Standard LPS 2.04 'Solvency Standard' as issued by APRA.

Impact of changes in assumptions

The policy liabilities for insurance contracts have been calculated using the accumulation method. Under this method, changes in assumptions do not have any impact on policy liabilities in the current period, unless a product enters loss recognition. As at 31 December 2010, the assumption changes have not resulted in any of the related product groups entering loss recognition, and hence the policy liability has not been impacted by changes in assumptions.

The value of future profit margins is not explicitly calculated under the accumulation method and hence the impact of any change in assumptions on the value of future profit margins is not determined.

Sensitivity analysis

Movements in key variables such as mortality experience, lapse rates and expenses will have an impact on the future cash flows, performance and net assets of the business.

As the accumulation method is used to determine policy liabilities for insurance contracts, changes in the assumptions around these key variables do not have any impact on the policy liability or retained profits at the current balance date, unless a product group enters loss recognition. An alternate approach to demonstrating the sensitivity to changes in variables is to consider the impact on profit and equity at the current balance date if the experience over the current financial period varied under certain scenarios. The table below considers a number of changes in variables, and shows the impact on the profit and equity if that change had been experienced during the financial reporting period.

3 Summary of actuarial assumptions and methods (continued)

	Impact on Profit before tax		Impact on Equity	
	Gross of reinsurance $'000	Net of reinsurance $'000	Gross of reinsurance $'000	Net of reinsurance $'000
2010				
Result of change in variables:				
Mortality/morbidity- Worsening by 5%	(166)	(135)	(166)	(135)
Mortality/morbidity- Improving by 5%	166	135	166	135
Lapse rate- Worsening by 5%	(120)	(120)	(120)	(120)
Lapse rate- Improving by 5%	120	120	120	120
Expenses- Worsening by 5%	(318)	(318)	(318)	(318)
Expenses- Improving by 5%	318	318	318	318
2009				
Result of change in variables:				
Mortality/morbidity- Worsening by 5%	(168)	(144)	(168)	(144)
Mortality/morbidity- Improving by 5%	168	144	168	144
Lapse rate- Worsening by 5%	(87)	(87)	(87)	(87)
Lapse rate- Improving by 5%	87	87	87	87
Expenses- Worsening by 5%	(288)	(288)	(288)	(288)
Expenses- Improving by 5%	288	288	288	288

4 Financial risks - risk management

The financial condition and operating results of the Company are affected by a number of key financial and non-financial risks. Financial risks include interest rate risk, currency risk, credit risk, market risk and liquidity risk. The non-financial risks are insurance risk, compliance risk and operational risk. The Company's objectives and policies in respect of managing these risks are set out in the remainder of this section.

Capital management

The Company's capital management strategy uses both internal and external measures of capital.

The Company adopted a target surplus policy to assist the Board and management to manage its capital position, which is reviewed on an annual basis. The target surplus level has been set with reference to a range of risks and adverse scenarios faced by the Company. Hallmark Life Insurance Company Ltd 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, externally imposed capital requirements for the Company are set and regulated by the Australian Prudential Regulation Authority (APRA). These requirements are put in place to ensure sufficient solvency margins within the life company statutory funds.

The amount of capital allocated to the Company's business activity is based primarily upon the regulatory capital requirements and approved target surplus policy. In order to minimise the risk of breaching the regulatory capital requirements, the level of capital held by the Company is regularly monitored.

The Company manages its capital requirements by assessing economic conditions and risk characteristics of the Company's business activities on a regular basis to ensure that the above regulatory requirements and business objectives are met. The capital structure is maintained or adjusted by the amount of dividends paid or capital repatriations/(injections) to/(by) its parent company GE Personal Finance Pty Ltd.

For detailed information on the solvency requirements of the life statutory funds, refer note 22(c).

Financial risk

(1) Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty fails to meet its contractual obligations arising principally from investment in financial instruments, receivables from related parties and other parties and future claims on the reinsurance contracts.

4 Financial risks - risk management (continued)

The following policies and procedures are in place to mitigate the Company's exposure to credit risk:

a. *Financial assets*

The Company's Investment Mandate sets out the the investment management guidelines. The Investment Committee and the Investment Manager conducts a monthly review of the investment holdings, compliance is monitored and exposures and breaches reported to the Board on a monthly basis. The Mandate is reviewed regularly for pertinence and for changes in the risk environment.

The investment management guidelines set out general restrictions and specific restrictions on fixed interest, equities, property and derivatives. The Company limits its exposure to credit risk by only investing with counterparties that have a credit rating of at least A1/A or better from Standard & Poor's ("S&P"). The Company further sets its exposure to credit risk by setting exposure limits to individual issuers, exposure limitations to Australian fixed income securities and maximum limits in Australian equities. There is no significant concentration of credit risk given these high credit ratings and management does not expect any counterparty to fail to meet its obligations.

b. *Trade and other receivables*

The credit risk exposure of the Company is non-repayment of receivables and the amounts are indicated by the carrying amounts of the financial assets. Commission paid to related parties and other parties is netted off against amounts receivable from them to reduce the risk of doubtful debts. There is no significant concentration of credit risk as the company transacts largely with related parties (refer to note 31) and is not materially exposed to any external individual debtors.

c. *Reinsurance assets*

Reinsurance is placed with counterparties that have a strong credit rating of at least A and concentration of risk is avoided by following policy guidelines in respect of counterparties' limit that are set by the Board and are subject to regular reviews. At each reporting date, the management performs an assessment of creditworthiness of reinsurers and updates the Reinsurance Management Strategy.

For the company's main term life product lines in NZ, two reinsurance treaties provide surplus reinsurance cover. The Company considers this to be a relatively conservative retention level considering the level of sums insured written and the capital position of the Company. No reinsurance is in place for the Company's Consumer Credit Insurance products.

The table below shows the maximum exposure to credit risk for the components of the statement of financial position and items such as future commitments by classifying assets according to the Company's credit ratings of counterparties.

	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
2010						
Financial assets						
Cash	12,191	-	-	12,191	-	12,191
Receivables	-	4,623	-	4,623	-	4,623
Financial assets at fair value through profit or loss						
Short term deposits	183,711	-	-	183,711	-	183,711
Debt securities	779	-	-	779	-	779
Fixed interest security	44,119	-	-	44,119	-	44,119
Investment in controlled entity	-	93,388	-	93,388	-	93,388
Reinsurance and other recoveries receivable	-	698	-	698	-	698
Gross policy liability ceded under reinsurance	-	183	-	183	-	183
Total credit risk exposure	240,800	98,892	-	339,692	-	339,692

4 Financial risks - 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
2009						
Financial assets						
Cash	8,105	-	-	8,105	-	8,105
Receivables	-	4,686	-	4,686	-	4,686
Financial assets at fair value through profit or loss						
Short term deposits	160,964	-	-	160,964	-	160,964
Debt securities	819	-	-	819	-	819
Fixed interest security	51,793	-	-	51,793	-	51,793
Investment in controlled entity	-	87,682	-	87,682	-	87,682
Reinsurance and other recoveries receivable	-	302	-	302	-	302
Gross policy liability ceded under reinsurance	-	214	-	214	-	214
Total credit risk exposure	221,681	92,884	-	314,565	-	314,565

The table below provides information regarding the credit risk exposures of the Company by classifying assets according to Standard and Poor's credit ratings of the counterparties. AAA is the highest possible rating.

	AAA $'000	AA $'000	A $'000	BBB $'000	Not rated $'000	Total $'000
2010						
Financial assets						
Cash	-	-	12,191	-	-	12,191
Receivables*	-	-	-	-	4,623	4,623
Financial assets at fair value through profit or loss						
Short term deposits	-	-	183,711	-	-	183,711
Debt securities	779	-	-	-	-	779
Fixed interest security	-	44,119	-	-	-	44,119
Investment in controlled entity*	-	-	-	-	93,388	93,388
Reinsurance and other recoveries receivable	-	-	698	-	-	698
Gross policy liability ceded under reinsurance	-	183	-	-	-	183
Total credit risk exposure	779	44,302	196,600	-	98,011	339,692
2009						
Financial assets						
Cash	-	-	8,105	-	-	8,105
Receivables*	-	-	-	-	4,686	4,686
Financial assets at fair value through profit or loss						
Short term deposits	-	-	160,964	-	-	160,964
Debt securities	819	-	-	-	-	819
Fixed interest security	-	44,833	6,960	-	-	51,793
Investment in controlled entity*	-	-	-	-	87,682	87,682
Reinsurance and other recoveries receivable	-	-	302	-	-	302
Gross policy liability ceded under reinsurance	-	214	-	-	-	214
Total credit risk exposure	819	45,047	176,331	-	92,368	314,565

* The receivables and investment in controlled entity are largely with related parties, refer to Note 29 (b).
The total credit risk exposure of the Company has been classified as 0 to 90 days past due but not impaired.

4 Financial risks - risk management (continued)

(2) 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 approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company's liquidity is monitored through the production of statement of cash flows to the Board. Periodic review of the Company's total investments by duration are compared with aged liabilities to ensure sufficient liquidity is maintained.

Maturity profiles

The table below summarises the maturity profile of the financial liabilities of the Company based on remaining undiscounted contractual obligations, except for insurance liabilities, when maturity profiles are determined on the discounted estimated timing of net cash outflows.

	Up to a year $'000	1-2 years $'000	2-5 years $'000	Over 5 years $'000	No term $'000	Total $'000
2010						
Creditors and borrowings	7,265	-	133	-	-	7,398
Policy claims in process of settlement	4,811	231	68	-	-	5,110
Gross policy liabilities	18,910	7,823	6,028	-	-	32,761
Net principal liabilities	**30,986**	**8,054**	**6,229**	**-**	**-**	**45,269**
2009						
Creditors and borrowings	9,547	-	123	-	-	9,670
Policy claims in process of settlement	5,172	215	53	-	-	5,440
Gross policy liabilities	17,274	6,769	4,539	-	-	28,582
Net principal liabilities	**31,993**	**6,984**	**4,715**	**-**	**-**	**43,692**

The Company's financial assets and liabilities are carried in the statement of financial position at amounts that approximate fair value. The carrying amounts of all financial assets and liabilities are reviewed to ensure they are not in excess of the net fair value.

(3) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Currency risk

The Company operates in Australia and New Zealand. Assets are maintained in each of these locations in the local currency to match the expected policy liabilities. Hence the Company's currency risk is not considered to be of a material nature.

Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

4 Financial risks - risk management (continued)

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit before tax. The correlation of variables will have a significant effect in determining the ultimate impact on interest rate risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis.

