

**Hallmark Life Insurance Company Ltd
New Zealand Branch
Financial report
for the year ended 31 December 2013**

Hallmark Life Insurance Company Ltd New Zealand Branch

Financial report - 31 December 2013


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Directors' report

Your Directors present their report together with the financial statements of Hallmark Life Insurance Company Ltd New Zealand Branch for the year ended 31 December 2013 and the auditor's report thereon.

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



Raymond Bruce Willing (Chairman)
Director
Sydney
26 February 2014



Scott Kingsley Miller (Managing Director)
Director
Sydney
26 February 2014

Hallmark Life Insurance Company Ltd New Zealand Branch

Financial report - 31 December 2013

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Hallmark Life Insurance Company Ltd New Zealand Branch
Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2013

	Notes	2013 \$'000	2012 \$'000
Insurance premium revenue	5	14,070	15,879
Outwards reinsurance premium expense		<u>1</u>	<u>(9)</u>
Net insurance premium revenue		14,071	15,870
Investment income	6	<u>1,126</u>	<u>1,084</u>
Total revenue		15,197	16,954
Claims expenses	7	(4,793)	(4,731)
Reinsurance and other recoveries		<u>(3)</u>	<u>(4)</u>
Net claims incurred		(4,796)	(4,735)
(Increase)/decrease in policy liabilities	14(a)	(523)	(213)
Increase/(decrease) in reinsurers share of policy liabilities	14(a)	<u>-</u>	<u>(5)</u>
Net increase in policy liabilities		(523)	(218)
Administration expenses	8	<u>(5,555)</u>	<u>(6,061)</u>
Total claims and expenses		(10,874)	(11,014)
Profit before income tax		4,323	5,940
Income tax expense	9	<u>(1,132)</u>	<u>(1,022)</u>
Profit for the year		3,191	4,918
Profit is attributable to:			
Owners of Hallmark Life Insurance Company Ltd New Zealand Branch		<u>3,191</u>	<u>4,918</u>
Total comprehensive income for the year is attributable to:			
Owners of Hallmark Life Insurance Company Ltd New Zealand Branch		<u>3,191</u>	<u>4,918</u>
		3,191	4,918

The above Statement of Profit or Loss and Other Comprehensive Income 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 2013

	Notes	2013 \$'000	2012 \$'000
ASSETS			
Cash and cash equivalents	11	43,469	39,000
Trade and other receivables	12	657	1,019
Financial assets at fair value through profit or loss	13	1,039	1,069
Total assets		<u>45,165</u>	<u>41,088</u>
LIABILITIES			
Trade and other payables	15	2,415	2,264
Current tax liabilities		498	248
Deferred tax liabilities	16	444	481
Gross policy liabilities	14(a)	8,087	7,565
Total liabilities		<u>11,444</u>	<u>10,558</u>
Net assets		<u>33,721</u>	<u>30,530</u>
EQUITY			
Retained earnings		33,721	30,530
Total equity		<u>33,721</u>	<u>30,530</u>

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

Hallmark Life Insurance Company Ltd New Zealand Branch
Statement of Changes in Equity
For the year ended 31 December 2013

	Retained earnings \$'000	Total equity \$'000
Balance at 1 January 2012	<u>32,018</u>	<u>32,018</u>
Profit for the year	4,918	4,918
Other comprehensive income	-	-
Total comprehensive income for the year	<u>4,918</u>	<u>4,918</u>
Transactions with owners in their capacity as owners:		
Dividends paid	<u>(6,406)</u>	<u>(6,406)</u>
Balance at 31 December 2012	<u>30,530</u>	<u>30,530</u>
 Balance at 1 January 2013	 <u>30,530</u>	 <u>30,530</u>
Profit for the year	3,191	3,191
Other comprehensive income	-	-
Total comprehensive income for the year	<u>3,191</u>	<u>3,191</u>
 Balance at 31 December 2013	 <u>33,721</u>	 <u>33,721</u>
	2013	2012
	\$'000	\$'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	<u>33,721</u>	30,530
	<u>33,721</u>	<u>30,530</u>

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

The above Statement of Changes in Equity 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 2013

	Notes	2013 \$'000	2012 \$'000
Cash flows from operating activities			
Premiums received		14,407	14,938
Outward reinsurance expense		-	(9)
Claims paid		(5,239)	(5,147)
Payments to suppliers and employees		(2,759)	(4,559)
Interest received		1,179	1,113
Income taxes paid		(1,070)	(806)
Reinsurance and other recoveries		-	(3)
Fees and commissions paid		(2,049)	(2,345)
Net cash inflow from operating activities	20	<u>4,469</u>	<u>3,182</u>
Net cash inflow from investing activities		<u>-</u>	<u>-</u>
Cash flows from financing activities			
Dividends paid to company's shareholders		-	(6,407)
Net cash inflow (outflow) from financing activities		<u>-</u>	<u>(6,407)</u>
Net increase (decrease) in cash and cash equivalents		4,469	(3,225)
Cash and cash equivalents at the beginning of the financial year		<u>39,000</u>	<u>42,225</u>
Cash and cash equivalents at end of year	11	<u>43,469</u>	<u>39,000</u>

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

Hallmark Life Insurance Company Ltd New Zealand Branch
Notes to the financial statements
For the year ended 31 December 2013

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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 Branch is a for-profit entity and is primarily involved in the underwriting of life insurance risks.

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

The financial statements were authorised for issue by the directors on 26 February 2014. The directors have the power to amend and reissue the financial statements.

(a) Basis of preparation

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 Reporting Act 1993 and its financial statements comply with that Act.

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).

Presentation of transactions recognised in other comprehensive income

(i) Presentation of transactions recognised in other comprehensive income

From 1 January 2013 the Company applied amendments to NZ IAS 1 Presentation of Financial Statements - Presentation of Other Comprehensive Income. The change in accounting policy only relates to disclosures and has had no impact on net income. The changes have been applied retrospectively and require the Branch to separately present those items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. These changes are included in the profit or loss.

Basis of measurement

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.

Critical accounting estimates

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 knowledge 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.

1 Summary of significant accounting policies (continued)

(b) Principles for life insurance business

Activities of the life insurance operations

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

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

Restrictions on assets

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

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

(c) Revenue

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) for insurance contracts, excluding stamp duties and taxes collected on behalf of third parties.

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

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

The unearned portion of premium is recognised within 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 profit or loss as investment revenue.

1 Summary of significant accounting policies (continued)

(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 profit or loss. Claims expenses represent total claim payments made during the year adjusted for the movement in the outstanding claims liability.

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

(e) Expenses

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

Basis of apportionment

Apportionment of expenses has been made as follows:

- all expenses have been apportioned between policy acquisition, policy maintenance and investment management in line with the principles set out in the Prudential Standard LPS 340 Valuation of Policy Liabilities issued by the Australian Prudential Regulation Authority ("APRA");
- expenses, which are directly attributable to an individual policy or product, are allocated directly to the statutory fund within which that class of business is conducted; and
- all indirect expenses charged to the profit or loss are equitably apportioned to each class of business.

The apportionment is in accordance with Division 2 Part 6 of the LIA.

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

(f) Outwards reinsurance premium

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

(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.

1 Summary of significant accounting policies (continued)

(g) Income tax (continued)

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, and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash.

(i) Trade and other receivables

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

(j) Reinsurance and other recoveries receivable

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

(k) Classification of insurance contracts

Contracts under which the Branch accepts significant insurance risk from the policyholder or another party by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event 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 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 profit or loss in the period in which they arise. Financial assets are subsequently measured at fair value at each reporting date with realised and unrealised gains and losses arising from changes in the fair value recognised in the profit or loss in the period in which they arise.

(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.

1 Summary of significant accounting policies (continued)

(m) Financial assets (continued)

(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

The carrying amount of the Branch's non-financial assets, other than deferred tax assets, are assessed annually for indicators of impairment, if any such indicator exists, then the asset's recoverable amount is estimated.

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

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

(o) Trade and other payables

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

(p) Liability adequacy test

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

(q) Policy liabilities

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

1 Summary of significant accounting policies (continued)

(r) 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 profit or loss of the Branch. The value and future recovery of these costs is assessed in determining the policy liabilities. This has the effect that acquisition costs deferred are amortised over the period that they will be recovered from premiums or policy charges.

(s) Foreign currency translation and functional currency

Functional and presentation currency

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

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

Transactions and balances

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

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

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

(t) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of goods and service tax (GST), except where the amount of GST incurred is not recoverable from the Inland Revenue Department (IRD). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

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

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

The GST rates in New Zealand is 15% (2012: 15%).

(u) New accounting standards and interpretations

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Branch, except for NZ IFRS 9 Financial Instruments, which becomes mandatory for the Branch's 2015 financial statements and could change the classification and measurement of financial assets. The Branch does not plan to adopt this standard early and the extent of the impact has not been determined.

1 Summary of significant accounting policies (continued)

(v) Rounding of amounts

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

2 Accounting judgements and estimates

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

(a) Life insurance contract liabilities

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

Under MoS the excess of premium received over claims and expenses ('the margin') is recognised over the life of the contract in a manner that reflects the pattern of risk accepted from the policyholder ('the service'), hence the term Margin on Services. The movement in life insurance contract liabilities recognised in the Statement of 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 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 capital requirements is 31 December 2013. 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).

3 Summary of significant actuarial methods and assumptions (continued)

Policy liabilities for life insurance contracts

Policy liabilities for life insurance contracts have been calculated in accordance with Prudential Standard LPS 340 Valuation of Policy Liabilities issued by APRA under subsection 230A(1) of the Life Insurance Act. The Prudential Standard requires the policy liabilities to be calculated in a way which allows for the systematic release of planned margins as services are provided to policy owners.

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

Major product groups	Method (projection or other)	Profit carriers
Lump sum risk	Accumulation (2012: Accumulation)	Claims (implied)
Disability and involuntary unemployment income	Accumulation (2012: Accumulation)	Claims (implied)

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

Disclosure of assumptions

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

(a) Discount rates

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

90 days	2.84% (2012: 2.69%)
5 years	4.22% (2012: 2.91%)

(b) Inflation rates

Allowance for future inflation of 2.5% p.a. is assumed (2012: 2.5% p.a.).

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

(c) Future expenses and indexation

Maintenance expense assumptions have been based on the experience in the current year and budgeted expenses for the year 2014. Inflation adjustments are consistent with the inflation assumptions.

(d) Rates of taxation

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

(e) Mortality and morbidity

Mortality rates for risk products have been based on experience over recent years. A loss ratio approach (applied to earned premium) was adopted. The loss ratios used have not varied significantly from those used in 2012.

3 Summary of significant actuarial methods and assumptions (continued)

Disclosure of assumptions (continued)

(f) Disability and involuntary unemployment

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

The key actuarial assumptions for the determination of the outstanding claims liabilities are claim termination rate, average claim size (Disability = NZ\$1,719, Unemployment = NZ\$597), a claims handling expense rate of 17% (2012: 17%) of the projected gross claim payments (based on expense investigation) and a discount rate of 3.20% (2012: 2.53%) (based on the yields of 1 year and 2 year New Zealand Government bonds) as at 31 December 2013. Across all classes, changes to the claim termination and average claim size assumptions would cause the most significant change to the liability estimate.

