Hallmark General Insurance Company Ltd
New Zealand Branch
Financial report
for the year ended 31 December 2012

Hallmark General Insurance Company Ltd New Zealand Branch
Financial report - 31 December 2012

Contents

Directors' report

Your Directors present their report together with the financial statements of Hallmark General Insurance Company Ltd New Zealand Branch ("the Branch") for the year ended 31 December 2012 and the auditor's report thereon.

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

Raymond Bruce Willing (Chairman).
Director
Sydney
19 March 2013

Angela Julie Hunter (Managing Director)
Director
Sydney
19 March 2013

Hallmark General Insurance Company Ltd New Zealand Branch
Financial report - 31 December 2012

Contents

Hallmark General Insurance Company Ltd New Zealand Branch
Statement of Comprehensive Income
For the year ended 31 December 2012

	Notes	2012 $'000	2011 $'000
Insurance premium revenue		10,976	-
Outwards reinsurance premium expense		(3)	-
Net insurance premium revenue	5	10,973	-
Claims expenses		2,689	-
Net claims incurred	6	2,689	-
Acquisition costs		2,197	-
Administration expenses		4,717	-
Underwriting expenses		6,914	-
Underwriting result		1,370	-
Investment income	7	460	-
Investment expenses		(11)	-
Other expenses		(22)	-
Profit before income tax		1,797	-
Income tax expense	8	251	-
Profit for the year		1,546	-
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year		1,546	-
Profit is attributable to:			
Owners of Hallmark General Insurance Company Ltd New Zealand Branch		1,546	-
		1,546	-
Total comprehensive income for the year is attributable to:			
Owners of Hallmark General Insurance Company Ltd New Zealand Branch		1,546	-
		1,546	-

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Hallmark General Insurance Company Ltd New Zealand Branch
Statement of Financial Position
As at 31 December 2012

	Notes	2012 $'000	2011 $'000
ASSETS			
Current assets			
Cash and cash equivalents	9	26,398	-
Trade and other receivables	10	5,374	-
Deferred acquisition costs	11	3,253	-
Total current assets		35,025	-
Non-current assets			
Deferred acquisition costs	11	2,298	-
Total non-current assets		2,298	-
Total assets		37,323	-
LIABILITIES			
Current liabilities			
Trade and other payables	12	4,584	-
Current tax liabilities		243	-
Outstanding claims liability	13	2,380	-
Unearned premium liability	14	16,264	-
Total current liabilities		23,471	-
Non-current liabilities			
Outstanding claims liability	13	816	-
Unearned premium liability	14	11,490	-
Total non-current liabilities		12,306	-
Total liabilities		35,777	-
Net assets		1,546	-
EQUITY			
Retained earnings		1,546	-
Total equity		1,546	-

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

Hallmark General Insurance Company Ltd New Zealand Branch
Statement of Changes in Equity
For the year ended 31 December 2012

	Retained earnings $'000	Total equity $'000
Balance at 5 April 2011	-	-
Profit for the year	-	-
Other comprehensive income	-	-
Total comprehensive income for the year	-	-
Balance at 31 December 2011	-	-
Balance at 1 January 2012	-	-
Profit for the year	1,546	1,546
Other comprehensive income	-	-
Total comprehensive income for the year	**1,546**	**1,546**
Balance at 31 December 2012	**1,546**	**1,546**

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

	Notes	2012 $'000	2011 $'000
Cash flows from operating activities			
Net premium received		11,246	-
Interest received		453	-
Claims paid		(1,654)	-
Payments to suppliers and employees		(2,758)	-
Net cash inflow from operating activities	20	7,287	-
Cash flows from investing activities			
Acquisition of insurance operation net of cash acquired	19	19,504	-
Net cash inflow from investing activities		19,504	-
Net cash inflow from financing activities		-	-
Net increase in cash and cash equivalents		26,791	-
Effects of exchange rate changes on cash and cash equivalents		(393)	-
Cash and cash equivalents at end of year	9	26,398	-

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

Contents of the notes to the financial statements

1 Summary of significant accounting policies

General information

Hallmark General Insurance Company Ltd New Zealand Branch (the "Branch") was registered in New Zealand on the 5th April 2011, under the Companies Act 1993. These are the financial statements of the New Zealand Branch of Hallmark General Insurance Company Ltd (the Company).

The parent entity of Hallmark General Insurance Company Ltd is GE Capital Finance Australasia Pty Ltd. The ultimate parent entity of Hallmark General Insurance Company Ltd is General Electric Company.

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

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

The financial statements were authorised for issue by the directors on 19 March 2013. The directors have the power to amend and reissue the financial statements.

Statement of compliance

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

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Branch, except for NZ IFRS 9 Financial Instruments, which becomes mandatory for the Branch's 2015 financial statements and could change the classification and measurement of financial assets. The Branch does not plan to adopt this standard early and the extent of the impact has not been determined

(a) Basis of preparation

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

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

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

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

1 Summary of significant accounting policies (continued)

(b) Revenue

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

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

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

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

The unearned portion of premium is recognised within 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 is recognised on a time proportion basis using the simple interest method. Dividends are brought to account as declared and are recognised net of franking credits. Assets are designated at fair value through profit and loss and the related net realised and unrealised gains and losses are included in the Statement of Comprehensive Income as investment revenue.

(c) Claims

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

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

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

(d) Expenses

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

(e) Outwards reinsurance premium

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

1 Summary of significant accounting policies (continued)

(f) Deferred acquisition costs

Costs, which vary with and are primarily related to the production of new business, have been deferred to the extent that such costs are deemed recoverable from future profits. Such costs primarily include commissions. These costs are amortised in proportion to premiums over the estimated lives of the policies. A write down to recoverable amount is recognised where the present value of expected future claims (including settlement costs) in relation to business written to the end of the reporting period exceeds related unearned premiums less the deferred acquisition costs.

(g) Income tax

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

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

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

Deferred tax assets and liabilities are recognised on a gross basis. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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:

Gross premium income
As the branch is a non-resident, for tax purposes, general insurer in New Zealand it is taxed at 10% of its New Zealand sourced gross premium income. Deductions for expenditure are not allowed. A non-resident withholding tax of 10% or approved issuer levy of 2% applies to any New Zealand sourced interest income on investments.

(h) Cash and cash equivalents

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

(i) Trade and other receivables

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

(j) Reinsurance and other recoveries receivable

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

1 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 adversely affects the policyholder or other beneficiary, are classified as insurance contracts. The risks associated with Insurance contracts are detailed further in note 4.

(l) Assets backing general insurance liabilities

Hallmark General Insurance Company Ltd has established a target capital surplus policy to ensure assets are available to meet insurance liabilities.

(m) Financial assets

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

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

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

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

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

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

(n) Impairment of assets

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

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

1 Summary of significant accounting policies (continued)

(o) Trade and other payables

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

(p) Outstanding claims liability

The liability for outstanding claims covers the expected future payments in relation to claims reported but not yet paid, IBNR's, IBNER's and the anticipated direct and indirect costs of settling these claims.

The liability for outstanding claims is subject to yearly actuarial review. The general approach to the actuarial estimation of outstanding claims is to analyse all available past experience. Based on this, the expected future payments are determined and discounted to present value using a risk free rate.

The provision for the outstanding claims liability also contains a risk margin to reflect the inherent uncertainty in the central estimate. The risk margin increases the probability that the net liability is adequately provided for to a 90% (2011: 90%) confidence level.

(q) Liability adequacy test

The adequacy of the insurance contract liabilities are evaluated each year. The insurance contract test considers current estimates of all contractual and related cash flows. If it is determined using best estimate assumptions that a shortfall exists, it is immediately recognised in the Statement of Comprehensive Income. Refer to note 13(e).

(r) Unexpired risk liability

Provision is made for unexpired risks arising from general insurance business where the expected value of claims and expenses attributed to the unexpired periods of policies in force at the end of the reporting period exceeds the unearned premiums provision in relation to such policies after the deduction of any deferred acquisition costs. The provision for unexpired risk is calculated separately by reference to separate classes of business, which are managed together, after taking into account the relevant investment return.

Unexpired risk liability, if any, remaining after writing off deferred acquisition costs is recognised immediately in the Statement of Comprehensive Income. Refer to note 13(e).

(s) Foreign currency translation and functional currency

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

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

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

Non-monetary items 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.

1 Summary of significant accounting policies (continued)

(t) Goods and services tax (GST)

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

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

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

The GST rates in New Zealand is 15%.

(u) Rounding of amounts

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

2 Accounting judgements and estimates

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

Key sources of estimation uncertainty
The key area of estimation uncertainty for the Branch is in its estimation of outstanding claims and reinsurance recoveries. These are discussed in detail in note 13.

The ultimate liability arising from claims made under insurance contracts
Provision is made at the year-end for the estimated cost of claims incurred but not settled at the end of the reporting period, including the cost of IBNR's to the Branch.

The Branch takes all reasonable steps to ensure that it has appropriate information regarding its claims exposure. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Branch, where more information about the claim event is generally available. In calculating the estimated cost of unpaid claims the Branch uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- changes in the economic environment
- changes in the mix of business
- medical and technological developments
- changes in benefit structures
- changes in claims management practice

2 Accounting judgements and estimates (continued)

The ultimate liability arising from claims made under insurance contracts (continued)

Provisions are calculated gross of all recoveries. A separate estimate is made of the amounts that will be recoverable from decreasing adjustments and from reinsurers based upon the gross provisions. The decreasing adjustments are estimated as 1/11th of gross outstanding claims liability.

The methods used to analyse past claims experience and to project future claims experience are largely determined by the available data and the nature and maturity of the portfolio.

The determination of an appropriate outstanding claims liability and the specific assumptions used are detailed in note 3.

3 Actuarial assumptions and methods

The Branch writes the following lines of business:

Consumer credit insurances

The risks covered in this group include:

- Involuntary Unemployment (Redundancy)
- Disability
- Material Damage
- Death
- Bankruptcy

Others

- Merchandise and Price Protection
- Stolen Card Cover

Process used to determine outstanding claims liabilities (actuarial methods)

The general approach to actuarial estimation of insurance liabilities is to analyse available past experience, including the number of reported and finalised claims, timing and amounts of claim payments. This analysis allows patterns to be identified in the past experience. Based on this, development patterns associated with the run-off of outstanding claims and premium liabilities at the balance date can be estimated.

The determination of outstanding claims liabilities involves two steps:

(i) The determination of the central estimate of outstanding claims at the balance date. The central estimate of outstanding claims includes an allowance for IBNR claims and the further development of IBNER's.

The central estimate has no deliberate bias towards either over or under estimation. Generally speaking, this means that the central estimate is assessed to have a 50% chance of adequacy.

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

The estimation of outstanding claims liabilities has been performed separately for each of the claim types arising under the different policies, namely: Bankruptcy, Death, Disability, Material Damage, Redundancy and Merchandise Protection, Price Protection and Stolen Cards.

Disability and Redundancy (except GEM Visa)

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

3 Actuarial assumptions and methods (continued)

Disability and Redundancy (except GEM Visa) (continued)

The individual claimant projection method was adopted for the open and pending claims. Claim payments have been projected from the valuation date until the end of the policy term, taking into account the probability of termination and limits to claim payments as stipulated in the policy. The claim payments are based on the monthly loan instalments for each individual claim. For pending claims, an acceptance rate assumption is also applied in the valuation.

For IBNR claims, the central estimate of the outstanding claims liability was based on an estimated number of IBNR claims and average claim sizes. The number of IBNR claims was based on analysis of claim numbers for lines of business in runoff and analysis of claim frequency for line of business currently underwritten. The average claim size is estimated from expected average total duration and average monthly benefits, with policy design taken into account. For example, the Consumer Credit Insurance has a maximum Redundancy payment period of three months, which was reflected in the analysis.