	Change in variables	Impact on profit before tax	Impact on Equity				Total
			Up to a year	1-2 years	2-5 years	Over 5 years	
	%	$'000	$'000	$'000	$'000	$'000	$'000
2010							
Financial assets							
Short term deposits	-1 %	(1,837)	(1,286)	-	-	-	(1,286)
Debt securities	-1 %	(8)	(6)	-	-	-	(6)
Fixed interest securities	-1 %	(324)	(273)	(51)	-	-	(324)
		(2,169)	(1,565)	(51)	-	-	(1,616)
2009							
Financial assets							
Short term deposits	-1 %	(1,610)	(1,127)	-	-	-	(1,127)
Debt securities	-1 %	(8)	(6)	-	-	-	(6)
Fixed interest securities	-1 %	(518)	(363)	-	-	-	(363)
		(2,136)	(1,496)	-	-	-	(1,496)

Price risk

Equity price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

As a result of changes in market prices, the Company recognised unrealised losses of $650,000 (2009: $2,930,000 unrealised gain) for the reporting period.

The Company's risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments and maximum limits on Australian equities.

	Change in variables	Impact on profit before tax	Impact on Equity				Total
			Up to a year	1-2 years	2-5 years	Over 5 years	
	%	$'000	$'000	$'000	$'000	$'000	$'000
2010							
Financial assets							
Equity securities	-1 %	(84)	(59)	-	-	-	(59)
2009							
Financial assets							
Equity securities	-1 %	(100)	(70)	-	-	-	(70)

4 Financial risks - risk management (continued)

(4) Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- 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)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
2010				
Financial assets at fair value through profit or loss	8,407	228,609	-	237,016
2009				
Financial assets at fair value through profit or loss	9,962	213,576	-	223,538

Risk management policies and procedures

(a) Risk management objectives and policies for mitigating insurance risk

The Company's objective is to satisfactorily manage these risks in line with the Life Company's Risk Management Strategy (in accordance with LPS 220 'Risk Management'), which is approved by the Board. Various procedures are put in place to control and mitigate the risks faced by the Company depending on the nature of the risk.

Financial risks are generally monitored and controlled by selecting appropriate assets to back policy liabilities. The assets are regularly monitored by management to ensure that there is no material asset and liability mismatching issues and other risks such as liquidity risk and credit risk are maintained within acceptable limits.

Insurance risks are controlled through the use of underwriting procedures, adequate premium rates and policy charges and sufficient reinsurance arrangements, all of which are approved by the appointed actuary. Tight controls are also maintained over claims management practices to ensure the correct and timely payment of insurance claims.

Compliance risk and operational risk are both monitored by internal committees which report regularly to the Board Audit Risk Compliance Committee.

(b) Strategy for managing insurance risk

Portfolio of risks

The Company issues term life insurance, trauma and consumer credit contracts. The performance of the Company and its continuing ability to write business depends on its ability to pre-empt and control risks. The Company has a risk strategy which has been approved by the Board. It summarises the Company's approach to risk and risk management.

Risk strategy

In compliance with contractual and regulatory requirements, a strategy is in place to ensure that the risks underwritten satisfy policyholders' risk and reward objectives whilst not adversely affecting the Company's ability to pay benefits and claims when due. The strategy involves the identification of risks by type, impact and likelihood, the implementation of processes and controls to mitigate the risks, and continuous monitoring and improvement of the procedures in place to minimise the chance of an adverse compliance or operational risk event occurring. Included in this strategy is the process for underwriting and product pricing to ensure products are appropriately priced. Capital management is also a key aspect of the Company's risk management strategy. Capital requirements are measured using a risk based capital model and all of the various regulatory reporting requirements to which the Company is subject.

4 Financial risks - risk management (continued)

Allocation of capital

Capital is allocated by the Company to the portfolios of contracts or is held in a central reserve based on management's assessment of the risks to which each line of business is exposed and its view of the profitability of the products that are sold.

Solvency margin requirements established by the Australian Prudential Regulation Authority (APRA) are in place to reinforce safeguards for policyholders' interests, which are primarily the ability to meet future claims payments to policyholders. The solvency margins measure the excess of the value of the insurers' assets over the value of its liabilities, each element being determined in accordance with the applicable valuation rules. This margin must be maintained throughout the year, not just at year end. These solvency requirements also take into account specific risks faced by the Company. Where the outcome of specific adverse scenarios differs from expectations, this has also been identified.

(c) Methods to monitor and assess insurance risk exposures

Exposure to risk

In an effort to protect and enhance shareholder value, the Company actively manages its exposure to risks so that it can react in a timely manner to changes in financial markets, insurance cycles, and economic and political environments. Risk exposures are managed using various analysis and valuation techniques, such as asset-liability matching analysis, duration analysis and financial modelling, to calculate the economic capital required to support adverse risk scenarios, along with other cash flow analyses, and prudent and diversified underwriting and investing.

Statutory Capital Adequacy requirements

The Company's insurance operations are subject to regulatory capital requirements which prescribe the amount of capital to be held depending on the type, quality and concentration of investments held.

Management reporting

The Company reports monthly financial and operational results, claims frequency and severity, and exposure for each portfolio of contracts (gross and net of reinsurance) to management.

(d) Methods to limit or transfer insurance risk exposures

Reinsurance

All reinsurance treaties are analysed using a number of analytical modelling tools to assess the impact on the Company's exposure to risk and to ensure the achievement of the optimal choice of type of reinsurance and retention levels. These tools produce financial projections based on a number of possible scenarios providing a detailed analysis of the potential exposures.

Underwriting procedures

Strategic underwriting decisions are put into effect using the underwriting procedures detailed in the underwriting risk management policy. Such procedures include limits to delegated authorities and signing powers. A monitoring program is being implemented to ensure that the system controls are effective.

Claims management

Strict claims management procedures ensure the timely and correct payment of claims in accordance with policy conditions, and claims are monitored through a monthly monitoring program. Claims financial performance are monitored on a quarterly basis to track the experience of the portfolio.

Asset and liability management techniques

Assets are allocated to different classes of business using a risk-based approach. Sensitivity analyses simulate the impact of certain market fluctuations scenarios on future cash flows, fair values or forecasted earnings.

Management of market risk is generally less critical for short-term insurance products, as the amounts and timing of claims do not vary significantly with interest rates or other market changes that affect the underlying investments. The premiums received and the investment returns (net investment income and realised gains and losses) provide substantial liquidity to meet claims payments and associated expenses as they arise. Consequently, there is greater flexibility in investment strategies while managing investments to ensure sufficient liquidity to meet the claims as they become due, based on actuarial assessments.

4 Financial risks - risk management (continued)

(e) Concentration of insurance risk

Insurance risks associated with human life events

The Company has a stable age profile and mix of the sexes within its portfolio of policyholders. This policy maintains a balance between the current and future profitability of the life business, a stable base of assets under management and exposure to the significant external events such as those described above.

Despite the inevitable growth in policyholders at the age of retirement, the age profile and mix of sexes within the population of policyholders is sufficiently spread so that the group risk concentration in relation to any particular age group is minimal.

Interest rate risk

The insurance or reinsurance contracts contain no clauses that expose the Company, directly to interest rate risk.

Credit risk

The Company is exposed to credit risk on insurance contracts as a result of exposure to individual cedants or reinsurers. The Company does not have any material exposure to an individual cedant which would materially impact the operating profit. The credit risk to reinsurers is managed through the Company having a pre-determined policy on the appropriate rating, a reinsurer must have to participate in the Company's reinsurance programme.

(f) Terms and conditions of insurance contracts

The business written consists mainly of consumer credit life insurances and term life insurances. The term insurance policies cover mainly death, but in some cases terminal illness. The return to shareholders arises from the total premiums charged to policyholders less the amounts paid to cover claims and the expenses incurred in administering this function. Guaranteed benefits are paid on death or terminal illness. Benefits are determined by the contract and are not directly affected by the performance of underlying assets. Key variables affecting the timing and uncertainty of future cash flows are mortality, interest rates, discontinuance rates and expenses.

The majority of CCI life and term life 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.

5 Insurance premium revenue

	2010 $'000	2009 $'000
Direct life insurance premiums - single	35,281	29,000
Direct life insurance premiums - regular	10,838	12,016
Non life insurance premiums	2,488	2,444
Other premium revenue	2,865	-
	51,472	43,460

Other premium revenue of $2,865,000 (2009: $NIL) represents one off amounts received (from GE Personal Finance Pty Ltd $1,300,000 and GE Finance and Insurance Pty Ltd $1,565,000) in relation to amounts previously incorrectly refunded under an internal arrangement.

6 Investment Income

	2010 $'000	2009 $'000
Financial assets at fair value through profit or loss		
Interest income	11,184	5,825
Realised net losses	(322)	(630)
Unrealised net (losses)/gains	(650)	2,930
Dividend income	387	73,372
	10,599	81,497

7 Claims expenses

	2010 $'000	2009 $'000
Death and disability	4,848	4,202
Unemployment	(12)	511
Terminations of policies	18,560	17,406
	23,396	22,119

8 Administration expenses

	2010 $'000	2009 $'000
Policy maintenance - others	8,277	6,742
Investment management expenses	418	238
Foreign exchange (gains)/losses	(3)	4
Policy acquisition cost - others	1,372	1,499
Policy acquisition cost - commission	5,211	4,398
	15,275	12,881

9 Income tax expense

	2010 $'000	2009 $'000
(a) Income tax expense		
Current income tax expense	**5,545**	3,800
Deferred income tax (benefit)/expense	**(532)**	714
Tax effect on foreign exchange translation	**-**	45
(Over)/under provided in prior years	**(56)**	137
	4,957	4,696
Deferred income tax (benefit)/expense included in income tax expense comprises:		
(Increase)/decrease in deferred tax assets (note 17)	**(461)**	1,063
Increase/(decrease) in deferred tax liabilities (note 23)	**(71)**	(349)
	(532)	714

	2010 $'000	2009 $'000
(b) Reconciliation of income tax expense to prima facie tax payable		
Profit from continuing operations before income tax expense	**18,815**	90,715
Tax at the Australian tax rate of 30% (2009: 30%) and tax at the New Zealand tax rate of 30% (2009: 30%)	**5,645**	27,215
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Tax offset for franked dividends	**(99)**	43
Adjustment for Hallmark NZ-Policyholder Base	**(505)**	(823)
Non-taxable dividends received	**-**	(21,898)
Tax effect on foreign exchange difference on translation	**(28)**	45
Sundry items	**-**	(23)
	5,013	4,559
(Over)/under provision in prior years	**(56)**	137
Income tax expense	**4,957**	4,696

10 Operating profit

	2010 $'000	2009 $'000
Profit before income tax includes the following specific expenses:		
Amortisation		
Intangibles	**397**	555
Employee costs		
Personnel costs	**350**	242

11 Statement of sources of operating profit

	2010 $'000	2009 $'000
The shareholders' operating profit after income tax of the statutory funds is represented by:		
Investment earnings on shareholders' retained and capital	1,510	1,956
Emergence of shareholders' planned profits	7,797	6,409
Experience (loss)/profit	(161)	1,891
	9,146	10,256

12 Cash

	2010 $'000	2009 $'000
Cash at bank	12,191	8,105

(a) Reconciliation to cash and cash equivalents 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:

	2010 $'000	2009 $'000
Cash at bank	12,191	8,105
Short term deposits (note 14)	183,711	160,964
Balances per statement of cash flows	195,902	169,069

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

13 Receivables

	2010 $'000	2009 $'000
Trade debtors	2,558	3,303
Investment income accrued and receivable	1,905	1,329
Other receivables	160	54
	4,623	4,686
Receivables - current	4,623	4,686
Receivables - non current	-	-
	4,623	4,686

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

These balances include amounts receivable from related parties (note 29).

