Hallmark Life Insurance Company Ltd
New Zealand Branch
Annual financial statements
for the year ended 31 December 2014

Hallmark Life Insurance Company Ltd New Zealand Branch

Financial report - 31 December 2014

Contents

The directors present their report together with the financial statements of Hallmark Life Insurance Company Ltd New Zealand Branch for the year ended 31 December 2014 and the auditor's report thereon.

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

JoAnne Maree Stephenson (Chairman)
Director
Sydney
27 February 2015

Anna Elizabeth Gladman (Managing Director)
Director
Sydney
27 February 2015

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 Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2014

	Notes	2014 $'000	2013 $'000
Insurance premium revenue	1(a)	9,823	14,070
Outwards reinsurance premium expense		(1)	1
Net insurance premium revenue		9,822	14,071
Investment income	1(b)	1,461	1,126
Total revenue		11,283	15,197
Claims expenses	1(c)	4,200	4,793
Reinsurance and other recoveries		-	3
Net claims incurred		4,200	4,796
Net increase/(decrease) in policy liabilities		(905)	523
Administration expenses	1(d)	4,071	5,555
Total claims and expenses		7,366	10,874
Profit before income tax		3,917	4,323
Income tax expense	1(e)	1,089	1,132
Profit for the year		2,828	3,191
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year		2,828	3,191
Profit is attributable to:			
Owners of Hallmark Life Insurance Company Ltd New Zealand Branch		2,828	3,191
		2,828	3,191
Total comprehensive income for the year is attributable to:			
Owners of Hallmark Life Insurance Company Ltd New Zealand Branch		2,828	3,191
		2,828	3,191

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 2014

	Notes	2014 $'000	2013 $'000
ASSETS			
Cash and cash equivalents	2(a)	**44,874**	43,469
Trade and other receivables	2(b)	**358**	657
Financial assets at fair value through profit or loss	2(c)	**1,009**	1,039
Total assets		**46,241**	45,165
LIABILITIES			
Trade and other payables	2(e)	**1,099**	2,415
Current tax liabilities		**1,056**	498
Deferred tax liabilities	3(a)	**355**	444
Gross policy liabilities	2(d)(i)	**7,182**	8,087
Total liabilities		**9,692**	11,444
Net assets		**36,549**	33,721
EQUITY			
Retained earnings		**36,549**	33,721
Total equity		**36,549**	33,721

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 2014

	Attributable to owners of Hallmark Life Insurance Company Ltd New Zealand Branch	
	Retained earnings $'000	Total equity $'000
Balance at 1 January 2013	30,530	30,530
Profit for the year	3,191	3,191
Other comprehensive income	-	-
Total comprehensive income for the year	**3,191**	**3,191**
Balance at 31 December 2013	**33,721**	**33,721**
Balance at 1 January 2014	33,721	33,721
Profit for the year	2,828	2,828
Other comprehensive income	-	-
Total comprehensive income for the year	**2,828**	**2,828**
Balance at 31 December 2014	**36,549**	**36,549**

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 Cash Flows
For the year ended 31 December 2014

	Notes	2014 $'000	2013 $'000
Cash flows from operating activities			
Premiums received		7,150	14,407
Outward reinsurance expense		(1)	-
Claims paid		(1,508)	(5,239)
Payments to suppliers and employees		(3,603)	(2,759)
Interest received		1,462	1,179
Income taxes paid		(770)	(1,070)
Fees and commissions paid		(1,325)	(2,049)
Net cash inflow from operating activities	4(a)	1,405	4,469
Net cash inflow from investing activities		-	-
Net cash inflow from financing activities		-	-
Net increase in cash and cash equivalents		1,405	4,469
Cash and cash equivalents at 1 January		43,469	39,000
Cash and cash equivalents at 31 December	2(a)	44,874	43,469

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

Contents of the notes to the financial statements

Financial performance

This section provides additional information about those individual line items in the financial statements, relating to financial peformance, that management considers most relevant in the context of the operations of the entity.

1 Profit or loss information

(a) Insurance premium revenue

	2014 $'000	2013 $'000
Direct life insurance premiums	9,823	14,069
Outwards reinsurance premium expense	(1)	1
Total insurance premium revenue	9,822	14,070

(b) Investment income

	2014 $'000	2013 $'000
Interest income	1,461	1,126
Total investment income	1,461	1,126

(c) Claims expenses

	2014 $'000	2013 $'000
Death and disability	1,206	928
Unemployment	43	47
Terminations of policies	2,951	3,818
Total claims expenses	4,200	4,793

(d) Administration expenses

	2014 $'000	2013 $'000
Policy maintenance	2,558	2,726
Foreign exchange (gains)/losses	(34)	(21)
Policy acquisition cost - others	41	549
Policy acquisition cost - commission	1,423	2,049
Other expenses	39	183
Investment management expenses	44	69
Total administration expenses	4,071	5,555

1 Profit or loss information (continued)

(e) Income tax expense

(i) Income tax expense

	2014 $'000	2013 $'000
Current tax expense	**1,074**	1,078
Deferred tax (note 3(a))	**(90)**	39
Adjustments for current tax of prior periods	**105**	15
Income tax expense	**1,089**	1,132

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

	2014 $'000	2013 $'000
Profit from continuing operations before income tax expense	**3,917**	4,323
Tax at the New Zealand tax rate of 28% (2013 - 28%)	**1,097**	1,210
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Tax effect on actuarial adjustment - policyholder base	**(80)**	(135)
Other non-deductible expenses	**-**	42
	1,017	1,117
Adjustments for current tax of prior periods	**72**	15
Income tax expense	**1,089**	1,132

(f) Statement of sources of operating profit

	2014 $'000	2013 $'000
The shareholders' operating profit after income tax of the statutory funds is represented by:		
Investment earnings on shareholders' retained and capital	**818**	587
Emergence of shareholders' planned profits	**1,322**	1,363
Experience profit	**645**	968
Shareholders' operating profit after income tax	**2,785**	2,918

Balance sheet management

This section provides additional information about those individual line items in the financial statements relating to financial peformance that management considers most relevant in the context of the operations of the entity.

2 Financial assets and financial liabilities

(a) Cash and cash equivalents

	2014 $'000	2013 $'000
Cash at bank	**2,306**	3,135
Short term deposits	**42,568**	40,334
Total cash and cash equivalents	**44,874**	43,469

(b) Trade and other receivables

	2014 $'000	2013 $'000
Trade receivables	**-**	510
Investment income accrued and receivable	**176**	147
Other receivables	**182**	-
Total trade and other receivables	**358**	657
Classification of total trade and other receivables		
Current	**358**	657
Non-current	**-**	-
	358	657

These balances include amounts receivable from related parties (note 13).

(c) Financial assets at fair value through profit or loss

	2014 $'000	2013 $'000
Debt securities - national government bonds	**1,009**	1,039
Financial assets at fair value through profit or loss	**1,009**	1,039
Classification of financial assets at fair value through profit or loss		
Current	**-**	-
Non-current	**1,009**	1,039
	1,009	1,039

2 Financial assets and financial liabilities (continued)

(d) Policy liabilities

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

	2014 **$'000**	2013 $'000
Gross life insurance contract liabilities		
Opening balance at 1 January	**8,087**	7,565
Foreign exchange movement	**-**	(1)
Decrease in life insurance contract liabilities reflected in the profit or loss	**(905)**	523
Closing balance at 31 December	**7,182**	8,087
Classification of total life insurance contract liabilities		
Current	**3,686**	4,822
Non-current	**3,496**	3,265
	7,182	8,087

(ii) Components of net life insurance contract liabilities

	2014 **$'000**	2013 $'000
Best estimate liability - for non investment linked business		
Accumulated policy benefits (Note (2) below)	**7,821**	8,937
Unrecouped acquisition expenses	**(639)**	(850)
Total best estimate liability	**7,182**	8,087
Value of future shareholder profit margins (Note 1 below)	**-**	-
Net policy liabilities	**(7,182)**	(8,087)

(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.

2 Financial assets and financial liabilities (continued)

(d) Policy liabilities (continued)

(iii) Capital requirements of the life funds

LAGIC disclosure

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 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 the Australian Prudential Regulation Authority (APRA)).

The excess of the branch's capital base over the PCA as at 31 December 2014 was $36.7 million (2013: $33.5 million).

The available assets in the statutory fund have also exceeded the Prudential Capital Requirement at all times during the year ending 31 December 2014.