Death and Material Damage (Old Products only)

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

For open claims, future claim payments have been projected based on average claim size assumptions. Only claims that are open, non-declined and have not yet received any payments are assumed to have an outstanding liability.

For IBNR claims, the central estimate of the outstanding claims liability was based on an estimated number of IBNR claims and average claim sizes. The number of IBNR claims was based on analysis of claim numbers. The average claim size was based on the payments made on claims finalised for non-zero amounts. At the current valuation, no further claims are expected for Material Damage and hence no liability is held for this class.

Bankruptcy (Old Products only)

No liability is being projected in respect of Bankruptcy as the low frequency of their occurrence means that any projection of IBNR liability would be extremely small and no open claims are expected to receive any further benefits.

Disability, Redundancy and Merchandise Protection, Price Protection and Stolen Cards (GEM Visa only)

The standard actuarial projection technique of Payment Per Claim Finalised (PPCF) was adopted in the determination of the central estimate of the outstanding claims liability for this risk, where claims are generally finalised with the payment of a single lump sum amount. This involves estimating the number of future claim finalisations and average claim sizes. The number of future finalisations was based on analysis of claim reports, finalisations. The average claim size was based on the payments made on claims finalised.

3 Actuarial assumptions and methods (continued)

Actuarial assumptions

The key actuarial assumptions for the determination of the outstanding claims are as follows:

	2012 Disability (excl GEM Visa)**	**2012 Redundancy** (excl GEM Visa)**	2011 **** Disability** (excl GEM Visa)	2011 **** Redundancy**(excl GEM Visa)
Termination rates	**4.5-14.5%***	**9.0-15.0%***	6.3-14.1%*	9.0-15.0%*
Average weighted term to settlement	**9.2-9.7 months**	**3.2-6.2 months*****	9.2 months	2.6-6.2months
Number of IBNR claims accepted (total)	**83**	**80**	79	79
Average Claim Size for IBNR claims	**$4,750-$5,100**	**$2,000-$3,100**	$4,500-$5,000	$1,050-$3,100
Discount rate	**2.53%pa**	**2.53%pa**	2.45%pa	2.45%pa

* Assumption varies according to the future claim duration

** Assumptions for Disability and Redundancy vary depending on whether the product is in runoff or whether the product is currently underwritten. The analysis was performed separately for policies in runoff and lines of business currently underwritten, and liabilities were subsequently projected separately

***For Redundancy under New Products, the average term to settlement is weighted by the number of 3 month and 6 month policies

	2012 Disability (GEM Visa)	**2012 Redundancy (GEM Visa)**	**2012 Merchandise Protection, Price Protection and Stolen Cards (GEM Visa)**	2011 **** Disability (GEM Visa)	2011 **** Redundancy (GEM Visa)	2011 **** Merchandise Protection, Price Protection and Stolen Cards (GEM Visa)
Average settlement size	**$2,500**	**$2,000-$2,700**	**$380**	$2,200	$1,750-$2,350	$200-$350
Number of future finalisations	**25**	**24**	**75**	36	25	177

**** All actuarial data disclosed for the Branch for 2011, relates to the insurance portfolio of Simply Insurance New Zealand Limited, and is disclosed to reflect the historical actuarial profile of the insurance portfolio, which was transferred to the Branch on the 5th March 2012.

Other assumptions

The outstanding claims provision includes a claim handling expense of 17% and an additional 1% for medical expenses, with a prudential margin calculated at a 90% probability of adequacy.

Process used to determine actuarial assumptions

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

3 Actuarial assumptions and methods (continued)

Process used to determine actuarial assumptions (continued)

Termination rates
Termination rates by claim duration from the date of incident are adopted and these are used to derive the probability of payment on each claim for each month into the future.

Average weighted term to settlement from the end of the reporting period
The average term to settlement from reporting date is based on claim termination analysis performed on the historical claims experiences. The claim termination analysis is performed separately for unemployment and disability.

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

Average claim size for IBNR claims (Old and New Products only)
For Disability and Redundancy, the adopted average claim size was based on two types of analysis: the expected average total duration for each claim type and benefit duration (only for Unemployment) multiplied by the average monthly payment amount for each claim type, and the historical average claim size. The average duration was based on the assumed termination rates.

For Death and Material Damage, the average claim size was based on the lump sum payments made on finalised claims.

Number of IBNR claims (Old and New Products only)
The number of IBNR claims was based on an analysis of historical claim numbers for policies in runoff and an analysis of claim frequency for lines of business currently underwritten.

Average claim size for settlements (GEM Visa only)
For GEM Visa policies, the adopted average claim size was based on historic ratios of claim payments to numbers of claims finalised.

Number of future finalisations (GEM Visa only)
For GEM Visa policies, the number of future finalisations is based on an analysis of historical claim reports and finalisation rates. This then enables the future numbers of reports, handled claims and finalisations to be projected.

Expense rate
The adopted claims handling expense rate of 17% of the projected gross claim payments, was determined based on the results of an expense investigation carried out in 2012. An additional 1% for medical expenses is applied to Disability claims.

Discount rate
The central estimates of the outstanding claims liabilities for the periodic benefits were discounted to allow for future investment income attributable to the liabilities during the run off period. The discount factor was based on the annual risk free rates of return from the yield curve on New Zealand Government Bonds.

3 Actuarial assumptions and methods (continued)

Sensitivity analysis

The outstanding claims liabilities included in the reported results are calculated based on the key actuarial assumptions as disclosed above. The movement in any of the above key actuarial assumptions will impact the performance and equity of the Company. The table below describes how a change in each of the assumptions will affect the outstanding claims liabilities. The outstanding claims liabilities are on a discounted basis and include claim handling expenses and a risk margin at the 90% probability of adequacy.

Impact of changes in assumptions for Old and New Products on total outstanding claims liability:

Key actuarial assumptions	**Changes**	**Impact on net outstanding claims liabilities ($000's)**	**Impact on total outstanding claims liabilities (%)**
Claim Termination Rate*	Reduce all termination rates by 10%	101	3.2
IBNR	Increase IBNR ACS by 10% / Increase number of IBNR claim by 10%	116	3.6
Claims handling expense rate	Increase the claims handling expense rate from 17% to 21%	75	2.3

Impact of changes in assumptions for GEM Visa on total outstanding claims liability:

Key Actuarial Assumptions	**Changes**	**Impact on outstanding claims liabilities ($000's)**	**Impact on total outstanding claims liabilities (%)**
Claim development	Increase chain ladder factors by 10%	59	1.9
Average settlement size	Increase average settlement size by 10%	55	1.7
Claims handling expense rate	Increase the claims handling expense rate from 17% to 21%	21	0.7

Changes to key assumptions

The major changes to the key assumptions in the December 2012 valuation include:

- Reduction in the termination rates (i.e. increased average claim duration) and increase in the average claim size for Disability claims

4 Risk management

Insurance contracts

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

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

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

The business written consists mainly of consumer credit insurance.

Insurance risk management

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

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

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

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

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

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

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

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

4 Risk management (continued)

Capital management

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

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

The Branch has 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 capital requirements are set and regulated by the Australian Prudential Regulation Authority (APRA). The Branch calculates its capital position according to the relevant Prudential Standards which ensures sufficient capital is maintained to meet policyholder obligations. An insurer's capital base is expected to be adequate for the size, business mix, complexity and risk profile of its business.

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

For detailed information on the Branch's capital position and the capital requirements of APRA, refer note 15.

(a) Credit risk

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

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

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

The Branch only invests with counterparties that have a credit rating of at least A1/A from Standard & Poor's ("S&P"). Where a counterparty changes rating to below A1/A after acquisition, management will continue to review its holding in those counterparties and divest as deemed appropriate. The Branch further limits its exposure to credit risk by setting individual exposure limits. There is no significant concentration of credit risk and management does not expect any counterparty to fail to meet its obligations.

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

4 Risk management (continued)

(a) Credit risk (continued)

(iii) Trade and other receivables
The Branch's maximum credit risk exposure at balance date is limited to the carrying amount of the financial assets as stated in the Statement of Financial Position. The Branch does not have a significant concentration of credit risk with any counterparty, other than related parties (See note 18).

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

2012	Investment grade $'000	Non-investment grade satisfactory $'000	Non-investment grade unsatisfactory $'000	Total neither past due nor impaired $'000	Past due or impaired $'000	Total $'000
Financial assets						
Cash and cash equivalents	26,398	-	-	26,398	-	26,398
Trade and other receivables*	-	5,374	-	5,374	-	5,374
Total credit risk exposure	**26,398**	**5,374**	**-**	**31,772**	**-**	**31,772**

2011	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	-	-	-	-	-	-
Trade and other receivables*	-	-	-	-	-	-
Total credit risk exposure	**-**	**-**	**-**	**-**	**-**	**-**

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

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

2012	AAA $'000	AA $'000	A $'000	BBB $'000	Not rated $'000	Total $'000
Financial Assets						
Cash and cash equivalents	-	-	26,398	-	-	26,398
Trade and other receivables*	-	-	-	-	3,554	3,554
Total credit risk exposure	**-**	**-**	**26,398**	**-**	**3,554**	**29,952**

4 Risk management (continued)

(a) Credit risk (continued)

2011	AAA $'000	AA $'000	A $'000	BBB $'000	Not rated $'000
Financial Assets					
Cash and cash equivalents	-	-	-	-	-
Trade and other receivables*	-	-	-	-	-
Total credit risk exposure	-	-	-	-	-

* No receivables are past due or impaired at balance date (2011: Nil).

(b) Liquidity risk

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

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

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.

2012	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	4,584	-	-	-	-	4,584
Outstanding claims liabilities	2,380	610	206	-	-	3,196
Net principal liabilities	6,964	610	206	-	-	7,780
2011						
Net principal liabilites	-	-	-	-	-	-

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 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 branch's within the GECC Group.

4 Risk management (continued)

(c) Market risk (continued)

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

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

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

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

	Carrying Amount	Change in variables	Impact on profit or loss	Impact on Equity				Total
				Up to a year	1-2 years	2-5 years	Over 5 years	
2012	**$'000**	**%**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Financial assets								
Short term deposits	22,357	(1)%	(224)	(156)	-	-	-	(156)
	22,357		(224)	(156)	-	-	-	(156)

	Carrying Amount	Change in variables	Impact on profit or loss	Impact on Equity				Total
				Up to a year	1-2 years	2-5 years	Over 5 years	
2011	**$'000**	**%**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Financial assets								
	-		-	-	-	-	-	-

This analysis is performed on the same basis for 2011 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. (2011: Nil)

4 Risk management (continued)

(d) Fair value measurement

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

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

2012	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets designated at fair value through profit or loss	-	-	-	-
	-	-	-	-

2011	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets designated at fair value through profit or loss	-	-	-	-
	-	-	-	-

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

5 Net insurance premium revenue

	2012 $'000	2011 $'000
Premium revenue		
Gross written premium	17,148	-
Movement in unearned premiums	(6,172)	-
Outwards reinsurance premium expense	(3)	-
Net premium revenue	**10,973**	**-**

6 Net claims incurred

	2012			2011		
	Current Year $'000	Prior Years $'000	Total $'000	Current Year $'000	Prior Years $'000	Total $'000
Claim expenses						
Gross claims incurred and related expenses - undiscounted	3,395	(696)	2,699	-	-	-
Discount and discount movement - gross claims incurred	(37)	27	(10)	-	-	-
	3,358	(669)	2,689	-	-	-
Reinsurance and other recoveries expense/(revenue) - undiscounted	-	-	-	-	-	-
Net claims incurred	**3,358**	**(669)**	**2,689**	**-**	**-**	**-**

Current period claims relate to risk borne in the current financial year. Prior period claims relate to a reassessment of the risks borne in all previous financial years.