14 Financial assets at fair value through profit or loss

	2010 $'000	2009 $'000
Equity securities-Listed	8,407	9,962
Debt security-Foreign national government	779	819
Fixed interest securities	44,119	51,793
Short term deposits-Listed	183,711	160,964
	237,016	223,538
Financial assets at fair value through profit or loss - current	231,911	178,706
Financial assets at fair value through profit or loss - non current	5,105	44,832
	237,016	223,538

15 Reinsurance and other recoveries receivable

	2010 $'000	2009 $'000
Reinsurance and other recoveries receivable	698	302
Expected future reinsurance recoveries undiscounted		
- on outstanding claims	698	302
Total reinsurance and other recoveries receivable	698	302
Reinsurance and other recoveries receivable - current	698	302
Reinsurance and other recoveries receivable - non current	-	-
	698	302

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

16 Intangible assets

	Software development costs $'000
At 1 January 2009	
Cost	2,753
Accumulated amortisation	(1,795)
Net book amount	958
Year ended 31 December 2009	
Opening net book amount	958
Amortisation charge	(555)
Closing net book amount	403
At 31 December 2009	
Cost	2,753
Accumulated amortisation	(2,350)
Net book amount	403
Year ended 31 December 2010	
Opening net book amount	403
Amortisation charge	(397)
Closing net book amount	6
At 31 December 2010	
Cost	2,753
Accumulated amortisation	(2,747)
Net book amount	6

17 Deferred tax assets

	2010 $'000	2009 $'000
The balance comprises temporary differences attributable to:		
Operating accruals	**167**	102
Outstanding claims	**-**	99
Unrealised net losses on financial assets	**1,038**	875
Other	**332**	-
Deferred tax assets	**1,537**	1,076
Movements:		
Balance at 1 January	**1,076**	2,004
Credited/(charged) to the profit or loss (note 9)	**461**	(1,063)
Transferred (to)/from deferred tax liabilities (note 23)	**-**	188
Over provision in prior years	**-**	(53)
Balance at 31 December	**1,537**	1,076

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

18 Investment in controlled entity

	2010 $'000	2009 $'000
Investment in controlled entity at deemed cost (Hallmark General Insurance Company Ltd) (note 19)	**93,388**	87,682

Hallmark General Insurance Company Ltd (the Subsidiary), an Australian incorporated company is a 99.99% owned subsidiary of the Company.

Investment in the controlled entity is carried at deemed cost adjusted for income tax liability transferred to head entity under a tax funding agreement of $5,706,000 (2009: $3,242,000).

19 Particulars in relation to controlled entity

Name of entity	Country of incorporation	Class of shares	Equity holding 2010 %	Equity holding 2009 %
Hallmark General Insurance Company Ltd	Australia	Ordinary	**100**	100

20 Creditors and borrowings

	2010 $'000	2009 $'000
Trade creditors	884	1,049
Other creditors	6,264	8,678
Current tax liabilities/(benefits)	250	(57)
	7,398	9,670
Creditors and borrowings- current	7,265	9,547
Creditors and borrowings- non current	133	123
	7,398	9,670

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

These balances include amounts payable to related parties (note 29).

21 Policy claims in the process of settlement

	2010 $'000	2009 $'000
Undiscounted expected future claims payments	5,140	5,474
Discount to present value	(30)	(34)
Total outstanding claims	5,110	5,440
Policy claims in the process of settlement- current	4,811	5,172
Policy claims in the process of settlement- non current	299	268
	5,110	5,440

22 Gross policy liabilities

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

	2010 $'000	2009 $'000
Life insurance contract liabilities		
Balance at 1 January	28,582	30,143
Foreign exchange movement	(542)	(550)
Increase/(decrease) in life insurance contract liabilities reflected in the profit or loss	4,721	(1,011)
Balance at 31 December	32,761	28,582
Reinsurers' share of life insurance contract liabilities		
Balance at 1 January	214	288
Foreign exchange movement	2	(1)
Decrease in reinsurance assets reflected in the profit or loss	(31)	(73)
Balance at 31 December	183	214
Net policy liabilities at 31 December	32,578	28,368
Net insurance contract liabilities-current	18,733	17,091
Net insurance contract liabilities-non current	13,845	11,277
	32,578	28,368

22 Gross policy liabilities (continued)

(b) Components of net life insurance contract liabilities

	2010 $'000	2009 $'000
Best estimate liability:		
Future policy benefits (Note (2) below)	**37,705**	33,436
Unrecouped acquisition expenses	**(5,127)**	(5,068)
Total best estimate liability	**32,578**	28,368
Value of future shareholder profit margins (Note 1 below)	**-**	-
Net policy liabilities	**32,578**	28,368

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

(2) This item includes the unearned premium component of the liability. The accumulation method has been used to calculate liabilities, and components relating to expenses and profits are not separately calculated.

(c) Solvency requirements of the life statutory funds

	STATUTORY FUNDS					
	No. 1		**No. 2**		**Total**	
	2010 $'000	2009 $'000	**2010 $'000**	2009 $'000	**2010 $'000**	2009 $'000
Solvency Requirement (a)	**36,203**	34,105	**9,850**	11,863	**46,053**	45,968
Representing:						
Minimum termination value (MTV)	**25,612**	20,075	**6,565**	8,275	**32,177**	28,350
Other liabilities	**9,453**	12,759	**2,472**	2,825	**11,925**	15,584
Solvency reserve (b)	**1,138**	1,271	**813**	763	**1,951**	2,034
	36,203	34,105	**9,850**	11,863	**46,053**	45,968
Assets available for solvency (c)	**31,988**	24,328	**20,979**	17,832	**52,967**	42,160
Comprises as :						
Excess of policy liability over MTV	**(508)**	(839)	**909**	858	**401**	19
Capital and retained earnings required for solvency	**1,646**	2,109	**(96)**	(95)	**1,550**	2,014
Excess assets	**30,850**	23,058	**20,166**	17,069	**51,016**	40,127
	31,988	24,328	**20,979**	17,832	**52,967**	42,160
Solvency reserve (%) [b/(a-b) * 100]	**3.20**	3.90	**9.00**	6.90	**4.30**	4.60
Coverage of Solvency Reserve (c/b)	**28.11**	19.16	**25.80**	23.36	**27.15**	20.73

22 Gross policy liabilities (continued)

(d) Reconciliation to Life Insurance Act 1995 operating profit and retained earnings of statutory funds

Allocation of operating profit

There are no participating policy owners, therefore all emerging profits are allocated to shareholders.

Distribution of retained earnings

Profits available for distribution are determined by the Directors each year and are in accordance with Division 6 of the Life Insurance Act 1995 and the Constitution of the Company.

	Retained profits		Profit after Tax	
	2010 $'000	2009 $'000	**2010 $'000**	2009 $'000
Shareholders interest (overseas and non-participating businesses)	**40,617**	73,405	**9,146**	10,256

23 Deferred tax liabilities

	2010 $'000	2009 $'000
The balance comprises temporary differences attributable to:		
Interest receivable	**541**	367
Deferred commission	**420**	700
Other	**206**	102
	1,167	1,169
Movements:		
Balance at 1 January	**1,169**	1,399
Charged/(credited) to the profit or loss (note 9)	**(71)**	(349)
Under/(over) provision in prior years	**69**	(69)
Transferred (from)/ to deferred tax assets (note 17)	**-**	188
Balance at 31 December	**1,167**	1,169

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

24 Issued capital

	2010 $'000	2009 $'000
(a) Share capital		
251 shares (2009: 251)		
Paid up ordinary shares	**100**	100
48,000 shares (2009: 48,000)		
Non-cumulative redeemable preference shares	**10,000**	10,000
	10,100	10,100

24 Issued capital (continued)

(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.

(c) Non cumulative redeemable preference shares

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

25 Reserves

	2010 $'000	2009 $'000
Foreign currency translation reserve	**(4,416)**	(3,324)
Tax consolidation reserve	**64,961**	55,666
Total	**60,545**	52,342

Movements:

	2010 $'000	2009 $'000
Foreign currency translation reserve		
Balance at 1 January	**(3,324)**	(2,063)
Exchange differences on translation of foreign operations	**(1,092)**	(1,261)
Balance 31 December	**(4,416)**	(3,324)
Tax consolidation reserve		
Balance at 1 January	**55,666**	52,481
Current tax liability transferred to Head Entity	**9,295**	3,185
Balance 31 December	**64,961**	55,666

26 Dividends

	2010 $'000	2009 $'000
No dividend was paid for the year ended 31 December 2010 (2009: $NIL per fully paid share).	**-**	-

On 1 July 2003, the consolidated entity and GE Capital Finance Australasia Pty Ltd adopted the Tax Consolidation legislation, which requires a tax-consolidated group to keep a single franking account. When the consolidated entity joined the tax-consolidated group, the franking surplus of the consolidated entity was cancelled. Any franking credit or debit entries which may arise to the consolidated entity post consolidation will be made in the franking account of GE Capital Finance Australasia Pty Ltd.

27 Key management personnel disclosures

(a) Directors

The following persons were Directors of Hallmark Life Insurance Company Ltd at any time during the reporting period:

(i) Directors

Raymond Bruce Willing

Lisa Ellen Davis

Pieter Lindhout

Philip Stuart Douglas Purcell

Neil William Smart

(ii) Other executives

Sally Denby

Rosalyn Exley

Brett Hawgood

Rebecca Henderson

Scott Miller

Andrew Preston

Martha Ryan

Paul Varro

Julie Winkler

Transactions with key management personnel

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.

	2010 $	2009 $
The key management personnel compensation is:		
Short-term employee benefits	**2,533,178**	1,252,576
Superannuation benefits	**171,355**	80,196
Equity compensation benefits	**102,229**	81,140
	2,806,762	1,413,912

There are no other transactions with key management personnel.