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

	2014 $'000	2013 $'000
(a) Capital base	**37,123**	34,069
(b) Prescribed capital amount	**449**	537
Capital in excess of prescribed capital amount = (a) - (b)	**36,674**	33,532
Capital adequacy multiple = (a)/(b)	**82.63**	63.40
Capital base:		
Net assets	**36,548**	33,721
Add: Difference between adjusted policy liabilities and policy liabilities	**575**	352
Less: Elimination of any excess DTAs over DTLs	**-**	-
Equals: Capital base	**37,123**	34,073
Prescribed capital amount:		
Asset risk charge	**149**	153
Operational risk charge	**300**	384
Prescribed capital amount	**449**	537

2 Financial assets and financial liabilities (continued)

(e) Trade and other payables

	2014 $'000	2013 $'000
Trade payables	**1**	750
Other payables	**144**	452
Policy claims in the process of settlement	**954**	1,213
Total trade and other payables	**1,099**	2,415
Classification of total trade and other payables		
Current	**1,012**	2,304
Non-current	**87**	111
	1,099	2,415

The carrying amount disclosed above approximates fair value at reporting date.
These balances include amounts payable to related parties (note 13).

(f) Fair value measurement

(i) Fair value hierarchy

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the branch has classified its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

31 December 2014	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Financial assets				
Financial assets designated at fair value through profit or loss	-	1,009	-	1,009
Total financial assets	-	1,009	-	1,009

31 December 2013	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets				
Financial assets designated at fair value through profit or loss	-	1,039	-	1,039
Total financial assets	-	1,039	-	1,039

- 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.

2 Financial assets and financial liabilities (continued)

(f) Fair value measurement (continued)

(ii) Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

- The use of quoted market prices or dealer quotes for similar instruments.
- the fair value of the remaining financial instruments is determined using discounted cash flow analysis.

(iii) Fair value measurements using significant unobservable inputs (level 2)

The following table presents the changes in level 2 items for the periods ended 31 December 2014 and 31 December 2013:

	2014 $'000	2013 $'000
Opening balance at 1 January	**1,039**	1,069
Total gains/(losses) recognised in:		
Profit or loss	**(30)**	(30)
Closing balance at 31 December	**1,009**	1,039

3 Non-financial assets and liabilities

(a) Deferred tax liabilities

	2014 $'000	2013 $'000
Non-current		
The balance comprises temporary differences attributable to:		
Deferred commission	355	458
Deferred acquisition costs	-	(14)
Total deferred tax liabilities	355	444

Deferred tax liabilities are classified as non-current

	2014 $'000	2013 $'000
Movements in deferred tax liabilities were as follows:		
Opening balance at 1 January	**444**	481
Charged/(credited) to profit or loss 1(e)	**(90)**	39
Under/(over) provision in prior years	**1**	(76)
Closing balance at 31 December	**355**	444

4 Cash flow information

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

	2014 $'000	2013 $'000
Profit for the year	**2,828**	3,191
Adjustments		
Unrealised losses in value of financial assets	**30**	30
Change in operating assets and liabilities:		
(Increase)/decrease in trade and other receivables	299	362
(Decrease)/increase in trade and other payables	(1,316)	151
(Decrease)/increase in current tax liabilities	558	250
(Decrease) in deferred tax liabilities	(89)	(37)
(Decrease)/increase in gross policy liabilities	(905)	522
Net cash inflow from operating activities	**1,405**	4,469

Risk

This section of the notes discusses the branch's exposure to various risks and shows how these could affect the branch's financial position and performance.

5 Critical estimates, judgements and errors

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

(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 profit or loss and other 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 6.

(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.

6 Actuarial assumptions and methods

The effective date of the actuarial report on policy liabilities and capital requirements is 31 December 2014. The actuarial report was prepared by Mr Brendan Mark Counsell, BSc, BA, FIAA, FNSZA. The actuarial report indicates that Mr Counsell 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 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:

Product groups	Method (projection or other)	Profit carriers
Lump sum risk	Accumulation (2013: Accumulation)	Claims (implied)
Disability and involuntary unemployment income	Accumulation (2013: 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	3.67% (2013: 2.84%)
5 years	3.61% (2013: 4.22%)

(b) Inflation rates

Allowance for future inflation of 1.0% p.a. is assumed (2013: 2.5% p.a.).

The future inflation assumption is based on the long term target range of 1% - 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 2015. Inflation adjustments are consistent with the inflation assumptions.

(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 those used in 2013.

6 Actuarial assumptions and methods (continued)

Disclosure of assumptions (continued)

(e) 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$1,600, unemployment = NZ$678), a claims handling expense rate of 15% (2013: 17%) of the projected gross claim payments (based on expense investigation) and a discount rate of 3.54% (2013: 3.20%) (based on the yields of 1 year and 2 year New Zealand Government bonds) as at 31 December 2014. 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	34% p.a. (2013: 42% p.a.)
Single premium term life insurances	<1% p.a. (2013: <1% 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 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 2014, 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.

6 Actuarial assumptions and methods (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	
2014	**Gross of reinsurance $'000**	**Net of reinsurance $'000**	**Gross of reinsurance $'000**	**Net of reinsurance $'000**
Result of change in variables				
Mortality/morbidity- worsening by 5%	(53)	(53)	(53)	(53)
Mortality/morbidity- improving by 5%	53	53	53	53
Lapse rate- worsening by 5%	16	16	16	16
Lapse rate- improving by 5%	(16)	(16)	(16)	(16)
Expenses- worsening by 5%	(91)	(91)	(91)	(91)
Expenses- improving by 5%	91	91	91	91

	Impact on profit or loss		Impact on equity	
2013	**Gross of reinsurance $'000**	**Net of reinsurance $'000**	**Gross of reinsurance $'000**	**Net of reinsurance $'000**
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

7 Financial risk management

This note explains the branch's exposure to financial risks and how these risks could affect the branch's future financial performance. Current year profit or loss information has been included where relevant to add further context.

(a) 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 claims on reinsurance contracts.

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

7 Financial risk management (continued)

(a) Credit risk (continued)

(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"). The branch further limits its exposure to credit risk by setting individual exposure limits. There is no significant concentration of credit risk and management does not expect any counterparty to fail to meet its obligations.

(ii) Reinsurance assets

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

(iii) Loans and other receivables

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

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

2014	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	44,874	-	-	44,874	-	44,874
Trade and other receivables	-	358	-	358	-	358
Financial assets at fair value through profit or loss						
Debt securities	1,009	-	-	1,009	-	1,009
Total credit risk exposure	45,883	358	-	46,241	-	46,241

7 Financial risk management (continued)

(a) Credit risk (continued)

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	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**

* 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 branch by counterparty S&P credit rating.

2014	AAA $'000	AA $'000	A $'000	BBB $'000	Not rated $'000	Total $'000
Financial Assets						
Cash	-	-	44,874	-	-	44,874
Trade and other receivables*	-	-	-	-	358	358
Financial assets at fair value through profit or loss						
Debt securities	-	1,009	-	-	-	1,009
Total credit risk exposure	**-**	**1,009**	**44,874**	**-**	**358**	**46,241**
2013						
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**

* The receivables are largely with related parties, refer to note 13(b).

No receivables are past due or impaired at balance date (2013: Nil).

7 Financial risk management (continued)

(b) Liquidity risk

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

The branch's liquidity is primarily monitored through the production of the statement of cash flows for board review. Periodic review of the maturity profile of the branch's financial assets and liabilities is performed to ensure sufficient liquidity is maintained.

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

2014	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	145	-	-	-	-	145
Policy claims in process of settlement	867	66	21	-	-	954
Gross policy liabilities	3,686	1,682	1,612	202	-	7,182
Net principal liabilities	4,698	1,748	1,633	202	-	8,281

2013						
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

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 branch in relation to market risk. The branch's investment activities follow the GE Capital Corporation (GECC) Financial Institution Credit Standards (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.