7 Investment income

	2012 $'000	2011 $'000
Financial assets at fair value through profit or loss		
Interest income	460	-
Total investment income	**460**	**-**

8 Income tax expense

(a) Income tax expense

	2012 $'000	2011 $'000
Current tax expense	251	-

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

	2012 $'000	2011 $'000
Profit from continuing operations before income tax expense	1,797	-
Tax at the New Zealand tax rate of 28% (2011 - 28%)	503	-
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Tax effect of non-assessable income	(252)	-
Income tax expense	251	-

9 Current assets - Cash and cash equivalents

	2012 $'000	2011 $'000
Cash at bank	4,041	-
Short term deposits	22,357	-
	26,398	-

10 Current assets - Trade and other receivables

	2012 $'000	2011 $'000
Trade debtors	2,073	-
Other receivables	3,301	-
	5,374	-

These balances include amounts receivable from related parties (note 18).
The carrying value disclosed above approximates fair value at end of the reporting period.

11 Deferred acquisition costs

	2012 $'000	2011 $'000
Deferred acquisition costs:		
Current	3,253	-
Non-current	2,298	-
	5,551	-

	2012 $'000	2011 $'000
Reconciliation of changes in deferred acquisition costs:		
Balance at 1 January	-	-
Acquisition of insurance operation (note 19)	4,345	-
Acquisition costs incurred during the year	3,403	-
Amortisation charged to income	(2,197)	-
Balance at 31 December	5,551	-

12 Current liabilities - Trade and other payables

	2012 $'000	2011 $'000
Other payables	4,584	-

The carrying value disclosed above approximates fair value at end of the reporting period.
These balances include amounts payable to related parties (note 18).

13 Outstanding claims liability

	2012 $'000	2011 $'000
Central estimate	2,281	-
Risk margin	561	-
Claims handling expense	404	-
	3,246	-
Discount to present value	(50)	-
Gross outstanding claims liability	3,196	-
Current	2,380	-
Non-current	816	-
	3,196	-

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

The current year and subsequent years discount rate is 2.53% (2011: 2.53%*).

The weighted average expected term to settlement of the outstanding claims from the end of the reporting period is estimated to be 0.61 years (2011: 0.66 years*).

(b) Risk margin

Process for determining risk margin
The risk margin is an additional allowance for uncertainty in the ultimate cost of claims. The overall margin adopted is determined by the Board after considering the uncertainty in the portfolio, industry trends and the Branch's risk appetite.

To determine the margin adopted the Appointed Actuary has reviewed the factors impacting the portfolio to establish a recommended margin at the level required by the Board. Factors considered include:

- variability of claims experience of the portfolio;
- quality of historical data;
- diversification between different classes within the portfolio; and
- increase in uncertainty due to future economic environment and legislative changes.

The level of uncertainty varies between classes of business, as such the adopted risk margin varies between business classes. The risk margin is applied to the Gross Central Estimate with the appropriate reinsurance recoveries allowed for.

The aggregate risk margin, after diversification allowance, is intended to achieve a 90% (2011: 90%*) probability of sufficiency.

The risk margins applied to the major segments of the portfolio for 90% (2011: 90%*) level of adequacy are:

13 Outstanding claims liability (continued)

(b) Risk margin (continued)

Process for determining risk margin (continued)

	2012 %	2011 * %
Risk margin applied		
Consumer credit insurance - death	**50.0%**	50.0%
Consumer credit insurance - disability	**19.7%**	19.7%
Consumer credit insurance - material damage	**19.7%**	19.7%
Consumer credit insurance - redundancy	**45.9%**	45.9%
Consumer credit insurance - bankruptcy	**50.0%**	50.0%

* All actuarial data disclosed for the Branch for 2011, relates to the insurance portfolio of Simply Insurance New Zealand Limited, and is disclosed to reflect the historical actuarial profile of the insurance portfolio, which was transferred to the Branch on the 5th March 2012.

(c) Reconciliation of movement in discounted outstanding claims liability

	2012			2011	
	Gross $'000	**Reinsurance $'000**	**Net $'000**	Gross $'000	Reinsurance $'000
Balance at 1 January	-	-	-	-	-
Acquisition of insurance operation as at 5 March	**2,268**	-	**2,268**	-	-
Current year claims incurred	**3,363**	-	**3,363**	-	-
Change in previous years claims	**(669)**	-	**(669)**	-	-
Current year claims paid / reinsurance recovered	**(873)**	-	**(873)**	-	-
Previous year claims paid / reinsurance recovered	**(893)**	-	**(893)**	-	-
	3,196	-	**3,196**	-	-
Balance at 31 December	**3,196**	-	**3,196**	-	-

The Branch assumed policy liabiltites on 5th March 2012 when the insurance portfolio of Simply Insurance New Zealand Limited was transferred to the Branch on that date.

(d) Claims development tables

Claims development tables are disclosed in order to put the claims estimates included in the financial statements into context, allowing comparison of those claims estimates with the claims results seen in previous years. In effect, the table highlights the Branch's ability to provide a reliable estimate of the total value of claims. The top part of the table provides a review of current estimates of cumulative claims and demonstrates how the estimated claims have changed at subsequent reporting or accidents year-ends. The lower part of the table provides a reconciliation of the total reserve included in the Statement of Financial Position and the estimates of cumulative claims.

13 Outstanding claims liability (continued)

(d) Claims development tables (continued)

(i) Gross

Accident Year	**2008 and Prior * $'000**	**2009 * $'000**	**2010 $'000**	**2011 * $'000**	**2012 $'000**	**Total $'000**
Estimate of ultimate claims cost						
At end of accident year					3,050	
One year later				1,089	-	
Two years later			250	-	-	
Three years later		88	-	-	-	
Four years later	100	-	-	-	-	
Current estimate of cumulative claims	100	88	250	1,089	3,050	4,577
Cumulative payments	(89)	(62)	(148)	(602)	(835)	(1,736)
Undiscounted claims handling expenses	1	4	15	72	312	404
Gross outstanding claims - undiscounted	12	30	117	559	2,527	3,245
Discount impact			(2)	(10)	(37)	(49)
Gross outstanding claims - discounted	12	30	115	549	2,490	**3,196**

(ii) Net

Accident Year	**2008 and Prior * $'000**	**2009 * $'000**	**2010 * $'000**	**2011 * $'000**	**2012 $'000**	**Total $'000**
Estimate of ultimate claims cost						
At end of accident year					3,050	
One year later				1,089	-	
Two years later			250	-	-	
Three years later		88	-	-	-	
Four years later	100	-	-	-	-	
Current estimate of cumulative claims	100	88	250	1,089	3,050	4,577
Cumulative payments	(89)	(62)	(148)	(602)	(835)	(1,736)
Undiscounted claims handling expenses	1	4	15	72	312	404
Gross outstanding claims - undiscounted	12	30	117	559	2,527	3,245
Discount impact			(2)	(10)	(37)	(49)
Gross outstanding claims - discounted	12	30	115	549	2,490	**3,196**

* All actuarial data disclosed for the Branch prior to the 5th March 2012, relates to the insurance portfolio of Simply Insurance New Zealand Limited, and is disclosed to reflect the historical actuarial profile of the insurance portfolio, which was transferred to the Branch on the 5th March 2012.

(e) Liability adequacy test

The liability adequacy test (LAT) is an assessment of the carrying amount of unearned premium liabilities and is conducted at the end of each reporting period. The test is calculated separately for each portfolio of contracts that are subject to broadly similar risks and are managed together as a single portfolio.

For the purposes of the liability adequacy test, the net premium liabilities at a 75% probability of sufficiency as at 31 December 2012 is $21,894,376 (5 March 2012: $15,005,611), therefore the liability adequacy test at reporting date resulted in a surplus for the company.

14 Unearned premium liability

	2012 $'000	2011 $'000
Balance as at 1 January	-	-
Acqusisition of Insurance operation (note 19)	**21,582**	-
Premiums written during the year	**17,148**	-
Premiums earned during the year	**(10,976)**	-
Balance as at 31 December	**27,754**	-
Current	**16,264**	-
Non-current	**11,490**	-
	27,754	-

15 Capital adequacy

Prudential standard GPS 110 issued by the Australian Prudential Regulation Authority (APRA) requires additional disclosure in the annual financial statements to improve policyholders and market understanding of the Company's capital adequacy. As at 31 December 2012, the capital base, minimum capital requirement and capital adequacy multiple, as calculated applying the APRA prudential standards for the Company, were as follows:

	2012 $'000	2011 $'000
Tier 1 capital		
Paid up ordinary shares	**2,498**	-
Retained earnings brought forward	**102,334**	-
Current year earnings	**18,609**	-
General reserve	**62,758**	-
Excess technical provisions (net of tax)	**4,940**	-
	191,140	-
Less: deductions	**(3,072)**	-
Net Tier 1 capital	**188,068**	-
Tier 2 capital		
Net Tier 2 capital	**-**	-
Total Capital Base	**188,068**	-
Capital Requirement		
Minimum capital requirement	**53,828**	-
Capital Adequacy Multiple	**3.49**	-

15 Capital adequacy (continued)

Excess technical provisions

The liability required by GPS 110 for prudential reporting purposes differs from accounting purposes. As described in note 1(p) the Branch applies risk margins to the central estimate of net outstanding claims to achieve a 90% confidence level. GPS 110 requires a prudential margin with a sufficiency of 75%.

16 Key management personnel disclosures

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

17 Remuneration of auditors

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

18 Related party transactions

Related parties with which material transactions have taken place.

The following related party transactions occurred within wholly owned group during the year ended 31 December 2012.

(a) Transactions with related parties

	2012 **$**	2011 $
Commission paid to:		
GE Finance and Insurance NZ	**3,402,443**	-
Management fees paid to/(received from):		
Hallmark General Insurance Company Ltd	**4,560,842**	-
Host Insurance depreciation and administrative costs recharges		
GE Finance and Insurance Pty Ltd	**61,134**	-

(b) Outstanding balances with related parties

	2012 **$**	2011 $
Receivables/(payables)		
Hallmark General Insurance Company Ltd	**(4,495,340)**	-
Hallmark Life Isurance NZ	**10,208**	-
GE Finance and Insurance NZ	**2,073,266**	-

19 Acquisition of insurance operation

Effective 5th March 2012, the Branch commenced general insurance activities, in New Zealand, when the insurance portfolio of Simply Insurance New Zealand Limited, a related Company, was transferred to the Branch under a common control transaction. The following assets and liabilities were transferred from Simply Insurance New Zealand Limited to the Branch on that date:

	5 March 2012 $'000
Assets	
Cash and cash equivalents	19,504
Trade and other receivables	1,772
Deferred acquisition costs	4,345
Total Assets	**25,621**
Liabilties	
Trade and other payables	1,771
Outstanding claims liability	2,268
Unearned premium liability	21,582
Total Liabilities	**25,621**
Net Assets	**-**
Equity	
Issued capital	-
Retained earnings	-
Total Equity	**-**

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

	2012 $'000	2011 $'000
Profit for the year	**1,546**	-
Adjustments		
Effect of foreign exchange on cash and cash equivalents	**393**	-
Change in operating assets and liabilities:		
(Increase) in trade debtors	**(2,010)**	-
(Increase) in other receivables	**(1,592)**	-
(Increase) in deferred acquisition costs	**(1,206)**	-
Increase in trade and other payables	**3,056**	-
Increase in outstanding claim liability	**928**	-
Increase in unearned premium liability	**6,172**	-
Net cash inflow (outflow) from operating activities	**7,287**	-

21 Contingent assets and contingent liabilities

No contingent assets or contingent liabilities existed as at 31 December 2012 (2011: nil).

22 Matters subsequent to the end of the financial year

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

It should be noted that from 1 January 2013, Hallmark General Insurance Company Ltd is subject to amended capital requirements by APRA, under the Life and General Insurance Capital Standards ("LAGIC").