28 Remuneration of auditors

	2010 $	2009 $
Audit services		
KPMG		
Audit and review of financial reports	**72,435**	72,435
Other assurance services		
KPMG		
APRA Return	**43,425**	23,925
AFSL Audit	**5,495**	5,495
NZ Regulatory Reporting	**3,105**	3,105
	52,025	32,525
Total remuneration for audit and other assurance services	**124,460**	104,960

29 Related party transactions

(a) Transactions with related parties- (Income)/Expense

	2010 $	2009 $
Management fees paid to:		
GE Personal Finance Pty Ltd	**344,020**	344,020
Hallmark General Insurance Company Ltd	**3,170,747**	2,757,738
GE Finance and Insurance Pty Ltd	**57,854**	58,998
GE Capital Finance Australasia Pty Ltd	**3,267,038**	2,025,710
Commission paid to:		
GE Finance Australasia Pty Ltd	**46,595**	40,447
GE Capital Finance Australasia Pty Ltd	**386,173**	318,891
GE Finance and Insurance Pty Ltd	**1,656,760**	1,225,962
GE Personal Finance Pty Ltd	**87,469**	16,781
GE Capital Finance Australia	**2,809,941**	2,621,379
Cost recharges:		
GE Finance and Insurance Pty Ltd	**57,854**	58,998
GE Finance and Insurance Pty Ltd	**400,406**	403,560
GE Capital Finance Australasia Pty Ltd	**153,255**	449,831
Dividends paid to/(received from):		
GE Personal Finance Pty Ltd	**-**	(72,992,700)
Royalty paid:		
GE Capital Registry, Inc.	**266,363**	157,226
Other income relating to to one-off reimbursement:		
GE Finance and Insurance Pty Ltd	**1,564,906**	-
GE Personal Finance Pty Ltd	**1,300,000**	-

29 Related party transactions (continued)

(b) Outstanding balances with related parties - Receivables/(Payables)

	2010 $	2009 $
Accounts Receivable/(Payable):		
GE Finance Australasia Pty Ltd	**(11,946)**	(18,206)
GE Capital Finance Australia	**503,819**	533,442
GE Finance and Insurance Pty Ltd	**591,599**	290,747
GE Personal Finance Pty Ltd	**751,425**	1,440,924
Hallmark General Insurance Company Ltd	**(2,417,001)**	(4,364,771)

No provisions for doubtful debts have been raised in relation to any outstanding balances, and no expense has been recognised in respect of bad or doubtful debts due from related parties.

At 31 December 2010, there are no amounts outstanding owed by the Hallmark Companies 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 the Hallmark Companies during 2010 or prior years.

(c) Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates.

30 Disaggregated information on life insurance business by fund

	Non-Investment linked	Non-Investment linked	Total Non-Investment linked		Total
	Statutory Fund 1	Statutory Fund 2		Shareholder fund	
2010	$'000	$'000	$'000	$'000	$'000
Financial assets	55,287	25,630	**80,917**	156,099	**237,016**
Other assets	11,936	4,397	**16,333**	96,293	**112,626**
Life insurance contract liabilities	(25,276)	(7,485)	**(32,761)**	-	**(32,761)**
Other liabilities	(9,454)	(2,471)	**(11,925)**	(1,750)	**(13,675)**
Retained earnings	(16,130)	(24,487)	**(40,617)**	(191,944)	**(232,561)**
Premium revenue	38,625	12,847	**51,472**	-	**51,472**
Investment revenue	2,755	867	**3,622**	6,977	**10,599**
Claims expense	(18,513)	(4,883)	**(23,396)**	-	**(23,396)**
Movement in policy liabilities	(5,978)	1,226	**(4,752)**	-	**(4,752)**
Other operating expenses	(9,799)	(4,995)	**(14,794)**	(314)	**(15,108)**
Operating profit before tax	7,090	5,062	**12,152**	6,663	**18,815**
Operating profit after tax	4,958	4,188	**9,146**	4,712	**13,858**
2009					
Financial assets	45,970	27,540	**73,510**	150,028	**223,538**
Other assets	11,383	1,414	**12,797**	89,671	**102,468**
Life insurance contract liabilities	(19,426)	(9,156)	**(28,582)**	-	**(28,582)**
Other liabilities	(12,759)	(2,825)	**(15,584)**	(695)	**(16,279)**
Retained earnings	(36,174)	(37,234)	**(73,408)**	(145,295)	**(218,703)**
Premium revenue	31,934	11,526	**43,460**	-	**43,460**
Investment revenue	2,675	1,541	**4,216**	77,281	**81,497**
Claims expense	(15,012)	(7,107)	**(22,119)**	-	**(22,119)**
Movement in policy liabilities	(4,140)	5,078	**938**	-	**938**
Other operating expenses	(8,011)	(4,887)	**(12,898)**	(163)	**(13,061)**
Operating profit before tax	7,445	6,152	**13,597**	77,118	**90,715**
Operating profit after tax	5,203	5,053	**10,256**	75,763	**86,019**

31 Capital requirement - Life Shareholders' Fund

		Shareholders' Fund 2010 $'000	Shareholders' Fund 2009 $'000
Capital Requirement	(A)	94,905	88,628
Being greater of (4)			
Management Capital Reserve			
Determined as:			
Management Capital Requirement (1)		96,655	89,323
Less: Total Liabilities (2)		(1,750)	(695)
	(B)	94,905	88,628
And			
Minimum Capital Requirement (3)		10,000	10,000
Assets Available for Capital Requirement	(C)	250,642	239,004
Management Capital Reserve %	(A/B)x100	100 %	100 %
Coverage of Capital Requirement	(C/A)	2.64	2.70

Explanatory note

1. The minimum level of assets required to be held in the shareholders' fund in accordance with the prescribed requirements of the management capital standard referred to in Part 5 of the Life Insurance Act 1995.
2. Total liabilities of the shareholders' fund exclude all liabilities attributable to the statutory funds and total shareholders' equity.
3. Minimum capital requirement is capital required to be held in the shareholders' fund in accordance with APRA Prudential Standard LPS6.03 under the Life Insurance Act 1995.
4. The greater of relationship between the two capital requirements applies provided the requirements for form of capital in respect of the minimum capital requirement are met.

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

	2010 $'000	2009 $'000
Profit for the year	**13,858**	86,019
Add/(deduct) non-cash items		
Amortisation	**397**	555
Net realised loss on sale of financial assets	**322**	630
Net unrealised loss/(gain) in value of financial assets	**650**	(2,930)
Amortisation of bonds	**(4)**	(4)
Unrealised foreign exchange revaluation (gain)/loss on bonds	**(2)**	33
Effect of foreign exchange on cash and cash equivalents	**1,486**	1,764
Change in operating assets and liabilities		
Decrease/(increase) in receivables	**63**	(1,207)
Increase in reinsurance and other recoveries receivable	**(396)**	-
Decrease in gross policy liabilities ceded under reinsurance	**31**	74
Increase in investment in controlled entity	**(5,706)**	(3,242)
Decrease/(Increase) in creditors and borrowings	**(2,272)**	4,950
(Decrease)/Increase in policy claims in the process of settlement	**(330)**	430
Increase/(Decrease) in policy liabilities	**4,179**	(1,561)
(Increase)/Decrease in net deferred tax assets	**(461)**	928
Increase/(Decrease)in deferred tax liabilities	**(2)**	(230)
Increase in tax consolidation reserve	**9,295**	3,185
Decrease in foreign currency translation reserve	**(1,092)**	(1,261)
Net cash (outflow)/inflow from operating activities	**20,016**	88,133

33 Contingent liabilities

No contingent liabilities existed as at 31 December 2010 (2009: $Nil).

34 Matters subsequent to the end of the financial year

From the end of the financial year to the date of this report there were no 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 2010

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

(a) the financial statements and notes set out on pages 6 to 42 , 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 2010 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:

R B Willing (Chairman)
Director

Pieter Lindhout
Director

Sydney
Date: 24 March 2011

KPMG

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

Report on the financial report

We have audited the accompanying financial report of Hallmark Life Insurance Company Ltd ("the Company"), which comprises the statement of financial position as at 31 December 2010, 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 34 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.

KPMG

Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of Hallmark Life Insurance Company Ltd is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Company's financial position as at 31 December 2010 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

David Kells
Partner

24 March 2011

Hallmark Life Insurance Company Ltd
New Zealand Branch
Financial statements
for the year ended 31 December 2010

Directors' report

The Directors are pleased to present the annual report of Hallmark Life Insurance Company Ltd New Zealand Branch for the year ended 31 December 2010.

For and on behalf of the Board of Directors:

R B Willing
Director

Pieter Lindhout
Director

Sydney
Date: 24 March 2011

Hallmark Life Insurance Company Ltd New Zealand Branch
Financial statements - 31 December 2010

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Hallmark Life Insurance Company Ltd New Zealand Branch
Statement of comprehensive income
For the year ended 31 December 2010
In New Zealand Dollars

	Notes	2010 $'000	2009 $'000
Insurance premium revenue	5	**16,304**	14,319
Outwards reinsurance premiums expense		**(8)**	(9)
Net insurance premium revenue		**16,296**	14,310
Other revenue from ordinary activities		**-**	38
Investment income	6	**1,100**	1,914
Total Revenue		**17,396**	16,262
Claims expenses	7	**(6,194)**	(8,834)
Reinsurance and other recoveries revenue		**(4)**	103
Net insurance claims expense		**(6,198)**	(8,731)
Decrease in gross policy liabilities	14(a)	**1,564**	6,341
Decrease in reinsurers share of policy liabilities	14(a)	**(14)**	(18)
		1,550	6,323
Administration expenses	8	**(6,342)**	(6,205)
Total claims and expenses		**(10,990)**	(8,613)
Profit before income tax expense		**6,406**	7,649
Income tax expense	9	**(1,099)**	(1,359)
Profit for the year after income tax expense		**5,307**	6,290
Other comprehensive income for the year, net of tax		**-**	-
Total comprehensive income for the year		**5,307**	6,290
Total comprehensive income for the year is attributable to:			
Owners of Hallmark Life Insurance Company Ltd New Zealand Branch		**5,307**	6,290
Non-controlling interest		**-**	-
		5,307	6,290

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

Hallmark Life Insurance Company Ltd New Zealand Branch
Statement of financial position
As at 31 December 2010
In New Zealand Dollars

	Notes	2010 $'000	2009 $'000
ASSETS			
Cash	11	**4,577**	1,562
Receivables	12	**1,254**	815
Financial assets at fair value through profit and loss	13	**34,075**	34,633
Gross policy liabilities ceded under reinsurance	14(a)	**15**	29
Deferred tax assets	15	**-**	124
Total assets		**39,921**	37,163
LIABILITIES			
Payables	16	**2,727**	3,390
Gross policy liabilities	14(a)	**9,951**	11,515
Deferred tax liabilities	17	**559**	881
Total liabilities		**13,237**	15,786
Net assets		**26,684**	21,377
EQUITY			
Retained earnings		**26,684**	21,377
Total equity		**26,684**	21,377

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

Hallmark Life Insurance Company Ltd New Zealand Branch
Statement of changes in equity
For the year ended 31 December 2010
In New Zealand Dollars

	Retained earnings $'000	Total equity $'000
Balance at 1 January 2009	36,337	36,337
Total comprehensive income for the year	6,290	6,290
Transactions with owners in their capacity as owners:		
Fund transfer to Shareholder Fund	(21,250)	(21,250)
Balance at 31 December 2009	21,377	21,377
Balance at 1 January 2010	21,377	21,377
Total comprehensive income for the year	5,307	5,307
Transactions with owners in their capacity as owners:		
Fund transfer to Shareholder Fund	-	-
Balance at 31 December 2010	26,684	26,684

	2010 $'000	2009 $'000
Total recognised income and expense for the year is attributable to:		
Owners of Hallmark Life Insurance Company Ltd New Zealand Branch - overseas and non-participating	**26,684**	21,377
Non-controlling interest	**-**	-
	26,684	21,377

As the Branch does not have any participating business, all profits and losses are allocated to the shareholders.