7 Financial risk management (continued)

(c) Market risk (continued)

(ii) Interest rate risk

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

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

2014	Carrying amount $'000	Change in variables %	Impact on profit before tax $'000	Impact on equity: Up to a year $'000	Impact on equity: 1-2 years $'000	Impact on equity: 2-5 years $'000	Impact on equity: Over 5 years $'000	Total $'000
Financial assets								
Short term deposits	42,568	-1	(426)	(306)	-	-	-	(306)
Debt securities	1,009	-1	(10)	-	(7)	-	-	(7)
	43,577		(436)	(306)	(7)	-	-	(313)

2013	Carrying amount $'000	Change in variables %	Impact on profit before tax $'000	Impact on equity: Up to a year $'000	Impact on equity: 1-2 years $'000	Impact on equity: 2-5 years $'000	Impact on equity: Over 5 years $'000	Total $'000
Financial assets								
Short term deposits	40,334	-1	(403)	(290)	-	-	-	(290)
Debt securities	1,039	-1	(11)	-	(7)	-	-	(7)
	41,373		(414)	(290)	(7)	-	-	(297)

This analysis is performed on the same basis for 2013 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. (2013: Nil)

8 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 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 2(d)(iii).

(a) Risk management

Insurance contracts

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

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

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

The policies 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.

8 Capital management (continued)

Insurance risk management

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

In accordance with prudential standards LPS 220 Risk Management for Life Companies and LPS 230 Reinsurance for Life Companies issued by APRA, the board and senior management of the branch have developed, implemented and maintained a sound and prudent risk management strategy (RMS) and a reinsurance management strategy (ReMS).

The RMS and ReMS identify the branch's policies, procedures, processes and controls that address all known material risks, financial and non-financial, arising from the business. Annually, the board certifies to APRA that adequate strategies have been put in place to monitor those risks, that 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 modelling to determine that products are appropriately priced.

(ii) Reinsurance strategy

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

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.

Unrecognised items

This section of the notes provides information about items that are not recognised in the financial statements as they do not (yet) satisfy the recognition criteria.

9 Commitments and contingencies

As at 31 December 2014, the branch had no contingencies (2013: nil).

10 Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 31 December 2014 that has significantly affected or may significantly affect:

- the branch's operations; or
- the results of those operations; or
- the branch's state of affairs.

Other information

This section of the notes includes other information that must be disclosed to comply with the accounting standards and other pronouncements, but that is not immediately related to individual line items in the financial statements.

11 Remuneration of auditors

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

12 Key management personnel disclosures

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

13 Related party transactions

(a) Transactions with related parties

The following transactions occurred with related parties:

	2014 $	2013 $
Management fees paid to:		
Hallmark Life Insurance Company Ltd	**2,684,977**	2,460,694
Host Insurance depreciation and administrative costs recharges:		
GE Finance and Insurance Pty Ltd	**218,885**	334,462
Royalty paid:		
GE Capital Registry, Inc.	**46,860**	41,647
Commission paid to:		
GE Finance and Insurance Pty Ltd	**1,423,500**	2,048,504

(b) Outstanding balances with related parties

	2014 $	2013 $
Receivables/(payables)		
Hallmark Life Insurance Company Ltd	**373,965**	(750,623)
GE Finance and Insurance Pty Ltd	**400,708**	510,717

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

14 Summary of significant accounting policies

General information

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

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

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

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

The financial statements were authorised for issue by the directors on 27 February 2015.

(a) Basis of preparation

Statement of compliance

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

14 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

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

Basis of measurement

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

Comparative information

Certain comparative information in the financial statements have been reclassified to conform with the current year's presentation.

Change in accounting policies

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

(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 recognition

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

14 Summary of significant accounting policies (continued)

(c) Revenue recognition (continued)

(i) Premium revenue

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

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

The unearned portion of premium is recognised within unearned premium liabilities in the statement of financial position.

(ii) Investment income

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

(d) Claims expenses

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

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

The claims liability is measured based on the advice of valuations performed by the appointed actuary whose key assumptions are outlined in note 6.

(e) Other expenses

Other 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 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.

14 Summary of significant accounting policies (continued)

(f) Outwards reinsurance premium

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

(g) Income tax

The income tax expense for the period is the tax payable on the current period's taxable income based on the national income tax rate 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. 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, and presented net if the branch has a legally enforceable right to set off current tax assets and liabilities, and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority. 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.

The branch is subject to specific tax provisions that apply to life insurance businesses in New Zealand. These rules are 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.

14 Summary of significant accounting policies (continued)

(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 non-specific to the policyholder adversely affects the policyholder or other beneficiary, are classified as insurance contracts. The risks associated with insurance contracts are detailed further in note 7.

(l) Assets backing policy liabilities

The branch 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 backing insurance policies at fair value through profit or loss consistent with the provisions of NZ IAS 39 Financial Instruments; Recognition and Measurement.

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

Classification

(i) Short term deposits

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

(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 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 2(f).

(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.

14 Summary of significant accounting policies (continued)

(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 5(a).

(r) Policy acquisition costs

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 rate in New Zealand is 15% (2013: 15%).

14 Summary of significant accounting policies (continued)

(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 2015, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the branch, except for NZ IFRS 9 Financial Instruments, which becomes mandatory for the branch's 2018 financial statements and could change the classification and measurement of financial assets. The branch does not plan to adopt this standard early and the extent of the impact has not been determined

(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.

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 31 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 2014 and of its performance for the financial year ended on that date; and

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

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

Signed in accordance with a resolution of directors:

JoAnne Maree Stephenson (Chairman)
Director
Sydney
27 February 2015

Anna Elizabeth Gladman (Managing Director)
Director
Sydney
27 February 2015

KPMG

Independent auditor's report

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

Report on the financial statements

We have audited the accompanying financial statements of Hallmark Life Insurance Company New Zealand Branch ("the Branch") on pages 2 to 31. The financial statements comprise the statements of financial position as at 31 December 2014, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The Directors are responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand and International Financial Reporting Standards 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 31:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards;
- give a true and fair view of the financial position of the Branch as at 31 December 2014 and of the financial performance and cash flows of the Branch 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

KPMG

Sydney

19th March 2015

Building a better
working world

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11 September 2015

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 2014 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. 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 2014, 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.

As part of my responsibilities, I have produced a report on HLIC's policy liabilities and financial condition, the Financial Condition Report (FCR), as at 31 December 2014, dated 25 March 2015. The scope of the work I have undertaken is described in Section 2 of the FCR and the limitations of my review are described in Section 17 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. Where relevant and appropriate, I have commented on total HLIC Company level results and also separately in relation to the results of the New Zealand Branch (Statutory Fund 2) of HLIC.

Financial Statements – HLIC Company

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

a. 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. I confirm that the FCR, and its appendices, meets the requirements of section 78 of the Act, as it contains my 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. 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 27 February 2015 and FCR, 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 2014 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 Statements - HLIC New Zealand Branch (Statutory Fund 2)

Section 77 of the Act requires a review by the Appointed Actuary of the actuarial information in the New Zealand Branch 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. I confirm that the FCR, and its appendices, meets the requirements of section 78 of the Act, as it contains my 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 27 February 2015 and FCR, 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 2014 New Zealand Branch 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 and includes discussion of relevant risk mitigants. These material risks are considered at a company level and also separately for the Australian and New Zealand business.

Throughout the FCR, key metrics and information have been separated between Statutory Fund 1 (Australia) and Statutory Fund 2 (New Zealand) so that each business can be considered separately from the company as a whole.

As discussed in Section 10 of the FCR, HLIC is in a very strong financial position as at 31 December 2014, with excess assets of A$8.8m above prudential capital requirements in Statutory Fund 1 and A$34.6m in Statutory Fund 2. Both statutory funds, as well as the Shareholders Fund have exceeded prudential capital requirements over the year to 31 December 2014.

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:

a. A solvency margin consistent with the requirements under section 21(2) (b) of the Act

b. Solvency margins for each statutory fund, both in Australian and in New Zealand, consistent with the requirements under section 21(2) (c) of the Act

This strong position means that both statutory funds, Statutory Fund 1 and 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

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

Hallmark Life Insurance Company Ltd

ABN 87 008 446 884

Annual financial statements for the year ended 31 December 2014

Hallmark Life Insurance Company Ltd ABN 87 008 446 884
Financial report - 31 December 2014

Contents

The Directors present their report together with the financial statements of Hallmark Life Insurance Company Ltd (the Company) for the year ended 31 December 2014 and the auditor's report thereon.

