

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

**Hallmark General Insurance Company Ltd New Zealand
Branch
Financial report - 31 December 2013**

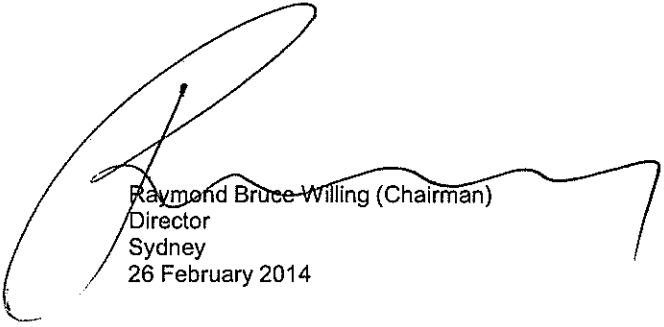
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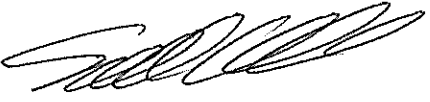
Directors' report

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

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



Raymond Bruce Willing (Chairman)
Director
Sydney
26 February 2014



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

**Hallmark General Insurance Company Ltd New Zealand
Branch
Financial report - 31 December 2013**

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

	Notes	2013 \$'000	2012 \$'000
Insurance premium revenue		16,997	10,976
Outwards reinsurance premium expense		(4)	(3)
Net insurance premium revenue	5	<u>16,993</u>	<u>10,973</u>
Claims expenses		2,334	2,689
Net claims incurred	6	<u>2,334</u>	<u>2,689</u>
Acquisition costs		3,897	2,197
Administration expenses		4,380	4,717
Underwriting expenses		<u>8,277</u>	<u>6,914</u>
Underwriting result		6,382	1,370
Investment income	7	866	460
Investment expenses		(10)	(11)
Other income/(expenses)		115	(22)
Profit before income tax		<u>7,353</u>	<u>1,797</u>
Income tax expense	8	474	251
Profit for the year		<u>6,879</u>	<u>1,546</u>
Other comprehensive income for the year, net of tax		<u>-</u>	<u>-</u>
Total comprehensive income for the year		<u>6,879</u>	<u>1,546</u>
Profit is attributable to:			
Owners of Hallmark General Insurance Company Ltd New Zealand Branch		<u>6,879</u>	<u>1,546</u>
		<u>6,879</u>	<u>1,546</u>
Total comprehensive income for the year is attributable to:			
Owners of Hallmark General Insurance Company Ltd New Zealand Branch		<u>6,879</u>	<u>1,546</u>
		<u>6,879</u>	<u>1,546</u>

The above Statement of Profit or Loss and Other 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 2013

	Notes	2013 \$'000	2012 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	9	42,125	26,398
Trade and other receivables	10	1,274	5,374
Deferred acquisition costs	11	3,948	3,253
Total current assets		<u>47,347</u>	<u>35,025</u>
Non-current assets			
Deferred acquisition costs	11	2,979	2,298
Total non-current assets		<u>2,979</u>	<u>2,298</u>
Total assets		<u>50,326</u>	<u>37,323</u>
LIABILITIES			
Current liabilities			
Trade and other payables	12	7,074	4,584
Current tax liabilities		758	243
Outstanding claims liability	13	2,205	2,380
Unearned premium liability	14	17,718	16,264
Total current liabilities		<u>27,755</u>	<u>23,471</u>
Non-current liabilities			
Outstanding claims liability	13	779	816
Unearned premium liability	14	13,367	11,490
Total non-current liabilities		<u>14,146</u>	<u>12,306</u>
Total liabilities		<u>41,901</u>	<u>35,777</u>
Net assets		<u>8,425</u>	<u>1,546</u>
EQUITY			
Retained earnings		8,425	1,546
Total equity		<u>8,425</u>	<u>1,546</u>

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 2013

	Retained earnings \$'000	Total equity \$'000
Balance at 1 January 2012	-	-
Profit for the year	1,546	1,546
Other comprehensive income	-	-
Total comprehensive income for the year	<u>1,546</u>	<u>1,546</u>
 Balance at 31 December 2012	 <u>1,546</u>	 <u>1,546</u>
 Balance at 1 January 2013	 1,546	 1,546
Profit for the year	6,879	6,879
Other comprehensive income	-	-
Total comprehensive income for the year	<u>6,879</u>	<u>6,879</u>
 Balance at 31 December 2013	 <u>8,425</u>	 <u>8,425</u>