(g) Voluntary discontinuance

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

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

Consumer credit insurances	42% p.a. (2012: 54% p.a.)
Single premium term life insurances	<1% p.a. (2012: <1% p.a.)

(h) Capital requirements

New risk-based prudential capital standards (LAGIC) for Australian Life and General Insurance companies were introduced effective 1 January 2013. The Company is required to hold prudential reserves, over and above the policy liabilities, as a buffer against adverse future experience and poor investment returns. The methods and bases used for determining the capital requirements were in accordance with the requirements for Prudential Standard LPS 110 Capital Adequacy issued by APRA.

Impact of changes in assumptions

The policy liabilities for insurance contracts have been calculated using the accumulation method. Under this method, changes in assumptions do not have any impact on policy liabilities in the current period, unless a product enters loss recognition. As at 31 December 2013, 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 Summary of significant actuarial methods and assumptions (continued)

Sensitivity analysis (continued)

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

	Impact on Profit or Loss		Impact on Equity	
	Gross of reinsurance	Net of reinsurance	Gross of reinsurance	Net of reinsurance
	\$'000	\$'000	\$'000	\$'000
2013				
Result of change in variables				
Mortality/morbidity- Worsening by 5%	(48)	(48)	(48)	(48)
Mortality/morbidity- Improving by 5%	48	48	48	48
Lapse rate- Worsening by 5%	(7)	(7)	(7)	(7)
Lapse rate- Improving by 5%	7	7	7	7
Expenses- Worsening by 5%	(120)	(120)	(120)	(120)
Expenses- Improving by 5%	120	120	120	120

	Impact on Profit or Loss		Impact on Equity	
	Gross of reinsurance	Net of reinsurance	Gross of reinsurance	Net of reinsurance
	\$'000	\$'000	\$'000	\$'000
2012				
Result of change in variables				
Mortality/morbidity- Worsening by 5%	(37)	(37)	(37)	(37)
Mortality/morbidity- Improving by 5%	37	37	37	37
Lapse rate- Worsening by 5%	(26)	(26)	(26)	(26)
Lapse rate- Improving by 5%	26	26	26	26
Expenses- Worsening by 5%	(128)	(128)	(128)	(128)
Expenses- Improving by 5%	128	128	128	128

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

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

4 Risk management (continued)

Insurance risk management

Insurance risk management is the assessment and quantification of the likelihood and financial impact of events that may require settlement by the insurer; and the ability of the 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 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 systems are in place to ensure compliance with legislative and Prudential requirements, and that the Board has satisfied itself as to the compliance with the RMS and ReMS.

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

(i) Underwriting strategy

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

(ii) Reinsurance strategy

A conservative approach is taken in determining the level of risk appetite appropriate for the Branch and where deemed appropriate will spread the risk associated with the insured events according to its ReMS. All reinsurance treaties are subject to analytical and statistical 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 to track the actual versus expected experience of the portfolio, with feedback delivered to underwriting and product development.

(iv) Concentration of insurance risk

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

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 net 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 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).

(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, these guidelines comply with the GE Capital Corporation Financial Institutions Credit Standards ("GECC FICS") policy which sets out concentration limits and additional portfolio parameters. Management conducts a regular review of the investment holdings, compliance is monitored and exposures or breaches are reported to the Board. The mandate is reviewed regularly for pertinence and for changes in the risk environment.

The Branch only invests with counterparties that have a credit rating of at least A1/A from Standard & Poor's ("S&P"). Where a counterparty changes rating to below A1/A after acquisition, management will continue to review its holding in those counterparties and divest as deemed appropriate. 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 the creditworthiness of reinsurers and updates the ReMS.

4 Risk management (continued)

(a) Credit risk (continued)

(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(b)).

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
2013						
Financial assets						
Cash and cash equivalents	43,469	-	-	43,469	-	43,469
Trade and other receivables	-	657	-	657	-	657
Financial assets at fair value through profit or loss						
Debt securities	1,039	-	-	1,039	-	1,039
Total credit risk exposure	44,508	657	-	45,165	-	45,165

	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
2012						
Financial assets						
Cash and cash equivalents	39,000	-	-	39,000	-	39,000
Trade and other receivables	-	1,019	-	1,019	-	1,019
Financial assets at fair value through profit or loss						
Debt securities	1,069	-	-	1,069	-	1,069
Total credit risk exposure	40,069	1,019	-	41,088	-	41,088

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

4 Risk management (continued)

(a) Credit risk (continued)

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

2013	AAA \$'000	AA \$'000	A \$'000	BBB \$'000	Not rated \$'000	Total \$'000
Financial Assets						
Cash	-	-	43,469	-	-	43,469
Trade and other receivables*	-	-	-	-	657	657
Financial assets at fair value through profit or loss						
Debt securities	1,039	-	-	-	-	1,039
Total credit risk exposure	1,039	-	43,469	-	657	45,165
2012						
Financial Assets						
Cash	-	-	39,000	-	-	39,000
Trade and other receivables*	-	-	-	-	1,019	1,019
Financial assets at fair value through profit or loss						
Debt securities	1,069	-	-	-	-	1,069
Total credit risk exposure	1,069	-	39,000	-	1,019	41,088

* The receivables are largely with related parties, refer to note 19(b).
No receivables are past due or impaired at balance date (2012: Nil).

(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.

4 Risk management (continued)

(b) Liquidity risk (continued)

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.

2013	Up to a year \$'000	1-2 years \$'000	2-5 years \$'000	Over 5 years \$'000	No term \$'000	Total \$'000
Trade and other payables	1,202	-	-	-	-	1,202
Policy claims in process of settlement	1,102	84	27	-	-	1,213
Gross policy liabilities	4,822	1,862	1,403	-	-	8,087
Net principal liabilities	7,126	1,946	1,430	-	-	10,502

2012

Trade and other payables	605	-	-	-	-	605
Policy claims in process of settlement	1,449	165	45	-	-	1,659
Gross policy liabilities	5,074	1,593	898	-	-	7,565
Net principal liabilities	7,128	1,758	943	-	-	9,829

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.

The Board is responsible for developing and monitoring the risk management policies of the Company in relation to market risk. The Company's investment activities follow the GECC FICS policy. The GECC FICS policy document outlines the level of acceptable market risk, including counterparty ratings and exposure levels that apply to the investment activities of companies within the GECC Group.

(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.

4 Risk management (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

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

	Carrying Amount	Change in variables	Impact on profit before tax	Up to a year \$'000	Impact on Equity		Over 5 years \$'000	Total
	\$'000	%	\$'000		1-2 years \$'000	2-5 years \$'000		\$'000
2013								
Financial assets								
Short term deposits	40,334	-1	(403)	(282)	-	-	-	(282)
Debt securities	1,039	-1	(11)	-	(7)	-	-	(7)
	<u>41,373</u>		<u>(414)</u>	<u>(282)</u>	<u>(7)</u>	<u>-</u>	<u>-</u>	<u>(289)</u>

	Carrying Amount	Change in variables	Impact on profit before tax	Up to a year \$'000	Impact on Equity		Over 5 years \$'000	Total
	\$'000	%	\$'000		1-2 years \$'000	2-5 years \$'000		\$'000
2012								
Financial assets								
Short term deposits	38,240	-1	(382)	(267)	-	-	-	(267)
Debt securities	1,069	-1	(11)	-	-	(8)	-	(8)
	<u>39,309</u>		<u>(393)</u>	<u>(267)</u>	<u>-</u>	<u>(8)</u>	<u>-</u>	<u>(275)</u>

This analysis is performed on the same basis for 2012 and assumes that all other variables remain the same.

(iii) Price risk

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

The Branch has no such price risk exposure at balance date. (2012: 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.

4 Risk management (continued)

(d) Fair value measurement (continued)

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
2013				
Financial assets designated at fair value through profit or loss	-	-	1,039	1,039
	<u>-</u>	<u>-</u>	<u>1,039</u>	<u>1,039</u>
2012				
Financial assets designated at fair value through profit or loss	-	-	1,069	1,069
	<u>-</u>	<u>-</u>	<u>1,069</u>	<u>1,069</u>

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

The following table shows a reconciliation from the beginning balance to the ending balance for fair value measurements in Level 3 of the fair value hierarchy:

	2013 \$'000	2012 \$'000
Balance at 1 January	1,069	1,098
Total gains/(losses) recognised in:		
Profit or loss	(30)	(29)
Other comprehensive income	-	-
Balance at 31 December	<u>1,039</u>	<u>1,069</u>

5 Insurance premium revenue

	2013 \$'000	2012 \$'000
Direct life insurance premiums	14,069	15,879
Other premium revenue	<u>1</u>	<u>-</u>
	<u>14,070</u>	<u>15,879</u>

6 Investment income

	2013 \$'000	2012 \$'000
Interest income	<u>1,126</u>	<u>1,084</u>
Total investment income	<u>1,126</u>	<u>1,084</u>

Hallmark Life Insurance Company Ltd New Zealand Branch
Notes to the financial statements
For the year ended 31 December 2013
(continued)

7 Claims expenses

	2013 \$'000	2012 \$'000
Death and disability	928	1,069
Unemployment	47	37
Terminations of policies	<u>3,818</u>	<u>3,625</u>
	<u>4,793</u>	<u>4,731</u>

8 Administration expenses

	2013 \$'000	2012 \$'000
Policy maintenance	2,726	3,497
Foreign exchange (gain)/loss	(21)	(86)
Policy acquisition cost - others	549	154
Other expenses	183	-
Policy acquisition cost - commission	2,049	2,437
Investment management expenses	<u>69</u>	<u>59</u>
	<u>5,555</u>	<u>6,061</u>

9 Income tax expense

(a) Income tax expense

	2013 \$'000	2012 \$'000
Current tax expense	1,078	1,370
Deferred tax expense/(benefit) (note 16)	39	15
Under/(over) provided in prior years	<u>15</u>	<u>(363)</u>
	<u>1,132</u>	<u>1,022</u>

9 Income tax expense (continued)

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

	2013 \$'000	2012 \$'000
Profit from continuing operations before income tax expense	4,323	5,940
Tax at the New Zealand tax rate of 28% (2012 - 28%)	1,210	1,663
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Tax effect on actuarial adjustment - policyholder base	(135)	(278)
Other non-deductible expense	42	-
	1,117	1,385
Under/(over) provision in prior years	15	(363)
Income tax expense	1,132	1,022

10 Statement of sources of operating profit

	2013 \$'000	2012 \$'000
The shareholders' operating profit after income tax of the statutory funds is represented by:		
Investment earnings on shareholders' retained and capital	587	589
Emergence of shareholders' planned profits	1,363	2,461
Experience profit	968	2,418
Shareholders' operating profit after income tax	2,918	5,468

11 Cash and cash equivalents

	2013 \$'000	2012 \$'000
Cash at bank	3,135	760
Short term deposits	40,334	38,240
	43,469	39,000

12 Trade and other receivables

	2013 \$'000	2012 \$'000
Trade debtors	510	846
Investment income accrued and receivable	147	170
Reinsurance and claims receivable	-	3
	<u>657</u>	<u>1,019</u>
Receivables - Current	<u>657</u>	<u>1,019</u>
These balances include amounts receivable from related parties (note 19).		