Directors

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

JoAnne Maree Stephenson (Chairman) (appointed 26 February 2014)
Duncan Gerald West (appointed 26 February 2014)
Raymond Bruce Willing (resigned 30 April 2014)
Philip Stuart Douglas Purcell (resigned 30 April 2014)
Neil William Smart (resigned 30 April 2014)
Paul Brian McCann (resigned 26 February 2014)
Scott Kingsley Miller (resigned 28 April 2014)
Rachel Emma Cobb (appointed 23 June 2014)
Anna Elizabeth Gladman (appointed 29 April 2014)
Christopher Paul Knoblanche (appointed 26 February 2014)

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.

Review of operations

The total comprehensive income of the Company was $113,033,000 (2013: $11,870,000).

The premium decreased by $14,118,000 in 2014 (2013: increased by $1,484,000).

Significant changes in the state of affairs

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

Dividends

Dividends amounting to $240,000,000 were paid by the Company in respect of the financial year ended 31 December 2014 (2013: $nil).

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 31 December 2014 that has significantly affected, or may significantly affect:

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

Likely developments and expected results of operations

On 5 September 2014, General Electric Capital Corporation announced its intention to exit the consumer finance market. In pursuant to that, General Electric Capital Corporation is assessing potential exit strategies.

The Company will continue to operate in its existing business, being Life Insurance, in the next financial year or until an exit strategy is decided upon and executed.

Further information on likely developments in the operations of the Company and the expected results of operations have not been included in these financial statements because the directors believe it would be likely to result in unreasonable prejudice to the Company.

Environmental regulation

The Group's operations are subject to environmental regulations under Commonwealth and State legislation. The board believes the Group has adequate systems in place for the management of its environmental obligations, and is not aware of any material breach of those environmental obligations as they apply to the Group.

Indemnification and insurance of officers and auditors

Indemnification

Mandatory indemnification and legal costs

To the maximum extent permitted by law, the Company:

(a) shall indemnify any current or former officer of the Company who was or is made or is threatened to be made a party or is otherwise involved in any proceeding by reason of the fact he or she is or was an officer of the Company against all liability and loss suffered and expenses reasonably incurred by that officer (except a liability for legal costs); and

(b) shall indemnify an officer against legal costs incurred by that officer in defending any proceeding for which that officer is entitled to be indemnified pursuant to (a) above, in advance of its final disposition provided however that such payment of legal costs shall only be made in advance of final disposition of the proceeding upon receipt of an undertaking by the officer to repay all amounts advanced if it should be ultimately determined that the officer is not entitled to be indemnified

Permissive indemnification and legal costs

To the maximum extent permitted by law, the Company:

(a) may indemnify any person who is not an officer of the Company (non-officer) against any liability or loss incurred by that non-officer in their performance of, or in connection with, the role undertaken by them for or on behalf of the Company (except a liability for legal costs); and

(b) may indemnify a non-officer against legal costs incurred by that non-officer in defending any proceeding for which such non-officer is entitled to be indemnified pursuant to (a) above, in advance of its final disposition provided however that, to the extent required by law, such payment of legal costs shall only be made in advance of final disposition of the proceeding upon receipt of an undertaking by the non-officer to repay all amounts advanced if it should be ultimately determined that the non-officer is not entitled to be indemnified.

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

Insurance

During the financial year ended 31 December 2014 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 2015.

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

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

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

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

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

Lead Auditor's independence declaration
The lead auditor's independence declaration as required under section 307C of the *Corporations Act 2001* forms part of the directors' report for the year ended 31 December 2014 and is set out on page 4.

Rounding of amounts
The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 (as amended) and in accordance with that class order, amounts in this report and the accompanying financial statements have been rounded to the nearest thousand dollars unless otherwise indicated.

Signed in accordance with a resolution of directors.

JoAnne Maree Stephenson (Chairman)
Director
Sydney
27 February 2015

Anna Elizabeth Gladman (Managing Director)
Director
Sydney
27 February 2015

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

To: the directors of Hallmark Life Insurance Company Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 December 2014 there have been:

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

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

KPMG

KPMG

Andrew Reeves
Partner

Sydney
27 February 2015

Hallmark Life Insurance Company Ltd
Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2014

	Notes	2014 $'000	2013 $'000
Insurance premium revenue	1(a)	35,179	49,529
Outwards reinsurance premium expense		(558)	(790)
Net insurance premium revenue		34,621	48,739
Other revenue from ordinary activities		(10)	-
Investment income	1(b)	109,999	7,430
Total revenue		144,610	56,169
Claims expenses	1(c)	(19,305)	(23,511)
Reinsurance and other recoveries		952	465
Net claims incurred		(18,353)	(23,046)
Decrease/(increase) in policy liabilities	2(e)(i)	3,496	(2,052)
(Decrease)/increase in reinsurers share of policy liabilities	2(e)(i)	(37)	6
Net increase/(decrease) in policy liabilities		3,459	(2,046)
Administration expenses	1(d)	(12,500)	(14,221)
Total claims and expenses		(27,394)	(39,313)
Profit before income tax	1(e)	117,216	16,856
Income tax expense	1(f)	(4,183)	(4,986)
Profit for the year		113,033	11,870
Other comprehensive income			
Items that may be reclassified subsequently the profit or loss:			
Exchange differences on translation of foreign operations		735	3,936
Total items that may be reclassified subsequently the profit or loss		735	3,936
Other comprehensive (loss)/ income for the year, net of tax		735	3,936
Total comprehensive income for the year		113,768	15,806
Profit is attributable to:			
Owners of Hallmark Life Insurance Company Ltd		113,033	11,870
		113,033	11,870
Total comprehensive income for the year is attributable to:			
Owners of Hallmark Life Insurance Company Ltd		113,768	15,806
		113,768	15,806

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 2014

	Notes	2014 $'000	2013 $'000
ASSETS			
Cash and cash equivalents	2(a)	105,830	180,330
Trade and other receivables	2(b)	919	3,112
Financial assets at fair value through profit or loss	2(c)	951	51,246
Reinsurance and other recoveries receivable	2(d)	1,013	354
Gross policy liability ceded under reinsurance	2(e)(i)	46	83
Investment in controlled entity	3(b)	103,619	101,195
Total assets		212,378	336,320
LIABILITIES			
Trade and other payables	2(f)	5,750	4,082
Current tax liabilities		996	458
Deferred tax liabilities	3(a)	155	154
Policy claims in the process of settlement	2(g)	2,902	3,411
Gross policy liabilities	2(e)(i)	35,282	38,607
Total liabilities		45,085	46,712
Net assets		167,293	289,608
EQUITY			
Contributed equity	4(a)	10,100	10,100
Reserves	4(b)	85,335	80,683
Retained earnings		71,858	198,825
Total equity		167,293	289,608

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

	Attributable to owners of Hallmark Life Insurance Company Ltd			
	Contributed equity $'000	Reserves $'000	Retained earnings $'000	Total equity $'000
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
Tax consolidation reserve	-	5,207	-	5,207
Balance at 31 December 2013	10,100	80,683	198,825	289,608
Balance at 1 January 2014	10,100	80,683	198,825	289,608
Profit for the year	-	-	113,033	113,033
Other comprehensive income	-	735	-	735
Total comprehensive income for the year	-	735	113,033	113,768
Dividends paid	-	-	(240,000)	(240,000)
Tax consolidation reserve	-	3,917	-	3,917
Balance at 31 December 2014	10,100	85,335	71,858	167,293

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 2014

	Notes	2014 $'000	2013 $'000
Cash flows from operating activities			
Premium received		34,551	49,018
Outward reinsurance expense		(573)	(736)
Claims paid		(19,847)	(26,500)
Payments to suppliers and employees		(6,148)	(12,488)
Interest received		8,783	8,034
Dividends received		102,813	87
Income taxes paid		(1,156)	(2,602)
Reinsurance and other recoveries		293	470
Fees and commissions paid		(3,791)	(4,972)
Net cash inflow from operating activities	5(a)	114,925	10,311
Payment for financial assets		(620)	(22,933)
Proceeds from sale of financial assets		50,292	8,145
Net cash inflow/(outflow) from investing activities		49,672	(14,788)
Cash flows from financing activities			
Dividends paid to company's shareholders	8(b)	(240,000)	-
Net cash (outflow)/inflow from financing activities		(240,000)	-
Net (decrease) in cash and cash equivalents		(75,403)	(4,477)
Cash and cash equivalents at 1 January		180,330	179,717
Effects of exchange rate changes on cash and cash equivalents		903	5,090
Cash and cash equivalents at 31 December	2(a)	105,830	180,330

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

Contents of the notes to the financial statements

Financial performance

This section provides additional information about those individual line items in the financial statements, relating to financial performance, that the directors consider most relevant in the context of the operations of the entity.

