Hallmark Life Insurance Company Ltd
New Zealand Branch
Annual Report
for the year ended 31 December 2011

Directors' report

Your Directors present their annual report of Hallmark Life Insurance Company Ltd New Zealand Branch for the year ended 31 December 2011.

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

Raymond Bruce Willing
Director

Neil William Smart
Director

Sydney
Date: 14 March 2012

Hallmark Life Insurance Company Ltd New Zealand Branch
Statement of comprehensive income
For the year ended 31 December 2011
In New Zealand Dollars

	Notes	2011 $'000	2010 $'000
Insurance premium revenue	5	**16,733**	16,302
Outwards reinsurance premiums expense		**(9)**	(8)
Net insurance premium revenue		**16,724**	16,294
Other revenue from ordinary activities		**1**	-
Investment income	6	**1,181**	1,100
Total revenue		**17,906**	17,394
Claims expenses	7	**(6,624)**	(6,194)
Reinsurance and other recoveries		**1**	(4)
Net claims incurred		**(6,623)**	(6,198)
Decrease in gross policy liabilities	14(a)	**2,611**	1,564
Decrease in reinsurers share of policy liabilities	14(a)	**(11)**	(14)
Net decrease in policy liabilities		**2,600**	1,550
Administration expenses	8	**(7,155)**	(6,342)
Total claims and expenses		**(11,178)**	(10,990)
Profit before income tax		**6,728**	6,404
Income tax expense	9	**(1,338)**	(1,099)
Profit for the year after income tax expense		**5,390**	5,305
Other comprehensive income for the year, net of tax		**-**	-
Total comprehensive income for the year		**5,390**	5,305
Total comprehensive income for the year is attributable to:			
Owners of Hallmark Life Insurance Company Ltd New Zealand Branch		**5,390**	5,305
		5,390	5,305

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 2011
In New Zealand Dollars

	Notes	2011 $'000	2010 $'000
ASSETS			
Cash and cash equivalents	11	**3,569**	4,559
Trade and other receivables	12	**212**	1,216
Financial assets at fair value through profit and loss	13	**39,754**	34,075
Gross policy liabilities ceded under reinsurance	14(a)	**5**	15
Total assets		**43,540**	39,865
LIABILITIES			
Trade and other payables	15	**3,702**	2,727
Gross policy liabilities	14(a)	**7,362**	9,951
Deferred tax liabilities	16	**458**	559
Total liabilities		**11,522**	13,237
Net assets		**32,018**	26,628
EQUITY			
Retained earnings		**32,018**	26,628
Total equity		**32,018**	26,628

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 2011
In New Zealand Dollars

	Retained earnings $'000	Total equity $'000
Balance at 1 January 2010	21,323	21,323
Total comprehensive income for the year	5,305	5,305
Transactions with owners in their capacity as owners	-	-
Balance at 31 December 2010	26,628	26,628
Balance at 1 January 2011	26,628	26,628
Total comprehensive income for the year	5,390	5,390
Transactions with owners in their capacity as owners	-	-
Balance at 31 December 2011	32,018	32,018

	2011 $'000	2010 $'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	32,018	26,628
	32,018	26,628

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 2011
In New Zealand Dollars

	Notes	2011 $'000	2010 $'000
Cash flows from operating activities			
Premiums received		**17,535**	13,943
Outwards reinsurance expense		**(10)**	(7)
Interest received		**1,120**	1,093
Claims paid		**(6,744)**	(4,312)
Reinsurance and other recoveries (paid)/received		**1**	27
Fees and commission paid		**(2,606)**	(2,046)
Payments to suppliers and employees		**(3,900)**	(4,852)
Income tax paid		**(770)**	(1,358)
Net cash inflow from operating activities	20	**4,626**	2,488
Cash flows from investing activities			
		-	-
Net cash inflow/(outflow) from investing activities		**-**	-
Cash flows from financing activities			
		-	-
Net cash inflow/(outflow) from financing activities		**-**	-
Net increase in cash and cash equivalents		**4,626**	2,488
Cash and cash equivalents at the beginning of year		**37,599**	35,111
Cash and cash equivalents at end of year	11	**42,225**	37,599

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.

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

Statement of compliance

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

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

- NZ IFRS 9 Financial Instruments (2010) (effective 1 January 2015). The standard is not applicable until 1 January 2015 and the Branch is yet to assess its full impact. The Branch has not yet decided when to adopt AASB 9.

(a) Basis of preparation

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

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

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

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

(b) Principles for life insurance business

Activities of the life insurance operations

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

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

Restrictions on assets

Monies held in the statutory funds are subject to the distribution and transfer restrictions and other requirements of the LIA.

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

1 Summary of significant accounting policies (continued)

(c) Revenue

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

(i) Premium revenue

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

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

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

The unearned portion of premium is recognised within gross policy liabilities in the Statement of Financial Position.

(ii) Investment income

All investment income is recognised as revenue on an accruals basis. Interest income 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 Statement of Comprehensive Income as investment revenue.

(d) Claims

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

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

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

(e) Expenses

Expenses are recognised in the Statement of Comprehensive Income on an accruals basis.

Basis of apportionment

Apportionment of expenses has been made as follows:

- all expenses have been apportioned between policy acquisition, policy maintenance and investment management in line with the principles set out in the Prudential Standard LPS 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 Statement of Comprehensive Income 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 the total gross premium revenue for the Company.

1 Summary of significant accounting policies (continued)

(f) Outwards reinsurance premium

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

(g) Income tax

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

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

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

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) Cash and cash equivalents

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

(i) Trade and other receivables

All premiums and other receivables are recognised at the amounts receivable as these amounts are generally due for settlement within 30 days and less, where applicable, any provision for doubtful debts. Collectability of premium and other receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off in the period in which they are identified.

(j) Reinsurance and other recoveries receivable

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

(k) Classification of insurance contracts

Contracts under which the Branch accepts significant insurance risk from the policyholder or another party by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event adversely affects the policyholder or other beneficiary, are classified as insurance contracts. The risks associated with insurance contracts are detailed further in note 4.

1 Summary of significant accounting policies (continued)

(l) Assets backing policy liabilities

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

(m) Financial assets

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

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

(i) Short term deposits

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

(ii) Listed equity securities

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

(iii) Unlisted fixed interest securities

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

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

(n) Impairment of assets

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

An impairment loss is recognised when the carrying amount of an asset exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Impairment losses are recognised in the Statement of Comprehensive Income, unless an asset has previously been re-valued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the Statement of Comprehensive Income.

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

(o) Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Branch prior to the end of the financial year, which are unpaid. Trade accounts are unsecured and are usually settled within 90 days of recognition.

(p) Liability adequacy test

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

1 Summary of significant accounting policies (continued)

(q) Policy liabilities

Policy liabilities for life insurance contracts in the Statement of Financial Position and the increase/(decrease) in policy liabilities for life insurance contracts in the Statement of Comprehensive Income have been calculated using the Margin on Services methodology outlined in note 2(a).

(r) 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.

(s) Foreign currency translation and functional currency

Functional and Presentation Currency

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

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

Transactions and balances

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

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

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

(t) Goods and services tax ("GST")

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the 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 inclusive of GST. 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 reported on a gross basis. The GST components of cash flows arising from investing and financing activities, which are recoverable from, or payable to, the IRD are classified as operating cash flows.

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.

(u) Rounding of amounts

Amounts in the financial statements have been rounded off to the nearest thousand dollars.

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 projection method is usually used to determine life insurance contract liabilities. The net present value of projected cashflows is calculated using best estimate assumptions about future events. When the benefits under the life insurance contract are linked to the assets backing it, the discount rate applied is based on the expected future earnings rate of those assets, otherwise, a risk-free discount rate is used.