Directors' Declaration

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

(a) the financial statements and notes set out on pages 2 to 34 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 2012 and of its performance for the financial year ended on that date; and

  (ii) complying with generally accepted accounting practice in New Zealand;

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

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

Signed in accordance with a resolution of Directors:

Raymond Bruce Willing (Chairman)
Director
Sydney
19 March 2013

Angela Julie Hunter (Managing Director)
Director
Sydney
19 March 2013

KPMG

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Hallmark General Insurance Company Ltd New Zealand Branch ("the branch") on pages 2 to 34. The financial statements comprise the statement of financial position as at 31 December 2012 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

KPMG

Opinion

In our opinion the financial statements of Hallmark General Insurance Company Ltd New Zealand Branch on pages 2 to 34:

- comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of the financial position of the branch as at 31 December 2012 and of its financial performance and cash flows for the year ended on that date.

Report on Other Legal and Regulatory Requirements

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

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

KPMG

KPMG

AR

Andrew Reeves
Partner

Sydney
19 March 2013

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6 June 2013

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

Hallmark General Insurance Company Ltd: Appointed Actuary signoff of financial statements and financial condition as at 31 December 2012 for New Zealand reporting purposes

Dear Directors

Hallmark General Insurance Company Ltd ("HGIC") 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").

HGIC has appointed me, Warrick Gard, Ernst & Young to be HGIC's Appointed Actuary as described by the Insurance Act 1973 and related Prudential Standards and Guidance Notes current at 31 December 2012 and by the New Zealand Insurance (Prudential Supervision) Act 2010 (the Act). I have no relationship with HGIC other than being its Appointed Actuary.

The prime responsibility of the Appointed Actuary is to provide advice to the Board of a general insurer on the value of its insurance 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 insurance liabilities in accordance with APRA's Prudential Standard GPS310 Audit and Actuarial Reporting and Valuation.

As part of my responsibilities I have produced reports on HGIC's insurance liabilities, the Insurance Liability Valuation Report (ILVR), and financial condition, the Financial Condition Report (FCR), as at 31 December 2012. The work I have undertaken is described in Section 2 of my FCR and Section 2 of my ILVR. The scope and limitations of my review are described in Sections 2 and 14 of my FCR and Sections 2 and 13 of my ILVR. I have reviewed all information necessary for me to complete my FCR and ILVR.

The RBNZ has exempted HGIC from compliance with their Solvency Standard for General Insurance Business. This exemption has been granted subject to various conditions, including obligations of the appointed actuary. These obligations are addressed below.

Financial Statements

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

a. The unearned premium liability and liability adequacy test

b. The Net Outstanding Claims Liability

c. The reinsurance and any other recovery assets

d. Any deferred acquisition cost or deferred fee revenue

e. Any other information deemed by the appointed actuary to warrant actuarial review for the purpose of profit or solvency reporting

I confirm that my FCR and my ILVR meet the requirements of Section 78 of The Act, and they contain my advice regarding the net premium liabilities, liability adequacy test, net outstanding claims liabilities, the reinsurance and any other recovery assets, and deferred acquisition costs (implicit in the unearned premium).

I note that I have previously reviewed the earning patterns adopted by HGIC and consider them suitable. For the current ILVR I have also checked the UEP calculation performed for certain product types and believe the calculations are reasonable.

Based on the final draft financial statements dated 12 March 2013, the actuarial information provided has been appropriately included in the preparation and completion of HGIC's 31 December 2012 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 Non-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.

My FCR identifies and assesses the material risks facing HGIC, including mitigants addressing those risks and thus meets the requirements of Section 56(d) of the Act. The capital within HGIC is equally accessible by both the Australian and New Zealand operations.

HGIC is in a very strong financial position as at 31 December 2012 with an MCR coverage ratio of 3.49 and a 4.19 LAGIC coverage ratio. 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 HGIC is maintaining the solvency margin consistent with the requirements under Section 21(2) (b) of the Act.

This strong position means that HGIC would be able to withstand a catastrophe or extreme event similar to the Catastrophe Risk Capital Charge.

The Australian and New Zealand operations of HGIC are managed in conjunction 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,

Warrick Gard, FIAA, FNZSA
Appointed Actuary, Hallmark General Insurance Company Ltd
Partner, General Insurance

Hallmark General Insurance Company Ltd

ABN 82 008 477 647

Financial report
for the year ended 31 December 2012

Hallmark General Insurance Company Ltd ABN 82 008 477 647
Financial report - 31 December 2012

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Directors' report

Your Directors present their report together with the financial statements of Hallmark General Insurance Company Ltd ("the Company") for the year ended 31 December 2012 and the auditor's report thereon.

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

Raymond Bruce Willing (Chairman)
Philip Stuart Douglas Purcell
Neil William Smart
Paul Brian McCann
Scott Kingsley Miller (resigned 29 February 2012)
Angela Julie Hunter (appointed 1 March 2012)

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

Principal activities
The principal activity of the Company during the year was that of a general insurer, operating both in Australia and New Zealand. Effective 5th March 2012, the Company commenced general insurance activities in New Zealand, when the portfolio of Simply Insurance New Zealand Limited was transferred to a Branch of the Company. There has been no other significant change in the nature of this activity during the year.

Dividends
No dividends were paid or declared by the Company in respect of the financial year ended 31 December 2012 (2011: $nil).

Review of results and operations
The operating profit of the Company for the financial year after income tax was $14,901,000 (2011: $12,976,000).

On 5 March 2012, the New Zealand General Insurance business previously underwritten by Simply Insurance New Zealand Limited was transferred over to the Company and became a Branch of Hallmark General Insurance Company Limited. During the year ended 31 December 2012, the New Zealand Branch has contributed $1,213,000 Net Profit After Tax to the Company's result for 2012.

Core growth in Australian premium revenues for 2012 was in excess of $1,400,000 versus 2011. This was despite the continuing deleveraging of consumers throughout the year.

The volume of customer claims have increased year on year with a successful push to drive enhanced customer value. This resulted in the Australian business increasing its claims cost by over $2,500,000 during 2012. Underwriting expenses in Australia have remained steady in 2012 once the impacts of one-off adjustments in 2011 are taken into account.

Investment income was impacted by the decrease in interest rates, however, this was more than offset by the sale of a number of securities that resulted in realised gains during 2012.

Significant changes in the state of affairs
Effective 5th March 2012, the insurance portfolio of Simply Insurance New Zealand Limited ("SINZ"), a related company, was transferred to a Branch of the Company in New Zealand. The value of assets and liabilities transferred was based on an actuarial valuation by Ernst & Young. The Company now underwrites all New Zealand general insurance risks previously underwritten by SINZ. There have been no other significant changes in the state of affairs of the Company during the financial year.

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

It should be noted that from 1 Jan 2013 the Company is subject to amended capital requirements by APRA, under the Life and General Insurance Capital Standards ("LAGIC").

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

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

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

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

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

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

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

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

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

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

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

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

Raymond Bruce Willing (Chairman)
Director
Sydney
19 March 2013

Angela Julie Hunter (Managing Director)
Director
Sydney
19 March 2013

KPMG

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

To: the directors of Hallmark General Insurance Company Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 December 2012 there has 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
19 March 2013

Hallmark General Insurance Company Ltd ABN 82 008 477 647
Financial report - 31 December 2012

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Hallmark General Insurance Company Ltd
Statement of Comprehensive Income
For the year ended 31 December 2012

	Notes	2012 $'000	2011 $'000
Insurance premium revenue		51,347	41,355
Outwards reinsurance premium expense		(17)	(46)
Net insurance premium revenue	5	51,330	41,309
Claims expenses		12,342	7,844
Reinsurance and other recoveries		-	(1)
Net claims incurred	6	12,342	7,843
Acquisition costs		10,328	8,043
Administration expenses		19,514	14,527
Underwriting expenses		29,842	22,570
Underwriting result		9,146	10,896
Investment income	7	11,986	7,279
Investment expenses		(345)	(339)
Other income		(26)	16
Profit before income tax	8	20,761	17,852
Income tax expense	9	5,860	4,876
Profit for the year		14,901	12,976
Other comprehensive income for the year, net of tax		20	-
Total comprehensive income for the year		14,921	12,976
Profit is attributable to:			
Owners of Hallmark General Insurance Company Ltd		14,901	12,976
		14,901	12,976
Total comprehensive income for the year is attributable to:			
Owners of Hallmark General Insurance Company Ltd		14,921	12,976
		14,921	12,976

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Hallmark General Insurance Company Ltd
Statement of Financial Position
As at 31 December 2012

	Notes	2012 $'000	2011 $'000
ASSETS			
Current assets			
Cash and cash equivalents	10	**180,156**	140,105
Trade and other receivables	11	**17,546**	11,430
Financial assets at fair value through profit or loss	12	**17,512**	16,884
Deferred acquisition costs	13	**10,047**	7,109
Total current assets		**225,261**	175,528
Non-current assets			
Financial assets at fair value through profit or loss	14	**26,691**	25,323
Deferred acquisition costs	13	**8,220**	5,816
Deferred tax assets	15	**2,460**	3,086
Total non-current assets		**37,371**	34,225
Total assets		**262,632**	209,753
LIABILITIES			
Current liabilities			
Trade and other payables	16	**12,617**	13,413
Current tax liabilities		**334**	-
Provisions	17	**895**	798
Unearned commission income	18	**1**	1
Outstanding claims liability	19	**8,216**	5,223
Unearned premium liability	20	**47,722**	32,761
Total current liabilities		**69,785**	52,196
Non-current liabilities			
Trade and other payables	21	**-**	40
Provisions	22	**75**	149
Outstanding claims liability	19	**4,315**	2,697
Unearned premium liability	20	**39,360**	26,719
Total non-current liabilities		**43,750**	29,605
Total liabilities		**113,535**	81,801
Net assets		**149,097**	127,952
EQUITY			
Issued capital	23	**2,000**	2,000
Reserves	24	**50,253**	44,009
Retained earnings		**96,844**	81,943
Total equity		**149,097**	127,952

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

Hallmark General Insurance Company Ltd
Statement of Changes in Equity
For the year ended 31 December 2012

	Notes	Issued capital $'000	Reserves $'000	Retained earnings $'000	Total equity $'000
Balance at 1 January 2011		2,000	44,562	68,967	115,529
Profit for the year		-	-	12,976	12,976
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		-	-	12,976	12,976
Transactions with owners in their capacity as owners:					
Current tax liability transferred to head entity		-	(553)	-	(553)
Balance at 31 December 2011		2,000	44,009	81,943	127,952
Balance at 1 January 2012		2,000	44,009	81,943	127,952
Profit for the year		-	-	14,901	14,901
Other comprehensive income		-	20	-	20
Total comprehensive income for the year		-	20	14,901	14,921
Transactions with owners in their capacity as owners:					
Current tax liability transferred to head entity		-	6,224	-	6,224
Balance at 31 December 2012		2,000	50,253	96,844	149,097

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

Hallmark General Insurance Company Ltd
Statement of Cash Flows
For the year ended 31 December 2012

	Notes	2012 $'000	2011 $'000
Cash flows from operating activities			
Net premium received		54,421	43,282
Outward reinsurance expense		(17)	(46)
Claims paid		(9,532)	(7,965)
Payments to suppliers and employees		(26,845)	(26,920)
Interest received		8,198	8,110
Dividends received		878	869
Income taxes allocated from tax consolidated group		(3,271)	(3,339)
Net cash inflow from operating activities	30	23,831	13,991
Cash flows from investing activities			
Payment for financial assets		(1,101)	(25,465)
Proceeds from sale of financial assets		2,018	21,024
Acquisition of New Zealand operation net of cash acquired	29	15,618	-
Net cash inflow (outflow) from investing activities		16,535	(4,441)
Cash flows from financing activities			
		-	-
Net cash inflow from financing activities		-	-
Net increase in cash and cash equivalents		40,366	9,550
Cash and cash equivalents at the beginning of the financial year		140,105	130,555
Effects of exchange rate changes on cash and cash equivalents		(315)	-
Cash and cash equivalents at end of year	10	180,156	140,105

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

Contents of the notes to the financial statements

1 Summary of significant accounting policies

General information

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

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

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

The financial statements were authorised for issue by the directors on 19 March 2013. The directors have the power to amend and reissue the financial statements.