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

Hallmark General Insurance Company Ltd New Zealand Branch
Statement of Cash Flows
For the year ended 31 December 2013

	Notes	2013 \$'000	2012 \$'000
Cash flows from operating activities			
Net premium received		24,442	11,246
Interest received		848	453
Claims paid		(2,546)	(1,654)
Payments to suppliers and employees		(12,980)	(2,758)
Net cash inflow from operating activities	20	<u>9,764</u>	<u>7,287</u>
Cash flows from investing activities			
Advances from parent company		5,963	-
Acquisition of insurance operation net of cash acquired	19	<u>-</u>	<u>19,504</u>
Net cash inflow from investing activities		<u>5,963</u>	<u>19,504</u>
Net cash inflow from financing activities		<u>-</u>	<u>-</u>
Net increase in cash and cash equivalents		15,727	26,791
Cash and cash equivalents at the beginning of the financial year		26,398	-
Effects of exchange rate changes on cash and cash equivalents		-	(393)
Cash and cash equivalents at end of year	9	<u>42,125</u>	<u>26,398</u>

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

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

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1 Summary of significant accounting policies

General information

Hallmark 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 26 February 2014. The Directors have the power to amend and reissue the financial statements.

(a) Basis of preparation

Statement of compliance

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

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.

Changes in accounting policies and disclosures

(i) Presentation of transactions recognised in other comprehensive income

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

Basis of measurement

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

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

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Branch'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 disclosed in note 2.

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

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

The unearned portion of premium is recognised within 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 profit or loss 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 profit or loss. Claims expenses represent total claim payments made during the year adjusted for the movement in the outstanding claims liability.

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

(d) Expenses

Expenses are recognised in the profit or loss 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.

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

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.

1 Summary of significant accounting policies (continued)

(j) Reinsurance and other recoveries receivable

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

(k) Classification of insurance contracts

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

(l) Assets backing 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 profit or loss in the period in which they arise. Financial assets are subsequently measured at fair value at each reporting date with realised and unrealised gains and losses arising from changes in the fair value recognised in the profit or loss in the period in which they arise.

(i) Short term deposits

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

(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).

1 Summary of significant accounting policies (continued)

(n) Impairment of assets

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

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

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

(o) Trade and other payables

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

(p) 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% (2012: 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 profit or loss. 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 profit or loss. Refer to note 13(e).

1 Summary of significant accounting policies (continued)

(s) Foreign currency translation and functional currency

Functional and presentation currency

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

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

Transactions and balances

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

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

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

(t) Goods and services tax (GST)

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

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

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

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

(u) New accounting standards and interpretations

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

(v) Rounding of amounts

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

2 Accounting judgements and estimates

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

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

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
- Merchandise and Price Protection
- Stolen Card Cover

During 2007, the Company 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). As of 31 December 2013, no liability has been projected for "Old Products" with all policies expired. Since May 2011, the Company has offered several credit card balance protection products which provide 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 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 Credit Cards)

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 Credit Cards) (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, Material Damage, and Bankruptcy

No liability has been projected as at 31 December 2013.

Disability, Redundancy and Merchandise Protection, Price Protection and Stolen Cards (Credit Cards 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.

Actuarial assumptions

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

	2013	2013	2012	2012
	Disability (excl Credit Cards)	Redundancy (excl Credit Cards)	Disability (excl Credit Cards)	Redundancy (excl Credit Cards)
Termination rates	4.5-14.5%*	10.0-32.0%*	4.5-14.5%*	9.0-15.0%*
Average weighted term to settlement (months)	9.6	2.5-3.7 **	9.2-9.7	3.2-6.2 **
Number of IBNR claims accepted (total)	88	90	83	80
Average Claim Size for IBNR claims	\$4,900	\$1,250-\$1,850	\$4,750-\$5,100	\$2,000-\$3,100
Discount rate		3.20%pa		2.53%pa

* Assumption varies according to the future claim duration

** Varies depending on underwriting period.

	2013	2013	2013	2012	2012	2012
	Disability (Credit Cards)	Redundancy (Credit Cards)	Merchandise Protection, Price Protection and Stolen Cards (Credit Cards)	Disability (Credit Cards)	Redundancy (Credit Cards)	Merchandise Protection, Price Protection and Stolen Cards (Credit Cards)
Average settlement size	\$2,500-\$2,800	\$1,700-\$2,500	\$350	\$2,500	\$2,000-\$2,700	\$380
Number of future finalisations	45	82	57	25	24	75

3 Actuarial assumptions and methods (continued)

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:

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 (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 (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 (Credit Cards only)

For Credit Cards policies, the adopted average claim size was based on historic ratios of claim payments to numbers of claims finalised.