Where the accumulation method has been used, the liability is based on an unearned premium reserve, less and explicit allowance for deferred acquisition costs and a reserve for IBNR's. Where used, the accumulation method is considered to be a reasonable approximation of liabilities had they been determined on a projection basis. A summary of the significant actuarial methods and assumptions used is contained in Note 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 2011. 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 (2010: Accumulation)	Claims (implied)
Disability and involuntary unemployment income	Accumulation (2010: 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.

In New Zealand Dollars

3 Summary of significant actuarial methods and assumptions (continued)

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	2.74% (2010: 3.18%)
5 years	3.30% (2010: 4.76%)

(ii) Inflation rates

Allowance for future inflation of 2.5% pa is assumed (2010: 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 2012. Inflation adjustments are consistent with the inflation assumptions.

(iv) Rates of taxation

Rates of taxation reflect the current taxation of life insurance business.

(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 2010.

(vi) Disability and involuntary unemployment

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

The key actuarial assumptions for the determination of the outstanding claims liabilities are claim termination rate, average claim size (Disability = NZ$2,310, Unemployment = NZ$644), a claims handling expense rate of 17% (2010: 16%) of the projected gross claim payments (based on expense investigation) and a discount rate of 2.45% (2010: 3.75%) (based on the yields of 1 year and 2 year New Zealand Government bonds as at 31 December 2011). 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: 44% pa (2010: 36% pa)

Single premium term life insurances: < 1% pa (2010: < 1% pa)

(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.

In New Zealand Dollars

3 Summary of significant actuarial methods and assumptions (continued)

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 2011, 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
2011				
Result of change in variables:				
Mortality/morbidity- Worsening by 5%	(72)	(72)	(72)	(72)
Mortality/morbidity- Improving by 5%	72	72	72	72
Lapse rate- Worsening by 5%	(31)	(31)	(31)	(31)
Lapse rate- Improving by 5%	31	31	31	31
Expenses- Worsening by 5%	(131)	(131)	(131)	(131)
Expenses- Improving by 5%	131	131	131	131
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

4 Risk management

Insurance contracts

An insurance contract is a contract under which the insurer accepts significant insurance risk from the policyholder by agreeing to compensate the policy holder for a specified uncertain future event that will adversely affect them. Insurance risk is other than financial risk.

The significance of insurance risk under any one contract is determined by the uncertainty surrounding the probability and timing of the insured event occurring, and the magnitude of its effect. Insurance risk is assessed by the Branch at a contract level on its inception and is periodically reassessed as the risk may vary during the period of insurance cover.

The majority of direct insurance contracts written are entered into on a standard form basis. There are no special terms and conditions in any non-standard contracts that have a material impact on the financial statements.

The business written consists mainly of consumer credit life insurances and term life insurances. The term insurance policies cover mainly death, but in some cases terminal illness. Guaranteed benefits are paid on death or terminal illness.

Insurance risk management

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

In accordance with Prudential Standards LPS 220 Risk Management for Life Companies and LPS 230 Reinsurance Management for Life Companies issued by the Australian Prudential Regulation Authority (APRA), the Board and senior management of the Branch have developed, implemented and maintained a sound and prudent Risk Management Strategy (RMS) and a Reinsurance Management Strategy (ReMS).

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

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

(i) Underwriting strategy

The Board has developed an underwriting strategy to ensure that the Branch has the ability to meet the insurance needs of the policy holders whilst ensuring the Branch's ability to pay benefits and claims when due. The strategy involves the identification of risks by type, impact and likelihood and involves the application of mathematical modeling to determine appropriate premium cover to ensure that products are appropriately priced.

(ii) Reinsurance strategy

A conservative approach is taken in determining the level of risk appetite appropriate for the Branch and where deemed appropriate the Branch will spread the risk associated with the insured events according to its ReMS. All reinsurance treaties are subject to analytical and statistical modeling to ensure that they offer a sufficient level of cover for the identified exposures whilst in alignment with the ReMS of the Branch.

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

(iii) Claims management

Strict claims management procedures ensure the timely and accurate payment of claims in accordance with policy conditions. Claim outcomes are monitored periodically to track the actual versus expected experience of the portfolio with feedback delivered to underwriting and product development to maintain the performance and profitability of these processes.

(iv) Concentration of insurance risk

The Branch's portfolio of products and policy holders is sufficiently diversified such that there is no material concentration of insurance risk.

4 Risk management (continued)

Capital management

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

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

The Branch has 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, external solvency requirements are set and regulated by the Australian Prudential Regulation Authority (APRA). The Branch calculates its solvency position according to the relevant Prudential standards which ensures sufficient solvency margins within the life statutory funds are maintained. An insurer's solvency position is expected to be adequate for the size, business mix, complexity and risk profile of its business.

It is the Branch's policy to hold a solvency position in excess of those required by APRA according to its target surplus policy, the solvency level is regularly monitored to minimise the risk of a regulatory breach.

For detailed information on the Branch's solvency position and the solvency requirements of APRA, refer note 14(c).

Financial risk management

(a) Credit risk

Credit risk is the risk of financial loss due to a counterparty failing to perform their contractual obligations and principally arises through the Branch's investment in financial instruments, receivables from related or other parties, and future claims on reinsurance contracts.

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

(i) Financial assets

The Branch's Investment mandate sets out the investment management guidelines approved by the Board. The guidelines establish credit approval authorities, concentrations limits, and approved investment portfolio parameters. The Investment Committee and the Investment Manager conduct a regular review of the investment holdings, compliance is monitored and exposures or breaches are reported to the Board. The Mandate is reviewed regularly for pertinence and for changes in the risk environment.

The Branch only invests with counterparties that have a credit rating of at least A1/A from Standard & Poor's ("S&P"). The Branch further limits its exposure to credit risk by setting individual exposure limits. There is no significant concentration of credit risk and management does not expect any counterparty to fail to meet its obligations.

(ii) Reinsurance assets

Reinsurance is placed with counterparties within the guidelines of the ReMS Strategy. Counterparties must have a credit rating of at least A. The Branch further sets its exposure to credit risk by setting individual exposure limits. At the end of each reporting period, the management performs an assessment of creditworthiness of reinsurers and updates the ReMS.

(iii) Trade and other receivables

The Branch's maximum credit risk exposure at balance date is limited to the carrying amount of the financial assets as stated in the Statement of Financial Position. The Branch does not have a significant concentration of credit risk with any counterparty, other than related parties (See note 19).

4 Risk management (continued)

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

	Investment grade $'000	Non-investment grade Satisfactory $'000	Non-investment grade Unsatisfactory $'000	Total neither past due nor impaired $'000	Past due or impaired $'000	Total $'000
2011						
Financial assets						
Cash	3,569	-	-	3,569	-	3,569
Trade and other receivables	-	212	-	212	-	212
Financial assets at fair value through profit or loss						
Short term deposits	38,656	-	-	38,656	-	38,656
Debt securities	1,098	-	-	1,098	-	1,098
Gross policy liability ceded under reinsurance	-	5	-	5	-	5
Total credit risk exposure	**43,323**	**217**	**-**	**43,540**	**-**	**43,540**
2010						
Financial assets						
Cash	4,559	-	-	4,559	-	4,559
Trade and other receivables	-	1,216	-	1,216	-	1,216
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	**38,634**	**1,231**	**-**	**39,865**	**-**	**39,865**

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

	AAA $'000	AA $'000	A $'000	BBB $'000	Not rated $'000	Total $'000
2011						
Financial assets						
Cash	-	-	3,569	-	-	3,569
Trade and other receivables*	-	-	-	-	212	212
Financial assets at fair value through profit or loss						
Short term deposits	-	-	38,656	-	-	38,656
Debt securities	1,098	-	-	-	-	1,098
Gross policy liability ceded under reinsurance	-	5	-	-	-	5
Total credit risk exposure	**1,098**	**5**	**42,225**	**-**	**212**	**43,540**
2010						
Financial assets						
Cash	-	-	4,559	-	-	4,559
Trade and other receivables*	-	-	-	-	1,216	1,216
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**	**37,599**	**-**	**1,216**	**39,865**

* The receivables are largely with related parties, refer to note 19(b).