The Company is registered under the Insurance Act 1973.

Statement of compliance

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

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, 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 AASB9 Financial Instruments, which becomes mandatory for the Company's 2015 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.

(a) Basis of preparation

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

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

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

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

(b) Revenue

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

1 Summary of significant accounting policies (continued)

(b) Revenue (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, including the goods and services tax in Australia.

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

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

The unearned portion of premium is recognised within unearned premium liability in the Statement of Financial Position.

(ii) Investment income
All investment income is recognised as revenue on an accruals basis. Interest income is recognised on a time proportion basis using the simple interest method. Dividends are brought to account as declared and are recognised net of franking credits. Assets are designated at fair value through profit and loss and the related net realised and unrealised gains and losses are included in the Statement of Comprehensive Income as investment revenue.

(c) Claims

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

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

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

(d) Expenses

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

(e) Outwards reinsurance premium

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

1 Summary of significant accounting policies (continued)

(f) Deferred acquisition costs

Costs, which vary with and are primarily related to the production of new business, have been deferred to the extent that such costs are deemed recoverable from future profits. Such costs primarily include commissions. These costs are amortised in proportion to premiums over the estimated lives of the policies. A write down to recoverable amount is recognised where the present value of expected future claims (including settlement costs) in relation to business written to the end of the reporting period exceeds related unearned premiums less the deferred acquisition costs.

(g) Income tax

Australian company

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

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

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

Deferred tax assets and liabilities are recognised on a gross basis. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Tax consolidation

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

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

For financial year ended 31 December 2012 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. Where the member of the income tax consolidated group recognises a taxable loss, the funding amount is nil with no compensation for the tax losses unless the member is subject to prudential regulation by APRA, in which case the regulated entity will be compensated for its tax losses.

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

1 Summary of significant accounting policies (continued)

(g) Income tax (continued)

Tax consolidation (continued)

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

New Zealand branch

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

Current income tax rate for NZ business is 28%.

Taxation bases

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

Gross premium income
As the branch is a non-resident, for tax purposes, general insurer in New Zealand it is taxed on 10% of its New Zealand sourced gross premium income. Deductions for expenditure are not allowed. A non-resident withholding tax of 10% or approved issuer levy of 2% applies to any New Zealand sourced interest income on investments.

(h) Cash and cash equivalents

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

(i) Trade and other receivables

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

(j) Reinsurance and other recoveries receivable

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

(k) Classification of insurance contracts

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

(l) Assets backing general insurance liabilities

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

1 Summary of significant accounting policies (continued)

(m) Financial assets

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

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

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

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

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

(n) Impairment of assets

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

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

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

(o) Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the 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.

(p) Outstanding claims liability

The liability for outstanding claims covers the expected future payments in relation to claims reported but not yet paid, IBNR's and claims incurred but not enough reported IBNER's and the anticipated direct and indirect costs of settling these claims.

1 Summary of significant accounting policies (continued)

(p) Outstanding claims liability (continued)

The liability for outstanding claims is subject to annual actuarial review. The general approach to the actuarial estimation of outstanding claims is to analyse all available past experience. Based on this, the expected future payments are determined and discounted to present value using a risk free rate.

The provision for the outstanding claims liability also contains a risk margin to reflect the inherent uncertainty in the central estimate. The risk margin increases the probability that the net liability is adequately provided for to a 90% (2011: 90%) confidence level.

(q) Liability adequacy test

The adequacy of the insurance contract liabilities are evaluated each year. The insurance contract test considers current estimates of all contractual and related cash flows. If it is determined using best estimate assumptions that a shortfall exists, it is immediately recognised in the Statement of Comprehensive Income. Refer to note 19(e).

(r) Unexpired risk liability

Provision is made for unexpired risks arising from general insurance business where the expected value of claims and expenses attributed to the unexpired periods of policies in force at the end of the reporting period exceeds the unearned premiums provision in relation to such policies after the deduction of any deferred acquisition costs. The provision for unexpired risk is calculated separately by reference to separate classes of business, which are managed together, after taking into account the relevant investment return.

Unexpired risk liability, if any, remaining after writing off deferred acquisition costs is recognised immediately in the Statement of Comprehensive Income. Refer to note 19(e).

(s) Employee benefits

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

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

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

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

1 Summary of significant accounting policies (continued)

(t) Foreign currency translation and functional currency

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

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

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

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 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.

(u) Goods and services tax (GST)

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

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

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

(v) Rounding of amounts

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

2 Accounting judgements and estimates

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

Key sources of estimation uncertainty
The key area of estimation uncertainty for the Company is in its estimation of outstanding claims and reinsurance recoveries. These are discussed in detail in note 19.

The ultimate liability arising from claims made under insurance contracts
Provision is made at the year-end for the estimated cost of claims incurred but not settled at the end of the reporting period, including the cost of claims incurred but not yet reported IBNR's to the Company.

The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposure. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about the claim event is generally available. In calculating the estimated cost of unpaid claims the Company uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- changes in the economic environment
- changes in the mix of business
- medical and technological developments
- changes in benefit structures
- changes in claims management practice

Provisions are calculated gross of all recoveries. A separate estimate is made of the amounts that will be recoverable from decreasing adjustments and from reinsurers based upon the gross provisions. The decreasing adjustments are estimated as 1/11th of gross outstanding claims liability.

The methods used to analyse past claims experience and to project future claims experience are largely determined by the available data and the nature and maturity of the portfolio.

The determination of an appropriate outstanding claims liability and the specific assumptions used are detailed in note 3.

3 Actuarial assumptions and methods

The Company writes the following lines of business in Australia :

Consumer credit insurances

The risks covered in this group include:

- Involuntary Unemployment
- Disability

Others

- Total Loss Protection (GAP)
- Merchandise and Price Protection
- Stolen Card Cover

3 Actuarial assumptions and methods (continued)

Process used to determine outstanding claims liabilities (actuarial methods)

The general approach to actuarial estimation of Insurance Liabilities is to analyse all available past experience, including the number of reported and finalised claims, timing and amounts of claim payments. This analysis allows patterns to be identified in the past experience. Based on this, development patterns associated with the run-off of outstanding claims and premium liabilities at the balance date can be estimated.

The determination of outstanding claims liabilities involves two steps:

(i) The determination of the central estimate of outstanding claims at the balance date. The central estimate of outstanding claims includes an allowance for IBNR claims and the further development of IBNER's.

The central estimate has no deliberate bias towards either over or under estimation. Generally speaking, this means that the central estimate is assessed to have a 50% chance of adequacy.

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

Consumer credit insurances

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

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

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

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

Others

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

3 Actuarial assumptions and methods (continued)

Actuarial assumptions

The personal line insurances are currently in run off and the outstanding claims liability is immaterial. The key actuarial assumptions for the determination of the outstanding claims liabilities of the consumer credit insurances are as follows:

	2012 Unemployment*	2012 Disability*	2012 GAP/Price Protection	2011 Unemployment*	2011 Disability*	2011 GAP/Price Protection
Average weighted term to settlement*	2.1 months	6.6 months	4.9 months	1.9 months	6.3 months	4-5 months
Average monthly benefits/average claim size*	$223-$778 per month	$223-$785 per month	$275	$223-778 per month	$223-785 per month	$678
Expense rate	17%	17%	17%	17%	17%	17%
Discount rate	2.7% pa-4.6% pa	2.7% pa-4.6%pa	2.7%pa-4.6%pa	2.9%-4.8% pa	2.9%-4.8% pa	2.9%-4.8% pa

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

Process used to determine actuarial assumptions

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

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

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

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

Expense rate
The adopted claims handling expense rate of 17% (2011:17%) of the projected gross claim payments, was determined based on the results of an expense investigation carried out in 2012.

Discount rate
The central estimates of the outstanding claims liabilities were discounted to allow for future investment income attributable to the liabilities during the run off period. The future investment earnings assumptions are estimates of the future annual risk free rates of return. They have been derived from the yield curve on Australian Government Bonds as at 31 December 2012 as provided by the Australian Financial Review.

3 Actuarial assumptions and methods (continued)

Sensitivity analysis

The outstanding claims liabilities included in the reported results are calculated based on the key actuarial assumptions as disclosed above. The movement in any of the above key actuarial assumptions will impact the performance and equity of the Company. The table below describes how a change in each of the assumptions will affect the outstanding claims liabilities.

2012

Key actuarial assumptions	**Changes**	**Impact on net outstanding claims liabilities ($000's)**	**Impact on total outstanding claims liabilities (%)**
Claim Termination Rate*	Reduce the Branch Credit termination rates by 10%	614	9.6
Average Monthly Benefits*	Increase the Branch Credit Insurances IBNR average monthly benefits by 10%	217	3.4
Number of IBNR Claims*	Increase the number of Branch Credit Insurances IBNR claims by 10%	217	3.4
Claims handling expense rate	Increase from 17% to 20%	192	3.0
2011			
Claim Termination Rate*	Reduce the Branch Credit termination rates by 10%	213	4.3
Average Monthly Benefits*	Increase the Branch Credit Insurances IBNR average monthly benefits by 10%	160	3.2
Number of IBNR Claims*	Increase the number of Branch Credit Insurances IBNR claims by 10%	160	3.2
Claims handling expense rate	Increase from 17% to 20%	149	3.0

* Branch credit insurance only

3 Actuarial assumptions and methods (continued)

New Zealand Branch

The Company writes the following lines of business in New Zealand:

Consumer credit insurances

The risks covered in this group include:

- Involuntary Unemployment (Redundancy)
- Disability
- Material Damage
- Death
- Bankruptcy

Others

- Merchandise and Price Protection
- Stolen Card Cover

During 2007, the New Zealand Branch ceased writing policies categorised as Hire Purchase Insurance and Personal Loan Insurance ("Old Products") and commenced writing a new Consumer Credit Insurance product ("New Products", from August 2007). From May 2011, the New Zealand Branch started offering a new credit card balance protection product called GEM Visa, which provides cover for Disability, Redundancy and Merchandise Protection, Price Protection and Stolen Cards cover.

Effective 5 March 2012, the insurance business of Simply Insurance New Zealand Limited ("SINZ"), a partner company within the GE Capital Group, was transferred into the New Zealand Branch. This business now operates as a branch in New Zealand.

Process used to determine outstanding claims liabilities (actuarial methods)

The general approach to actuarial estimation of Insurance Liabilities is to analyse all available past experience, including the number of reported and finalised claims, timing and amounts of claim payments. This analysis allows patterns to be identified in the past experience. Based on this, development patterns associated with the run-off of outstanding claims and premium liabilities at the balance date can be estimated.

The determination of outstanding claims liabilities involves two steps:

(i) The determination of the central estimate of outstanding claims at the balance date. The central estimate of outstanding claims includes an allowance for IBNR claims and the further development of IBNER's.

The central estimate has no deliberate bias towards either over or under estimation. Generally speaking, this means that the central estimate is assessed to have a 50% chance of adequacy.

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

The estimation of outstanding claims liabilities has been performed separately for each of the claim types arising under the different policies, namely: Bankruptcy, Death, Disability, Material Damage, Redundancy and Merchandise Protection, Price Protection and Stolen Cards.