13 Financial assets at fair value through profit or loss

	2013 \$'000	2012 \$'000
Debt securities - National government bonds	<u>1,039</u>	<u>1,069</u>
Financial assets at fair value through profit or loss - non-current	<u>1,039</u>	<u>1,069</u>

14 Policy liabilities

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

	2013 \$'000	2012 \$'000
Gross life insurance contract liabilities		
Balance at 1 January	7,565	7,362
Foreign exchange movement	(1)	(10)
Increase in life insurance contract liabilities reflected in the profit or loss	523	213
Balance at 31 December	<u>8,087</u>	<u>7,565</u>
Reinsurers' share of life insurance contract liabilities		
Balance at 1 January	-	5
Decrease in reinsurance assets reflected in the profit or loss	-	(5)
Balance at 31 December	<u>-</u>	<u>-</u>
	<u>8,087</u>	<u>7,565</u>
Net insurance contract liabilities - current	4,822	5,074
Net insurance contract liabilities - non current	<u>3,265</u>	<u>2,491</u>
	<u>8,087</u>	<u>7,565</u>

14 Policy liabilities (continued)

(b) Components of net life insurance contract liabilities

	2013 \$'000	2012 \$'000
Best estimate liability - For non investment linked business		
Future policy benefits (Note (2) below)	8,937	8,434
Unrecouped acquisition expenses	<u>(850)</u>	<u>(869)</u>
Total best estimate liability	8,087	7,565
Value of future shareholder profit margins (Note 1 below)	<u>-</u>	<u>-</u>
Net policy liabilities	<u>(8,087)</u>	<u>(7,565)</u>

- (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) Capital requirements of the life funds

The Branch is required to hold prudential reserves, over and above the policy liabilities, as a buffer against adverse future experience and poor investment returns. New risk-based prudential capital standards for Australian Life and General Insurance companies (LAGIC) were introduced effective 1 January 2013. The required level of capital for regulatory purposes (the Prudential Capital Amount, or PCA) is intended to take account of the full range of risks to which a life insurer is exposed and a life company must ensure that the life company and each of its statutory funds has, at all times, a capital base in excess of its PCA (plus any additional amount as required by APRA).

The excess of the Branch's capital base over the PCA as at 31 December 2013 was \$33.5 million.

The annual audit process has confirmed that the available assets of each statutory fund have also exceeded the prudential capital requirement at all times during the prior year.

Prior to 1 January 2013, Life companies were required to hold prudential reserves based on the greater of the requirements under solvency and capital adequacy standards. Capital disclosures prior to 1 January 2013 were based on the capital standards in place at the time and have not been restated to reflect the LAGIC requirements.

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

14 Policy liabilities (continued)

(c) Capital requirements of the life funds (continued)

LAGIC Disclosure

	2013 \$'000
(a) Capital Base	34,069
(b) Prescribed capital amount	537
Capital in excess of prescribed capital amount = (a) - (b)	<u>33,532</u>
Capital adequacy multiple = (a)/(b)	<u>63.40</u>
Capital Base:	
Net Assets	33,721
Less: Difference between Adjusted policy liabilities and Policy liabilities	352
Less: Elimination of any excess DTAs over DTLs	-
Equals: Capital Base	<u>34,073</u>
Prescribed capital amount:	
Asset Risk Charge	153
Operational Risk Charge	<u>384</u>
Prescribed capital amount	<u>537</u>

Note: There is no Additional Tier 1 Capital or Tier 2 Capital.

(d) Solvency requirements of the life funds in prior year

In the prior year these were 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 Bonds.

The methodology and bases for determining solvency requirements were in accordance with the previous requirements of Prudential Standard LPS 100, 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.

14 Policy liabilities (continued)

(d) Solvency requirements of the life funds in prior year (continued)

	2012 \$'000
Solvency Requirement (a)	<u>10,096</u>
Representing:	
Minimum termination value (MTV)	7,411
Other liabilities	2,544
Solvency reserve (b)	<u>141</u>
	<u>10,096</u>
Assets available for solvency (c)	<u>30,668</u>
Comprises as:	
Excess of policy liability over MTV	153
Capital and retained earnings required for solvency	(12)
Excess assets	<u>30,527</u>
	<u>30,668</u>
Solvency reserve (%) [b/(a-b) * 100]	1.42
Coverage of Solvency Reserve (c/b)	217.50

15 Trade and other payables

	2013 \$'000	2012 \$'000
Trade payables	750	11
Other payables	452	594
Policy claims in the process of settlement	<u>1,213</u>	<u>1,659</u>
	<u>2,415</u>	<u>2,264</u>
	2013 \$'000	2012 \$'000
Trade and other payables - current	2,304	2,053
Trade and other payables - non current	<u>111</u>	<u>211</u>
	<u>2,415</u>	<u>2,264</u>

The carrying amount disclosed above approximates fair value at reporting date.
These balances include amounts payable to related parties (note 19).

16 Deferred tax liabilities

	2013 \$'000	2012 \$'000
Non-current		
The balance comprises temporary differences attributable to:		
Deferred commission	458	483
Deferred acquisition costs	(14)	5
Other	-	(7)
	<u>444</u>	<u>481</u>
Movements		Total \$'000
At 1 January 2012		458
Charged/(credited) to profit or loss (note 9)		15
Under/(over) provision in prior years		8
At 31 December 2012		<u>481</u>
At 1 January 2013		481
Charged/(credited) to profit or loss (note 9)		39
Under/(over) provision in prior years		(76)
At 31 December 2013		<u>444</u>

17 Key management personnel disclosures

Any remuneration received by the Directors was received in their capacity as Directors of Hallmark Life Insurance Company Ltd.

18 Remuneration of auditors

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

Hallmark Life Insurance Company Ltd New Zealand Branch
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(continued)

19 Related party transactions

The following related party transactions occurred within the wholly owned group during the year ended 31 December 2013.

(a) Transactions with related parties

	2013 \$	2012 \$
<i>Management fees paid to:</i>		
Hallmark Life Insurance Company Ltd	2,460,694	3,119,258
GE Finance and Insurance Pty Ltd	-	33,636
<i>Host Insurance depreciation and administrative costs recharges:</i>		
GE Finance and Insurance Pty Ltd	334,462	230,081
<i>Royalty paid:</i>		
GE Capital Registry, Inc.	41,647	46,149
<i>Commission paid to:</i>		
GE Finance and Insurance Pty Ltd	2,048,504	2,396,243
<i>Other transactions:</i>		
Dividends paid to Australian parent company	-	6,407,000

(b) Outstanding balances with related parties

	2013 \$	2012 \$
<i>Receivables/(payables)</i>		
Hallmark Life Insurance Company Ltd	(750,623)	(296,805)
Simply Insurance New Zealand Ltd	-	16,680
GE Finance and Insurance Pty Ltd	510,717	1,129,071

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 2013, there are no amounts outstanding owed by Hallmark Life Insurance Company Ltd New Zealand Branch to GE Capital Finance Australasia Pty Ltd or to other related parties which are not reflected in the accounts, and there are no further amounts to be charged by GE Capital Finance Australasia Pty Ltd or by other related parties in relation to services provided to Hallmark Life Insurance Company Ltd New Zealand Branch during 2013 or prior years.

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

	2013 \$'000	2012 \$'000
Profit for the year	3,191	4,918
Adjustments for non-cash items		
Unrealised losses in value of financial assets	30	30
Change in operating assets and liabilities:		
Decrease/(increase) in receivables	362	(807)
Increase/(decrease) in payables	151	(1,383)
Increase in current tax liabilities	250	193
(Decrease)/increase in deferred tax liabilities	(37)	23
Decrease in gross policy liabilities ceded under reinsurance	-	5
Increase in gross policy liabilities	522	203
Net cash inflow from operating activities	<u>4,469</u>	<u>3,182</u>

21 Contingent assets and contingent liabilities

No contingent assets or contingent liabilities existed as at 31 December 2013 (2012: nil).

22 Matters subsequent to the end of the financial year

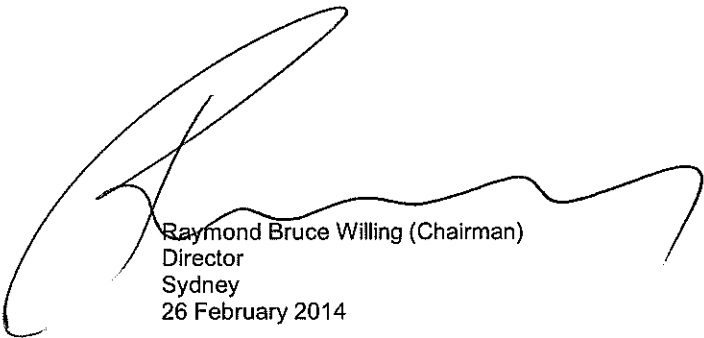
From the end of the financial year to the date of this report, there were no items, transactions or events of a material and unusual nature which, in the opinion of the Directors of the Branch, are likely to have significant effect on the Branch's operations, the results of those operations, or the state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

Directors' declaration

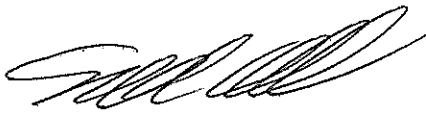
In the opinion of the Directors of Hallmark Life Insurance Company Ltd New Zealand Branch ("the Branch"):

- (a) the financial statements and notes set out on pages 2 to 33 are in accordance with the Financial Reporting Act 1993, including:
 - (i) giving a true and fair view of the Branch's financial position as at 31 December 2013 and of its performance for the financial year ended on that date; and
 - (ii) complying with generally accepted accounting practice in New Zealand.
- (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 Branch will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of Directors:



Raymond Bruce Willing (Chairman)
Director
Sydney
26 February 2014



Scott Kingsley Miller (Managing Director)
Director
Sydney
26 February 2014



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 33. The financial statements comprise the statement of financial position as at 31 December 2013, 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 that give a true and fair view of the matters to which they relate, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

Auditor's responsibility

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

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

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

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



Opinion

In our opinion the financial statements of Hallmark Life Insurance Company Ltd New Zealand Branch on pages 2 to 33:

- 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 2013 and of its financial performance and cash flows for the year then ended.

Report on other legal and regulatory requirements

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

- we have obtained all the information and explanations that 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

Sydney

26 February 2014

Hallmark Life Insurance Company Ltd

ABN 87 008 446 884

Financial report for the year ended 31 December 2013

Hallmark Life Insurance Company Ltd ABN 87 008 446 884
Financial report - 31 December 2013

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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 2013 and the auditor's report thereon.

Directors

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

Raymond Bruce Willing (Chairman)
Philip Stuart Douglas Purcell
Neil William Smart
Paul Brian McCann
Angela Julie Hunter (resigned 3 September 2013)
Scott Kingsley Miller (appointed 2 September 2013)

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 4, 99 Walker Street, North Sydney, NSW 2060.

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

No dividends were paid or declared by the Company in respect of the financial year ended 31 December 2013 (2012: \$75,000,000).

Review of results and operations

The operating profit of the Company for the financial year after income tax was \$11,870,000 (2012: \$12,825,000).

The growth in premium revenues for 2013 was mainly due to increased Australian premium of \$2,000,000 versus 2012, partly offset by a decline in New Zealand revenues. Operating expenses increased in line with the growth in revenues. Claims expense decreased during the year due to a favourable adjustment in past years' losses and a decline in claims during the year.