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

Hallmark Life Insurance Company Ltd New Zealand Branch
Statement of cash flows
For the year ended 31 December 2010
In New Zealand Dollars

	Notes	2010 $'000	2009 $'000
Cash flows from operating activities			
Premiums received		**13,942**	14,712
Outwards reinsurance paid		**(7)**	(9)
Interest received		**1,093**	2,399
Claims paid		**(4,312)**	(8,838)
Reinsurance and other recoveries (paid)/received		**(8)**	69
Fees and commission paid		**(2,046)**	(1,532)
Other income		**-**	38
Payments to suppliers and employees		**(4,852)**	(2,645)
Income tax paid		**(1,358)**	(2,800)
Net cash inflow from operating activities	21	**2,452**	1,394
Cash flows from investing activities			
Payment for financial assets		**-**	-
Net cash (outflow)/inflow from investing activities		**-**	-
Cash flows from financing activities			
Funds transfer to Shareholder Fund		**-**	(21,250)
Net cash outflow from financing activities		**-**	(21,250)
Net increase/(decrease) in cash and cash equivalents		**2,452**	(19,856)
Cash and cash equivalents at the beginning of year		**35,165**	55,021
Cash and cash equivalents at end of year	11	**37,617**	35,165

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

Contents of the notes to the financial statements

1 Summary of significant accounting policies

General information

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

The parent entity of Hallmark Life Insurance Company Ltd is GE Capital Finance Australasia Pty Ltd.

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

Statement of Compliance

The Branch's financial statements have been prepared in accordance with New Zealand equivalents to International Financial Reporting Standards (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. The financial statements comprising the statement of financial performance, statement of financial position, statement of changes in equity, statement of cash flows and notes have been prepared in accordance with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

The financial statements also comply with IFRS and interpretations adopted by the International Accounting Standards Board.

(a) Basis of preparation

The financial statements are presented in New Zealand Dollars, rounded to the nearest thousand, or in certain cases, to the nearest dollar. They are prepared on a fair value basis with certain exceptions as described in the accounting policy below.

The preparation of a financial statements in conformity with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied by the Branch.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Judgements made by management in the application of New Zealand Accounting Standards that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 2.

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

Activities of the life insurance operations

The life insurance operations of the Branch are conducted within a separate statutory fund as required by the Australian Life Insurance Act 1995 (LIA). The life insurance operations of the Branch comprise the selling and administration of life insurance contracts. In addition, the business has consumer credit disability and unemployment insurances, for which APRA has granted an exemption to treat as life insurance for the purpose of the LIA.

Life insurance contracts involve the acceptance of significant insurance risk. Insurance risk is defined as significant if and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (i.e. have no discernible effect on the economics of the transaction). Insurance contracts include those where the insured benefit is payable on the occurrence of a specified event such as death, injury or disability caused by accident or illness. The insured benefit is not directly linked to the market value of the investments held by the Branch, and the financial risks are substantially borne by the Branch.

As the Branch does not have any participating business, all profits and losses are allocated to the shareholders.

1 Summary of significant accounting policies (continued)

(b) Premiums

Premiums all relate to providing services, including the bearing of risks, and are accordingly treated as revenue in the profit or loss as follows:

- premiums with no due date are recognised as revenue when received;
- premiums with a regular due date are recognised as revenue on accrual basis;
- unpaid premiums are only recognised as revenue during the days of grace or where secured by the surrender value of the policy and are reported as "Outstanding Premiums" in the statement of financial position; and

(c) Outwards reinsurance premium

Premium ceded to reinsurers is recognised as an expense in accordance with the pattern of reinsurance service received. Reinsurance recoveries on claims incurred are recognised as revenue.

(d) Investment income

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

(e) Claims

Claims incurred all relate to providing services, including the bearing of risks, and are accordingly treated as expenses in the profit or loss.

Claims are recognised when the liability to the policyholder under the policy contract has been established. Claims recognition is based upon:

- cost estimates for losses reported prior to the close of the accounting period; and

- estimated incurred but not reported losses (IBNR), based upon past experience.

(f) Basis of expense apportionment

Apportionment of expenses have been made as follows:

- all expenses have been apportioned between policy acquisition, policy maintenance and investment management in line with the principles set out in the Prudential Standard LPS 1.04 Valuation of Policy Liabilities issued by Australian Prudential Regulation Authority ("APRA").

- expenses, which are directly attributable to an individual policy or product, are allocated directly to the statutory fund within which that class of business is conducted; and

- all indirect expenses charged to the profit or loss are equitably apportioned to each class of business.

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

1 Summary of significant accounting policies (continued)

(g) Income tax

Income tax on the profit or loss for the periods presented comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using the tax rate enacted or substantively enacted at the reporting date, and any adjustments to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and reduced to the extent that is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are recognised on a 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.

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

(h) Assets backing policy liabilities

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

Financial assets

Financial assets are classified at fair value through profit or loss. Initial recognition is at cost and subsequent measurement is at fair value. Unrealised profits and losses on subsequent measurement to fair value are recognised in the profit or loss unless otherwise stated below. Fair value is determined as follows:

- Cash assets and bank overdrafts are carried at face value of the amounts deposited or drawn. The carrying amounts of cash assets and bank overdrafts approximate to their fair value. For the purposes of statement of cash flows, cash includes cash on hand, deposits held at call with banks and investments in money market instruments, net of bank overdrafts.

- Fixed interest securities listed on stock exchanges: fair value is taken as the bid price of the instrument.

- Receivables are carried at book value, which is the best estimate of fair value, as they are settled within a short period.

(i) 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 profit or loss, unless an asset has previously been re-valued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through profit or loss.

Where an impairment loss subsequently reverses, the carrying amount is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised for the asset in prior years. A reversal of an impairment is recognised immediately in the profit or loss.

(j) Cash and cash equivalents

For statement of cash flows presentation purposes, 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 which are subject to an insignificant risk of changes in value.

1 Summary of significant accounting policies (continued)

(k) Receivables

All premiums and other debtors are recognised at the amounts receivable as they are due for settlement no more than 30 days from the date of recognition. The carrying amount of receivables approximates net fair value. Collectibility of premium and other debtors is reviewed on an ongoing basis.

(l) Reinsurance and other recoveries revenue

Reinsurance and other recoveries revenue on paid claims, reported claims not yet paid and IBNR are recognised as revenue. Recoveries receivable are assessed in a manner similar to the assessment of the liability for outstanding claims and policy liabilities.

(m) Payables

Trade creditors are recognised at the amounts payable as they are due for settlement within 30 days. All other creditors are carried in the statement of financial position at their net present value. Where the effect of discounting is expected to be immaterial, net present value is assumed to be the principle amount, subject to any set off arrangements. In other situations, net present value is determined by discounting expected future cash flows.

(n) Goods and services tax

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

Receivables and payables are stated with the amounts of GST included.

The net amount of GST recoverable from, or payable to, the IRD is included as a current asset or liability in the statement of financial position.

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

The GST rates for New Zealand increased from 12.5% to 15%, effective 1 October 2010.

(o) 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.

(p) Policy liabilities

Life Insurance

Policy liabilities for life insurance contracts in the statement of financial position and the increase/(decrease) in policy liabilities for life insurance contracts in the statement of comprehensive income have been calculated using the Margin on Services methodology outlined in Note 2(a).

(q) Policy acquisition costs

The fixed and variable costs of acquiring new business are deferred to the extent that such costs are deemed recoverable from future premiums or policy charges (as appropriate for each policy class). These costs include commission, policy issue and underwriting costs, agency expenses, certain specific advertising costs, and other sales costs. Acquisition costs deferred are limited to the lesser of the actual costs incurred and the allowance for the recovery of such costs in the premium or policy charges.

The actual acquisition costs incurred are recorded in the statement of comprehensive income of the Branch. The value and future recovery of these costs is assessed in determining the policy liabilities. This has the effect that acquisition costs deferred are amortised over the period that they will be recovered from premiums or policy charges.

1 Summary of significant accounting policies (continued)

(r) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2010, 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 Branch, except for NZ IFRS 9 Financial Instruments, which becomes mandatory for the Branch's 2013 financial statements and could change the classification and measurement of financial assets. The Branch does not plan to adopt this standard early and the extent of the impact has not been determined.

2 Accounting estimates and judgements

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

(a) Life insurance contract liabilities

The financial reporting methodology used to determine the fair value of life insurance contract liabilities is referred to as Margin on Services (MoS).

Under MoS the excess of premium received over claims and expenses ("the margin") is recognised over the life of the contract in a manner that reflects the pattern of risk accepted from the policyholder ("the service"), hence the term Margin on Services. The movement in life insurance contract liabilities recognised in the profit or loss reflects the planned release of this margin and related experience.

The life insurance contract liabilities have been determined using the accumulation method. A summary of the significant actuarial methods and assumptions used is contained in Note 3.

(b) Assets arising from reinsurance contracts

Assets arising from reinsurance contracts are also computed using the above methods. In addition, the recoverability of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as counterparty and credit risk. Impairment is recognised when there is objective evidence that the Branch may not receive amounts due to it and these amounts can be reliably measured.