Disability and Redundancy (except GEM Visa)

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

3 Actuarial assumptions and methods (continued)

Disability and Redundancy (except GEM Visa) (continued)

The individual claimant projection method was adopted for the open and pending claims. Claim payments have been projected from the valuation date until the end of the policy term, taking into account the probability of termination and limits to claim payments as stipulated in the policy. The claim payments are based on the monthly loan instalments for each individual claim. For pending claims, an acceptance rate assumption is also applied in the valuation.

For IBNR claims, the central estimate of the outstanding claims liability was based on an estimated number of IBNR claims and average claim sizes. The number of IBNR claims was based on analysis of claim numbers for lines of business in runoff and analysis of claim frequency for line of business currently underwritten. The average claim size is estimated from expected average total duration and average monthly benefits, with policy design taken into account. For example, the Consumer Credit Insurance has a maximum Redundancy payment period of three months, which was reflected in the analysis.

Death and Material Damage (Old Products only)

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

For open claims, future claim payments have been projected based on average claim size assumptions. Only claims that are open, non-declined and have not yet received any payments are assumed to have an outstanding liability.

For IBNR claims, the central estimate of the outstanding claims liability was based on an estimated number of IBNR claims and average claim sizes. The number of IBNR claims was based on analysis of claim numbers. The average claim size was based on the payments made on claims finalised for non-zero amounts. At the current valuation, no further claims are expected for Material Damage and hence no liability is held for this class.

Bankruptcy (Old Products only)

No liability is being projected in respect of Bankruptcy as the low frequency of their occurrence means that any projection of IBNR liability would be extremely small and no open claims are expected to receive any further benefits.

Disability, Redundancy and Merchandise Protection, Price Protection and Stolen Cards (GEM Visa only)

The standard actuarial projection technique of Payment Per Claim Finalised (PPCF) was adopted in the determination of the central estimate of the outstanding claims liability for this risk, where claims are generally finalised with the payment of a single lump sum amount. This involves estimating the number of future claim finalisations and average claim sizes. The number of future finalisations was based on analysis of claim reports, finalisations. The average claim size was based on the payments made on claims finalised.

3 Actuarial assumptions and methods (continued)

Actuarial assumptions

The key actuarial assumptions for the determination of the outstanding claims are as follows:

	2012 Disability** (excl GEM Visa)	2012 Redundancy** (excl GEM Visa)	2011**** Disability** (excl GEM Visa)	2011**** Redundancy**(excl GEM Visa)
Termination rates	4.5-14.5%*	9.0-15.0%*	6.3-14.1%*	9.0-15.0%*
Average weighted term to settlement	9.2-9.7 months	3.2-6.2 months***	9.2 months	2.6-6.2months
Number of IBNR claims accepted (total)	83	80	79	79
Average Claim Size for IBNR claims	$3,804-$4,084	$1,601-$2,482	$3,603-$4,004	$841-$2,482
Discount rate	2.53%pa	2.53%pa	2.45%pa	2.45%pa

* Assumption varies according to the future claim duration

** Assumptions for Disability and Redundancy vary depending on whether the product is in runoff or whether the product is currently underwritten. The analysis was performed separately for policies in runoff and lines of business currently underwritten, and liabilities were subsequently projected separately

***For Redundancy under New Products, the average term to settlement is weighted by the number of 3 month and 6 month policies

	2012 Disability (GEM Visa)	2012 Redundancy (GEM Visa)	2012 Merchandise Protection, Price Protection and Stolen Cards (GEM Visa)	2011**** Disability (GEM Visa)	2011**** Redundancy (GEM Visa)	2011**** Merchandise Protection, Price Protection and Stolen Cards (GEM Visa)
Average settlement size	$2,002	$1,601-$2,162	$304	$1,762	$1,401-$1,882	$160-$280
Number of future finalisations	25	24	75	36	25	177

**** All actuarial data disclosed for the New Zealand Branch of the Company for 2011, relates to the insurance portfolio of Simply Insurance New Zealand Limited, and is disclosed to reflect the historical actuarial profile of the insurance portfolio, which was transferred to the New Zealand Branch of the Company on the 5th March 2012.

Other assumptions

The outstanding claims provision includes a claim handling expense of 17% and an additional 1% for medical expenses, with a prudential margin calculated at a 90% probability of adequacy.

3 Actuarial assumptions and methods (continued)

Process used to determine actuarial assumptions

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

Termination rates
Termination rates by claim duration from the date of incident are adopted and these are used to derive the probability of payment on each claim for each month into the future.

Average weighted term to settlement from the end of the reporting period
The average term to settlement from reporting date is based on claim termination analysis performed on the historical claims experiences. The claim termination analysis is performed separately for unemployment and disability.

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

Average claim size for IBNR claims (Old and New Products only)
For Disability and Redundancy, the adopted average claim size was based on two types of analysis: the expected average total duration for each claim type and benefit duration (only for Unemployment) multiplied by the average monthly payment amount for each claim type, and the historical average claim size. The average duration was based on the assumed termination rates.

For Death and Material Damage, the average claim size was based on the lump sum payments made on finalised claims.

Number of IBNR claims (Old and New Products only)
The number of IBNR claims was based on an analysis of historical claim numbers for policies in runoff and an analysis of claim frequency for lines of business currently underwritten.

Average claim size for settlements (GEM Visa only)
For GEM Visa policies, the adopted average claim size was based on historic ratios of claim payments to numbers of claims finalised.

Number of future finalisations (GEM Visa only)
For GEM Visa policies, the number of future finalisations is based on an analysis of historical claim reports and finalisation rates. This then enables the future numbers of reports, handled claims and finalisations to be projected.

Expense rate
The adopted claims handling expense rate of 17% of the projected gross claim payments, was determined based on the results of an expense investigation carried out in 2012. An additional 1% for medical expenses is applied to Disability claims.

Discount rate
The central estimates of the outstanding claims liabilities for the periodic benefits were discounted to allow for future investment income attributable to the liabilities during the run off period. The discount factor was based on the annual risk free rates of return from the yield curve on New Zealand Government Bonds.

Sensitivity analysis

The outstanding claims liabilities included in the reported results are calculated based on the key actuarial assumptions as disclosed above. The movement in any of the above key actuarial assumptions will impact the performance and equity of the Company. The table below describes how a change in each of the assumptions will affect the outstanding claims liabilities. The outstanding claims liabilities are on a discounted basis and include claim handling expenses and a risk margin at the 90% probability of adequacy.

3 Actuarial assumptions and methods (continued)

Sensitivity analysis (continued)

Impact of changes in assumptions for Old and New Products on total outstanding claims liability:

Key actuarial assumptions	Changes	Impact on net outstanding claims liabilities ($000's)	Impact on total outstanding claims liabilities (%)
Claim Termination Rate*	Reduce all termination rates by 10%	81	3.2
IBNR	Increase IBNR ACS by 10% / Increase number of IBNR claim by 10%	93	3.6
Claims handling expense rate	Increase the claims handling expense rate from 17% to 21%	60	2.3

Impact of changes in assumptions for GEM Visa on total outstanding claims liability:

Key Actuarial Assumptions	Changes	Impact on outstanding claims liabilities ($000's)	Impact on total outstanding claims liabilities (%)
Claim development	Increase chain ladder factors by 10%	47	1.9
Average settlement size	Increase average settlement size by 10%	44	1.7
Claims handling expense rate	Increase the claims handling expense rate from 17% to 21%	17	0.7

Changes to key assumptions

The major changes to the key assumptions in the December 2012 valuation include:

- Reduction in the termination rates (i.e. increased average claim duration) and increase in the average claim size for Disability claims

4 Risk management

Insurance contracts

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

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

The majority of direct insurance contracts written are entered into on a standard form basis. There are no special 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 insurance.

4 Risk management (continued)

Insurance risk management

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

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

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

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

(i) Underwriting strategy
The Board has developed an underwriting strategy to ensure that the Company has the ability to meet the insurance needs of the policy holders 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.

There are three minor reinsurance policies relating to Accidental Death and Warranty products. Given the capital position of the Company and estimated Maximum Event Retention of $19.77 million (NZ Branch $5.64 million) at 31 December 2012 (2011: $12.32 million), the Company has adopted the position that Catastrophe Cover is not required.

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

(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.

4 Risk management (continued)

Capital management

Capital consists of ordinary 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 assets well in excess of the adopted target surplus requirement, reflecting its current strong capital position.

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

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

For detailed information on the Company's capital position and the capital requirements of APRA, refer note 25.

(a) Credit risk

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

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

(i) Financial assets
The Company's Investment mandate sets out the investment management guidelines approved by the Board. The guidelines establish credit approval authorities, concentrations limits, and approved investment portfolio parameters. 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"). Where a counterparty changes rating to below A1/A after acquisition, management will continue to review its holding in those counterparties and divest as deemed appropriate.The Company further limits its exposure to credit risk by setting individual exposure limits. There is no significant concentration of credit risk and management does not expect any counterparty to fail to meet its obligations.

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

4 Risk management (continued)

(a) Credit risk (continued)

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

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

2012	Investment grade $'000	Non-investment grade satisfactory * $'000	Non-investment grade unsatisfactory $'000	Total neither past due nor impaired $'000	Past due or impaired $'000	Total $'000
Financial assets						
Cash and cash equivalents	180,156	-	-	180,156	-	180,156
Trade and other receivables	-	17,546	-	17,546	-	17,546
Financial assets at fair value through profit or loss						
Equity securities	17,512	-	-	17,512	-	17,512
Fixed interest securities	26,691	-	-	26,691	-	26,691
Total credit risk exposure	**224,359**	**17,546**	**-**	**241,905**	**-**	**241,905**

2011	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	140,105	-	-	140,105	-	140,105
Trade and other receivables	-	11,430	-	11,430	-	11,430
Financial assets at fair value through profit or loss						
Equity securities	16,884	-	-	16,884	-	16,884
Fixed interest securities	25,323	-	-	25,323	-	25,323
Total credit risk exposure	**182,312**	**11,430**	**-**	**193,742**	**-**	**193,742**

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

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

4 Risk management (continued)

(a) Credit risk (continued)

2012	AAA $'000	AA $'000	A $'000	BBB $'000	Not rated $'000	Total $'000
Financial Assets						
Cash and cash equivalents	-	-	180,156	-	-	180,156
Trade and other receivables*	-	-	-	-	17,546	17,546
Financial assets at fair value through profit or loss						
Equity securities	-	5,438	7,597	3,564	912	17,512
Fixed interest securities	-	26,691	-	-	-	26,691
Total credit risk exposure	-	32,130	187,753	3,564	18,458	241,905

2011	AAA $'000	AA $'000	A $'000	BBB $'000	Not rated $'000	Total $'000
Financial Assets						
Cash and cash equivalents	-	-	140,105	-	-	140,105
Trade and other receivables*	-	-	-	-	11,430	11,430
Financial assets at fair value through profit or loss						
Equity securities	-	4,568	7,548	3,294	1,474	16,884
Fixed interest securities	-	25,323	-	-	-	25,323
Total credit risk exposure	-	29,891	147,653	3,294	12,904	193,742

* The receivables are largely with related parties (see note 28).

No receivables are past due or impaired at balance date (2011: Nil).