Number of future finalisations (Credit Cards only)

For Credit Cards 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% (2012: 17%) of the projected gross claim payments, was determined based on the results of an expense investigation carried out in 2012. An additional 1% (2012: 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%	+109	+4.6%
IBNR	Increase IBNR ACS by 10% / Increase number of IBNR claim by 10%	+107	+4.5%
Claims handling expense rate	Increase the claims handling expense rate from 17% to 21%	+50	+2.1%

Changes to key assumptions

There are no major changes during the year.

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

In addition to the Branch's target surplus policy, external 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 additional portfolio parameters. Management conducts a regular review of the investment holdings, compliance is monitored and exposures or breaches are reported to the Board. The mandate is reviewed regularly for pertinence and for changes in the risk environment.

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

(ii) Reinsurance assets

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

	Investment grade \$'000	Non- investment grade satisfactory \$'000	Non- investment grade unsatisfactory \$'000	Total neither past due nor impaired \$'000	Past due or impaired \$'000	Total \$'000
2013						
Financial assets						
Cash and cash equivalents	42,125	-	-	42,125	-	42,125
Trade and other receivables	-	1,274	-	1,274	-	1,274
Total credit risk exposure	42,125	1,274	-	43,399	-	43,399

	Investment grade \$'000	Non- investment grade satisfactory \$'000	Non- investment grade unsatisfactory \$'000	Total neither past due nor impaired \$'000	Past due or impaired \$'000	Total \$'000
2012						
Financial assets						
Cash and cash equivalents	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

* 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.

	AAA \$'000	AA \$'000	A \$'000	BBB \$'000	Not rated \$'000	Total \$'000
2013						
Financial Assets						
Cash	-	-	42,125	-	-	42,125
Trade and other receivables*	-	-	-	-	1,274	1,274
Total credit risk exposure	-	-	42,125	-	1,274	43,399

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	-	-	26,398	-	-	26,398
Trade and other receivables*	-	-	-	-	5,374	5,374
Total credit risk exposure	<u>-</u>	<u>-</u>	<u>26,398</u>	<u>-</u>	<u>5,374</u>	<u>31,772</u>

* No receivables are past due or impaired at balance date (2012: Nil).

(b) Liquidity risk

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

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

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

2013	Up to a year \$'000	1-2 years \$'000	2-5 years \$'000	Over 5 years \$'000	No term \$'000	Total \$'000
Trade and other payables	7,074	-	-	-	-	7,074
Outstanding claims liabilities	2,205	581	198	-	-	2,984
Net principal liabilities	<u>9,279</u>	<u>581</u>	<u>198</u>	<u>-</u>	<u>-</u>	<u>10,058</u>

2012

Trade and other payables	4,584	-	-	-	-	4,584
Outstanding claims liabilities	2,380	610	206	-	-	3,196
Net principal liabilities	<u>6,964</u>	<u>610</u>	<u>206</u>	<u>-</u>	<u>-</u>	<u>7,780</u>

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	Up to a year	Impact on Equity		Over 5 years	Total
	\$'000	%	\$'000	\$'000	1-2 years \$'000	2-5 years \$'000	\$'000	\$'000
Financial assets								
Short term deposits	35,082	(1)%	(351)	(246)	-	-	-	(246)
	<u>35,082</u>		<u>(351)</u>	<u>(246)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(246)</u>

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

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

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.

2013	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets designated at fair value through profit or loss	-	-	-	-
	-	-	-	-

2012	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

	2013 \$'000	2012 \$'000
Premium revenue		
Gross written premium	22,038	17,148
Movement in unearned premiums	(5,041)	(6,172)
Outwards reinsurance premium expense	(4)	(3)
Net premium revenue	16,993	10,973

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6 Net claims incurred

	2013			2012		
	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	3,481	(1,137)	2,344	3,395	(696)	2,699
Discount and discount movement - gross claims incurred	(45)	35	(10)	(37)	27	(10)
	<u>3,436</u>	<u>(1,102)</u>	<u>2,334</u>	<u>3,358</u>	<u>(669)</u>	<u>2,689</u>
Reinsurance and other recoveries expense/(revenue) - undiscounted	-	-	-	-	-	-
Net claims incurred	<u>3,436</u>	<u>(1,102)</u>	<u>2,334</u>	<u>3,358</u>	<u>(669)</u>	<u>2,689</u>

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.