1 Profit or loss information

(a) Insurance premium revenue

	2014 $'000	2013 $'000
Direct life insurance premiums - single	24,872	38,651
Direct life insurance premiums - regular	8,714	9,037
Non life insurance premiums	1,593	1,841
Total insurance premium revenue	35,179	49,529

(b) Investment income

	2014 $'000	2013 $'000
Interest income	7,632	7,822
Realised net gains/(losses)	159	(1,101)
Unrealised net (losses)/gains	(782)	622
Dividend income	102,990	87
Total investment income	109,999	7,430

(c) Claims expenses

	2014 $'000	2013 $'000
Death and disability	5,195	1,825
Unemployment	41	51
Terminations of policies	14,069	21,635
Total claims expenses	19,305	23,511

(d) Administration expenses

	2014 $'000	2013 $'000
Policy maintenance - others	7,778	7,692
Foreign exchange (gains)/losses	(41)	(13)
Policy acquisition cost - others	662	1,195
Policy acquisition cost - commission	3,742	4,976
Investment management expenses	359	371
Total administration expenses	12,500	14,221

1 Profit or loss information (continued)

(e) Profit before income tax

Profit before income tax includes the following specific expenses:	2014 $'000	2013 $'000
Employee costs		
Personnel cost	188	230
Contribution to superannuation fund	8	9
Change in annual and long service leave provision	(10)	5
Other administrative expenses		
Marketing fees	(150)	128
Management fees	7,918	7,915

(f) Income tax expense

(i) Income tax expense

	2014 $'000	2013 $'000
Current tax expense	4,182	4,798
Deferred tax (note 3(a))	(83)	39
Adjustments for current tax of prior periods	84	149
Income tax expense	4,183	4,986

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

	2014 $'000	2013 $'000
Profit from continuing operations before income tax expense	117,216	16,856
Tax at the Australian tax rate of 30% (2013: 30%) and tax at the New Zealand tax rate of 28% (2013: 28%)	35,071	4,986
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Adjustment for Hallmark New Zealand policyholder base	(75)	(83)
Tax effect on foreign exchange difference on translation	-	(36)
Non-taxable dividends	(30,897)	-
Tax offset for franked dividends	-	(30)
	4,099	4,837
Adjustments for current tax of prior periods	84	149
Income tax expense	4,183	4,986

1 Profit or loss information (continued)

(g) Statement of sources of operating profit

	2014 $'000	2013 $'000
The shareholders' operating profit after income tax of the statutory funds is represented by:		
Investment earnings on shareholders' retained and capital	1,614	1,471
Emergence of shareholders' planned profits	5,262	4,599
Experience profit/(loss)	873	3,076
	7,749	9,146

Balance sheet management

This section provides additional information about those individual line items in the statement of financial position that the directors consider most relevant in the context of the operations of the entity.

2 Financial assets and financial liabilities

(a) Cash and cash equivalents

	2014 $'000	2013 $'000
Cash at bank	13,621	8,982
Short term deposits	92,209	171,348
Total cash and cash equivalents	105,830	180,330

(b) Trade and other receivables

	2014 $'000	2013 $'000
Trade receivables	675	1,901
Investment income accrued and receivable	241	1,211
Other receivables	3	-
Total trade and other receivables	919	3,112
Trade and other receivables - current	919	3,112

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

(c) Financial assets at fair value through profit or loss

	2014 $'000	2013 $'000
Debt security - Foreign national government	951	958
Fixed interest securities	-	50,288
Total assets at fair value through profit or loss	951	51,246

2 Financial assets and financial liabilities (continued)

(c) Financial assets at fair value through profit or loss (continued)

Financial assets at fair value through profit or loss - current	951	26,163
Financial assets at fair value through profit or loss - non-current	-	25,083
	951	51,246

(d) Reinsurance and other recoveries receivable

	2014 $'000	2013 $'000
Expected future reinsurance recoveries undiscounted		
Outstanding claims	1,013	354
Reinsurance and other recoveries receivable - current	1,013	354

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

(e) Policy liabilities

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

	2014 $'000	2013 $'000
Gross life insurance contract liabilities		
Balance at 1 January	38,607	35,725
Foreign exchange movement	171	830
Increase/(decrease) in life insurance contract liabilities reflected in the profit or loss	(3,496)	2,052
Closing balance at 31 December	35,282	38,607
Reinsurers' share of life insurance contract liabilities		
Balance at 1 January	83	88
Foreign exchange movement	-	1
Increase/(decrease) in reinsurance assets reflected in the profit or loss	(37)	(6)
Closing balance at 31 December	46	83
Net insurance contract liabilities	35,236	38,524
Net insurance contract liabilities - current	17,424	20,722
Net insurance contract liabilities - non current	17,812	17,802
	35,236	38,524

2 Financial assets and financial liabilities (continued)

(e) Policy liabilities (continued)

(ii) Components of net life insurance contract liabilities

	2014 $'000	2013 $'000
Best estimate liability:		
Future policy benefits (Note (2) below)	39,006	43,071
Unrecouped acquisition expenses	(3,770)	(4,547)
Total best estimate liability	35,236	38,524
Value of future shareholder profit margins (Note 1 below)	-	-
Net policy liabilities	(35,236)	(38,524)

(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.

(iii) 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 the Australian Prudential Regulation Authority (APRA)).

The excess of the Company's capital base over the PCA as at 31 December 2014 was $71.9 million (2013: $201.2 million).

The available assets of each statutory fund have also exceeded the Prudential Capital Requirement at all times during the year ending 31 December 2014.

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

2 Financial assets and financial liabilities (continued)

(e) Policy liabilities (continued)

2014	Statutory Fund 1 $'000	Statutory Fund 2 $'000	Shareholder Fund $'000	Total $'000
(a) Capital base	9,828	34,982	89,592	134,402
(b) Prescribed capital amount	1,016	423	60,968	62,407
Capital in excess of prescribed capital amount = (a) - (b)	8,812	34,559	28,624	71,995
Capital adequacy multiple = (a)/(b)	9.68	82.63	1.47	2.15
Capital Base:				
Net assets	7,822	34,439	125,032	167,293
Less: Difference between adjusted policy liabilities and policy liabilities	2,006	543	-	2,549
Less: Elimination of any excess DTAs over DTLs	-	-	(6)	(6)
Less: Adjustments to the value of the holding in Hallmark General	-	-	(35,434)	(35,434)
Equals: Capital base	9,828	34,982	89,592	134,402
Prescribed capital amount:				
Asset risk charge	111	140	3,115	3,366
Asset concentration risk charge	-	-	56,986	56,986
Operational risk charge	905	283	-	1,188
Combined stress scenario adjustment	-	-	867	867
Prescribed capital amount	1,016	423	60,968	62,407

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: Adjustments to the value of the holding in Hallmark General	-	-	(36,474)	(36,474)
Common equity tier 1 capital	46,251	31,385	177,444	255,080
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	1,656	495	51,694	53,845

2 Financial assets and financial liabilities (continued)

(e) Policy liabilities (continued)

(iv) 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	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Shareholders interest (overseas and non-participating businesses)	61,381	53,633	7,749	9,146

(f) Trade and other payables

	2014	2013
	$'000	$'000
Trade payables	295	291
Other payables	5,455	3,791
Total trade and other payables	5,750	4,082
Trade and other payables - current	5,750	4,082

The carrying amount disclosed above approximates fair value at reporting date.
These balances include amounts payable to related parties (note 13(b)).

(g) Policy claims in the process of settlement

	2014	2013
	$'000	$'000
Undiscounted expected future claims payment	2,902	3,411
Discount to present value	-	-
Total policy claims in the process of settlement	2,902	3,411
Policy claims in the process of settlement - current	2,815	3,309
Policy claims in the process of settlement - non current	87	102
	2,902	3,411

(h) Fair value measurements

(i) Fair value hierarchy

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Company has classified its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

2 Financial assets and financial liabilities (continued)

(h) Fair value measurements (continued)

31 December 2014	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets				
Financial assets designated at fair value through profit or loss	-	951	-	951

31 December 2013	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets				
Financial assets designated at fair value through profit or loss	50,288	958	-	51,246

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.