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

4 Risk management (continued)

(b) Liquidity risk

Liquidity risk is the risk that the Branch will not be able to meet its financial obligations as they fall due. The Branch's objective and funding strategy seeks to ensure liquidity and diversity of funding sources to meet actual and contingent liabilities in both stable and adverse market conditions.

The Branch's liquidity is primarily monitored through the production of Statement of Cash Flows for Board review. Periodic review of the maturity profile of the Branch's financial assets and liabilities is performed to ensure sufficient liquidity is maintained.

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

	Up to a year $'000	1-2 years $'000	2-5 years $'000	Over 5 years $'000	No term $'000	Total $'000
2011						
Trade and other creditors	1,571	-	-	-	-	1,571
Policy claims in process of settlement	1,738	257	81	-	-	2,076
Gross policy liabilities	4,856	1,542	964	-	-	7,362
Net principal liabilities	**8,165**	**1,799**	**1,045**	**-**	**-**	**11,009**
2010						
Trade and other creditors	530	-	-	-	-	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	**8,833**	**2,490**	**1,355**	**-**	**-**	**12,678**

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

(c) Market risk

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

(i) Currency risk

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

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

(ii) Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate as a result of changes in market interest rates.

The following table analyses the impact of a reasonable possible movement in market interest rates on the Branch's operating results.

	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
2011							
Financial assets							
Short term deposits	-1 %	(387)	(271)	-	-	-	(271)
Debt securities	-1 %	(11)	-	-	(8)	-	(8)
		(398)	**(271)**	**-**	**(8)**	**-**	**(279)**

4 Risk management (continued)

	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)

(iii) Price risk

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

The Branch has no such price risk exposure at balance date. (2010: Nil)

(d) Fair value measurement

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

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

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
2011				
Financial assets designated at fair value through profit or loss	1,098	38,656	-	39,754
	1,098	38,656	-	39,754
2010				
Financial assets designated at fair value through profit or loss	1,035	33,040	-	34,075
	1,035	33,040	-	34,075

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

5 Insurance premium revenue

	2011 $'000	2010 $'000
Direct insurance premiums	**16,733**	14,312
Other premium revenue	**-**	1,990
Total insurance premium revenue	**16,733**	16,302

Other premium revenue for the year ended 31 December 2010 represents a one off amount of $1,990,000 received from GE Finance and Insurance Pty Ltd in relation to amounts previously incorrectly refunded under an internal arrangement.

6 Investment income

	2011 $'000	2010 $'000
Financial assets at fair value through profit or loss		
Interest income	1,181	1,100

7 Claims expenses

	2011 $'000	2010 $'000
Death and disability	1,810	2,537
Unemployment	261	(16)
Terminations of policies	4,553	3,673
	6,624	6,194

8 Administration expenses

	2011 $'000	2010 $'000
Policy acquisition- commission	2,629	2,103
Policy acquisition- other	689	563
Policy maintenance	3,740	3,614
Investment management expense	66	62
Foreign exchange loss/(gain)	31	-
	7,155	6,342

9 Income tax expense

	2011 $'000	2010 $'000
(a) Income tax (credit) / expense		
Current tax expense	1,435	1,519
Deferred tax benefit (note 16)	(101)	(198)
Under/(over) provision in prior years	4	(222)
	1,338	1,099

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

	2011 $'000	2010 $'000
Profit from continuing operations before income tax expense	6,728	6,404
Tax at the New Zealand tax rate of 28% (2010: 30%)	1,884	1,921
Tax effect of amounts which are not deductible/ (taxable) in calculating taxable income:		
Tax effect on actuarial adjustment - policyholder base	(550)	(671)
Entertainment	-	4
	1,334	1,255
Change in income tax rates	-	66
Under/(over) provision in prior years	4	(222)
	4	(156)
Income tax expense	1,338	1,099

10 Statement of sources of operating profit

	2011 $'000	2010 $'000
The shareholders' operating profit after income tax of the statutory funds is represented by:		
Investment earnings on shareholders' retained earnings and capital	620	509
Emergence of planned profit margins	2,278	3,877
Experience profit	2,525	919
Shareholders' operating profit after income tax	5,423	5,305

11 Cash and cash equivalents

	2011 $'000	2010 $'000
Cash at bank	3,569	4,559

(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:

	2011 $'000	2010 $'000
Cash at bank	3,569	4,559
Short term deposits (note 13)	38,656	33,040
Balances per statement of cash flows	42,225	37,599

12 Trade and other receivables

	2011 $'000	2010 $'000
Trade debtors	72	874
Investment income accrued and receivable	133	135
Current tax assets	-	200
Reinsurance and claims receivables	7	7
Receivables - Current	212	1,216
Receivables - Non current	-	-
	212	1,216

These balances include amounts receivable from related entities (note 19)

13 Financial assets at fair value through profit or loss

	2011 $'000	2010 $'000
Financial assets at fair value through profit or loss		
National government bonds (Listed)	1,098	1,035
Short term deposits	38,656	33,040
Total financial assets at fair value through profit or loss	39,754	34,075
Financial assets at fair value through profit or loss - Current	38,656	34,075
Financial assets at fair value through profit or loss - Non current	1,098	-
	39,754	34,075

14 Policy liabilities

(a) Reconciliation of movements in policy liabilities

	2011 $'000	2010 $'000
Gross insurance contract liabilities		
Balance at 1 January	9,951	11,515
Foreign exchange movement	22	-
Decrease in life insurance contract liabilities reflected in the profit or loss	(2,611)	(1,564)
Balance at 31 December	7,362	9,951
Reinsurers' share of life insurance liabilities		
Balance at 1 January	15	29
Decrease in reinsurance assets reflected in the profit or loss	(11)	(14)
Foreign exchange movement	1	-
Closing balance at 31 December	5	15
Net policy liabilities at 31 December	7,357	9,936
Net insurance contract liabilities – Current	4,851	6,493
Net insurance contract liabilities – Non current	2,506	3,443
	7,357	9,936

(b) Components of net life insurance contract liabilities

	2011	2010
Best estimate liability - For non investment linked business		
Value of future policy benefits (2)	8,303	11,241
Value of unrecouped acquisition expense	(946)	(1,305)
Total best estimate liability	7,357	9,936
Value of future shareholder profit margin (1)	-	-
Net policy liabilities	7,357	9,936

(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.

14 Policy liabilities (continued)

(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. *Life Act*

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

	2011 $'000	2010 $'000
Entity		
Solvency Requirement (a)	**9,950**	13,096
Representing:		
Minimum termination value (MTV)	**7,087**	8,728
Other liabilities	**2,783**	3,287
Solvency reserve (b)	**80**	1,081
	9,950	13,096
Assets available for solvency (c)	**32,287**	27,891
Comprises as :		
Excess of policy liability over MTV	**269**	1,208
Capital and retained earnings required for solvency	**(188)**	(127)
Excess assets	**32,206**	26,810
	32,287	27,891
Solvency reserve (%) [b/(a-b) * 100]	**0.81**	9.00
Coverage of Solvency Reserve (c/b)	**403.59**	25.80

15 Trade and other payables

	2011 $'000	2010 $'000
Trade payables	**1,079**	220
Other creditors	**492**	310
Current tax liabilities	**55**	-
Policy claims in the process of settlement	**2,076**	2,197
	3,702	2,727
Trade and other payables - current	**3,364**	2,330
Trade and other payables - non current	**338**	397
	3,702	2,727

These balances include amounts payable to related entities (note 19).