3 Summary of significant actuarial methods and assumptions

The effective date of the actuarial report on policy liabilities and solvency requirements is 31 December 2010. The actuarial report was prepared by Mr Stuart Gordon Turner, BEc, FIAA. The actuarial report indicates that Mr Turner is satisfied as to the accuracy of the data upon which policy liabilities have been determined.

The amount of policy liabilities has been determined in accordance with methods and assumptions disclosed in this financial statements and the requirements of the relevant accounting standards (which may differ from the requirements of the Life Insurance Act).

Policy liabilities for life insurance contracts

Policy liabilities for life insurance contracts have been calculated in accordance with Prudential Standrard LPS 1.04 Valuation of Policy Liabilities issued by APRA under subsection 230A(1) of the Life Insurance Act. The Prudential Standard requires the policy liabilities to be calculated in a way which allows for the systematic release of planned margins as services are provided to policy owners.

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

Major product groups	Method (projection or other)	Profit carriers
Lump sum risk	Accumulation (2009: Accumulation)	Claims (implied)
Disability and involuntary unemployment income	Accumulation (2009: Accumulation)	Claims (implied)

In New Zealand Dollars

3 Summary of significant actuarial methods and assumptions (continued)

Policy liabilities have been calculated as the provision for unearned premium, less a deferred acquisition cost item. The recognition rate of premium has been chosen to approximate the planned margin release that would be achieved through use of the projection method.

Disclosure of assumptions

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

(i) Discount rates

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

90 day	3.18% (2009: 2.78%)
5 years	4.76% (2009:5.41%)

(ii) Inflation rates

Allowance for future inflation of 2.5% pa is assumed (2009: 2.5% pa). The future inflation assumption is based on the long term target range of the Reserve Bank of Australia of 2-3%.

(iii) Future expenses and indexation

Maintenance expense assumptions have been based on the experience in the current year and budgeted expenses for the year 2011. Inflation adjustments are consistent with the inflation assumptions.

(iv) Rates of taxation

Rates of taxation reflect the current taxation of life insurance business. Changes to life insurance taxation were effective from 1 July 2010.

(v) Mortality and morbidity

Mortality rates for risk products have been based on experience over recent years. A loss ratio approach (applied to earned premium) was adopted. The loss ratio used has not varied significantly from 2009.

(vi) Disability and involuntary unemployment

The disability and involuntary unemployment outstanding claims reserves are valued separately to the policy liabilities.

The general approach to actuarial estimation of disability and involuntary unemployment liabilities is to analyse all available past experience. This analysis allows patterns to be identified in the past experience. Based on this, development patterns associated with the run-off of Outstanding claims at the balance date can be estimated. The estimate of the Outstanding claims includes an allowance for claims Incurred but Not Reported ("IBNR") and the further development of reported claims, a risk margin and claims handling expense provision. Actuarial methods such as Payment Per Claim Incurred (PPCI) and Payment Per Claim Open (PPCO) are adopted to estimate the outstanding claims.

The *key actuarial assumptions for the determination of the outstanding claims liabilities are claim termination* rate, average claim size (Disability = NZ$2,373, Unemployment = NZ$659), a claims handling expense rate of 16% (2009: 16%) of the projected gross claim payments (based on expense investigation) and a discount rate of 3.75% (2009: 4.21%) (based on the yields of 1 year and 2 year New Zealand Government bonds as at 31 December 2010). Across all classes, changes to the claim termination and average claim size assumptions would cause the most significant change to the liability estimate.

(vii) Voluntary discontinuance

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

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

Consumer credit insurances - 36% pa (2009: 42% pa)

Single premium term life insurances - < 1% pa (2009: < 1% pa)

In New Zealand Dollars

3 Summary of significant actuarial methods and assumptions (continued)

(viii) Solvency requirements

Solvency Reserves are amounts required to meet the prudential standards specified by the Australian Life Insurance Act 1995 to provide protection to policy owners against the impact of fluctuations in and unexpected adverse experience of the Company's business. The methods and bases used for determining the Solvency requirements were in accordance with the requirements of the Prudential Standard LPS 2.04 - Solvency Standard issued by APRA.

Impact of changes in assumptions

The policy liabilities for insurance contracts have been calculated using the accumulation method. Under this method, changes in assumptions do not have any impact on policy liabilities in the current period, unless a product enters loss recognition. As at 31 December 2010, the assumption changes have not resulted in any of the related product groups entering loss recognition, and hence the policy liability has not been impacted by changes in assumptions.

The value of future profit margins is not explicitly calculated under the accumulation method and hence the impact of any change in assumptions on the value of future profit margins is not determined.

Sensitivity analysis

Movements in key variables such as mortality experience, lapse rates and expenses will have an impact on the future cash flows, performance and net assets of the business.

As the accumulation method is used to determine policy liabilities for insurance contracts, changes in the assumptions around these key variables do not have any impact on the policy liability or retained earnings at the current balance date, unless a product group enters loss recognition. An alternate approach to demonstrating the sensitivity to changes in variables is to consider the impact on profit and equity at the current balance date if the experience over the current financial period varied under certain scenarios. The table below considers a number of changes in variables, and shows the impact on the profit and equity if that change had been experienced during the financial reporting period.

	Impact on Profit before tax		**Impact on Equity**	
	Gross before reinsurance	**Net of reinsurance**	**Gross before reinsurance**	**Net of reinsurance**
2010				
Result of change in variables:				
Mortality/morbidity- Worsening by 5%	(88)	(88)	(88)	(88)
Mortality/morbidity- Improving by 5%	88	88	88	88
Lapse rate- Worsening by 5%	(11)	(11)	(11)	(11)
Lapse rate- Improving by 5%	11	11	11	11
Expenses- Worsening by 5%	(127)	(127)	(127)	(127)
Expenses- Improving by 5%	127	127	127	127
2009				
Result of change in variables:				
Mortality/morbidity- Worsening by 5%	(84)	(80)	(84)	(80)
Mortality/morbidity- Improving by 5%	84	80	84	80
Lapse rate- Worsening by 5%	(17)	(17)	(17)	(17)
Lapse rate- Improving by 5%	17	17	17	17
Expenses- Worsening by 5%	(166)	(166)	(166)	(166)
Expenses- Improving by 5%	166	166	166	166

4 Risk management

The financial condition and operating results of the Branch are affected by a number of key financial and non-financial risks. Financial risks include interest rate risk, currency risk, credit risk, market risk, fiscal risk and liquidity risk. The non-financial risks are insurance risk, compliance risk and operational risk. The Branch's objectives and policies in respect of managing these risks are set out in the remainder of this section.

4 Risk management (continued)

Capital management

The Branch's capital management strategy uses both internal and external measures of capital.

The Branch has a target surplus policy to assist the Board and management in managing the Branch's capital position, which is reviewed on an annual basis. The target surplus level has been set with reference to a range of risks and adverse scenarios faced by the Branch. The Branch has assets well in excess of the adopted target surplus requirement, reflecting its current strong capital position.

In addition to the Branch's target surplus policy, externally imposed capital requirements for the Branch are set and regulated by the Australian Prudential Regulation Authority (APRA). These requirements are put in place to ensure sufficient solvency margins within the life company statutory funds.

The amount of capital allocated to the Branch's business activity is based primarily upon the regulatory capital requirements and approved target surplus policy. In order to minimise the risk of breaching the regulatory capital requirements, the level of capital held by the Branch is regularly monitored.

The Branch manages its capital requirements by assessing economic conditions and risk characteristics of the Branch's business activities on a regular basis to ensure that the above regulatory requirements and business objectives are met. The capital structure is maintained or adjusted by the amount of dividends paid or capital repatriations/(injections) to/(by) its parent company Hallmark Life Insurance Company Ltd.

For detailed information on the solvency requirements of the life statutory funds, refer note 14(c).

Financial risks

(1) Credit risk

Credit risk is the risk of financial loss to the Branch if a counterparty fails to meet its contractual obligations arising principally from investment in financial instruments, receivables from related parties and other parties and future claims on the reinsurance contracts.

The following policies and procedures are in place to mitigate the Branch's exposure to credit risk:

a. Financial assets

The Branch's Investment Policy sets out the the investment management guidelines approved by the Board. The Investment Committee and the Investment Manager conducts a monthly review of the accounts, compliance is monitored and exposures and breaches reported to the Board on a monthly basis. The Policy is reviewed regularly for pertinence and for changes in the risk environment.

The investment management guidelines set out general restrictions and specific restrictions on fixed interest, equities, property and derivatives. The Branch further sets exposure limits to individual issuers and exposure limitations to Australian fixed income securities. There is no significant concentration of credit risk given these high credit ratings and management does not expect any counterparty to fail to meet its obligations.

b. Trade and other receivables

The credit risk exposure of the Branch is non-repayment of receivables and the amounts are indicated by the carrying amounts of the financial assets. Commission paid to related parties and other parties is netted off against amounts receivable from them to reduce the risk of doubtful debts. There is no significant concentration of credit risk as the branch transacts largely with related parties (refer to note 20) and is not materially exposed to any external individual debtors.

c. Reinsurance assets

Reinsurance is placed with counterparties that have a strong credit rating of at least A and concentration of risk is avoided by following policy guidelines in respect of counterparties' limit that are set by the Board and are subject to regular reviews. At each reporting date, the management performs an assessment of creditworthiness of reinsurers and updates the Reinsurance Management Strategy.

For the Branch's main term life product lines in NZ, two reinsurance treaties provide surplus reinsurance cover. The Branch considers this to be a relatively conservative retention level considering the level of sums insured written and the capital position of the Branch. No reinsurance is in place for the Branch's Consumer Credit Insurance products.

4 Risk management (continued)

The table below shows the maximum exposure to credit risk for the components of the statement of financial position and items such as future commitments by classifying assets according to the Branch's credit ratings of counterparties.

	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
2010						
Financial assets						
Cash	4,577	-	-	4,577	-	4,577
Receivables	-	1,054	-	1,054	-	1,054
Financial assets at fair value through profit or loss						
Short term deposits	33,040	-	-	33,040	-	33,040
Debt securities	1,035	-	-	1,035	-	1,035
Gross policy liability ceded under reinsurance	-	15	-	15	-	15
Total credit risk exposure	38,652	1,069	-	39,721	-	39,721
2009						
Financial assets						
Cash	1,562	-	-	1,562	-	1,562
Receivables	-	744	-	744	-	744
Financial assets at fair value through profit or loss						
Short term deposits	33,603	-	-	33,603	-	33,603
Debt securities	1,030	-	-	1,030	-	1,030
Gross policy liability ceded under reinsurance	-	29	-	29	-	29
Total credit risk exposure	36,195	773	-	36,968	-	36,968

The table below provides information regarding the credit risk exposures of the Branch by classifying assets according to Standard and Poor's credit ratings of the counterparties. AAA is the highest possible rating. As at 31 December 2010 the Branch did not hold any related investments with a Standard and Poor's credit rating below BBB.