As a result of the change in GE Corporate policy the business disposed of all equities in 2013. Investment income has been impacted by lower net gains and dividend income. The business was also impacted by lower interest rate movements throughout the year.

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

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

Likely developments and expected results of operations

Information on likely developments in the operations of the Company and the expected results of 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 officers and auditors

Indemnification

Mandatory indemnification and legal costs

To the maximum extent permitted by law, the Company:

- (a) shall indemnify any current or former Officer of the Company who was or is made or is threatened to be made a party or is otherwise involved in any proceeding by reason of the fact he or she is or was an Officer of the Company against all liability and loss suffered and expenses reasonably incurred by that Officer (except a liability for legal costs); and
- (b) shall indemnify an Officer against legal costs incurred by that Officer in defending any proceeding for which that Officer is entitled to be indemnified pursuant to article (a) above, in advance of its final disposition provided however that such payment of legal costs shall only be made in advance of final disposition of the proceeding upon receipt of an undertaking by the Officer to repay all amounts advanced if it should be ultimately determined that the Officer is not entitled to be indemnified.

Permissive indemnification and legal costs

To the maximum extent permitted by law, the Company:

- (a) may indemnify any person who is not an Officer of the Company (Non-Officer) against any liability or loss incurred by that Non-Officer in their performance of, or in connection with, the role undertaken by them for or on behalf of the Company (except a liability for legal costs); and
- (b) may indemnify a Non-Officer against legal costs incurred by that Non-Officer in defending any proceeding for which such Non-Officer is entitled to be indemnified pursuant to article (a) above, in advance of its final disposition provided however that, to the extent required by law, such payment of legal costs shall only be made in advance of final disposition of the proceeding upon receipt of an undertaking by the Non-Officer to repay all amounts advanced if it should be ultimately determined that the Non-Officer is not entitled to be indemnified.

Any such permissive indemnity must be evidenced by way of written agreement by any Officer designated by the board of directors for such purpose.

Insurance

During the financial year ended 31 December 2013 General Electric Company (the ultimate parent entity) has paid premiums on behalf of the Company in respect of directors' and officers' liability insurance (non-indemnifiable coverage only) in respect of that year.

Subsequently, the ultimate parent entity has agreed to pay premiums on behalf of the Company, in respect of directors' and officers' liability insurance (non-indemnifiable coverage only) in respect of the period ending 11 June 2014.

Such insurance policies insure directors and officers against certain limited liabilities.

Directors have not included details of the nature of the liabilities covered or the amount of the premium paid as such disclosure is prohibited under the terms of the insurance policy.

The Company has not during or since the end of the financial year paid or agreed to pay any premiums in respect of any person who has been an auditor of the Company for the purposes of indemnifying them against any claims by third parties arising from their audit report.

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

Proceedings on behalf of the company

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

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

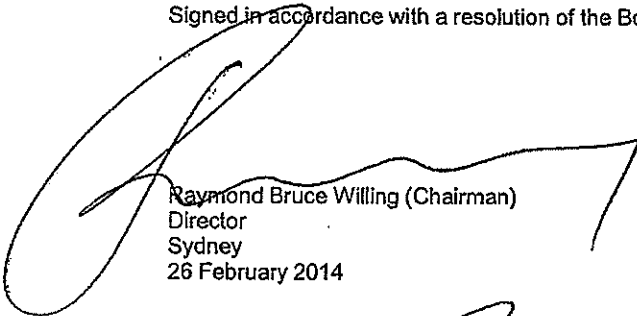
Lead Auditor's independence declaration

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


Rounding of amounts

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

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



Raymond Bruce Willing (Chairman)
Director
Sydney
26 February 2014



Scott Kingsley Miller (Managing Director)
Director
Sydney
26 February 2014



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 2013 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.


KPMG


Andrew Reeves
Partner

Sydney

26 February 2014

Hallmark Life Insurance Company Ltd ABN 87 008 446 884
Financial report - 31 December 2013

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Hallmark Life Insurance Company Ltd
Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2013

	Notes	2013 \$'000	2012 \$'000
Insurance premium revenue	5	49,529	48,084
Outwards reinsurance premium expense		(790)	(829)
Net insurance premium revenue		48,739	47,255
Investment income	6	7,430	10,789
Total revenue		56,169	58,044
Claims expenses	7	(23,511)	(24,872)
Reinsurance and other recoveries		465	596
Net claims incurred		(23,046)	(24,276)
(Increase)/decrease in policy liabilities	21	(2,052)	(2,233)
Increase/(decrease) in reinsurers share of policy liabilities	21	6	(12)
Net increase in policy liabilities		(2,046)	(2,245)
Administration expenses	8	(14,221)	(14,336)
Total claims and expenses		(39,313)	(40,857)
Profit before income tax	10	16,856	17,187
Income tax expense	9	(4,986)	(4,362)
Profit for the year		11,870	12,825
Other comprehensive income			
Items that may be reclassified subsequently the profit or loss:			
Exchange differences on translation of foreign operations		3,936	1,365
Total items that may be reclassified subsequently the profit or loss		3,936	1,365
Other comprehensive income for the year, net of tax		3,936	1,365
Total comprehensive income for the year		15,806	14,190
Profit is attributable to:			
Owners of Hallmark Life Insurance Company Ltd		11,870	12,825
		11,870	12,825
Total comprehensive income for the year is attributable to:			
Owners of Hallmark Life Insurance Company Ltd		15,806	14,190
		15,806	14,190

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

Hallmark Life Insurance Company Ltd
Statement of Financial Position
As at 31 December 2013

	Notes	2013 \$'000	2012 \$'000
ASSETS			
Cash and cash equivalents	12	180,330	179,717
Trade and other receivables	13	3,112	2,594
Financial assets at fair value through profit or loss	14	51,246	36,834
Reinsurance and other recoveries receivable	15	354	359
Gross policy liability ceded under reinsurance	21(a)	83	88
Deferred tax assets	16	-	422
Investment in controlled entity	17	101,195	98,673
Total assets		336,320	318,687
LIABILITIES			
Trade and other payables	19	4,082	7,946
Current tax liabilities		458	210
Deferred tax liabilities	16	154	-
Policy claims in the process of settlement	20	3,411	6,211
Gross policy liabilities	21(a)	38,607	35,725
Total liabilities		46,712	50,092
Net assets		289,608	268,595
EQUITY			
Issued capital	22	10,100	10,100
Reserves	23	80,683	71,540
Retained earnings		198,825	186,955
Total equity		289,608	268,595

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

Hallmark Life Insurance Company Ltd
Statement of Changes in Equity
For the year ended 31 December 2013

	Notes	Issued capital \$'000	Reserves \$'000	Retained earnings \$'000	Total equity \$'000
Balance at 1 January 2012		10,100	61,930	249,130	321,160
Profit for the year		-	-	12,825	12,825
Other comprehensive income		-	1,365	-	1,365
Total comprehensive income for the year		-	1,365	12,825	14,190
Transactions with owners in their capacity as owners:					
Dividends paid	24	-	-	(75,000)	(75,000)
Current tax liability transferred to head entity		-	8,245	-	8,245
Total transactions with owners of the company		-	8,245	(75,000)	(66,755)
Balance at 31 December 2012		10,100	71,540	186,955	268,595
 Balance at 1 January 2013		 10,100	 71,540	 186,955	 268,595
Profit for the year		-	-	11,870	11,870
Other comprehensive income		-	3,936	-	3,936
Total comprehensive income for the year		-	3,936	11,870	15,806
Transactions with owners in their capacity as owners:					
Current tax liability transferred to head entity		-	5,207	-	5,207
Total transactions with owners of the company		-	5,207	-	5,207
 Balance at 31 December 2013		 10,100	 80,683	 198,825	 289,608

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

Hallmark Life Insurance Company Ltd
Statement of Cash Flows
For the year ended 31 December 2013

	Notes	2013 \$'000	2012 \$'000
Cash flows from operating activities			
Premium received		49,018	48,795
Outward reinsurance expense		(736)	(829)
Claims paid		(26,500)	(23,316)
Payments to suppliers and employees		(12,488)	(10,954)
Interest received		8,034	10,234
Dividends received		87	1,498
Income taxes paid		(2,602)	(3,581)
Reinsurance and other recoveries		470	683
Fees and commissions paid		(4,972)	(4,825)
Net cash Inflow from operating activities	29	<u>10,311</u>	<u>17,705</u>
Cash flows from Investing activities			
Payment for financial assets		(22,933)	(1,095)
Proceeds from sale of financial assets		8,145	5,540
Net cash (outflow) inflow from investing activities		<u>(14,788)</u>	<u>4,445</u>
Cash flows from financing activities			
Dividends paid to company's shareholders	24	-	(75,000)
Net cash inflow (outflow) from financing activities		<u>-</u>	<u>(75,000)</u>
Net (decrease) in cash and cash equivalents		(4,477)	(52,850)
Cash and cash equivalents at the beginning of the financial year		179,717	231,661
Effects of exchange rate changes on cash and cash equivalents		5,090	906
Cash and cash equivalents at end of year	12	<u>180,330</u>	<u>179,717</u>

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

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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 Company is a 'for-profit' entity and is primarily involved in the underwriting of life insurance risks.

The financial statements were authorised for issue by the directors on 26 February 2014. The Directors have the power to amend and reissue the financial statements.

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

(a) Basis of preparation

Statement of compliance

This general purpose financial report covers the Company and its New Zealand Statutory Fund 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 ultimate Australian parent entity, GE Capital Australia Group Holdings Pty Ltd.

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).

Changes in accounting policies and disclosures

(i) *Presentation of transactions recognised in other comprehensive income*

From 1 January 2013 the Company applied amendments to AASB 101 Presentation of Financial Statements outlined in AASB 2011-9 Amendments to Australian Accounting Standards - Presentation of Items of Other Comprehensive Income. The change in accounting policy only relates to disclosures and has had no impact on consolidated earnings per share or net income. The changes have been applied retrospectively and require the Company to separately present those items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. These changes are included in the Statement of Profit or Loss and Other Comprehensive Income.

1 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

Changes in accounting policies and disclosures (continued)

(ii) Adoption of new accounting policies

The Company has applied AASB 12 Disclosure of Interests in Other Entities and AASB 13 Fair Value Measurement with a date of initial application of 1 January 2013.

AASB 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other AASBs. In particular, it unifies the definition of fair value as the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date. It also replaces and expands the disclosure requirements about fair value measurements in other AASBs, including AASB 7 Financial Instruments: Disclosures.

In accordance with AASB 13, the Company has applied the new fair value measurement guidance prospectively, and has not provided any comparative information for new disclosures. Notwithstanding the above, the change had no significant impact on the measurements of the Company's assets and liabilities.

Basis of measurement

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

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

Critical accounting estimates

The preparation of the 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 knowledge 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.

(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 profit or loss, Statement of Financial Position and Statement of Cash Flows of the Company. The life insurance operations of the Company comprise of selling and administration of life insurance contracts only.

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

1 Summary of significant accounting policies (continued)

(b) Principles for life insurance business (continued)

Restrictions on assets

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

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

(c) 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) for insurance contracts, excluding stamp duties and taxes collected on behalf of third parties, including the goods and services tax in Australia.