16 Deferred tax liabilities

	2011 $'000	2010 $'000
The balance comprises temporary differences attributable to:		
Deferred commission	388	466
Deferred acquisition costs	34	93
Other	36	-
	458	559
Deferred tax liabilities	458	559
Balance at 1 January	559	757
Credited to the profit or loss (note 9)	(101)	(198)
Balance at 31 December	458	559

17 Key management personnel disclosures

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

18 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.

19 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 2011.

(a) Transactions with related parties:

	2011 $	2010 $
Management fees paid to		
Hallmark Life Insurance Company Ltd	1,413,547	1,633,706
GE Finance and Insurance Pty Ltd	73,388	73,361
GE Capital Finance Australasia Pty Ltd	1,733,671	1,463,430
Host Insurance depreciation and administrative costs recharges		
GE Finance and Insurance Pty Ltd	596,953	500,968
Commission Paid		
GE Finance and Insurance Pty Ltd	2,628,732	2,103,285
Royalty paid		
GE Capital Registry, Inc.	41,224	41,435
Other income relating to one-off reimbursement		
GE Finance and Insurance Pty Ltd	-	1,990,000

19 Related party transactions (continued)

(b) Outstanding balances with related parties:

	2011 $	2010 $
Accounts Receivable/ (Payable)		
Hallmark Life Insurance Company Ltd	**(1,217,409)**	57,134
GE Finance and Insurance Pty Ltd	**385,678**	878,459
Simply Insurance New Zealand Ltd	**49,717**	-

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

	2011 $'000	2010 $'000
Profit for the year	**5,390**	5,305
Add/(deduct) non-cash items		
Net unrealised gain in value of financial assets	**(63)**	(5)
Change in operating assets and liabilities		
Decrease/(Increase) in Receivables	**1,004**	(232)
Decrease in Reinsurance and claims receivable	**-**	31
Decrease in Gross policy liabilities ceded under reinsurance	**10**	14
Increase/(Decrease) in payables	**1,041**	(555)
Increase/(Decrease) in Current tax	**55**	(200)
Decrease in Policy claims in the process of settlement	**(121)**	(108)
Decrease in Gross policy liabilities	**(2,589)**	(1,564)
Decrease in Net deferred tax liabilities	**(101)**	(198)
Net cash inflow/(outflow) from operating activities	**4,626**	2,488

21 Contingent liabilities

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

22 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.

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Hallmark Life Insurance Company Ltd – New Zealand Branch ("the Branch") on pages 2 to 25. The financial statements comprise the statement of financial position as at 31 December 2011 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 company's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Branch's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

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

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

KPMG

Opinion

In our opinion the financial statements of Hallmark Life Insurance Company Limited – New Zealand Branch on pages 2 to 25:

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

KPMG

Andrew Reeves
Partner

Sydney

14 March 2012

Hallmark Life Insurance Company Ltd
ABN 87 008 446 884

Annual report
for the year ended 31 December 2011

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 2011 and the auditor's report thereon.

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

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

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

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

Dividends
The Board of the Company has approved a dividend payment of $75,000,000 (2010: $NIL), which will be paid in 2012.

Review of results and operations
The operating profit of the Company for the financial year after income tax was $16,569,000 (2010: $13,858,000).

The business performed well, generating a 19.5% increase in operating profit after income tax.

Core premium revenues for 2011 were down as a result of consumers continuing to deleverage and the impact of implementing price caps on the card portfolio in late 2010. Operating expenses have decreased in the year with an increased focus on cost management, and a relatively stable economic environment for the year has resulted in increased returns on the investment portfolio.

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

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

Matters subsequent to the end of the financial year
The Board of the Company has approved a dividend payment of $75,000,000 which will be paid in 2012.

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

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

Indemnification and insurance of Directors and Officers

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

a) incurred on or after 15 April 1994 by any person other than the Company or a related body corporate, which does not arise out of conduct involving a lack of good faith; and

b) for costs and expenses incurred by the person in defending proceedings, whether civil or criminal, in which judgement is given in favour of the person or in which the person is acquitted, or in connection with any application in relation to such proceedings in which the court grants relief to the person under the Law.

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

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

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

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.

Lead Auditor's independence declaration

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

Rounding of amounts

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

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

Raymond Bruce Willing (Chairman)
Director

Neil William Smart
Director

Sydney
Date: 14 March 2012

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 2011 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Andrew Reeves
Partner

Sydney

14 March 2012

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

	Notes	2011 $'000	2010 $'000
Insurance premium revenue	5	48,078	51,472
Outwards reinsurance premium expense		(768)	(722)
Net insurance premium revenue		47,310	50,750
Other revenue from ordinary activities		1	-
Investment income	6	12,477	10,599
Total revenue		59,788	61,349
Claims expenses	7	(23,005)	(23,396)
Reinsurance and other recoveries		259	889
Net claims incurred		(22,746)	(22,507)
Increase in gross policy liabilities	22	(282)	(4,721)
Decrease in reinsurers share of policy liabilities	22	(83)	(31)
Net increase in policy liabilities		(365)	(4,752)
Administration expenses	8	(14,448)	(15,275)
Total claims and expenses		(37,559)	(42,534)
Profit before income tax	10	22,229	18,815
Income tax expense	9	(5,660)	(4,957)
Profit for the year after income tax expense		16,569	13,858
Other comprehensive income for the year, net of tax			
Exchange differences on translation of foreign operations		38	(1,092)
Total comprehensive income for the year		16,607	12,766
Total comprehensive income for the year is attributable to:			
Owners of Hallmark Life Insurance Company Ltd		16,607	12,766
		16,607	12,766

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 2011

	Notes	2011 $'000	2010 $'000
ASSETS			
Cash and cash equivalents	12	**12,890**	12,191
Trade and other receivables	13	**4,171**	4,623
Financial assets at fair value through profit and loss	14	**258,971**	237,016
Reinsurance and other recoveries receivable	15	**445**	698
Gross policy liability ceded under reinsurance	22(a)	**101**	183
Intangible assets	16	**-**	6
Deferred tax asset	17	**484**	370
Investment in controlled entity	18	**92,836**	93,388
Total assets		**369,898**	348,475
LIABILITIES			
Trade and other payables	20	**10,900**	7,398
Policy claims in the process of settlement	21	**4,670**	5,110
Gross policy liabilities	22(a)	**33,168**	32,761
Total liabilities		**48,738**	45,269
Net assets		**321,160**	303,206
EQUITY			
Issued capital	23	**10,100**	10,100
Reserves	24	**61,930**	60,545
Retained earnings		**249,130**	232,561
Total equity		**321,160**	303,206

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

	Notes	Issued capital $'000	Reserves $'000	Retained earnings $'000	Total equity $'000
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
Balance at 1 January 2011		10,100	60,545	232,561	303,206
Total comprehensive income for the year		-	38	16,569	16,607
Transactions with owners in their capacity as owners					
Current tax liabilitiy transferred to Head Entity		-	1,347	-	1,347
Balance at 31 December 2011		10,100	61,930	249,130	321,160

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 2011

	Notes	2011 $'000	2010 $'000
Cash flows from operating activities			
Premium received		49,083	51,428
Reinsurance and other recoveries		512	520
Outward reinsurance expense		(769)	(692)
Claims paid		(23,444)	(23,642)
Fees and commissions paid		(5,389)	(5,210)
Interest received		12,621	10,551
Dividends received		362	387
Income tax paid		(2,290)	(2,067)
Payments to suppliers and employees		(7,420)	(11,259)
Net cash inflow from operating activities	31	23,266	20,016
Cash flows from investing activities			
Payments for financial assets		(27,896)	(10)
Proceeds from sale of financial assets		40,431	8,313
Net cash inflow from investing activities		12,535	8,303
Net increase in cash and cash equivalents		35,801	28,319
Cash and cash equivalents at the beginning of year		195,902	169,069
Effects of exchange rate changes on cash and cash equivalents		(42)	(1,486)
Cash and cash equivalents at end of year	12	231,661	195,902

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 owned by GE Capital Finance Australia PTY LTD. The Company's ultimate parent entity is the General Electric Company, which is incorporated in the united States of America.