(ii) Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

- The use of quoted market prices or dealer quotes for similar instruments.
- the fair value of the remaining financial instruments is determined using discounted cash flow analysis.

2 Financial assets and financial liabilities (continued)

(h) Fair value measurements (continued)

(iii) Fair value measurements using significant unobservable inputs (level 2)

The following table presents the changes in level 2 items for the financial years ended 31 December 2014 and 31 December 2013:

	2014 $'000	2013 $'000
Opening balance at 1 January	958	856
Total gains/(losses) recognised in:		
Profit or loss	(28)	(25)
Other comprehensive income	21	127
Closing balance at 31 December	951	958

3 Non-financial assets and liabilities

(a) Deferred tax liabilities

	2014 $'000	2013 $'000
The balance comprises temporary differences attributable to:		
Operating accruals	(169)	(242)
Fixed assets	-	(13)
Other	(10)	(13)
Deferred commission	334	422
Total deferred tax liabilities/(assets)	155	154

Deferred tax liabilities are classified as non-current liabilities.

	2014	2013
Movements in deferred tax liabilities:		
Opening balance at 1 January	154	(422)
Charged/(credited) to profit or loss (note 1(f))	(83)	39
Over/(under) provision in prior years	84	488
Foreign exchange variance	-	49
Closing balance at 31 December	155	154

3 Non-financial assets and liabilities (continued)

(b) Investment in controlled entity

	2014 $'000	2013 $'000
Non-current		
Investment in controlled entity at cost	103,619	101,195

Investment in the controlled entity is carried at cost adjusted for income tax liability of $2,424,000 transferred from head entity under a tax funding agreement (2013: transfer to head entity $2,522,000).

Particulars in relation to controlled entity:

Name of entity	Country of incorporation	Class of shares	Equity holding 2014 %	Equity holding 2013 %
Hallmark General Insurance Company Ltd	Australia	Ordinary	99.99	99.99

Pursuant to ASIC Class Order 98/1418, as a wholly owned subsidiary of GE Capital Australia Group Holdings Pty Ltd, the Company is relieved from the *Corporations Act 2001* requirements for preparation, audit and lodgement of consolidated financial reports and director's reports. Hence, the results of Hallmark General Insurance Company Ltd are not consolidated or included in these financial statements and the investment in Hallmark General Insurance Company Ltd is carried at cost in the statement of financial position.

4 Equity

(a) Contributed equity

(i) Share capital

	2014 No. of Shares	2013 No. of Shares	2014 $'000	2013 $'000
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

(ii) 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.

4 Equity (continued)

(a) Contributed equity (continued)

(iii) 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.

(iv) Parent entities

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

(b) Reserves

	2014 $'000	2013 $'000
Foreign currency translation reserve	1,658	923
Tax consolidation reserve	83,677	79,760
Total reserves	85,335	80,683

	2014 $'000	2013 $'000
Movements in reserves :		
Foreign currency translation reserve		
Opening balance at 1 January	923	(3,013)
Exchange differences on translation of foreign operations	735	3,936
Closing balance 31 December	1,658	923
Tax consolidation reserve		
Opening balance at 1 January	79,760	74,553
Current tax liability transferred (from)/to Head Entity	3,917	5,207
Closing balance 31 December	83,677	79,760

5 Cash flow information

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

	2014 $'000	2013 $'000
Profit for the year	113,033	11,870
Adjustments		
Realised (gains)/losses on sale of financial assets	(159)	1,101
Unrealised losses/(gains) in value of financial assets	782	(622)
Effect of foreign exchange on cash and cash equivalents	(903)	(5,090)
Change in operating assets and liabilities:		
(Increase)/decrease in trade and other receivables	2,193	(518)
Increase/(decrease) in deferred tax liability	1	576
Increase/(decrease) in trade and other payables	1,668	(3,967)
Increase/(decrease) in current tax liability	538	248
Increase/(decrease) in tax consolidation reserve	3,917	5,208
(Increase)/decrease in reinsurance and other recoveries receivable	(659)	5
(Increase)/decrease in gross policy liabilities ceded under reinsurance	37	5
Decrease/(increase) in investment in controlled entity	(2,424)	(2,523)
Increase/(decrease) in policy claims in the process of settlement	(509)	(2,800)
(Decrease)/increase in gross policy liabilities	(3,325)	2,882
(Decrease)/increase in foreign currency translation reserve	735	3,936
Net cash inflow from operating activities	114,925	10,311

Risk

This section of the notes discusses the Company's exposure to various risks and shows how these could affect the Company's financial position and performance.

6 Actuarial assumptions and methods

The effective date of the actuarial report on policy liabilities and solvency requirements is 31 December 2014. The actuarial report was prepared by Mr Brendan Mark Counsell, BSc, BA, FIAA, FNSZA . The actuarial report indicates that Mr Counsell 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 the Australian Prudential Regulation Authority (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:

6 Actuarial assumptions and methods (continued)

Product groups	Method (projection or other)	Profit carriers
Lump sum risk	Accumulation (2013: Accumulation)	Claims (implied)
Disability and involuntary unemployment income	Accumulation (2013: 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	2.78% (2013: 2.63%)
5 years	2.27% (2013: 3.43%)

New Zealand

90 days	3.67% (2013: 2.84%)
5 years	3.61% (2013: 4.22%)

(b) Inflation rates

Allowance for future inflation of 2.5% p.a. for Australia is assumed (2013: 2.5% p.a.).

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

Allowance for future inflation of 1.0% per annum for New Zealand is assumed (2013: 1.6% per annum). The future inflation assumption is based on the medium term target range of the Reserve Bank of New Zealand of 1% -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 2015. 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 those used in 2013 with the exception of an increase in the loss ratio for the small remaining term life and disability covers and a decrease 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.

6 Actuarial assumptions and methods (continued)

Disclosure of assumptions (continued)

(e) Disability and involuntary unemployment (continued)

The key actuarial assumptions for the determination of the outstanding claims liabilities are claim termination rate, average claim size (disability = NZ$1,600, unemployment = NZ$678), a claims handling expense rate of 15% of the projected gross claim payments (based on expense investigation) and a discount rate of 3.54% (based on the yields of 1 year and 2 year New Zealand Government bonds as at 31 December 2014). 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	32% p.a. (2013: 49% p.a.)
Regular premium term life insurances	16% p.a. (2013: 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.

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 2014, 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.

6 Actuarial assumptions and methods (continued)

Sensitivity analysis (continued)

2014	Impact on profit or loss Gross of reinsurance $'000	Impact on profit or loss Net of reinsurance $'000	Impact on equity Gross of reinsurance $'000	Impact on equity Net of reinsurance $'000
Result of change in variables				
Mortality/morbidity- worsening by 5%	(185)	(166)	(185)	(166)
Mortality/morbidity- improving by 5%	185	166	185	166
Lapse rate- worsening by 5%	58	58	58	58
Lapse rate- improving by 5%	(58)	(58)	(58)	(58)
Expenses- worsening by 5%	(272)	(272)	(272)	(272)
Expenses- improving by 5%	272	272	272	272

2013	Impact on profit or loss Gross of reinsurance $'000	Impact on profit or loss Net of reinsurance $'000	Impact on equity Gross of reinsurance $'000	Impact on equity Net of reinsurance $'000
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

7 Financial risk management

This note explains the Company's exposure to financial risks and how these risks could affect the Company's future financial performance. Current year profit and loss information has been included where relevant to add further context.

(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 claims on reinsurance contracts.

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

(i) Financial assets

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

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

7 Financial risk management (continued)

(a) Credit risk (continued)

(ii) Reinsurance assets

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

(iii) Loans and other receivables

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

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

2014	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	105,830	-	-	105,830	-	105,830
Trade and other receivables	-	919	-	919	-	919
Financial assets at fair value through profit or loss						
Debt securities	951	-	-	951	-	951
Fixed interest securities	-	-	-	-	-	-
Investment in controlled entities	-	103,619	-	103,619	-	103,619
Reinsurance and other recoveries receivable	-	1,013	-	1,013	-	1,013
Gross policy liability ceded under reinsurance	-	46	-	46	-	46
Total credit risk exposure	106,781	105,597	-	212,378	-	212,378

7 Financial risk management (continued)

(a) Credit risk (continued)

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

* 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 (S&P).