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

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

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

(ii) Investment income

All investment income is recognised as revenue on an accruals basis. Interest income is recognised on a time proportion basis using the simple interest method. Dividends are brought to account as declared and are recognised net of franking credits. Assets are designated at fair value through profit and loss and the related net realised and unrealised gains and losses are included in the profit or loss 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 profit or loss. Claims expenses represent total claim payments made during the year adjusted for the movement in the outstanding claims liability.

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

1 Summary of significant accounting policies (continued)

(e) Expenses

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

Basis of apportionment

Apportionment of expenses has been made as follows:

- all expenses have been apportioned between policy acquisition, policy maintenance and investment management in line with the principles set out in the Prudential Standard LPS 340 Valuation of Policy Liabilities issued by the Australian Prudential Regulation Authority ("APRA");
- expenses, which are directly attributable to an individual policy or product, are allocated directly to the statutory fund within which that class of business is conducted; and
- all indirect expenses charged to the profit or loss are equitably apportioned to each class of business.

The apportionment is in accordance with Division 2 Part 6 of the LIA.

(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

Australian company

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 Partnership is the head entity in an income tax consolidated group (formerly known as the GE Finance Holdings Hold Co Pty Limited 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.

1 Summary of significant accounting policies (continued)

(g) Income tax (continued)

Tax consolidation (continued)

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

For financial year ended 31 December 2013, the members of the tax consolidated group have entered into a tax funding agreement which sets out the funding obligations of the members of the tax consolidated group in respect of tax amounts. The tax funding agreement requires the Company and its subsidiary (member) to make payments to 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 Finance Holdings Partnership. 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% (2012: 28%).

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:

1 Summary of significant accounting policies (continued)

(g) Income tax (continued)

Statutory funds (continued)

Assessable income

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

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

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

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

Allowable deductions

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

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

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

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

(h) Cash and cash equivalents

For the purpose of the Statement of Cash Flows, cash and cash equivalents include cash on hand, deposits held at call with financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash.

(i) Trade and other receivables

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

(j) Reinsurance and other recoveries receivable

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

(k) Classification of insurance contracts

Contracts under which the Company accepts significant insurance risk from the policyholder or another party by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event adversely affects the policyholder or other beneficiary, are classified as insurance contracts. The risks associated with Insurance contracts are detailed further in note 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 Company has elected to designate all its financial assets at fair value through profit and loss consistent with the provisions of AASB 139 Financial Instruments; Recognition and Measurement.

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

Classification

(i) Short term deposits

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

(ii) Unlisted fixed interest securities

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

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

(n) Investment in controlled entity

Investment in the controlled entity is carried at deemed cost.

(o) Impairment of assets

The carrying amount of the Company's non-financial assets, other than deferred tax assets, are assessed annually for indicators of impairment. If any such indicator exists, then the asset's recoverable amount is estimated.

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

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

(p) Trade and other payables

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

1 Summary of significant accounting policies (continued)

(q) Liability adequacy test

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

(r) Policy liabilities

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

(s) Policy acquisition costs

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

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

(t) Foreign currency translation and functional currency

Functional and presentation currency

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

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

Transactions and balances

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

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

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

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

- 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.

1 Summary of significant accounting policies (continued)

(u) Goods and services tax (GST)

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

(v) 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, or in certain cases, the nearest dollar.

(w) New accounting standards and interpretations

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Company, except for AASB 9 Financial Instruments, which becomes mandatory for the Company's 2015 financial statements and could change the classification of financial assets. The Company does not plan to adopt this standard early and the extent of the impact has not been determined.

2 Accounting judgements and estimates

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities at year end. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The areas 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 profit or loss reflects the planned release of this margin.

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

Where the accumulation method has been used, the liability is based on an unearned premium reserve, less an explicit allowance for deferred acquisition costs and a reserve for IBNR's. Where used, the accumulation method is considered to be a reasonable approximation of liabilities had they been determined on a projection basis. A summary of the significant actuarial methods and assumptions used is contained in note 3.

2 Accounting judgements and estimates (continued)

(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 capital requirements is 31 December 2013. 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 340 '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 (2012: Accumulation)	Claims (implied)
Disability and involuntary unemployment income	Accumulation (2012: Accumulation)	Claims (implied)

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

Disclosure of assumptions

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

(a) Discount rates

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

Australia	
90 days	2.63% (2012: 3.07%)
5 years	3.43% (2012: 2.82%)
New Zealand	
90 days	2.84% (2012: 2.69%)
5 years	4.22% (2012: 2.91%)

3 Actuarial assumptions and methods (continued)

Disclosure of assumptions (continued)

(a) Discount rates (continued)

(b) Inflation rates

Allowance for future inflation of 2.5% p.a. for Australia and New Zealand is assumed (2012: 2.5% p.a.).

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

(c) Future expenses and indexation

Maintenance expense assumptions have been based on the experience in the current year and budgeted expenses for the year 2014. Inflation adjustments are consistent with the inflation assumption.

(d) Mortality and morbidity

Mortality rates for risk products have been based on experience over recent years. A loss ratio approach (applied to earned premium) was adopted. The loss ratios used have not varied significantly from 2012 with the exception of an increase in the loss ratio for death cover on Australian credit cards.

(e) Disability and involuntary unemployment

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

The key actuarial assumptions for the determination of the outstanding claims liabilities are claim termination rate, average claim size (Disability = NZ\$719, Unemployment = NZ\$597), a claims handling expense rate of 17% of the projected gross claim payments (based on expense investigation) and a discount rate of 3.20% (based on the yields of 1 year and 2 year New Zealand Government bonds as at 31 December 2013). Across all classes, changes to the claim termination and average claim size assumptions would cause the most significant change to the liability estimate.

(f) Voluntary discontinuance

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

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

Consumer credit insurances	49% p.a. (2012: 55% p.a.)
Regular premium term life insurances	17% p.a. (2012: 17% p.a.)

(g) Capital requirements

New risk-based prudential capital standards (LAGIC) for Australian Life and General Insurance companies were introduced effective 1 January 2013. The Company is required to hold prudential reserves, over and above the policy liabilities, as a buffer against adverse future experience and poor investment returns. The methods and bases used in determining the capital requirements were in accordance with the requirements of the Prudential Standard LPS 110 'Capital Adequacy' as issued by APRA.

3 Actuarial assumptions and methods (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 2013, the assumption changes have not resulted in any of the related product groups entering loss recognition, and hence the policy liability has not been impacted by changes in assumptions.

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

Sensitivity analysis

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

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

	Impact on Profit or loss		Impact on Equity	
	Gross of reinsurance	Net of reinsurance	Gross of reinsurance	Net of reinsurance
	\$'000	\$'000	\$'000	\$'000
2013				
Result of change in variables				
Mortality/morbidity- Worsening by 5%	(160)	(144)	(160)	(144)
Mortality/morbidity- Improving by 5%	160	144	160	144
Lapse rate- Worsening by 5%	(53)	(53)	(53)	(53)
Lapse rate- Improving by 5%	53	53	53	53
Expenses- Worsening by 5%	(305)	(305)	(305)	(305)
Expenses- Improving by 5%	305	305	305	305
	Impact on Profit or loss		Impact on Equity	
	Gross of reinsurance	Net of reinsurance	Gross of reinsurance	Net of reinsurance
	\$'000	\$'000	\$'000	\$'000
2012				
Result of change in variables				
Mortality/morbidity- Worsening by 5%	(148)	(140)	(148)	(140)
Mortality/morbidity- Improving by 5%	148	140	148	140
Lapse rate- Worsening by 5%	(131)	(131)	(131)	(131)
Lapse rate- Improving by 5%	131	131	131	131
Expenses- Worsening by 5%	(305)	(305)	(305)	(305)
Expenses- Improving by 5%	305	305	305	305

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 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).

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

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

(i) Underwriting strategy

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

(ii) Reinsurance strategy

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

For the Company's main term life product lines in Australia, the level of reinsurance cover is regularly reviewed. For the Company's main term life product lines in New Zealand, two reinsurance treaties provide surplus reinsurance cover. The Company considers this to be appropriate reinsurance 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.

4 Risk management (continued)

Insurance risk management (continued)

(iii) Claims management

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

(iv) Concentration of insurance risk

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

Capital management

Capital consists of ordinary shares, non-cumulative redeemable preference shares and retained earnings.

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

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

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

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

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

For detailed information on the Company's capital position and the capital requirements of APRA, refer note 21(c).

(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:

4 Risk management (continued)

(a) Credit risk (continued)

(i) Financial assets

The Company's Investment mandate sets out the investment management guidelines approved by the Board. The guidelines establish credit approval authorities, concentrations limits, and approved investment portfolio parameters. These guidelines comply with the GE Capital Corporation Financial Institutions Credit Standards ("GECC FICS") policy which sets out concentration limits and additional portfolio parameters. Management conducts a regular review of the investment holdings; compliance is monitored and exposures or breaches are reported to the Board. The mandate is reviewed regularly for pertinence and for changes in the risk environment.

The Company only invests with counterparties that have a credit rating of at least A1/A from Standard & Poor's ("S&P"). Where a counterparty changes rating to below A1/A after acquisition, management will continue to review its holding in those counterparties and divest as deemed appropriate. 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 27).

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

2013	Investment grade \$'000	Non- investment grade satisfactory * \$'000	Non- investment grade unsatisfactory \$'000	Total neither past due nor impaired \$'000	Past due or impaired \$'000	Total \$'000
Financial assets						
Cash and cash equivalents	180,330	-	-	180,330	-	180,330
Trade and other receivables	-	3,112	-	3,112	-	3,112
Financial assets at fair value through profit or loss						
Fixed interest securities	50,288	-	-	50,288	-	50,288
Debt securities	958	-	-	958	-	958
Investment in controlled entities	-	101,195	-	101,195	-	101,195
Reinsurance and other recoveries receivable	-	354	-	354	-	354
Gross policy liability ceded under reinsurance	-	83	-	83	-	83
Total credit risk exposure	231,576	104,744	-	336,320	-	336,320

4 Risk management (continued)

(a) Credit risk (continued)

2012	Investment grade \$'000	Non- investment grade satisfactory * \$'000	Non- investment grade unsatisfactory \$'000	Total neither past due nor impaired \$'000	Past due or impaired \$'000	Total \$'000
Financial assets						
Cash and cash equivalents	179,717	-	-	179,717	-	179,717
Trade and other receivables	-	2,594	-	2,594	-	2,594
Financial assets at fair value through profit or loss						
Equity securities	7,468	-	-	7,468	-	7,468
Fixed interest securities	28,510	-	-	28,510	-	28,510
Debt securities	856	-	-	856	-	856
Investment in controlled entities	-	98,673	-	98,673	-	98,673
Reinsurance and other recoveries receivable	-	359	-	359	-	359
Gross policy liability ceded under reinsurance	-	88	-	88	-	88
Total credit risk exposure	216,551	101,714	-	318,265	-	318,265

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

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

2013	AAA \$'000	AA \$'000	A \$'000	BBB \$'000	Not rated \$'000	Total \$'000
Financial Assets						
Cash and cash equivalents	-	-	180,330	-	-	180,330
Trade and other receivables*	-	-	-	-	3,112	3,112
Financial assets at fair value through profit or loss						
Fixed interest securities	9,917	40,371	-	-	-	50,288
Debt securities	958	-	-	-	-	958
Investment in controlled entity*	-	-	-	-	101,195	101,195
Reinsurance and other recoveries receivable	-	-	354	-	-	354
Gross policy liability ceded under reinsurance	-	83	-	-	-	83
Total credit risk exposure	10,875	40,454	180,684	-	104,307	336,320

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 (continued)

4 Risk management (continued)

(a) Credit risk (continued)

2012	AAA \$'000	AA \$'000	A \$'000	BBB \$'000	Not rated \$'000	Total \$'000
Financial Assets						
Cash and cash equivalents	-	7,485	172,232	-	-	179,717
Trade and other receivables*	-	-	-	-	2,594	2,594
Financial assets at fair value through profit or loss						
Equity securities	-	1,686	4,823	959	-	7,468
Fixed interest securities	-	28,510	-	-	-	28,510
Debt securities	856	-	-	-	-	856
Investment in controlled entity*	-	-	-	-	98,673	98,673
Reinsurance and other recoveries receivable	-	-	359	-	-	359
Gross policy liability ceded under reinsurance	-	88	-	-	-	88
Total credit risk exposure	856	37,769	177,414	959	101,267	318,265

* The receivables and investment in controlled entity are largely with related parties, refer to note 27 .
 No receivables are past due or impaired at balance date (2012: Nil).