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

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

Statement of compliance

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

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

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

(a) Basis of preparation

This general purpose financial report covers the Company and its Branch as a single entity and has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

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

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

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

(b) Principles for life insurance business

Activities of the life insurance operations

The life insurance operations of the Company are conducted within separate statutory funds as required by the LIA and are reported in aggregate with the Shareholders' Fund in the Statement of 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.

1 Summary of significant accounting policies (continued)

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

Restrictions on assets

Monies held in the statutory funds are subject to the distribution and transfer restrictions and other requirements of the LIA.

(c) Revenue

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

(i) Premium revenue

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

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

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

The unearned portion of premium is recognised within gross policy liabilities in the Statement of Financial Position.

(ii) Investment income

All investment income is recognised as revenue on an accruals basis. Interest income 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) Claims

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

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

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

1 Summary of significant accounting policies (continued)

(e) Expenses

Expenses are recognised in the Statement of Comprehensive Income on an accruals basis.

Basis of apportionment

Apportionment of expenses has been made as follows:

- all expenses have been apportioned between policy acquisition, policy maintenance and investment management in line with the principles set out in the Prudential Standard LPS 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 LIA.

(f) 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. Reinsurance recoveries on claims incurred are recognised as revenue.

(g) Income tax

Australian companies

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

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

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

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

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

1 Summary of significant accounting policies (continued)

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

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

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

New Zealand branch

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

Current income tax rate for New Zealand business is 28% (2010: 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

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

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

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

1 Summary of significant accounting policies (continued)

(h) Cash and cash equivalents

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

(i) Trade and other receivables

All premium and other receivables are recognised at the amounts receivable as these amounts are generally due for settlement within 30 days and less, where applicable, any provision for doubtful debts. Collectability of premium and other receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off in the period in which they are identified.

(j) Reinsurance and other recoveries receivable

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

(k) Classification of insurance contracts

Contracts under which the Company accepts significant insurance risk from the policyholder or another party by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event adversely affects the policyholder or other beneficiary, are classified as insurance contracts. The risks associated with Insurance contracts are detailed further in note 4.

(l) Assets backing policy liabilities

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

(m) Financial assets

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

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

(i) Short term deposits

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

(ii) Listed equity securities

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

(iii) Unlisted fixed interest securities

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

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

1 Summary of significant accounting policies (continued)

(n) Investment in controlled entity

Investment in the controlled entity is carried at deemed cost.

(o) 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.

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

Software development costs	2.5 - 5 years (2010: 2.5 - 5 years)

(p) Impairment of assets

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

An impairment loss is recognised when the carrying amount of an asset exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Impairment losses are recognised in the Statement of Comprehensive Income, unless an asset has previously been re-valued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the Statement of Comprehensive Income.

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

(q) Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Company prior to the end of the financial year, which are unpaid. Trade accounts are unsecured and are usually settled within 90 days of recognition.

(r) Liability adequacy test

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

(s) Policy liabilities

Policy liabilities for life insurance contracts in the Statement of Financial Position and the increase/(decrease) in policy liabilities for life insurance contracts in the Statement of Comprehensive Income have been calculated using the Margin on Services methodology outlined in Note 2(a).

(t) 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.

1 Summary of significant accounting policies (continued)

(u) Foreign currency translation and functional currency

Functional and presentation currency

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

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

Transactions and balances

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

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

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

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

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

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

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

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

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

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

(w) Rounding of amounts

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

2 Accounting judgements and estimates

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

(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 projection method is usually used to determine life insurance contract liabilities. The net present value of projected cashflows is calculated using best estimate assumptions about future events. When the benefits under the life insurance contract are linked to the assets backing it, the discount rate applied is based on the expected future earnings rate of those assets, otherwise, a risk-free discount rate is used.

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

The effective date of the actuarial report on policy liabilities and solvency requirements is 31 December 2011. 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 (2010: Accumulation)	Claims (implied)
Disability and involuntary unemployment income	Accumulation (2010: 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	4.50% (2010: 5.02%)
5 years	3.29% (2010: 5.37%)
New Zealand	
90 days	2.74% (2010: 3.18%)
5 years	3.30% (2010: 4.76%)

3 Actuarial assumptions and methods (continued)

(ii) Inflation rates

Allowance for future inflation of 2.5% pa for Australia and New Zealand is assumed (2010: 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 2012. 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 2010.

(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$2,310, Unemployment = NZ$644), a claims handling expense rate of 17% of the projected gross claim payments (based on expense investigation) and a discount rate of 2.45% (based on the yields of 1 year and 2 year New Zealand Government bonds as at 31 December 2011). 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. (2010: 49% p.a.)
Single premium term life insurances	<1% p.a. (2010: <1% p.a.)
Regular premium term life insurances	23% p.a. (2010: 15% 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 2011, 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.

3 Actuarial assumptions and methods (continued)

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

	Impact on Profit before tax		Impact on Equity	
	Gross of reinsurance $'000	Net of reinsurance $'000	Gross of reinsurance $'000	Net of reinsurance $'000
2011				
Result of change in variables:				
Mortality/morbidity- Worsening by 5%	(136)	(126)	(136)	(126)
Mortality/morbidity- Improving by 5%	136	126	136	126
Lapse rate- Worsening by 5%	(127)	(127)	(127)	(127)
Lapse rate- Improving by 5%	127	127	127	127
Expenses- Worsening by 5%	(242)	(242)	(242)	(242)
Expenses- Improving by 5%	242	242	242	242
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

4 Risk management

Insurance contracts

An insurance contract is a contract under which the insurer accepts significant insurance risk from the policyholder by agreeing to compensate the policy holder for a specified uncertain future event that will adversely affect them. Insurance risk is other than financial risk.

The significance of insurance risk under any one contract is determined by the uncertainty surrounding the probability and timing of the insured event occurring, and the magnitude of its effect. Insurance risk is assessed by the Company at a contract level on its inception and is periodically reassessed as the risk may vary during the period of insurance cover.

The majority of direct insurance contracts written are entered into on a standard form basis. There are no special terms and conditions in any non-standard contracts that have a material impact on the financial statements.

The business written consists mainly of consumer credit life insurances and term life insurances. The term insurance policies cover mainly death, but in some cases terminal illness. Guaranteed benefits are paid on death or terminal illness.

Insurance risk management

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

In accordance with Prudential Standards LPS 220 Risk Management for Life Companies and LPS 230 Reinsurance Management for Life Companies issued by the Australian Prudential Regulation Authority (APRA), the Board and senior management of the Company have developed, implemented and maintained a sound and prudent Risk Management Strategy (RMS) and a Reinsurance Management Strategy (ReMS).

4 Risk management (continued)

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

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

(i) Underwriting strategy

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

(ii) Reinsurance strategy

A conservative approach is taken in determining the level of risk appetite appropriate for the Company and where deemed appropriate will spread the risk associated with the insured events according to its ReMS. All reinsurance treaties are subject to analytical and statistical modeling to ensure that they offer a sufficient level of cover for the identified exposures whilst in alignment with the ReMs of the Company.

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

(iii) Claims management

Strict claims management procedures ensure the timely and accurate payment of claims in accordance with policy conditions. Claims outcomes are monitored to track the actual versus expected experience of the portfolio with feedback delivered to underwriting and product development to maintain the performance and profitability of these processes.

(iv) Concentration of insurance risk

The Company's portfolio of products and policy holders is sufficiently diversified such that there is no material concentration of insurance risk.