2014	AAA $'000	AA $'000	A $'000	BBB $'000	Not rated $'000	Total $'000
Financial Assets						
Cash and cash equivalents	-	-	105,830	-	-	105,830
Trade and other receivables*	-	-	-	-	919	919
Financial assets at fair value through profit or loss						
Debt securities	-	951	-	-	-	951
Fixed interest securities	-	-	-	-	-	-
Investment in controlled entity*	-	-	-	-	103,619	103,619
Reinsurance and other recoveries receivable	-	-	1,013	-	-	1,013
Gross policy liability ceded under reinsurance	-	46	-	-	-	46
Total credit risk exposure	-	997	106,843	-	104,538	212,378

7 Financial risk management (continued)

(a) Credit risk (continued)

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	9,917	41,412	180,684	-	104,307	336,320

* The receivables and investment in controlled entity are largely with related parties, refer to note 13(b)).

No receivables are past due or impaired at balance date (2013: 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.

7 Financial risk management (continued)

(b) Liquidity risk (continued)

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:

2014	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	5,750	-	-	-	-	5,750
Policy claims in process of settlement	2,815	66	21	-	-	2,902
Gross policy liabilities	17,469	8,553	8,234	1,026	-	35,282
Net principal liabilities	26,034	8,619	8,255	1,026	-	43,934

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

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.

7 Financial risk management (continued)

(c) Market risk (continued)

(ii) Interest rate risk

Interest rate risk is the risk that the value or cash flows 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.

2014	Carrying amount	Change in variables	Impact on profit before tax	Impact on equity				Total
				Up to a year	1-2 years	2-5 years	Over 5 years	
	$'000	%	$'000	$'000	$'000	$'000	$'000	$'000
Financial assets								
Short term deposits	92,209	-1	(922)	(645)	-	-	-	(645)
Fixed interest securities	-	-	-	-	-	-	-	-
Debt securities	951	-1	(10)	-	(7)	-	-	(7)
	93,160		(932)	(645)	(7)	-	-	(652)

2013	Carrying amount	Change in variables	Impact on profit before tax	Impact on equity				Total
				Up to a year	1-2 years	2-5 years	Over 5 years	
	$'000	%	$'000	$'000	$'000	$'000	$'000	$'000
Financial assets								
Short term deposits	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)
	222,594		(2,226)	(1,382)	(11)	(165)	-	(1,558)

The analysis is performed on the same basis for 2013 and assumes that all other variables remain the same.

7 Financial risk management (continued)

(c) Market risk (continued)

(iii) Price risk

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

The Company has no equity securities as at 31 December 2014.

8 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 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 to note 2(e)(iii).

(a) Risk management

Insurance contracts

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

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

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

The business written consists mainly of consumer credit 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.

8 Capital management (continued)

(a) Risk management (continued)

Insurance risk management

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

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

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

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

(i) Underwriting strategy

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

(ii) Reinsurance strategy

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

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 a relatively conservative retention level considering the level of sums insured written and the capital position of the Company. No reinsurance is in place for the Company's consumer credit insurance products.

(iii) Claims management

Strict claims management procedures ensure the timely and accurate payment of claims in accordance with policy conditions. 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.

(b) Dividends

	2014 $'000	2013 $'000
Dividends paid during the financial year ended 31 December	240,000	-

Unrecognised items

This section of the notes provides information about items that are not recognised in the financial statements as they do not (yet) satisfy the recognition criteria.

9 Commitments and contingencies

No contingent assets or contingent liabilities existed as at 31 December 2014 (2013: nil).

10 Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 31 December 2014 that has significantly affected or may significantly affect:

- the Company's operations; or
- the results of those operations; or
- the Company's state of affairs.

Other information

This section of the notes includes other information that must be disclosed to comply with the accounting standards and other pronouncements, but that is not immediately related to individual line items in the financial statements.

11 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the Company and its related practices:

(a) Audit services

Amounts received or due and receivable by auditors of the Group (KPMG Australia) for:

	2014 $	2013 $
Audit and review of financial statements	83,885	93,270
Other assurance services:		
APRA Return	49,200	54,678
AFSL Audit	5,655	6,030
Total remuneration for audit and other assurance services	138,740	153,978

Audit fees in 2014 and 2013 were paid by GE Capital Finance Australia Pty Ltd.

12 Key management personnel disclosures

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

12 Key management personnel disclosures (continued)

(i) Directors

Duncan Gerald West (appointed 26 February 2014)
JoAnne Maree Stephenson (appointed 26 February 2014)
Christopher Paul Knoblanche (appointed 26 February 2014)
Anna Elizabeth Gladman (appointed 29 April 2014)
Rachel Emma Cobb (appointed 23 June 2014)
Paul Brian McCann (resigned 26 February 2014)
Scott Kingsley Miller (resigned 28 April 2014)
Raymond Bruce Willing (resigned 30 April 2014)
Phillip Stuart Douglas Purcell (resigned 30 April 2014)
Neil William Smart (resigned 30 April 2014)

(ii) Other executives

Aliessa Pritchard (appointed 2 January 2014)
Alexandra Yaniv (appointed 10 June 2014)
Rachel Perry (appointed 20 June 2014)
Drossos Haramantas (appointed 23 June 2014)
Ryan Kiss (appointed 9 December 2014)
Rosalyn Exley (resigned 12 May 2014)
Helen Mediati (resigned 23 June 2014)
Kevin Smith
Emma Robinson
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.

	2014 $	2013 $
Short-term employee benefits*	2,209,404	2,724,998
Long-term employee benefits	209,423	295,699
Equity compensation benefits	24,471	76,051
	2,443,298	3,096,748

There are no other transactions with key management personnel (2013: $nil).

* The 2014 amount includes termination benefits of $132,600

13 Related party transactions

(a) Transactions with related parties

The following transactions occurred with related parties:

	2014 $	2013 $
Management fees paid to/(received from):		
GE Personal Finance Pty Ltd	352,975	319,576
GE Capital Finance Australasia Pty Ltd	4,396,764	4,192,517
Hallmark General Insurance Company Ltd	2,650,153	2,834,970
GE Capital Corporation	263,877	-
Cross charges paid to:		
GE Capital Finance Australasia Pty Ltd	687,593	822,941
GE Finance and Insurance Pty Ltd (NZ)	201,906	279,437
Royalty paid:		
GE Capital Registry, Inc.	296,378	308,716
Commission paid to:		
GE Personal Finance Pty Ltd	1,413,615	2,403,654
GE Capital Finance Australia	805,965	749,769
GE Capital Finance Australasia Pty Ltd	45,891	59,990
GE Finance and Insurance Pty Ltd (NZ)	1,310,309	1,718,560
Dividend (received)/paid		
Hallmark General Insurance Company Ltd	(103,000,000)	-

(b) Outstanding balances with related parties

	2014 $	2013 $
Receivables/(payables)		
GE Capital Finance Australasia Pty Ltd	(15,785)	10,457
GE Personal Finance Pty Ltd	321,947	771,108
GE Capital Finance Australia	348,305	274,768
GE Finance and Insurance Pty Ltd (NZ)	377,596	470,490
Hallmark General Insurance Company Ltd	(3,482,323)	(1,670,897)
GE Capital Holdings Partnership	(1,664,386)	(733,013)

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 2014, 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 2014 or prior years.

14 Disaggregated information on life insurance business by fund

	Non-investment linked Statutory Fund 1 $'000	Non-investment linked Statutory Fund 2 $'000	Non-investment linked Total $'000	Shareholder Fund $'000	Total $'000
2014					
Financial assets	43,146	43,589	86,735	125,643	212,378
Life insurance contract liabilities	(28,514)	(6,768)	(35,282)	-	(35,282)
Other liabilities	(6,810)	(2,382)	(9,192)	(611)	(9,803)
Retained earnings	(28,619)	(32,762)	(61,381)	(10,477)	(71,858)
Premium revenue	(25,574)	(9,047)	(34,621)	-	(34,621)
Investment revenue	(2,299)	(1,344)	(3,643)	(106,347)	(109,990)
Claims expense	14,487	3,866	18,353	-	18,353
Increase/decrease in policy liabilities	(2,607)	(852)	(3,459)	-	(3,459)
Other administration expenses	8,681	3,740	12,421	79	12,500
Operating profit before tax	(7,311)	(3,637)	(10,948)	(106,268)	(117,216)
Operating profit after tax	(5,124)	(2,625)	(7,749)	(105,284)	(113,033)
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
Increase/decrease 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)

15 Summary of significant accounting policies

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

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

Its registered office and principal place of business is:
Level 4
99 Walker Street
North Sydney NSW 2060
Australia

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

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

The financial statements were authorised for issue by the directors on 27 February 2015.