(b) Liquidity risk

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

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

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

4 Risk management (continued)

(b) Liquidity risk (continued)

	Up to a year \$'000	1-2 years \$'000	2-5 years \$'000	Over 5 years \$'000	No term \$'000	Total \$'000
2013						
Trade and other payables	4,082	-	-	-	-	4,082
Policy claims in process of settlement	3,309	77	25	-	-	3,411
Gross policy liabilities	20,805	9,368	8,434	-	-	38,607
Net principal liabilities	28,196	9,445	8,459	-	-	46,100
2012						
Trade and other payables	7,946	-	-	-	-	7,946
Policy claims in process of settlement	6,043	132	36	-	-	6,211
Gross policy liabilities	18,530	8,595	8,600	-	-	35,725
Net principal liabilities	32,519	8,727	8,636	-	-	49,882

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.

The Board is responsible for developing and monitoring the risk management policies of the Company in relation to market risk. The Company's investment activities follow the GECC FICS policy. The GECC FICS policy document outlines the level of acceptable market risk, including counterparty ratings and exposure levels that apply to the investment activities of companies within the GECC Group.

(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.

4 Risk management (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

	Carrying Amount	Change in variables	Impact on profit before tax	Up to a year \$'000	Impact on Equity		Over 5 years \$'000	Total
	\$'000	%	\$'000		1-2 years \$'000	2-5 years \$'000		\$'000
2013								
Financial assets								
Short term deposits	171,348	-1	(1,713)	(1,199)	-	-	-	(1,199)
Fixed interest securities	50,288	-1	(503)	(183)	(4)	(165)	-	(352)
Debt securities	958	-1	(10)	-	(7)	-	-	(7)
	<u>222,594</u>		<u>(2,226)</u>	<u>(1,382)</u>	<u>(11)</u>	<u>(165)</u>	<u>-</u>	<u>(1,558)</u>

	Carrying Amount	Change in variables	Impact on profit before tax	Up to a year \$'000	Impact on Equity		Over 5 years \$'000	Total
	\$'000	%	\$'000		1-2 years \$'000	2-5 years \$'000		\$'000
2012								
Financial assets								
Short term deposits	173,570	-1	(1,736)	(1,215)	-	-	-	(1,215)
Fixed interest securities	28,283	-1	(283)	-	(188)	(11)	-	(199)
Debt securities	1,083	-1	(11)	-	-	(6)	-	(6)
	<u>202,936</u>		<u>(2,030)</u>	<u>(1,215)</u>	<u>(188)</u>	<u>(17)</u>	<u>-</u>	<u>(1,420)</u>

The analysis is performed on the same basis for 2012 and assumes that all other variables remain the same.

(iii) Price risk

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

As there are no equity securities as at 31 December 2013, no analysis has been provided for 2013.

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

4 Risk management (continued)

(c) Market risk (continued)

(iii) Price risk (continued)

	Carrying Amount	Change in variables	Impact on profit before tax	Up to a year \$'000	Impact on Equity			Total
	\$'000	%	\$'000		1-2 years \$'000	2-5 years \$'000	Over 5 years \$'000	\$'000
2012								
Financial assets								
Equity securities	7,468	-1	(75)	(52)	-	-	-	(52)

(d) Fair value measurements

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
2013				
Financial assets designated at fair value through profit or loss	50,288	-	958	51,246
2012				
Financial assets designated at fair value through profit or loss	35,978	-	856	36,834

The following table shows a reconciliation from the beginning balance to the ending balance for fair value measurements in Level 3 of the fair value hierarchy:

	2013 \$'000	2012 \$'000
Balance at 1 January	856	830
Total gains/(losses) recognised in:		
Profit or loss	(25)	(22)
Other comprehensive income	127	48
Balance at 31 December	958	856

Hallmark Life Insurance Company Ltd
Notes to the financial statements
For the year ended 31 December 2013
(continued)

5 Insurance premium revenue

	2013 \$'000	2012 \$'000
Direct life insurance premiums - single	38,651	35,744
Direct life insurance premiums - regular	9,037	10,106
Non life insurance premiums	1,841	2,234
	<u>49,529</u>	<u>48,084</u>

6 Investment income

	2013 \$'000	2012 \$'000
Interest income	7,822	9,217
Realised net losses	(1,101)	(1,276)
Unrealised net gains	622	2,490
Dividend income	87	358
Total investment income	<u>7,430</u>	<u>10,789</u>

7 Claims expenses

	2013 \$'000	2012 \$'000
Death and disability	1,825	6,202
Unemployment	51	14
Terminations of policies	21,635	18,656
	<u>23,511</u>	<u>24,872</u>

8 Administration expenses

	2013 \$'000	2012 \$'000
Policy maintenance - others	7,692	7,514
Foreign exchange (gains)/losses	(13)	(65)
Policy acquisition cost - others	1,195	1,123
Policy acquisition cost - commission	4,976	5,395
Investment management expenses	371	369
	<u>14,221</u>	<u>14,336</u>

Hallmark Life Insurance Company Ltd
Notes to the financial statements
For the year ended 31 December 2013
(continued)

9 Income tax expense

(a) Income tax expense

	2013 \$'000	2012 \$'000
Current tax expense	4,798	4,626
Deferred tax expense (note 16)	39	(144)
Under/(over)provision in prior years	149	(120)
	<u>4,986</u>	<u>4,362</u>

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

	2013 \$'000	2012 \$'000
Profit from continuing operations before income tax expense	16,856	17,187
Tax at the Australian tax rate of 30% (2012 - 30%) and tax at the New Zealand rate of 28% (2012 - 28%)	4,986	5,087
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Tax offset for franked dividends	(30)	(134)
Adjustment for Hallmark New Zealand Policyholder Base	(83)	(183)
Tax effect on foreign exchange difference on translation	(36)	(288)
	<u>4,837</u>	<u>4,482</u>
Under/(over)provision in prior years	149	(120)
Income tax expense	<u>4,986</u>	<u>4,362</u>

10 Profit before income tax

	2013 \$'000	2012 \$'000
Profit before income tax includes the following specific expenses:		
<i>Employee costs</i>		
Personnel cost	230	90
Contribution to superannuation fund	9	3
Change in annual and long service leave provision	5	(18)
<i>Other administrative expenses</i>		
Marketing fees	128	281
Management fees	7,915	6,947

Hallmark Life Insurance Company Ltd
Notes to the financial statements
For the year ended 31 December 2013
(continued)

11 Statement of sources of operating profit

	2013 \$'000	2012 \$'000
The shareholders' operating profit after income tax of the statutory funds is represented by:		
Investment earnings on shareholders' retained and capital	1,471	1,760
Emergence of shareholders' planned profits	4,599	6,508
Experience profit/(loss)	3,076	(207)
	<u>9,146</u>	<u>8,061</u>

12 Cash and cash equivalents

	2013 \$'000	2012 \$'000
Cash at bank	8,982	6,147
Short term deposits	171,348	173,570
	<u>180,330</u>	<u>179,717</u>

13 Trade and other receivables

	2013 \$'000	2012 \$'000
Trade debtors	1,901	969
Investment income accrued and receivable	1,211	1,399
Other receivables	-	226
	<u>3,112</u>	<u>2,594</u>
Receivables - current	<u>3,112</u>	<u>2,594</u>
	<u>3,112</u>	<u>2,594</u>

These balances include amounts receivable from related parties (note 27).
The carrying value disclosed above approximates fair value at end of the reporting period.

14 Financial assets at fair value through profit or loss

	2013 \$'000	2012 \$'000
Equity securities-listed	-	7,468
Debt security-Foreign national government	958	1,083
Fixed interest securities	50,288	28,283
	<u>51,246</u>	<u>36,834</u>
Financial assets at fair value through profit or loss - current	26,163	7,468
Financial assets at fair value through profit or loss - non-current	25,083	29,366
	<u>51,246</u>	<u>36,834</u>

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Notes to the financial statements
For the year ended 31 December 2013
(continued)

15 Reinsurance and other recoveries receivable

	2013 \$'000	2012 \$'000
Expected future reinsurance recoveries undiscounted		
Outstanding claims	354	359
Total reinsurance and other recoveries receivable	<u>354</u>	<u>359</u>
Reinsurance and other recoveries receivable - current	<u>354</u>	<u>359</u>

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

16 Deferred tax (liabilities)/assets

	2013 \$'000	2012 \$'000
Non-current		
The balance comprises temporary differences attributable to:		
Operating accruals	242	440
Fixed assets	13	14
Other	13	83
Unrealised gain on financial assets at fair value through profit or loss	-	314
Deferred commission	(422)	(391)
Interest receivable	-	(38)
Deferred tax (liabilities)/assets	<u>(154)</u>	<u>422</u>

	Total \$'000
Movements	
Balance at 1 January 2012	484
Credited/(charged) to profit or loss (note 9)	144
Under/(over) provision in prior years	<u>(206)</u>
Closing balance at 31 December 2012	<u>422</u>
Balance at 1 January 2013	422
Credited/(charged) to profit or loss (note 9)	(39)
Under/(over) provision in prior years	(488)
Foreign exchange variance	<u>(49)</u>
Closing balance at 31 December 2013	<u>(154)</u>

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

Hallmark Life Insurance Company Ltd
Notes to the financial statements
For the year ended 31 December 2013
(continued)

17 Investment in controlled entity

Movements in carrying amounts

Non-current

	2013 \$'000	2012 \$'000
Investment in controlled entity at cost (Hallmark General Insurance Company Ltd) (note 18)	<u>101,195</u>	<u>98,673</u>

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 cost adjusted for income tax liability transferred to head entity under a tax funding agreement of \$2,522,000 (2012: Transfer to head entity \$5,837,000).