Capital management

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

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

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

In addition to the Company's target surplus policy, external solvency requirements are set and regulated by the Australian Prudential Regulation Authority (APRA). The Company calculates its solvency position according to the relevant Prudential standards which ensures sufficient solvency margins within the life statutory funds are maintained. An insurer's solvency position is expected to be adequate for the size, business mix, complexity and risk profile of its business

It is the Company's policy to hold a solvency position in excess of those required by APRA according to its target surplus policy, the capital level is regularly monitored to minimise the risk of a regulatory breach.

For detailed information on the Company's solvency position and the solvency requirements of APRA, refer note 22(c).

4 Risk management (continued)

Financial risk management

(a) Credit risk

Credit risk is the risk of financial loss due to a counterparty failing to perform their contractual obligations and principally arises through the Company's investment in financial instruments, receivables from related or other parties, and future claims on reinsurance contracts.

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

(i) Financial assets

The Company's Investment mandate sets out the investment management guidelines approved by the Board. The guidelines establish credit approval authorities, concentrations limits, and approved investment portfolio parameters. The Investment Committee and the Investment Manager conduct a regular review of the investment holdings, compliance is monitored and exposures or breaches are reported to the Board. The Mandate is reviewed regularly for pertinence and for changes in the risk environment.

The Company only invests with counterparties that have a credit rating of at least A1/A from Standard & Poor's ("S&P"). The Company further limits its exposure to credit risk by setting individual exposure limits. There is no significant concentration of credit risk and management does not expect any counterparty to fail to meet its obligations.

(ii) Reinsurance assets

Reinsurance is placed with counterparties within the guidelines of the ReMS Strategy. Counterparties must have a credit rating of at least A. The Company further sets its exposure to credit risk by setting individual exposure limits. At the end of each reporting period, the management performs an assessment of creditworthiness of reinsurers and updates the ReMS.

(iii) Trade and other receivables

The Company's maximum credit risk exposure at balance date is limited to the carrying amount of the financial assets as stated in the Statement of Financial Position. The Company does not have a significant concentration of credit risk with any counterparty, other than related parties (See note 28).

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

	Investment grade $'000	Non-investment grade satisfactory $'000	Non-investment grade unsatisfactory $'000	Total neither past due nor impaired $'000	Past due or impaired $'000	Total $'000
2011						
Financial assets						
Cash	12,890	-	-	12,890	-	12,890
Trade and other receivables	-	4,171	-	4,171	-	4,171
Financial assets at fair value through profit or loss						
Short term deposits	218,771	-	-	218,771	-	218,771
Debt securities	830	-	-	830	-	830
Fixed interest security	32,236	-	-	32,236	-	32,236
Equity securities	7,134	-	-	7,134	-	7,134
Investment in controlled entity	-	92,836	-	92,836	-	92,836
Reinsurance and other recoveries receivable	-	445	-	445	-	445
Gross policy liability ceded under reinsurance	-	101	-	101	-	101
Total credit risk exposure	271,861	97,553	-	369,414	-	369,414

4 Risk management (continued)

	Investment grade $'000	Non-investment grade Satisfactory $'000	Non-investment grade Unsatisfactory $'000	Total neither past due nor impaired $'000	Past due or impaired $'000	Total $'000
2010						
Financial assets						
Cash	12,191	-	-	12,191	-	12,191
Trade and other 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
Equity securities	8,407	-	-	8,407	-	8,407
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	249,207	98,892	-	348,099	-	348,099

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

	AAA $'000	AA $'000	A $'000	BBB $'000	Not rated $'000	Total $'000
2011						
Financial assets						
Cash	-	-	12,890	-	-	12,890
Trade and other receivables*	-	-	-	-	4,171	4,171
Financial assets at fair value through profit or loss						
Short term deposits	-	-	218,771	-	-	218,771
Debt securities	830	-	-	-	-	830
Fixed interest security	-	32,236	-	-	-	32,236
Equity securities	-	1,437	4,433	927	337	7,134
Investment in controlled entity*	-	-	-	-	92,836	92,836
Reinsurance and other recoveries receivable	-	-	445	-	-	445
Gross policy liability ceded under reinsurance	-	101	-	-	-	101
Total credit risk exposure	830	33,774	236,539	927	97,344	369,414
2010						
Financial assets						
Cash	-	-	12,191	-	-	12,191
Trade and other 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
Equity securities	-	1,520	3,775	2,212	900	8,407
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	45,822	200,375	2,212	98,911	348,099

* The receivables and investment in controlled entity are largely with related parties, refer to note 28 (b).
No receivables are past due or impaired at balance date. (2010: Nil)

4 Risk management (continued)

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's objective and funding strategy seeks to ensure liquidity and diversity of funding sources to meet actual and contingent liabilities in both stable and adverse market conditions.

The Company's liquidity is primarily monitored through the production of Statement of Cash Flows for Board review. Periodic review of the maturity profile of the Company's financial assets and liabilities is performed to ensure sufficient liquidity is maintained.

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

	Up to a year $'000	1-2 years $'000	2-5 years $'000	Over 5 years $'000	No term $'000	Total $'000
2011						
Creditors and borrowings	10,900	-	-	-	-	10,900
Policy claims in process of settlement	4,414	195	61	-	-	4,670
Gross policy liabilities	16,692	7,994	8,482	-	-	33,168
Net principal liabilities	32,006	8,189	8,543	-	-	48,738
2010						
Creditors and borrowings	7,398	-	-	-	-	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	31,119	8,054	6,096	-	-	45,269

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

(c) Market risk

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

(i) Currency risk

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

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

(ii) Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate as a result of changes in market interest rates.

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

	Change in variables	Impact on profit before tax	Impact on Equity				Total
	%	$'000	Up to a year $'000	1-2 years $'000	2-5 years $'000	Over 5 years $'000	$'000
2011							
Financial assets							
Short term deposits	-1 %	(2,188)	(1,531)	-	-	-	(1,531)
Debt securities	-1 %	(8)	-	-	(6)	-	(6)
Fixed interest securities	-1 %	(322)	(36)	-	(190)	-	(226)
		(2,518)	(1,567)	-	(196)	-	(1,763)

4 Risk management (continued)

	Change in variables	Impact on profit before tax	Impact on Equity Up to a year	1-2 years	2-5 years	Over 5 years	Total
	$'000	$'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)

(iii) Price risk

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

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

	Change in variables	Impact on profit before tax	Impact on Equity Up to a year	1-2 years	2-5 years	Over 5 years	Total
	%	$'000	$'000	$'000	$'000	$'000	$'000
2011							
Financial assets							
Equity securities	-1 %	(71)	(50)	-	-	-	(50)
2010							
Financial assets							
Equity securities	-1 %	(84)	(59)	-	-	-	(59)

(d) Fair value measurement

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

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

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
2011				
Financial assets at fair value through profit or loss	7,134	251,837	-	258,971
2010				
Financial assets at fair value through profit or loss	8,407	228,609	-	237,016

5 Insurance premium revenue

	2011 $'000	2010 $'000
Direct life insurance premiums - single	34,405	35,281
Direct life insurance premiums - regular	11,028	10,838
Non life insurance premiums	2,645	2,488
Other premium revenue	-	2,865
	48,078	51,472

Other premium revenue for the year ended 31 December 2010 represents one off amounts received from GE Personal Finance Pty Ltd of $1,300,000 and GE Finance and Insurance Pty Ltd of $1,565,000 in relation to amounts previously incorrectly refunded under an internal arrangement.