	AAA $'000	AA $'000	A $'000	BBB $'000	Not rated $'000	Total $'000
2010						
Financial assets						
Cash	-	-	4,577	-	-	4,577
Receivables*	-	-	-	-	1,054	1,054
Financial assets at fair value through profit or loss						
Short term deposits	-	-	33,040	-	-	33,040
Debt securities	1,035	-	-	-	-	1,035
Gross policy liability ceded under reinsurance	-	15	-	-	-	15
Total credit risk exposure	1,035	15	37,617	-	1,054	39,721

4 Risk management (continued)

	AAA $'000	AA $'000	A $'000	BBB $'000	Not rated $'000	Total $'000
2009						
Financial assets						
Cash	-	-	1,562	-	-	1,562
Receivables*	-	-	-	-	744	744
Financial assets at fair value through profit or loss						
Short term deposits	-	-	33,603	-	-	33,603
Debt securities	1,030	-	-	-	-	1,030
Gross policy liability ceded under reinsurance	-	29	-	-	-	29
Total credit risk exposure	1,030	29	35,165	-	744	36,968

* The receivables are largely with related parties, refer to Note 20 (b).

The total credit risk exposure of the Branch has been classified as 0 to 90 days past due but not impaired.

(2) Liquidity risk

Liquidity risk is the risk that the Branch will not be able to meet its financial obligations as they fall due. The Branch's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Branch's reputation.

The Branch's liquidity is monitored through the production of statement of cash flows to the Board. Periodic review of the Branch's total investments by duration are compared with aged liabilities to ensure sufficient liquidity is maintained.

Maturity profiles

The table below summarises the maturity profile of the financial liabilities of the Branch based on remaining undiscounted contractual obligations, except for insurance liabilities, when maturity profiles are determined on the discounted estimated timing of net cash outflows.

The Branch's liquidity is monitored through the production of statement of cash flows to the Board. Periodic review of the Branch's total investments by duration are compared with aged liabilities to ensure sufficient liquidity is maintained.

	Up to a year $'000	1-2 years $'000	2-5 years $'000	Over 5 years $'000	No term $'000	Total $'000
2010						
Trade and other creditors	450	-	80	-	-	530
Policy claims in process of settlement	1,800	307	90	-	-	2,197
Gross policy liabilities	6,503	2,183	1,265	-	-	9,951
Net principal liabilities	8,753	2,490	1,435	-	-	12,678
2009						
Trade and other creditors	957	-	128	-	-	1,085
Policy claims in process of settlement	1,968	270	67	-	-	2,305
Gross policy liabilities	7,439	2,598	1,478	-	-	11,515
Net principal liabilities	10,364	2,868	1,673	-	-	14,905

The Branch's financial assets and liabilities are carried in the statement of financial position at amounts that approximate fair value. The carrying amounts of all financial assets and liabilities are reviewed to ensure they are not in excess of the net fair value.

4 Risk management (continued)

(3) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Branch's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Currency risk

Currency Risk is the risk of loss arising from unfavourable movements in market exchange rates. All investments are in New Zealand securities only and denominated in New Zealand dollars. This restriction mitigates exposure of the Branch to currency risk on investments.

Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit before tax. The correlation of variables will have a significant effect in determining the ultimate impact on interest rate risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis.

	Change in variables	Impact on profit before tax	Impact on Equity				Total
			Up to a year	1-2 years	2-5 years	Over 5 years	
	%	$'000	$'000	$'000	$'000	$'000	$'000
2010							
Financial assets							
Short term deposits	-1 %	(330)	(232)	-	-	-	(232)
Debt securities	-1 %	(10)	(7)	-	-	-	(7)
		(340)	(239)	-	-	-	(239)

	Change in variables	Impact on profit before tax	Impact on Equity				Total
			Up to a year	1-2 years	2-5 years	Over 5 years	
	%	$'000	$'000	$'000	$'000	$'000	$'000
2009							
Financial assets							
Short term deposits	-1 %	(336)	(235)	-	-	-	(235)
Debt securities	-1 %	(10)	(7)	(7)	-	-	(14)
		(346)	(242)	(7)	-	-	(249)

4 Risk management (continued)

(4) Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- 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)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
2010				
Financial assets designated at fair value through profit or loss	1,035	33,040	-	34,075
	1,035	33,040	-	34,075
2009				
Financial assets designated at fair value through profit or loss	1,030	33,603	-	34,633
	1,030	33,603	-	34,633

Risk management policies and procedures

(a) Risk management objectives and policies for mitigating insurance risk

The Branch's objective is to satisfactorily manage these risks in line with the Company's Risk Management Strategy (in accordance with LPS220 Risk Management) which is approved by the Board. Various procedures are put in place to control and mitigate the risks faced by the Branch depending on the nature of the risk.

Financial risks are generally monitored and controlled by selecting appropriate assets to back policy liabilities. The assets are regularly monitored by management to ensure that there is no material asset and liability mismatching issues and other risks such as liquidity risk and credit risk are maintained within acceptable limits.

Insurance risks are controlled through the use of underwriting procedures, adequate premium rates and policy charges and sufficient reinsurance arrangements, all of which are approved by the Appointed Actuary. Tight controls are also maintained over claims management practices to ensure the correct and timely payment of insurance claims.

Compliance risk and operational risk are both monitored by internal committees which report regularly to the Board Audit Risk Compliance Committee.

(b) Strategy for managing insurance risk

Portfolio of risks

The Branch issues term life insurance, trauma and consumer credit contracts. The performance of the Branch and its continuing ability to write business depends on its ability to pre-empt and control risks. The Company has a risk strategy which has been approved by the Board. It summarises the Branch's approach to risk and risk management.

Risk strategy

In compliance with contractual and regulatory requirements, a strategy is in place to ensure that the risks underwritten satisfy policyholders' risk and reward objectives whilst not adversely affecting the Branch's ability to pay benefits and claims when due. The strategy involves the identification of risks by type, impact and likelihood, the implementation of processes and controls to mitigate the risks, and continuous monitoring and improvement of the procedures in place to minimise the chance of an adverse compliance or operational risk event occurring. Included in this strategy is the process for underwriting and product pricing to ensure products are appropriately priced. Capital management is also a key aspect of the Branch's risk management strategy. Capital requirements are measured using a risk based capital model and all of the various regulatory reporting requirements to which the Branch is subject.

4 Risk management (continued)

Allocation of capital

Capital is allocated by the Branch to the portfolios of contracts or is held in a central reserve based on management's assessment of the risks to which each line of business is exposed and its view of the profitability of the products that are sold.

Solvency margin requirements established by the Australian Prudential Regulation Authority (APRA) are in place to reinforce safeguards for policyholders' interests, which are primarily the ability to meet future claims payments to policyholders. The solvency margins measure the excess of the value of the insurers' assets over the value of its liabilities, each element being determined in accordance with the applicable valuation rules. This margin must be maintained throughout the year, not just at year-end. These solvency requirements also take into account specific risks faced by the Branch. Where the outcome of specific adverse scenarios differs from expectations, this has also been identified.

(c) Methods to monitor and assess insurance risk exposures

Exposure to risk

In an effort to protect and enhance shareholder value, the Branch actively manages its exposure to risks so that it can react in a timely manner to changes in financial markets, insurance cycles, and economic and political environments. Risk exposures are managed using various analysis and valuation techniques, such as asset-liability matching analysis, duration analysis and financial modelling, to calculate the economic capital required to support adverse risk scenarios, along with other cash flow analyses, and prudent and diversified underwriting and investing.

Statutory Capital Adequacy requirements

The Branch's insurance operations are subject to regulatory capital requirements which prescribe the amount of capital to be held depending on the type, quality and concentration of investments held.

Management reporting

The Branch reports monthly financial and operational results, mortality and morbidity experience, claims frequency and severity, and exposure for each portfolio of contracts (gross and net of reinsurance) to the management.

(d) Methods to limit or transfer insurance risk exposures

Reinsurance

All reinsurance treaties are analysed using a number of analytical modelling tools to assess the impact on the Branch's exposure to risk and to ensure the achievement of the optimal choice of type of reinsurance and retention levels. These tools produce financial projections based on a number of possible scenarios providing a detailed analysis of the potential exposures.

Underwriting procedures

Strategic underwriting decisions are put into effect using the underwriting procedures detailed in the underwriting risk management policy. Such procedures include limits to delegated authorities and signing powers. A monitoring program is being implemented to ensure that the system controls are effective.

Claims management

Strict claims management procedures ensure the timely and correct payment of claims in accordance with policy conditions, and claims are monitored through a monthly monitoring program. Claims financial performance are monitored on a quarterly basis to track the experience of the portfolio.

Asset and liability management techniques

Assets are allocated to different classes of business using a risk-based approach. Sensitivity analyses simulate the impact of certain market fluctuation scenarios on future cash flows, fair values or forecasted earnings.

Management of market risk is generally less critical for short-term insurance products, as the amounts and timing of claims do not vary significantly with interest rates or other market changes that affect the underlying investments. The premiums received and the investment returns (net investment income and realised gains and losses) provide substantial liquidity to meet claims payments and associated expenses as they arise. Consequently, there is greater flexibility in investment strategies while managing investments to ensure sufficient liquidity to meet the claims as they become due, based on actuarial assessments.

4 Risk management (continued)

(e) Concentration of insurance risk

Insurance risks associated with human life events

The Branch aims to maintain a stable age profile and mix of the sexes within its portfolio of policyholders. This policy maintains a balance between the current and future profitability of the life business, a stable base of assets under management and exposure to the significant external events such as those described above.

Despite the inevitable growth in policyholders at the age of retirement, the age profile and mix of sexes within the population of policyholders is sufficiently spread so that the Branch risk concentration in relation to any particular age group is minimal.

Interest rate risk

The insurance or reinsurance contracts contain no clauses that expose the Branch directly to interest rate risk.

Credit risk

The Branch is exposed to credit risk on insurance contracts as a result of exposure to individual cedants or reinsurers. The Branch does not have any material exposure to an individual cedant which would materially impact the operating profit. The credit risk to reinsurers is managed through the Branch having a pre-determined policy on the appropriate rating, a reinsurer must have to participate in the Branch's reinsurance programme.

(f) Terms and conditions of insurance contracts

The business written consists mainly of consumer credit life insurances and term life insurances. The term insurance policies cover mainly death, but in some cases terminal illness. The return to shareholders arises from the total premiums charged to policyholders less the amounts paid to cover claims and the expenses incurred in administering this function. Guaranteed benefits are paid on death or terminal illness that are fixed. Benefits are determined by the contract and are not directly affected by the performance of underlying assets. Key variables affecting the timing and uncertainty of future cash flows are mortality, interest rates, discontinuance rates and expenses.