18 Particulars in relation to controlled entity

Name of entity	Country of incorporation	Class of shares	Equity holding	
			2013 %	2012 %
Hallmark General Insurance Company Ltd	Australia	Ordinary	100	100

19 Trade and other payables

	2013 \$'000	2012 \$'000
Trade payables	291	427
Other payables	<u>3,791</u>	<u>7,519</u>
	<u>4,082</u>	<u>7,946</u>
Trade and other payables - current	<u>4,082</u>	<u>7,946</u>
	<u>4,082</u>	<u>7,946</u>

The carrying amount disclosed above approximates fair value at reporting date.
These balances include amounts payable to related parties (note 27).

Halmark Life Insurance Company Ltd
Notes to the financial statements
For the year ended 31 December 2013
 (continued)

20 Policy claims in the process of settlement

	2013 \$'000	2012 \$'000
Undiscounted expected future claims payment	3,411	6,228
Discount to present value	-	(17)
Total outstanding claims	<u>3,411</u>	<u>6,211</u>
Policy claims in the process of settlement - current	3,309	6,043
Policy claims in the process of settlement - non current	<u>102</u>	<u>168</u>
	<u>3,411</u>	<u>6,211</u>

21 Policy liabilities

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

	2013 \$'000	2012 \$'000
Gross life insurance contract liabilities		
Balance at 1 January	35,725	33,168
Foreign exchange movement	830	324
Increase in life insurance contract liabilities reflected in the profit or loss	<u>2,052</u>	<u>2,233</u>
Balance at 31 December	<u>38,607</u>	<u>35,725</u>
Reinsurers' share of life insurance contract liabilities		
Balance at 1 January	88	101
Foreign exchange movement	1	(1)
Decrease in reinsurance assets reflected in the profit or loss	<u>(6)</u>	<u>(12)</u>
Balance at 31 December	<u>83</u>	<u>88</u>
	<u>38,524</u>	<u>35,637</u>
Net insurance contract liabilities - current	20,722	18,442
Net insurance contract liabilities - non current	<u>17,802</u>	<u>17,195</u>
	<u>38,524</u>	<u>35,637</u>

21 Policy liabilities (continued)

(b) Components of net life insurance contract liabilities

	2013 \$'000	2012 \$'000
Best estimate liability:		
Future policy benefits (Note (2) below)	43,071	40,393
Unrecouped acquisition expenses	(4,547)	(4,756)
Total best estimate liability	<u>38,524</u>	<u>35,637</u>
Value of future shareholder profit margins (Note 1 below)	-	-
Net policy liabilities	<u>(38,524)</u>	<u>(35,637)</u>

- (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) Capital requirements of the life funds

LAGIC Disclosure

The Company is required to hold prudential reserves, over and above the policy liabilities, as a buffer against adverse future experience and poor investment returns. New risk-based prudential capital standards for Australian Life and General Insurance companies (LAGIC) were introduced effective 1 January 2013. The required level of capital for regulatory purposes (the Prescribed Capital Amount, or PCA) is intended to take account of the full range of risks to which a life insurer is exposed and a life company must ensure that the life company and each of its statutory funds has, at all times, a capital base in excess of its PCA (plus any additional amount as required by APRA).

The excess of the Company's capital base over the PCA as at 31 December 2013 was \$201.2 million.

The available assets of each statutory fund have also exceeded the prudential capital requirement at all times during the prior year.

Prior to 1 January 2013, Life companies were required to hold prudential reserves based on the greater of the requirements under solvency and capital adequacy standards. Capital disclosures prior to 1 January 2013 were based on the capital standards in place at the time and have not been restated to reflect the LAGIC requirements.

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

Hallmark Life Insurance Company Ltd
Notes to the financial statements
For the year ended 31 December 2013
(continued)

21 Policy liabilities (continued)

(c) Capital requirements of the life funds (continued)

2013

	Statutory Fund 1 \$'000	Statutory Fund 2 \$'000	Shareholder Fund \$'000	Total \$'000
(a) Capital Base	46,251	31,385	177,444	255,080
(b) Prescribed capital amount	1,656	495	51,694	53,845
Capital in excess of prescribed capital amount = (a) - (b)	44,595	30,890	125,750	201,235
Capital adequacy multiple = (a)/(b)	27.93	63.40	3.43	4.74
Capital Base:				
Net Assets	44,629	31,061	213,918	289,608
Less: Difference between Adjusted Policy Liabilities and Policy Liabilities	1,622	324	-	1,946
Less: Elimination of any excess DTAs over DTLs	-	-	-	-
Less: Adjustments to the value of the holding in Hallmark General	-	-	(36,474)	(36,474)
Equals: Capital Base	<u>46,251</u>	<u>31,385</u>	<u>177,444</u>	<u>255,080</u>
Prescribed capital amount:				
Asset Risk Charge	525	141	6,893	7,559
Asset Concentration Risk Charge	-	-	42,421	42,421
Operational Risk Charge	1,131	354	-	1,485
Combined stress scenario adjustment	-	-	2,380	2,380
Prescribed capital amount	<u>1,656</u>	<u>495</u>	<u>51,694</u>	<u>53,845</u>

Note: There is no Additional Tier 1 Capital or Tier 2 Capital.

2012

		Shareholders' Fund \$'000
Capital Requirement	(A)	99,239
Being greater of (4)		
Management Capital Reserve		
Determined as:		
Management Capital Requirement (1)		99,801
Less: Total Liabilities (2)		(562)
	(B)	<u>99,239</u>
And		
Minimum Capital Requirement (3)		10,000
Assets Available for Capital Requirement		208,207
Management Capital Reserve %	(C)	100%
Coverage of Capital Requirement	(A/B)X100 (C/A)	2.10

21 Policy liabilities (continued)

(c) Capital requirements of the life funds (continued)

- (1) The minimum level of assets required to be held in the shareholders' fund in accordance with the prescribed requirements of the previous management capital standard referred to in Part 5 of the Life Insurance Act 1995.
- (2) Total liabilities of the shareholders' fund exclude all liabilities attributable to the statutory funds and total shareholders' equity.
- (3) Minimum capital requirement was capital required to be held in the shareholders' fund in accordance with previous 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.

(d) Solvency requirements of the life funds in prior year

	STATUTORY FUNDS 2012		
	No. 1 2012 \$'000	No. 2 2012 \$'000	Total 2012 \$'000
Solvency Requirement (a)	41,169	8,084	49,253
Representing:			
Minimum termination value (MTV)	28,452	5,934	34,386
Other liabilities	11,768	2,037	13,805
Solvency reserve (b)	949	113	1,062
	41,169	8,084	49,253
Assets available for solvency (c)	37,083	24,557	61,640
Comprises as:			
Excess of policy liability over MTV	1,128	123	1,251
Capital and retained earnings required for solvency	(179)	(10)	(189)
Excess assets	36,134	24,444	60,578
	37,083	24,557	61,640
Solvency reserve (%) [b/(a-b) * 100]	2.4	1.4	2.3
Coverage of Solvency Reserve (c/b)	39.1	217.1	60.5

21 Policy liabilities (continued)

(e) 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	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Shareholders interest (overseas and non-participating businesses)	53,633	44,487	9,146	8,061

22 Issued capital

(a) Share capital

	2013 No. of shares	2012 No. of shares	2013 \$'000	2012 \$'000
Ordinary shares				
Paid up ordinary shares	251	251	100	100
Non-cumulative redeemable preference shares	48,000	48,000	10,000	10,000
	48,251	48,251	10,100	10,100

(b) Ordinary shares

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

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

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(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.

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Notes to the financial statements
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(continued)

23 Reserves

	2013 \$'000	2012 \$'000
Foreign currency translation reserve	923	(3,013)
Tax consolidation reserve	<u>79,760</u>	<u>74,553</u>
	<u>80,683</u>	<u>71,540</u>
	2013 \$'000	2012 \$'000

Movements:

<i>Foreign currency translation reserve</i>		
Balance at 1 January	(3,013)	(4,378)
Exchange differences on translation of foreign operations	<u>3,936</u>	<u>1,365</u>
Balance 31 December	<u>923</u>	<u>(3,013)</u>
<i>Tax consolidation reserve</i>		
Balance at 1 January	74,553	66,308
Current tax liability transferred to Head Entity	<u>5,207</u>	<u>8,245</u>
Balance 31 December	<u>79,760</u>	<u>74,553</u>

24 Dividends

	2013 \$'000	2012 \$'000
Dividends paid during the financial year ended 31 December	<u>-</u>	<u>75,000</u>

25 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
Angela Hunter
Philip Stuart Douglas Purcell
Neil William Smart
Paul Brian McCann
Scott Miller

(ii) Other Executives

Rosalyn Exley
Helen Medlati
Julie Winkler
Kevin Smith
Colleen Chapman
Emma Robinson
Gordon Halnan
Julie Taylor
Tien Tifa

Key management personnel compensation

In addition to their salaries, the Company and related parties also provided non-cash benefits which included long service leave and an employee share option plan.

	2013	2012
	\$	\$
Short-term employee benefits	2,724,998	3,131,591
Long-term employee benefits	295,699	217,541
Equity compensation benefits	76,051	2,987
	<u>3,096,748</u>	<u>3,352,119</u>

There are no other transactions with key management personnel (2012: \$nil).

Hallmark Life Insurance Company Ltd
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(continued)

26 Remuneration of auditors

(a) Audit services

	2013 \$	2012 \$
<i>KPMG</i>		
Audit and review of financial statements	<u>93,270</u>	<u>90,550</u>
	<u>93,270</u>	<u>90,550</u>

(b) Non-audit services

	2013 \$	2012 \$
<i>KPMG</i>		
APRA Return	54,678	46,290
AFSL Audit	<u>6,030</u>	<u>5,850</u>
	<u>60,708</u>	<u>52,140</u>
Total remuneration for audit and other assurance services	<u>153,978</u>	<u>142,690</u>

Audit fees in 2012 and 2013 were paid by GE Capital Finance Australia Pty Ltd.

27 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.

27 Related party transactions (continued)

(b) Transactions with related parties

The following transactions occurred with related parties:

	2013 \$	2012 \$
<i>Other transactions</i>		
Dividends paid to Australian parent company	-	74,992,500
Avco Access Pty Ltd	-	7,500
<i>Management fees paid to/(received from):</i>		
GE Personal Finance Pty Ltd	319,576	329,576
GE Capital Finance Australasia Pty Ltd	4,192,517	3,614,691
Hallmark General Insurance Company Ltd	2,834,970	3,002,688
GE Finance and Insurance Pty Ltd	-	29,282
<i>Cross charges paid to:</i>		
GE Capital Finance Australasia Pty Ltd	822,941	359,766
GE Finance and Insurance Pty Ltd (NZ)	279,437	181,331
<i>Royalty paid:</i>		
GE Capital Registry, Inc.	308,716	44,467
<i>Commission paid to:</i>		
GE Personal Finance Pty Ltd	2,403,654	2,544,426
GE Capital Finance Australia	749,769	658,750
GE Capital Finance Australasia Pty Ltd	59,990	68,944
GE Finance and Insurance Pty Ltd (NZ)	1,718,560	1,899,783

Hallmark Life Insurance Company Ltd
Notes to the financial statements
For the year ended 31 December 2013
(continued)

27 Related party transactions (continued)

(c) Outstanding balances with related parties

	2013 \$	2012 \$
<i>Receivables/(payables)</i>		
GE Capital Finance Australasia Pty Ltd	10,457	(686)
GE Personal Finance Pty Ltd	771,108	807,252
Simply Insurance New Zealand Ltd	-	13,356
GE Capital Finance Australia	274,768	244,070
GE Finance and Insurance Pty Ltd (NZ)	470,490	904,091
Hallmark General Insurance Company Ltd	(1,670,897)	(5,249,562)
GE Capital Holdings Partnership	(733,013)	(1,602,710)

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 2013, 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 2013 or prior years.