6 Investment income

	2011 $'000	2010 $'000
Financial assets at fair value through profit or loss		
Interest income	12,684	11,184
Realised net losses	(741)	(322)
Unrealised net gains/(losses)	172	(650)
Dividend income	362	387
	12,477	10,599

7 Claims expenses

	2011 $'000	2010 $'000
Death and disability	3,696	4,848
Unemployment	200	(12)
Terminations of policies	19,109	18,560
	23,005	23,396

8 Administration expenses

	2011 $'000	2010 $'000
Policy maintenance - others	7,499	8,277
Investment management expenses	393	418
Foreign exchange losses/(gains)	33	(3)
Policy acquisition cost - others	1,117	1,372
Policy acquisition cost - commission	5,406	5,211
	14,448	15,275

9 Income tax expense

	2011 $'000	2010 $'000
(a) Income tax expense		
Current tax expense	6,005	5,545
Deferred tax expense/(benefit) (note 17)	46	(532)
Over provided in prior years	(391)	(56)
	5,660	4,957

	2011 $'000	2010 $'000
(b) Reconciliation of income tax expense to prima facie tax payable		
Profit from continuing operations before income tax expense	22,229	18,815
Tax at the Australian tax rate of 30% (2010: 30%) and tax at the New Zealand tax rate of 28% (2010: 30%)	6,669	5,645
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Tax offset for franked dividends	(99)	(99)
Adjustment for Hallmark New Zealand Policyholder Base	(416)	(505)
Tax effect on foreign exchange difference on translation	(103)	(28)
	6,051	5,013
Over provision in prior years	(391)	(56)
Income tax expense	5,660	4,957

10 Profit before income tax

	2011 $'000	2010 $'000
Profit before income tax includes the following specific expenses:		
Amortisation		
Software development costs	6	397
Employee costs		
Personnel costs	455	350

11 Statement of sources of operating profit

	2011 $'000	2010 $'000
The shareholders' operating profit after income tax of the statutory funds is represented by:		
Investment earnings on shareholders' retained and capital	2,016	1,510
Emergence of shareholders' planned profits	5,643	7,797
Experience profit/(loss)	3,145	(161)
	10,804	9,146

12 Cash and cash equivalents

	2011 $'000	2010 $'000
Cash at bank	12,890	12,191

(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:

	2011	2010
Cash at bank	12,890	12,191
Short term deposits (note 14)	218,771	183,711
Balances per statement of cash flows	231,661	195,902

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

13 Trade and other receivables

	2011 $'000	2010 $'000
Trade debtors	1,563	2,558
Investment income accrued and receivable	2,028	1,905
Other receivables	580	160
	4,171	4,623
Receivables - current	4,171	4,623
	4,171	4,623

The carrying value disclosed above approximates fair value at reporting date.
These balances include amounts receivable from related parties (note 28).

14 Financial assets at fair value through profit or loss

	2011 $'000	2010 $'000
Equity securities-Listed	7,134	8,407
Debt security-Foreign national government	830	779
Fixed interest securities	32,236	44,119
Short term deposits	218,771	183,711
	258,971	237,016
Financial assets at fair value through profit or loss - current	231,830	231,911
Financial assets at fair value through profit or loss - non current	27,141	5,105
	258,971	237,016

15 Reinsurance and other recoveries receivable

	2011 $'000	2010 $'000
Expected future reinsurance recoveries undiscounted		
Outstanding claims	445	698
Total reinsurance and other recoveries receivable	445	698

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

16 Intangible assets

	Software development costs $'000
At 1 January 2010	
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
Year ended 31 December 2011	
Opening net book amount	6
Amortisation charge	(6)
Closing net book amount	-
At 31 December 2011	
Cost	2,753
Accumulated amortisation	(2,753)
Net book amount	-

17 Deferred tax assets

	2011 $'000	2010 $'000
The balance comprises temporary differences attributable to:		
Operating accruals	387	167
Unrealised loss on financial assets at fair value through profit or loss	1,039	1,038
Deferred commission	(310)	(420)
Interest receivable	(575)	(541)
Other	(57)	126
Deferred tax assets	484	370
Movements:		
Balance at 1 January	370	(93)
(Charged)/Credited to the profit or loss (note 9)	(46)	532
Under/(Over) provision in prior years	160	(69)
Balance at 31 December	484	370

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

18 Investment in controlled entity

	2011 $'000	2010 $'000
Investment in controlled entity at deemed cost (Hallmark General Insurance Company Ltd) (note 19)	92,836	93,388

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 from head entity under a tax funding agreement of $552,000 (2010: Transfer to head entity $5,706,000).

19 Particulars in relation to controlled entity

Name of entity	Country of Incorporation	Class of shares	Equity holding 2011 %	Equity holding 2010 %
Hallmark General Insurance Company Ltd	Australia	Ordinary	100	100

20 Trade and other payables

	2011 $'000	2010 $'000
Trade payables	561	884
Other payables	8,622	6,264
Current tax liabilities	1,717	250
	10,900	7,398
Trade and other payables - current	10,824	7,265
Trade and other payables - non current	76	133
	10,900	7,398

The carrying amount disclosed above approximates fair value at reporting date.
These balances include amounts payable to related parties (note 28).

21 Policy claims in the process of settlement

	2011 $'000	2010 $'000
Undiscounted expected future claims payments	4,693	5,140
Discount to present value	(23)	(30)
Total outstanding claims	4,670	5,110
Policy claims in the process of settlement - current	4,414	4,811
Policy claims in the process of settlement - non current	256	299
	4,670	5,110

22 Policy liabilities

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

	2011 $'000	2010 $'000
Gross life insurance contract liabilities		
Balance at 1 January	32,761	28,582
Foreign exchange movement	125	(542)
Increase in life insurance contract liabilities reflected in the profit or loss	282	4,721
Balance at 31 December	33,168	32,761
Reinsurers' share of life insurance contract liabilities		
Balance at 1 January	183	214
Foreign exchange movement	1	-
Decrease in reinsurance assets reflected in the profit or loss	(83)	(31)
Balance at 31 December	101	183
Net policy liabilities at 31 December	33,067	32,578
Net insurance contract liabilities -current	16,592	18,733
Net insurance contract liabilities - non current	16,475	13,845
	33,067	32,578

22 Policy liabilities (continued)

(b) Components of net life insurance contract liabilities

	2011 $'000	2010 $'000
Best estimate liability:		
Future policy benefits (Note (2) below)	37,855	37,705
Unrecouped acquisition expenses	(4,788)	(5,127)
Total best estimate liability	33,067	32,578
Value of future shareholder profit margins (Note 1 below)	-	-
Net policy liabilities	33,067	32,578

(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	
	2011 $'000	2010 $'000	**2011 $'000**	2010 $'000	**2011 $'000**	2010 $'000
Solvency Requirement (a)	**40,404**	36,203	**7,524**	9,850	**47,928**	46,053
Representing:						
Minimum termination value (MTV)	**26,971**	25,612	**5,359**	6,565	**32,330**	32,177
Other liabilities	**12,461**	9,453	**2,105**	2,472	**14,566**	11,925
Solvency reserve (b)	**972**	1,138	**60**	813	**1,032**	1,951
	40,404	36,203	**7,524**	9,850	**47,928**	46,053
Assets available for solvency (c)	**40,762**	31,988	**24,413**	20,979	**65,175**	52,967
Comprises as :						
Excess of policy liability over MTV	**534**	(508)	**203**	909	**737**	401
Capital and retained earnings required for solvency	**437**	1,646	**(143)**	(96)	**294**	1,550
Excess assets	**39,791**	30,850	**24,353**	20,166	**64,144**	51,016
	40,762	31,988	**24,413**	20,979	**65,175**	52,967
Solvency reserve (%) [b/(a-b) * 100]	**2.50**	3.20	**0.81**	9.00	**2.20**	4.30
Coverage of Solvency Reserve (c/b)	**41.94**	28.11	**406.88**	25.80	**63.15**	27.15

22 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	
	2011 $'000	2010 $'000	**2011 $'000**	2010 $'000
Shareholders interest (overseas and non-participating businesses)	51,426	40,617	10,810	9,146

23 Issued capital

	2011 $'000	2010 $'000
(a) Share capital		
251 shares (2010: 251)		
Paid up ordinary shares	100	100
48,000 shares (2010: 48,000)		
Non-cumulative redeemable preference shares	10,000	10,000
	10,100	10,100

(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.