The majority of CCI life and term life 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.

5 Insurance premium revenue

	2007 $'000	2006 $'000
Direct insurance premiums	**14,314**	14,319
Other premium revenue	**1,990**	-
Total insurance premium revenue	**16,304**	14,319

Other premium revenue of $1,990,000 (2009: $NIL) represents one off amounts received from GE Finance and Insurance Pty Ltd in relation to amounts previously incorrectly refunded under an internal arrangement.

6 Investment income

	2010 $'000	2009 $'000
Financial assets at fair value through profit or loss		
Interest income	**1,100**	1,914

7 Claims expenses

	2010 $'000	2009 $'000
Death and disability	**2,537**	1,721
Unemployment	**(16)**	639
Terminations of policies	**3,673**	6,474
	6,194	8,834

8 Administration expenses

	2010 $'000	2009 $'000
Policy acquisition- commission	**2,103**	1,532
Policy acquisition- other	**557**	891
Policy maintenance	**3,620**	3,806
Investment management expense	**62**	70
Foreign exchange loss/(gain)	**-**	(94)
	6,342	6,205

9 Income tax

	2010 $'000	2009 $'000
(a) Income tax (credit) / expense		
Current income tax expense	**1,519**	1,544
Deferred income tax (benefit)/expense	**(198)**	(286)
(Over)/under provision in prior years	**(222)**	101
	1,099	1,359
Deferred income tax (benefit)/expense included in income tax expense comprises:		
(Increase)/decrease in deferred tax assets (note 15)	**124**	212
Increase/(decrease) in deferred tax liabilities (note 17)	**(322)**	(498)
	(198)	(286)

9 Income tax (continued)

	2010 $'000	2009 $'000
(b) Reconciliation of income tax expense to prima facie tax payable		
Profit from continuing operations before income tax expense	**6,406**	7,649
Tax at the New Zealand tax rate of 30%	**1,921**	2,295
Tax effect of amounts which are not deductible/ (taxable) in calculating taxable income:		
Tax effect on actuarial adjustment - policyholder base	**(671)**	(1,036)
Entertainment	**4**	-
Sundry items	**-**	(1)
	1,255	1,258
Change in income tax rates	**66**	-
(Over)/under provision in prior years	**(222)**	101
	(156)	101
Income tax expense	**1,099**	1,359

10 Statement of sources of operating profit

	2010 $'000	2009 $'000
The shareholders' operating profit after income tax of the statutory funds is represented by:		
Investment earnings on shareholders' retained earnings and capital	**509**	878
Emergence of planned profit margins	**3,877**	4,340
Experience profit	**919**	1,138
Shareholders' operating profit after income tax	**5,305**	6,356

11 Cash and cash equivalents

	2010 $'000	2009 $'000
Cash at bank	**4,577**	1,562

(a) Reconciliation to cash and cash equivalents at the end of the year

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

	2010 $'000	*2009* $'000
Cash at bank	**4,577**	1,562
Short term deposits (note 13)	**33,040**	33,603
Balances per statement of cash flows	**37,617**	35,165

12 Receivables

	2010 $'000	2009 $'000
Net trade receivables		
Trade debtors	**877**	505
Investment income accrued and receivable	**135**	133
Current tax assets	**200**	71
Reinsurance and claims receivables	**42**	38
Other receivables	**-**	68
Total receivables	**1,254**	815
Receivables - Current	**1,254**	815
Receivables - Non current	**-**	-
	1,254	815

These balances include amounts receivable from related entities (note 20)

13 Financial assets at fair value through profit or loss

	2010 $'000	2009 $'000
Financial assets at fair value through profit or loss		
Debt securities		
- National government bonds (Listed)	**1,035**	1,030
Short term deposits	**33,040**	33,603
Total financial assets at fair value through profit or loss	**34,075**	34,633
Financial assets at fair value through profit or loss - Current	**34,075**	33,603
Financial assets at fair value through profit or loss - Non current	**-**	1,030
	34,075	34,633

14 Policy liabilities

(a) Reconciliation of movements in policy liabilities

	2010 $'000	2009 $'000
Gross insurance contract liabilities		
Balance at 1 January	**11,515**	17,856
Decrease in life insurance contract liabilities reflected in the profit or loss	**(1,564)**	(6,341)
Balance at 31 December	**9,951**	11,515
Reinsurers' share of life insurance liabilities		
Balance at 1 January	**29**	47
Decrease in reinsurance assets reflected in the profit or loss	**(14)**	(18)
Closing balance at 31 December	**15**	29
Net policy liabilities at 31 December	**9,936**	11,486
Net insurance contract liabilities – Current	**6,493**	7,420
Net insurance contract liabilities – Non current	**3,443**	4,066
	9,936	11,486

14 Policy liabilities (continued)

(b) Components of net life insurance contract liabilities

	2010 $'000	2009 $'000
Best estimate liability - For non investment linked business		
Value of future policy benefits (2)	**11,241**	13,172
Value of unrecouped acquisition expense	**(1,305)**	(1,686)
Total best estimate liability	**9,936**	11,486
Value of future shareholder profit margin (1)	**-**	-
Net policy liabilities	**9,936**	11,486

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

(2) This item includes the unearned premium component of the liability. The accumulation method has been used to calculate liabilities, and components relating to expenses and profits are not separately calculated.

(c) Solvency requirements of the life statutory funds

These are amounts required to meet the Prudential Standards specified by the *Life Act* to provide protection against the impact of fluctuations and unexpected adverse circumstances on the life company.

The methodology and bases for determining solvency requirements are in accordance with the requirements of Prudential Standard LPS 2.04, Solvency Standard issued by APRA.

The figures in the table below represent the number of times coverage for the assets available for solvency over the solvency reserve.

	2010 $'000	2009 $'000
Solvency Requirement (a)	**13,096**	14,918
Representing:		
Minimum termination value (MTV)	**8,728**	10,406
Other liabilities	**3,287**	3,552
Solvency reserve (b)	**1,081**	960
	13,096	14,918
Assets available for solvency (c)	**27,891**	22,425
Comprises as :		
Excess of policy liability over MTV	**1,208**	1,079
Capital and retained earnings required for solvency	**(127)**	(119)
Excess assets	**26,810**	21,465
	27,891	22,425
Solvency reserve (%) [b/(a-b) * 100]	**9.00**	6.88
Coverage of Solvency Reserve (c/b)	**25.80**	23.36

15 Deferred tax assets

	2010 $'000	2009 $'000
The balance comprises temporary differences attributable to:		
Policy claims in the process of settlement	-	124
Deferred tax assets	-	124
Balance at 1 January	124	336
Charged to the profit or loss (note 9)	(124)	(212)
Balance at 31 December	-	124

16 Payables

	2010 $'000	2009 $'000
Trade creditors	220	644
Other creditors	310	441
Policy claims in the process of settlement	2,197	2,305
Total payables	2,727	3,390
Payables - Current	2,250	2,925
Payables - Non current	477	465
	2,727	3,390

These balances include amounts payable to related entities (note 20).

17 Deferred tax liabilities

	2010 $'000	2009 $'000
The balance comprises temporary differences attributable to:		
Deferred commission	466	881
Deferred acquisition costs	93	-
	559	881
Deferred tax liabilities	559	881
Balance at 1 January	881	1,379
Credited to the profit or loss (note 9)	(322)	(498)
Balance at 31 December	559	881

In New Zealand Dollars

18 Key management personnel disclosures

No directors were remunerated either directly or indirectly for services provided by the Branch.

19 Remuneration of auditors

No remuneration to auditors has been recognised by the Branch as this expense was incurred by the head office of the Branch.

20 Related party transactions

Related parties with which material transactions have taken place.

The following related party transactions occured within wholly owned group during the year ended 31 December 2010 under normal commercial term and conditions.

(a) Transactions with related parties - (Income)/Expense

	2010 $	2009 $
Management Fees Paid to		
Hallmark Life Insurance Company Ltd	**2,231,526**	2,234,924
GE Finance and Insurance Pty Ltd	**73,361**	73,361
GE Capital Finance Australasia Pty Ltd	**865,610**	1,160,178
Host Insurance depreciation and administrative costs recharges		
GE Finance and Insurance Pty Ltd	**500,968**	498,677
Dividend paid		
Hallmark Life Insurance Company Ltd	**-**	21,250,000
Commission Paid		
GE Finance and Insurance Pty Ltd	**2,103,285**	1,519,568
Royalty paid		
GE Capital Registry, Inc.	**41,435**	68,066
Other income relating to one-off reimbursement		
GE Finance and Insurance Pty Ltd	**1,990,000**	-

(b) Outstanding balances with related parties - Receivables/(Payables)

	2010 $	2009 $
Accounts Receivable/ (Payable)		
Hallmark Life Insurance Company Ltd	**57,134**	(498,193)
GE Finance and Insurance (NZ)	**878,459**	365,554

21 Reconciliation of profit after income tax expense to net cash inflow from operating activities

	2010 $'000	2009 $'000
Profit for the year	**5,307**	6,290
Add/(deduct) non-cash items		
Net unrealised (gain) in value of financial assets	**(5)**	(5)
Change in operating assets and liabilities		
(Increase)/Decrease in Receivables	**(235)**	2,078
Increase in Reinsurance and claims receivable	**(4)**	(33)
Decrease in Gross policy liabilities ceded under reinsurance	**14**	18
(Decrease)/Increase in payables	**(555)**	830
Decrease in Current tax	**(200)**	(1,155)
Decrease in Policy claims in the process of settlement	**(108)**	(2)
Decrease in Gross policy liabilities	**(1,564)**	(6,341)
Decrease in Net deferred tax liabilities	**(198)**	(286)
Net cash inflow from operating activities	**2,452**	1,394

22 Contingent liabilities

No contingent liabilities existed as at 31 December 2010 (2009: $Nil).

23 Matters subsequent to the end of the financial year

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Branch, the results of those operations, or the state of affairs of the Branch, in future financial years.

KPMG

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Hallmark Life Insurance Company Ltd - New Zealand Branch ("the branch") on pages 3 to 28. The financial statements comprise the statement of financial position as at 31 December 2010 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, 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 branch's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the branch's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

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

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

Opinion

In our opinion the financial statements of Hallmark Life Insurance Company Ltd - New Zealand Branch on pages 3 to 28:

- 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 2010 and of its financial performance and cash flows for the year ended on that date.

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 Life Insurance Company Ltd - New Zealand Branch as far as appears from our examination of those records.

KPMG

David Kells
Partner

Sydney

24 March 2011