(b) Liquidity risk

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

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

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

2012	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	12,627	-	-	-	-	12,627
Outstanding claims liabilities	8,216	2,721	1,562	33	-	12,531
Net principal liabilities	20,843	2,721	1,562	33	-	25,158

4 Risk management (continued)

(b) Liquidity risk (continued)

2011	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	13,413	40	-	-	-	13,453
Outstanding claims liabilities	5,223	1,730	947	20	-	7,920
Net principal liabilites	18,636	1,770	947	20	-	21,373

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

(c) Market risk

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

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

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

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

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

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

	Carrying Amount	Change in variables	Impact on profit before tax	Impact on Equity				Total
2012	$'000	%	$'000	Up to a year $'000	1-2 years $'000	2-5 years $'000	Over 5 years $'000	$'000
Financial assets								
Short term deposits	170,788	-1	(1,708)	(1,196)	-	-	-	(1,196)
Fixed interest securities	26,691	-1	(267)	-	(168)	(19)	-	(187)
	197,479		(1,975)	(1,196)	(168)	(19)	-	(1,383)

4 Risk management (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

2011	Carrying Amount $'000	Change in variables %	Impact on profit before tax $'000	Impact on Equity: Up to a year $'000	1-2 years $'000	2-5 years $'000	Over 5 years $'000	Total $'000
Financial assets								
Short term deposits	131,693	-1	(1,317)	(922)	-	-	-	(922)
Fixed interest securities	25,323	-1	(253)	-	-	(177)	-	(177)
	157,016		(1,570)	(922)	-	(177)	-	(1,099)

The analysis is performed on the same basis for 2011 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 following table analyses the impact of a reasonable possible movement in market prices on the Company's operating results.

2012	Carrying Amount $'000	Change in variables %	Impact on profit before tax $'000	Impact on Equity: Up to a year $'000	1-2 years $'000	2-5 years $'000	Over 5 years $'000	Total $'000
Financial assets								
Equity securities	17,512	-1	(175)	(123)	-	-	-	(123)
	17,512		(175)	(123)	-	-	-	(123)

2011	Carrying Amount $'000	Change in variables %	Impact on profit before tax $'000	Impact on Equity: Up to a year $'000	1-2 years $'000	2-5 years $'000	Over 5 years $'000	Total $'000
Financial assets								
Equity securities	16,884	-1	(169)	(118)	-	-	-	(118)
	16,884		(169)	(118)	-	-	-	(118)

This analysis is performed on the same basis for 2011 and assumes that all other variables remain the same.

4 Risk management (continued)

(d) Fair value measurements

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

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

2012	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets designated at fair value through profit or loss	17,512	26,691	-	44,203
	17,512	26,691	-	44,203

2011	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets designated at fair value through profit or loss	16,884	25,323	-	42,207
	16,884	25,323	-	42,207

5 Net insurance premium revenue

	2012 $'000	2011 $'000
Premium revenue		
Gross written premium	61,576	45,656
Movement in unearned premiums	(10,229)	(4,301)
Outwards reinsurance premium expense	(17)	(46)
Net premium revenue	51,330	41,309

6 Net claims incurred

	2012			2011		
	Current Year $'000	Prior Years $'000	Total $'000	Current Year $'000	Prior Years $'000	Total $'000
Claim expenses						
Gross claims incurred and related expenses - undiscounted	12,682	(300)	12,382	8,726	(980)	7,746
Discount and discount movement - gross claims incurred	(215)	175	(40)	(171)	269	98
	12,467	(125)	12,342	8,555	(711)	7,844
Reinsurance and other recoveries expense/(revenue) - undiscounted	-	-	-	(1)	-	(1)
Net claims incurred	12,467	(125)	12,342	8,554	(711)	7,843

Current period claims relate to risk borne in the current financial year. Prior period claims relate to a reassessment of the risks borne in all previous financial years.

7 Investment income

	2012 $'000	2011 $'000
Financial assets at fair value through profit or loss		
Interest income	8,196	8,366
Realised net gains/(losses)	(2,316)	(707)
Unrealised net gains/(losses)	5,228	(1,250)
Dividend income	878	870
Total investment income	11,986	7,279

8 Profit before income tax

	2012 $'000	2011 $'000
Profit before income tax includes the following specific expenses:		
Amortisation		
Software development costs	131	156
Employee costs		
Personnel cost	9,499	8,483
Contribution to superannaution fund	710	671
Change in annual and long service leave provision	4	11
Other administrative expenses		
Marketing	138	8
Temporary staff	-	152
Management fee	2,156	3,702

9 Income tax expense

(a) Income tax expense

	2012 $'000	2011 $'000
Current tax expense	5,116	6,072
Deferred tax expense (note 15)	699	(909)
Under/(over) provided in prior years	45	(287)
	5,860	4,876

9 Income tax expense (continued)

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

	2012 $'000	2011 $'000
Profit from continuing operations before income tax expense	20,761	17,852
Tax at the Australian tax rate of 30% (2011 - 30%) and tax at the New Zealand tax rate of 28% (2011: 28%)	6,208	5,356
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Imputation credits	98	90
Non taxable income	(197)	-
Entertainment	32	18
Tax offset for franked dividends	(325)	(301)
	5,815	5,163
Under/(over) provision in prior years	45	(287)
Income tax expense	5,860	4,876

10 Current assets - Cash and cash equivalents

	2012 $'000	2011 $'000
Cash at bank	9,368	8,412
Short term deposits	170,788	131,693
	180,156	140,105

11 Current assets - Trade and other receivables

	2012 $'000	2011 $'000
Trade debtors	4,099	3,018
Other receivables	13,447	8,412
	17,546	11,430

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

12 Current assets - Financial assets at fair value through profit or loss

	2012 $'000	2011 $'000
Equity securities-listed	17,512	16,884

13 Deferred acquisition costs

	2012 $'000	2011 $'000
Deferred acquisition costs:		
Current	10,047	7,109
Non-current	8,220	5,816
	18,267	12,925

	2012 $'000	2011 $'000
Reconciliation of changes in deferred acquisition costs:		
Balance at 1 January	12,925	12,125
Acquistion of New Zealand operation (note 29)	3,479	-
Acquisition costs incurred during the year	12,191	8,843
Amortisation charged to income	(10,328)	(8,043)
Balance at 31 December	18,267	12,925

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

	2012 $'000	2011 $'000
Fixed interest securities	26,691	25,323

15 Non-current assets - Deferred tax assets

	2012 $'000	2011 $'000
The balance comprises temporary differences attributable to:		
Employee entitlements	291	455
Operating accruals	1,492	908
Indirect claims handling expense	495	335
Interest and dividend recievable	(3)	(496)
Financial assets at fair value through profit or loss	177	1,876
Other	8	8
	2,460	3,086

Movements	**Total $'000**
Balance at 1 January 2011	1,536
Charged to profit or loss (note 9)	909
Under/(over) provision in prior years	641
Closing balance at 31 December 2011	3,086

15 Non-current assets - Deferred tax assets (continued)

At 1 January 2012	**3,086**
Charged to profit or loss (note 9)	(699)
Under/(over) provision in prior years	73
Closing balance at 31 December 2012	**2,460**

16 Current liabilities - Trade and other payables

	2012 $'000	2011 $'000
Trade payables	58	626
Other payables	12,559	12,787
	12,617	13,413

The carrying value disclosed above approximates fair value at end of the reporting period.
These balances include amounts payable to related parties (note 28).

17 Current liabilities - Provisions

	2012 $'000	2011 $'000
Employee entitlements		
Annual leave	461	485
Long service leave	434	313
Total employee entitlements	895	798

18 Unearned commission income

	2012 $'000	2011 $'000
Balance at 1 January	1	2
Commission income on premium earned during the year	-	(1)
Balance at 31 December	1	1

19 Outstanding claims liability

	2012 $'000	2011 $'000
Central estimate	9,582	6,170
Risk margin	1,499	846
Claims handling expense	1,769	1,151
	12,850	8,167
Discount to present value	(319)	(247)
Gross outstanding claims liability	12,531	7,920
Current	8,216	5,223
Non-current	4,315	2,697
	12,531	7,920

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

Australia
The current year discount rate is 2.6 % (2011: 3.5%).
The subsequent years discount rate is 2.7% - 4.6% (2011: 2.9% - 4.9%).
The weighted average expected term to settlement of the outstanding claims from the end of the reporting period is estimated to be 1.08 years (2011: 0.89 years).

New Zealand Branch
The current year discount rate is 2.53% (2011: 2.53%*)
The subsequent years discount rate is 2.53% (2011: 2.53%*)
The weighted average expected term to settlement of the outstanding claims from the end of the reporting period is estimated to be 0.61 years (2011: 0.66 years*)

(b) Risk margin

Process for determining risk margin
The risk margin is an additional allowance for uncertainty in the ultimate cost of claims. The overall margin adopted is determined by the Board after considering the uncertainty in the portfolio, industry trends and the Company's risk appetite.

To determine the margin adopted the Appointed Actuary has reviewed the factors impacting the portfolio to establish a recommended margin at the level required by the Board. Factors considered include:

- variability of claims experience of the portfolio;
- quality of historical data;
- diversification between different classes within the portfolio; and
- increase in uncertainty due to future economic environment and legislative changes.

19 Outstanding claims liability (continued)

(b) Risk margin (continued)

Process for determining risk margin (continued)

The level of uncertainty varies between classes of business, as such the adopted risk margin varies between business classes. The risk margin is applied to the Gross Central Estimate with the appropriate reinsurance recoveries allowed for.

The aggregate risk margin, after diversification allowance, is intended to achieve a 90% (2011: 90%) probability of sufficiency.

The risk margins applied to the major segments of the portfolio for 90% (2011: 90%) level of adequacy are:

	2012 %	2011 %
Australia		
Risk margin applied		
Consumer credit insurance - death	11.4	12.3
Consumer credit insurance - unemployment	30.4	30.0

	2012 %	2011* %
New Zealand Branch		
Risk margin applied		
Consumer credit insurance - death	50.0	50.0
Consumer credit insurance - disability	19.7	19.7
Consumer credit insurance - material damage	19.7	19.7
Consumer credit insurance - umemployment	45.9	45.9
Consumer credit insurance - bankruptcy	50.0	50.0

* All actuarial data disclosed for the New Zealand Branch of the Company for 2011, relates to the insurance portfolio of Simply Insurance New Zealand Limited, and is disclosed to reflect the historical actuarial profile of the insurance portfolio, which was transferred to the New Zealand Branch of the Company on the 5th March 2012.

19 Outstanding claims liability (continued)

(c) Reconciliation of movement in discounted outstanding claims liability

	2012			2011		
	Gross $'000	**Reinsurance $'000**	**Net $'000**	Gross $'000	Reinsurance $'000	Net $'000
Balance at 1 January	7,920	-	7,920	8,042	-	8,042
Acquisition Transfer as at 5th March	1,816	-	1,816	-	-	-
Current year claims incurred	12,467	-	12,467	8,555	-	8,555
Change in previous years claims	(162)	-	(162)	(791)	-	(791)
Current year claims paid / reinsurance recovered	(3,857)	-	(3,857)	(3,056)	-	(3,056)
Previous year claims paid / reinsurance recovered	(5,675)	-	(5,675)	(4,909)	-	(4,909)
	12,509	-	12,509	7,841	-	7,841
Effect of change in discount rate	22	-	22	79	-	79
Balance at 31 December	12,531	-	12,531	7,920	-	7,920

The New Zealand Branch of the Company assumed policy liabilities on 5th March 2012 when the Insurance portfolio of Simply Insurance New Zealand Limited was transferred to the Branch on that date.

(d) Claims development tables

Claims development tables are disclosed in order to put the claims estimates included in the financial statements into context, allowing comparison of those claims estimates with the claims results seen in previous years. In effect, the table highlights the Company's ability to provide a reliable estimate of the total value of claims. The top part of the table provides a review of current estimates of cumulative claims and demonstrates how the estimated claims have changed at subsequent reporting or accidents year-ends. The lower part of the table provides a reconciliation of the total reserve included in the Statement of Financial Position and the estimates of cumulative claims.