24 Reserves

	2011 $'000	2010 $'000
Foreign currency translation reserve	(4,378)	(4,416)
Tax consolidation reserve	66,308	64,961
Total	61,930	60,545

24 Reserves (continued)

	2011 $'000	2010 $'000
Movements:		
Foreign currency translation reserve		
Balance at 1 January	(4,416)	(3,324)
Exchange differences on translation of foreign operations	38	(1,092)
Balance 31 December	(4,378)	(4,416)
Tax consolidation reserve		
Balance at 1 January	64,961	55,666
Current tax liability transferred to Head Entity	1,347	9,295
Balance 31 December	66,308	64,961

25 Dividends

	2011 $'000	2010 $'000
No dividend was paid for the year ended 31 December 2011 (2010: $Nil).	-	-

The Board of the Company has approved a dividend payment of $75,000,000 which will be paid in 2012.

26 Key management personnel disclosures

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

(i) Directors

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

(ii) Other executives

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

26 Key management personnel disclosures (continued)

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.

	2011	2010
	$	$
Key management personnel compensation is:		
Short-term employee benefits	2,417,735	2,132,402
Long-term employee benefits	176,296	171,995
Equity compensation benefits	90,919	102,229
	2,684,950	2,406,626

There are no other transactions with key management personnel.

27 Remuneration of auditors

	2011	2010
	$	$
(a) Audit services		
KPMG		
Audit and review of financial reports	74,970	72,435
(b) Other assurance services		
KPMG		
APRA Return	44,945	43,425
AFSL Audit	5,687	5,495
New Zealand Regulatory Reporting	3,216	3,105
	53,848	52,025
Total remuneration for audit and other assurance services	128,818	124,460

28 Related party transactions

(a) Parent entities

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

(b) Transactions with related parties:

	2011	2010
	$	$
Management fees paid to:		
GE Personal Finance Pty Ltd	344,020	344,020
Hallmark General Insurance Company Ltd	2,452,166	3,170,747
GE Finance and Insurance Pty Ltd	56,225	57,854
GE Capital Finance Australasia Pty Ltd	2,804,773	3,267,038

28 Related party transactions (continued)

	2011 $	2010 $
Commission paid to:		
GE Finance Australasia Pty Ltd	**52,995**	46,595
GE Capital Finance Australasia Pty Ltd	**76,352**	386,173
GE Finance and Insurance Pty Ltd	**2,015,303**	1,656,760
GE Personal Finance Pty Ltd	**520,357**	87,469
GE Capital Finance Australia	**2,512,177**	2,809,941
Cost recharges:		
GE Finance and Insurance Pty Ltd	**56,225**	57,854
GE Finance and Insurance Pty Ltd	**455,347**	400,406
GE Capital Finance Australasia Pty Ltd	**360,770**	153,255
Royalty paid:		
GE Capital Registry, Inc.	**262,642**	266,363
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

(c) Outstanding balances with related parties:

	2011 $	2010 $
Accounts Receivable/(Payable):		
GE Finance Australasia Pty Ltd	**-**	(11,946)
GE Capital Finance Australia	**479,614**	503,819
GE Finance and Insurance Pty Ltd	**329,212**	591,599
GE Personal Finance Pty Ltd	**589,138**	751,425
Hallmark General Insurance Company Ltd	**(5,414,081)**	(2,417,001)
Simply Insurance New Zealand Ltd	**38,374**	-

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 2011, 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 2011 or prior years.

29 Disaggregated information on life insurance business by fund

	Non-Investment linked	Non-Investment linked	Non-Investment linked		
	Statutory Fund 1	Statutory Fund 2	Total	Shareholder fund	Total
2011	$'000	$'000	$'000	$'000	$'000
Financial assets	66,608	30,058	96,666	162,305	258,971
Other assets	13,685	1,822	15,507	93,544	109,051
Life insurance contract liabilities	(27,602)	(5,566)	(33,168)	-	(33,168)
Other liabilities	(12,460)	(2,104)	(14,564)	(1,006)	(15,570)
Retained earnings	(22,839)	(28,587)	(51,426)	(197,704)	(249,130)
Premium revenue	35,249	12,829	48,078	-	48,078
Investment revenue	3,788	906	4,694	7,783	12,477
Claims expense	(17,954)	(5,051)	(23,005)	-	(23,005)
Movement in policy liabilities	(2,295)	1,930	(365)	-	(365)
Other operating expenses	(9,194)	(5,498)	(14,692)	(265)	(14,957)
Operating profit before tax	9,596	5,115	14,711	7,518	22,229
Operating profit after tax	6,709	4,101	10,810	5,759	16,569
2010					
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

30 Capital requirement - Life Shareholders' Fund

		Shareholders' Fund	
		2011	2010
		$'000	$'000
Capital Requirement	(A)	93,721	94,905
Being greater of (4)			
Management Capital Reserve			
Determined as:			
Management Capital Requirement (1)		94,727	96,655
Less: Total Liabilities (2)		(1,006)	(1,750)
	(B)	93,721	94,905
And			
Minimum Capital Requirement (3)		10,000	10,000
Assets Available for Capital Requirement	(C)	256,719	250,642
Management Capital Reserve %	(A/B)x100	100 %	100 %
Coverage of Capital Requirement	(C/A)	2.74	2.64

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.

30 Capital requirement - Life Shareholders' Fund (continued)

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.

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

	2011 $'000	2010 $'000
Profit for the year	16,569	13,858
Add/(deduct) non-cash items		
Amortisation	6	397
Net realised loss on sale of financial assets	741	322
Net unrealised (gain)/loss in value of financial assets	(172)	650
Amortisation of bonds	(1)	(4)
Unrealised foreign exchange revaluation (gain)/loss on bonds	-	(2)
Effect of foreign exchange on cash and cash equivalents	42	1,486
Change in operating assets and liabilities		
Decrease in trade and other receivables	452	63
Decrease/(Increase) in reinsurance and other recoveries receivable	253	(396)
Decrease in gross policy liabilities ceded under reinsurance	82	31
Decrease/(Increase) in investment in controlled entity	552	(5,706)
(Decrease)/Increase in trade and other payables	3,502	(2,272)
Decrease in policy claims in the process of settlement	(440)	(330)
Increase in policy liabilities	407	4,179
Increase in net deferred tax assets	(114)	(461)
Decrease in deferred tax liabilities	-	(2)
(Decrease)/Increase in tax consolidation reserve	1,349	9,295
(Decrease)/Increase in foreign currency translation reserve	38	(1,092)
Net cash inflow from operating activities	23,266	20,016

32 Contingent liabilities

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

33 Matters subsequent to the end of the financial year

The Board of the Company has approved a dividend payment of $75,000,000 (2010: $NIL), which will be paid in 2012.

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

Directors' declaration for the year ended 31 December 2011

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

(a) the financial statements and notes set out on pages 4 to 36 , are in accordance with the Corporations Act 2001, including:

    (i) giving a true and fair view of the Company's financial position as at 31 December 2011 and of its performance for the financial year ended on that date; and

    (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;

(b) the financial statements also comply with International Financial Reporting Standards as disclosed in note 1; and

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

Signed in accordance with a resolution of the Directors:

Raymond Bruce Willing (Chairman)
Director

Neil William Smart
Director

Sydney
Date: 14 March 2012

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 2011 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, notes 1 to 33 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 2011 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1.

KPMG

KPMG

Andrew Reeves
Partner

Sydney

14 March 2012