(a) Basis of preparation

Statement of compliance

This general purpose financial statements cover the Company and its New Zealand Statutory Fund as a single entity and has been prepared in accordance with Australian Accounting Standards (AASBs) and interpretations issued by the Australian Accounting Standards Board (AASB), and the *Corporations Act 2001*. The financial statements also comply with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

The Company has applied the exemption from consolidation in accordance with AASB 10. In accordance with AIFRS, consolidated financial statements are prepared by the Company's ultimate Australian parent entity, GE Capital Australia Group Holding Pty Ltd.

Basis of measurement

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

Comparative information

Certain comparative information in the financial statements have been reclassified to conform with the current year's presentation.

Change in accounting policies

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

15 Summary of significant accounting policies (continued)

(b) Principles for life insurance business

Activities of the life insurance operations

The life insurance operations of the Company are conducted within separate statutory funds as required by the LIA and are reported in aggregate with the shareholders' fund in the statement of profit or loss and other comprehensive income,statement of financial position and statement of cash flows of the Company. The life insurance operations of the Company comprise the selling and administration of life insurance contracts only.

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

Restrictions on assets

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

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

(c) Critical estimates, judgements and errors

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

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 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 6.

15 Summary of significant accounting policies (continued)

(c) Critical estimates, judgements and errors (continued)

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.

(d) Revenue recognition

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

(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 from assets backing life-insurance liabilities, which are designated as fair value through profit or loss, is recognised on a time proportion basis using the simple interest method. Dividends are brought to account as declared and are recognised net of franking credits. Assets are designated at fair value through profit or loss and the related net realised and unrealised gains and losses arising on financial assets designated at fair value through profit or loss are included in the statement of profit or loss and other comprehensive income as investment revenue.

15 Summary of significant accounting policies (continued)

(e) Claims expenses

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

Claims incurred all relate to providing services, including the bearing of risk, and are accordingly treated as expenses in the statement of profit or loss and other comprehensive income. Claims expenses represent total claim payments made during the year adjusted for the movement in the outstanding claims liability.

The claims liability is measured based on the advice of valuations performed by the appointed actuary whose key assumptions are outlined in note 6.

(f) Other expenses

Other expenses are recognised in the statement of profit or loss and other comprehensive income on an accruals basis.

Basis of apportionment

Apportionment of expenses has been made as follows:

- all expenses have been apportioned between policy acquisition, policy maintenance and investment management in line with the principles set out in the Prudential Standard LPS 340 Valuation of Policy Liabilities issued by 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.

(g) 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.

(h) Income tax

Australian company

Income tax in the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognised in the profit or loss except to the extent that it relates to items recognised directly in equity.

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

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

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

15 Summary of significant accounting policies (continued)

(h) Income tax (continued)

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

Deferred tax assets and liabilities are recognised on a gross basis, and presented net if the Company has a legally enforceable right to set off current tax assets and liabiklities. 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

On 1 January 2012, GE Capital Holdings Partnership became the head entity (previously headed by GE Finance Holdings Hold Co Pty Limited) of an income tax consolidated group incorporating the Company, its subsidiary and several other related entities. The implementation date of the income tax consolidated group was 1 July 2003.

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

For financial years ending on or after 31 December 2014, the members of the income tax consolidated group have entered into a tax funding agreement which sets out the funding obligations of the members of the income tax consolidated group in respect of tax amounts. The tax funding agreement requires the Company and its subsidiary (member) to make payments to GE Capital Finance Australasia Pty Limited in respect of the group tax liability equal to the relative proportion of taxable income of each relevant company. Where the member of the income tax consolidated group recognises a taxable loss, the funding amount is nil with no compensation for the tax losses unless the member is subject to prudential regulation by APRA, in which case the regulated entity will be compensated for its tax losses.

The liabilities arising for the member under a tax funding agreement are recognised as amounts payable to GE Capital 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 tax consolidated group have also entered into a tax sharing agreement under the tax consolidation legislation which sets out the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations.

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.

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.

15 Summary of significant accounting policies (continued)

(h) Income tax (continued)

Statutory funds

Taxation bases

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

Assessable income

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

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

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

(i) Cash and cash equivalents

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

(j) Loans and other receivables

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

(k) 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.

15 Summary of significant accounting policies (continued)

(l) Classification of insurance contracts

Contracts under which the Company accepts significant insurance risk from the policyholder or another party by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event adversely affects the policyholder or other beneficiary, are classified as insurance contracts. The risks associated with Insurance contracts are detailed further in note 8(a).

(m) Assets backing policy liabilities

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

(n) 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 2(h).

(o) Investment in controlled entity

Investment in controlled entities is carried at cost less impairment.

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

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

15 Summary of significant accounting policies (continued)

(q) Trade and other payables

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

(r) Liability adequacy test

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

(s) Policy liabilities

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

(t) Policy acquisition costs

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.

(u) Foreign currency translation and functional currency

Functional and presentation currency

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

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

Transactions and balances

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

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

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

15 Summary of significant accounting policies (continued)

(v) 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 tax authoroties (i.e ATO and IRD) is included as a current asset or liability in the statement of financial position.

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

(w) Rounding of amounts

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the rounding off of amounts in the financial statements. Unless otherwise stated,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.

(x) New accounting standards and interpretations

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Company, except for AASB 9 Financial Instruments, which becomes mandatory for the Company's 2018 financial statements and could change the classification and measurement of financial assets. The Company does not plan to adopt this standard early and the extent of the impact has not been determined.

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 44 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 2014 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 15; and

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

Signed in accordance with a resolution of directors:

JoAnne Maree Stephenson (Chairman)
Director
Sydney
27 February 2015

Anna Elizabeth Gladman (Managing Director)
Director
Sydney
27 February 2015

KPMG

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

Report on the financial report

We have audited the accompanying financial report of Hallmark Life Insurance Company Ltd (the Company), which comprises the statement of financial position as at 31 December 2014, and the statement of profit and loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, notes 1 to 15 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 15, 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.

KPMG

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 2014 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 15.

KPMG

KPMG

AR

Andrew Reeves
Partner

Sydney
27 February 2015

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11 September 2015

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 2014 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. 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 2014, 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.

As part of my responsibilities, I have produced a report on HLIC's policy liabilities and financial condition, the Financial Condition Report (FCR), as at 31 December 2014, dated 25 March 2015. The scope of the work I have undertaken is described in Section 2 of the FCR and the limitations of my review are described in Section 17 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. Where relevant and appropriate, I have commented on total HLIC Company level results and also separately in relation to the results of the New Zealand Branch (Statutory Fund 2) of HLIC.

Financial Statements – HLIC Company

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

a. 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

Building a better working world

Section 78 of the Act requires that the Appointed Actuary prepare a report in respect of the review required under Section 77. I confirm that the FCR, and its appendices, meets the requirements of section 78 of the Act, as it contains my 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. 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 27 February 2015 and FCR, 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 2014 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 Statements - HLIC New Zealand Branch (Statutory Fund 2)

Section 77 of the Act requires a review by the Appointed Actuary of the actuarial information in the New Zealand Branch 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. I confirm that the FCR, and its appendices, meets the requirements of section 78 of the Act, as it contains my 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 27 February 2015 and FCR, 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 2014 New Zealand Branch 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)

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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 and includes discussion of relevant risk mitigants. These material risks are considered at a company level and also separately for the Australian and New Zealand business.

Throughout the FCR, key metrics and information have been separated between Statutory Fund 1 (Australia) and Statutory Fund 2 (New Zealand) so that each business can be considered separately from the company as a whole.

As discussed in Section 10 of the FCR, HLIC is in a very strong financial position as at 31 December 2014, with excess assets of A$8.8m above prudential capital requirements in Statutory Fund 1 and A$34.6m in Statutory Fund 2. Both statutory funds, as well as the Shareholders Fund have exceeded prudential capital requirements over the year to 31 December 2014.

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:

a. A solvency margin consistent with the requirements under section 21(2) (b) of the Act

b. Solvency margins for each statutory fund, both in Australian and in New Zealand, consistent with the requirements under section 21(2) (c) of the Act

This strong position means that both statutory funds, Statutory Fund 1 and 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

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