19 Outstanding claims liability (continued)

(d) Claims development tables (continued)

(i) Gross

Reporting Year	2008 and prior* $'000	2009* $'000	2010* $'000	2011* $'000	2012 $'000	Total $'000
Estimate of ultimate claims cost						
At end of reporting year	42,257	8,861	7,655	7,564	11,149	
One year later	39,000	6,870	6,831	8,352	-	
Two years later	37,582	6,916	7,356	-	-	
Three years later	37,761	7,125	-	-	-	
Four years later	38,027	-	-	-	-	
Current estimate of cumulative claims	38,027	7,125	7,356	8,352	11,149	72,009
Cumulative payments	(37,946)	(6,959)	(6,437)	(6,060)	(3,564)	(60,966)
Undiscounted claims handling expenses	12	26	153	376	1,241	1,808
Gross outstanding claims - undiscounted	93	192	1,072	2,668	8,826	12,851
Discount impact	(2)	(4)	(26)	(72)	(216)	(320)
Gross outstanding claims - discounted	91	188	1,046	2,596	8,610	12,531

(ii) Net

Reporting Year	2008 and prior* $'000	2009* $'000	2010* $'000	2011* $'000	2012 $'000	Total $'000
Estimate of ultimate claims cost						
At end of reporting year	42,257	8,861	7,655	7,564	11,149	
One year later	39,000	6,870	6,831	8,352	-	
Two years later	37,582	6,916	7,356	-	-	
Three years later	37,761	7,125	-	-	-	
Four years later	38,027	-	-	-	-	
Current estimate of cumulative claims	38,027	7,125	7,356	8,352	11,149	72,009
Cumulative payments	(37,946)	(6,959)	(6,437)	(6,060)	(3,564)	(60,966)
Undiscounted claims handling expenses	12	26	153	376	1,241	1,808
Gross outstanding claims - undiscounted	93	192	1,072	2,668	8,826	12,851
Discount impact	(2)	(4)	(26)	(72)	(216)	(320)
Gross outstanding claims - discounted	91	188	1,046	2,596	8,610	12,531

* All actuarial data relating to the New Zealand Branch of the Company, prior to the 5th March 2012 , relates to the insurance portfolio of Simply Insurance New Zealand Limited, and is disclosed to reflect the historical actuarial profile of the insurance portfolio, which was transferred to the Branch on the 5th March 2012.

(e) Liability adequacy test

The liability adequacy test (LAT) is an assessment of the carrying amount of unearned premium liabilities and is conducted at the end of each reporting period. The test is calculated separately for each portfolio of contracts that are subject to broadly similar risks and are managed together as a single portfolio.

For the purposes of the liability adequacy test, the net premium liabilities at a 75% probability of sufficiency as at 31 December 2012 is $63,836,191 (2011: $42,228,000), therefore the liability adequacy test at reporting date resulted in a surplus for the company.

20 Unearned premium liability

	2012 $'000	2011 $'000
Balance as at 1 January	59,480	55,179
Acquisition of New Zealand operation (note 29)	17,373	-
Premiums written during the year	61,576	45,656
Premiums earned during the year	(51,347)	(41,355)
Balance as at 31 December	87,082	59,480
Current	47,722	32,761
Non-current	39,360	26,719
	87,082	59,480

21 Non-current liabilities - Trade and other payables

	2012 $'000	2011 $'000
Other payables	-	40
	-	40

22 Non-current liabilities - Provisions

	2012 $'000	2011 $'000
Employee entitlements:		
Long service leave	75	149
	75	149

Total Number of Employees 2012: 73 (2011: 72)

23 Issued capital

(a) Share capital

	2012 Shares	2011 Shares	2012 $'000	2011 $'000
Ordinary shares				
Paid up ordinary shares	10,001	10,001	2,000	2,000

(b) Ordinary shares

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

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

23 Issued capital (continued)

(b) Ordinary shares (continued)

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.

24 Reserves

	2012 $'000	2011 $'000
Foreign currency translation reserve	20	-
Tax consolidation reserve	50,233	44,009
	50,253	44,009

	2012 $'000	2011 $'000
Movements:		
Foreign currency translation reserve		
Balance at 1 January	-	-
Exchange differences on translation of foreign operations	20	-
Balance 31 December	20	-
Tax consolidation reserve		
Balance at 1 January	44,009	44,562
Current tax liability transferred to Head Entity	6,224	(553)
Balance 31 December	50,233	44,009

25 Capital adequacy

Prudential standard GPS 110 issued by the Australian Prudential Regulation Authority (APRA) requires additional disclosure in the annual financial statements to improve policyholders and market understanding of the Company's capital adequacy. As at 31 December 2012, the capital base, minimum capital requirement and capital adequacy multiple, as calculated applying the APRA prudential standards, were as follows:

	2012 $'000	2011 $'000
Tier 1 capital		
Paid up ordinary shares	**2,000**	2,000
Retained earnings brought forward	**81,943**	68,967
Current year earnings	**14,901**	12,976
Reserves	**50,253**	44,009
Excess technical provisions (net of tax)	**3,956**	3,289
	153,053	131,241
Less: deductions	**(2,460)**	(3,086)
Net Tier 1 capital	**150,593**	128,155
Tier 2 capital		
Net Tier 2 capital	**-**	-
Total Capital Base	**150,593**	128,155
Capital Requirement		
Minimum capital requirement	**43,102**	29,646
Capital Adequacy Multiple	**3.49**	4.32

Excess technical provisions

The liability required by GPS 110 for prudential reporting purposes differs from accounting purposes. As described in note 1(p) the Company applies risk margins to the central estimate of net outstanding claims to achieve a 90% confidence level. GPS 110 requires a prudential margin with a sufficiency of 75%.

26 Key management personnel disclosures

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

(i) Directors

Raymond Bruce Willing
Angela Hunter
Philip Stuart Douglas Purcell
Neil William Smart
Paul McCann
Scott Kingsley Miller

(ii) Other Executives

Colleen Chapman
Rosalyn Patrice Exley
Helen Mediati
Julie Anne Winkler
Rebecca Jane Henderson
Adrian Wake
Bianca McClean Bates
Kevin Peter Smith
Emma Robinson
Sally Denby

(a) Key management personnel compensation

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

	2012 $	2011 $
Short-term employee benefits	3,131,591	2,417,735
Long-term employee benefits	217,541	176,296
Equity compensation benefits	2,987	90,919
	3,352,119	2,684,950

There are no other transactions with key management personnel (2011: $nil).

27 Remuneration of auditors

(a) Audit services

	2012 $	2011 $
KPMG		
Audit and review of financial statements	101,360	73,630
	101,360	73,630

27 Remuneration of auditors (continued)

(b) Non-audit services

	2012 $	2011 $
KPMG		
APRA Return	9,650	9,370
AFSL Audit	5,850	5,687
Actuarial External Peer Review	40,700	39,500
New Zealand Regulatory Reporting	5,450	-
	61,650	54,557
Total remuneration for audit and other assurance services	163,010	128,187

28 Related party transactions

(a) Parent entities

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

(b) Transactions with related parties

The following transactions occurred with related parties:

	2012 $	2011 $
Management fees paid to/(received from):		
GE Personal Finance Pty Ltd	802,957	835,976
Hallmark Life Insurance Company Ltd	(3,002,688)	(2,452,166)
Simply Insurance New Zealand Ltd	(642,953)	(2,571,813)
GE Capital Finance Australasia Pty Ltd	8,419,601	7,890,435
Cross charges paid to:		
GE Personal Finance Pty Ltd	216,221	59,192
GE Capital Finance Australasia Pty Ltd	6,933,817	6,000,835
Royalty paid:		
GE Capital Registry, Inc.	-	185,183
Transactional sales costs paid to:		
GE Capital Finance Australasia Pty Ltd	3,250,481	2,933,014
Commission paid to:		
Avco Access Pty Ltd	947	1,755
GE Personal Finance Pty Ltd	4,397,655	5,051,350
GE Finance Australasia Pty Ltd	-	718,902
GE Capital Finance Australia	2,711,836	1,361,508

28 Related party transactions (continued)

(c) Outstanding balances with related parties

	2012 $	2011 $
Receivables/(payables)		
Avco Access Pty Ltd	**723**	3,388
GE Capital Finance Australasia Pty Ltd	**1,349,195**	(825,795)
GE Personal Finance Pty Ltd	**2,008,844**	1,721,676
Hallmark Life Insurance Company Ltd	**4,058,492**	5,414,081
Simply Insurance New Zealand Ltd	**2,206,703**	1,504,331
GE Capital Finance Australia	**1,691,548**	2,602,984

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 2012, there are no amounts outstanding owed by Hallmark General Insurance Company Ltd to GE Capital Finance Australasia Pty Ltd or to other related parties which are not reflected in the accounts, and there are no further amounts to be charged by GE Capital Finance Australasia Pty Ltd or by other related parties in relation to services provided to Hallmark General Insurance Company Ltd during 2012 or prior years.

29 Acquisition of New Zealand operation

Effective 5th March 2012, the Company commenced general insurance activities, in New Zealand, when the insurance portfolio of Simply Insurance New Zealand Limited, a related party, was transferred to a Branch of the Company under a common control transaction.

The following assets and liabilities were transferred from Simply Insurance New Zealand Limited to the Branch on that date:

	5 March 2012 $'000
Assets	
Cash and cash equivalents	15,618
Trade and other receivables	1,419
Deferred acquisition costs	3,479
Total Assets	20,516
Liabilties	
Trade and other payables	1,327
Outstanding claims liability	1,816
Unearned premium liability	17,373
Total Liabilities	20,516
Net Assets	-
Equity	
Issued capital	-
Retained earnings	-
Total Equity	-

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

	2012 $'000	2011 $'000
Profit for the year	**14,901**	12,976
Adjustments		
Depreciation and amortisation	**-**	58
Realised losses on sale of financial assets	**2,316**	707
Unrealised (gains)/losses in value of financial assets	**(5,228)**	1,251
Effect of foreign exchange on cash and cash equivalents	**(315)**	-
Change in operating assets and liabilities:		
(Increase)/decrease in trade debtors	**(1,031)**	2,160
(Decrease)/increase in trade and other payables	**(1,199)**	353
Decrease/(increase) in other receivables	**(3,667)**	(4,790)
(Increase) in deferred acquisition costs	**(1,863)**	(800)
Increase in employees entitlements	**23**	1
(Decrease) in unearned commission income	**-**	(1)
Increase/(decrease) in outstanding claim liability	**2,795**	(122)
Increase in unearned premium liability	**10,229**	4,301
Increase/(decrease) in tax consolidation reserve	**6,224**	(553)
Increase in foreign currency translation reserve	**20**	-
Decrease in net deferred tax assets/(liabilities)	**626**	(1,550)
Net cash inflow (outflow) from operating activities	**23,831**	13,991

31 Contingent assets and contingent liabilities

No contingent assets or contingent liabilities existed as at 31 December 2012 (2011: $nil).

32 Matters subsequent to the end of the financial year

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

It should be noted that from 1 Jan 2013 the Company is subject to amended capital requirements by APRA, under the Life and General Insurance Capital Standards ("LAGIC").

Directors' Declaration

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

(a) the financial statements and notes set out on pages 5 to 49 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 2012 and of its performance for the financial year ended on that date; and

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

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

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

Signed in accordance with a resolution of Directors:

Raymond Bruce Willing (Chairman)
Director
Sydney
19 March 2013

Angela Julie Hunter (Managing Director)
Director
Sydney
19 March 2013

KPMG

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

Report on the financial report

We have audited the accompanying financial report of Hallmark General Insurance Company Ltd (the Company), which comprises the statement of financial position as at 31 December 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, notes 1 to 32 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

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

KPMG

Independence

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

Auditor's opinion

In our opinion:

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

(i) giving a true and fair view of the Company's financial position as at 31 December 2012 and of its performance for the year ended on that date; and

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

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

KPMG

KPMG

Andrew Reeves
Partner

Sydney
19 March 2013