28 Disaggregated information on life insurance business by fund

	Non-investment linked	Non-investment linked	Non-investment linked		
	Statutory Fund 1 \$'000	Statutory Fund 2 \$'000	Total \$'000	Shareholder Fund \$'000	Total \$'000
2013					
Financial assets	79,813	41,623	121,436	214,884	336,320
Life insurance contract liabilities	(31,157)	(7,450)	(38,607)	-	(38,607)
Other liabilities	(4,027)	(3,112)	(7,139)	(966)	(8,105)
Retained earnings	(23,495)	(30,138)	(53,633)	(145,192)	(198,825)
Premium revenue	(36,936)	(11,803)	(48,739)	-	(48,739)
Investment revenue	(2,308)	(950)	(3,258)	(4,172)	(7,430)
Claims expense	19,040	4,006	23,046	-	23,046
Movement in policy liabilities	1,615	431	2,046	-	2,046
Other administration expenses	9,317	4,740	14,057	164	14,221
Operating profit before tax	(9,272)	(3,576)	(12,848)	(4,008)	(16,856)
Operating profit after tax	(6,456)	(2,690)	(9,146)	(2,724)	(11,870)

Hallmark Life Insurance Company Ltd
Notes to the financial statements
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(continued)

28 Disaggregated information on life insurance business by fund (continued)

	Non-investment linked	Non-investment linked	Non-investment linked		
	Statutory Fund 1	Statutory Fund 2	Total	Shareholder Fund	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
2012					
Financial assets	77,058	32,117	109,175	209,090	318,265
Other assets	331	412	743	(321)	422
Life insurance contract liabilities	(29,668)	(6,057)	(35,725)	-	(35,725)
Other liabilities	(11,768)	(2,037)	(13,805)	(562)	(14,367)
Retained earnings	(17,039)	(27,448)	(44,487)	(142,468)	(186,955)
Premium revenue	34,878	12,377	47,255	-	47,255
Investment revenue	3,194	845	4,039	6,750	10,789
Claims expense	(20,623)	(3,653)	(24,276)	-	(24,276)
Movement in policy liabilities	(2,074)	(171)	(2,245)	-	(2,245)
Other administration expenses	(9,402)	(4,726)	(14,128)	(208)	(14,336)
Operating profit before tax	5,974	4,671	10,645	6,542	17,187
Operating profit after tax	4,201	3,860	8,061	4,764	12,825

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Notes to the financial statements
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(continued)

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

	2013 \$'000	2012 \$'000
Profit for the year	11,870	12,825
Adjustments for non-cash items		
Realised losses on sale of financial assets	1,101	1,276
Unrealised gains in value of financial assets	(622)	(2,490)
Amortisation of bonds	-	22
Effect of foreign exchange on investments	-	(48)
Reversal of amortisation on matured securities	-	161
Effect of foreign exchange on cash and cash equivalents	(5,090)	(906)
Change in operating assets and liabilities:		
(Increase)/decrease in trade and other receivables	(518)	1,577
Decrease in deferred tax assets	576	62
(Decrease) in trade and other payables	(3,719)	(2,744)
Increase in tax consolidation reserve	5,208	8,245
Decrease in reinsurance and other recoveries receivable	5	86
Decrease in gross policy liabilities ceded under reinsurance	5	13
(Increase) in investment in controlled entity	(2,523)	(5,837)
(Decrease) / increase in policy claims in the process of settlement	(2,800)	1,541
Increase in gross policy liabilities	2,882	2,557
Increase in foreign currency translation reserve	3,936	1,365
Net cash inflow from operating activities	<u>10,311</u>	<u>17,705</u>

30 Contingent assets and contingent liabilities

No contingent assets or contingent liabilities existed as at 31 December 2013 (2012: nil).

31 Matters subsequent to the end of the financial year

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

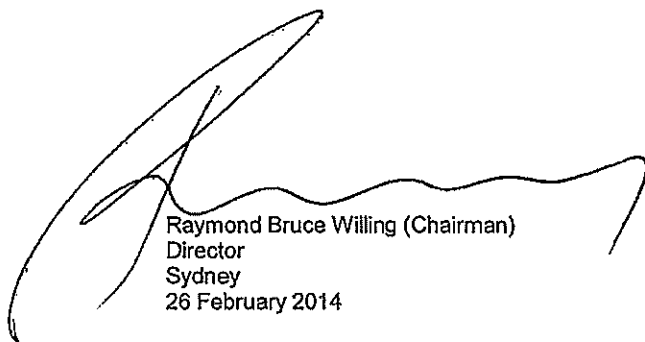
Hallmark Life Insurance Company Ltd
Directors' declaration
31 December 2013

Directors' declaration

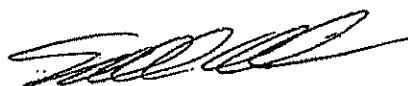
In the opinion of the Directors of Hallmark Life Insurance Company Ltd ("the Company"):

- (a) the financial statements and notes set out on pages 5 to 47 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 2013 and of its performance for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*;
- (b) the financial statements also comply with International Financial Reporting Standards as disclosed in note 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 Directors:



Raymond Bruce Willing (Chairman)
Director
Sydney
26 February 2014



Scott Kingsley Miller (Managing Director)
Director
Sydney
26 February 2014



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 2013, 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 31 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

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




Independence

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

Auditor's opinion

In our opinion:

- (a) the financial report of Hallmark 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 2013 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

Andrew Reeves
Partner

Sydney
26 February 2014

17 June 2014

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

**Hallmark Life Insurance Company Ltd:
Appointed Actuary signoff of financial statements and financial condition as at
31 December 2013 for New Zealand reporting purposes**

Dear Directors

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

On 1 March 2014, HLIC appointed me, Brendan Counsell of Ernst & Young to be HLIC's Appointed Actuary. At 31 December 2013, Stuart Turner, also of Ernst & Young, was HLIC's Appointed Actuary. The Appointed Actuary role is as described by the Australian Life Insurance Act 1995 and related Prudential Standards and Prudential Practice Guides current at 31 December 2013, and by the New Zealand Insurance (Prudential Supervision) Act 2010 (the Act). I have no relationship with HLIC other than being its Appointed Actuary.

It is the responsibility of the Appointed Actuary to provide advice to the Board of a life insurer on the value of its policy liabilities and the preparation of the actuarial information contained in its financial statements. The Appointed Actuary must provide written advice to the Board of the insurer on the value of policy liabilities in accordance with APRA's Prudential Standard LPS320, Actuarial and Related Matters.

The previous Appointed Actuary, Stuart Turner produced a report on HLIC's policy liabilities and financial condition, the Financial Condition Report (FCR), as at 31 December 2013, dated 28 February 2014. The scope of the work he has undertaken is described in Section 1 of the FCR and the limitations of his review are described in Section 15 of the FCR.

The RBNZ has exempted HLIC from compliance with their Solvency Standard for Life Insurance Business. This exemption has been granted subject to various conditions, including obligations of the Appointed Actuary. These obligations are addressed below.

Financial Statements

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

- a. The Policy Liability
- b. The reinsurance and other recovery asset(s) relevant to the Policy Liability, or relevant to outstanding claims reserves or incurred but not reported claims reserves held outside of the Policy Liability
- c. Any deferred or other tax asset relevant to the Policy Liability
- d. Any deferred acquisition cost or deferred fee revenue relevant to the Policy Liability
- e. The unvested policyholder benefits liability
- f. Any other information deemed by the appointed actuary to warrant actuarial review for the purpose of profit or solvency reporting

Section 78 of the Act requires that the Appointed Actuary prepare a report in respect of the review required under Section 77. Stuart Turner has confirmed in his FCR, dated 28 February 2014 that it meets the requirements of section 78 of The Act, as it contains his advice regarding policy liabilities, reinsured policy liabilities, and deferred acquisition costs (implicit in the policy liabilities). The FCR also includes advice on IBNR and capital requirements, which form part of the financial statements. Separate input has been provided regarding actuarial inputs to tax calculations in New Zealand. No advice or review is required of unvested policyholder benefits liability, as HLIC does not write any participating products.

Based on the financial statements dated 24 February 2014 and FCR dated 28 February 2014, nothing has come to my attention that would lead me to believe that the actuarial information provided has not been appropriately included in the preparation and completion of HLIC's 31 December 2013 year-end financial statements.

I am not aware of any other information that warrants actuarial review for the purpose of profit or solvency reporting.

Financial Condition Report

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

- a. Identify and describe the material risks (of which it is reasonable to expect the appointed actuary to be aware) facing a licensed insurer that, in the appointed actuary's opinion, pose a threat to the licensed insurer's ability to meet its solvency requirements now and in the future, and where practicable quantify such risks
- b. Comment on the steps taken or proposed by the licensed insurer to address the risks identified in (a)
- c. Comment separately on the New Zealand business, these comments can be in line with Australian requirements for financial condition reports
- d. Advise the licensed insurer on whether in the appointed actuary's opinion, the licensed insurer needs to consider reporting to the RBNZ under Section 24 of The Act, taking into account the licensed insurer's forward-looking assessment of the solvency standard and the appointed actuary's assessment of the licensed insurer's business plans, its enterprise risk management practices and the external environment.

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

- a. The solvency position of the insurer if a catastrophe or extreme event, such as outlined in the Catastrophe Risk Capital Charge section of the Life Standard, were to occur in New Zealand.
- b. Any difference in the financial condition of the New Zealand branch in comparison with the insurer as a whole, which might have implications if the two were separated as a result of regulatory action or litigation.

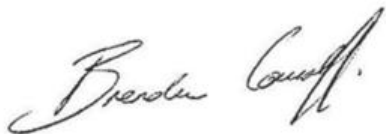
The FCR identifies and assesses the material risks facing HLIC, including mitigants addressing those risks. Throughout the FCR, key metrics and information have been separated between Statutory Fund 1 (Australia) and Statutory Fund 2 (New Zealand) so that the New Zealand business can be considered separately from the company as a whole.

As discussed in Section 7 of the FCR, HLIC is in a very strong financial position as at 31 December 2013 with excess assets of A\$31m above prudential capital requirements in Statutory Fund 2, and has exceeded prudential capital requirements over the year to 31 December 2013. Capital requirements are expected to be met over the coming three years, and hence no reporting under Section 24 of The Act is required. In my opinion HLIC is maintaining the solvency margin consistent with the requirements under section 21(2) (b) of the Act.

This strong position means that Statutory Fund 2 of HLIC would be able to withstand a catastrophe or extreme event similar to the Catastrophe Risk Capital Charge.

The New Zealand Branch (Statutory Fund 2) of HLIC is managed in conjunction with the Australian business and I am not aware of any differences in the financial condition of the New Zealand Branch in comparison with the insurer as a whole which might have implications if the two were separated.

Yours sincerely,



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