Prior year release of \$1,102,000 was due to better than expected claims experience across both the loans and credit card products.

7 Investment income

	2013 \$'000	2012 \$'000
Interest income	<u>866</u>	<u>460</u>
Total investment income	<u>866</u>	<u>460</u>

8 Income tax expense

(a) Income tax expense

	2013 \$'000	2012 \$'000
Current tax expense	476	251
(Over)/under provided in prior years	<u>(2)</u>	<u>-</u>
	<u>474</u>	<u>251</u>

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

	2013 \$'000	2012 \$'000
Profit from continuing operations before income tax expense	<u>7,353</u>	<u>1,797</u>
Tax at the New Zealand tax rate of 28% (2012 - 28%)	<u>2,059</u>	<u>503</u>
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Tax effect of non-assessable income	<u>(1,583)</u>	<u>(252)</u>
	<u>476</u>	<u>251</u>
(Over)/under provision in prior years	<u>(2)</u>	<u>-</u>
Income tax expense	<u>474</u>	<u>251</u>

9 Current assets - Cash and cash equivalents

	2013 \$'000	2012 \$'000
Cash at bank	7,043	4,041
Short term deposits	<u>35,082</u>	<u>22,357</u>
	<u>42,125</u>	<u>26,398</u>

10 Current assets - Trade and other receivables

	2013 \$'000	2012 \$'000
Trade debtors	1,143	2,073
Other receivables	<u>131</u>	<u>3,301</u>
	<u>1,274</u>	<u>5,374</u>

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

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11 Deferred acquisition costs

	2013 \$'000	2012 \$'000
<i>Deferred acquisition costs:</i>		
Current	3,948	3,253
Non-current	<u>2,979</u>	<u>2,298</u>
	<u>6,927</u>	<u>5,551</u>

	2013 \$'000	2012 \$'000
Reconciliation of changes in deferred acquisition costs:		
Balance at 1 January	5,551	-
Acquisition of insurance operation (note 19)	-	4,345
Acquisition costs incurred during the year	5,273	3,403
Amortisation charged to income	<u>(3,897)</u>	<u>(2,197)</u>
Balance at 31 December	<u>6,927</u>	<u>5,551</u>

12 Current liabilities - Trade and other payables

	2013 \$'000	2012 \$'000
Other payables	<u>7,074</u>	<u>4,584</u>

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

	2013 \$'000	2012 \$'000
Central estimate	2,135	2,281
Risk margin	532	561
Claims handling expense	377	404
	<u>3,044</u>	<u>3,246</u>
Discount to present value	(60)	(50)
Gross outstanding claims liability	<u>2,984</u>	<u>3,196</u>
Current	2,205	2,380
Non-current	779	816
	<u>2,984</u>	<u>3,196</u>

(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 3.20% (2012: 2.53%).

The weighted average expected term to settlement of the outstanding claims from the end of the reporting period is estimated to be 0.63 years (2012: 0.61 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% (2012: 90%) probability of sufficiency.

The risk margins applied to the major segments of the portfolio for 90% (2012: 90%) level of adequacy are:

	2013 \$'000	2012 \$'000
Consumer credit insurance - disability	19.7%	19.7%
Consumer credit insurance - unemployment	45.9%	45.9%

13 Outstanding claims liability (continued)

(b) Risk margin (continued)

Process for determining risk margin (continued)

(c) Reconciliation of movement in discounted outstanding claims liability

	2013			2012		
	Gross \$'000	Reinsurance \$'000	Net \$'000	Gross \$'000	Reinsurance \$'000	Net \$'000
Balance at 1 January	3,196	-	3,196	-	-	-
Acquisition of insurance operation as at 5 March	-	-	-	2,268	-	2,268
Current year claims incurred	3,430	-	3,430	3,363	-	3,363
Change in previous years claims	(1,102)	-	(1,102)	(669)	-	(669)
Current year claims paid / reinsurance recovered	(1,107)	-	(1,107)	(873)	-	(873)
Previous year claims paid / reinsurance recovered	(1,433)	-	(1,433)	(893)	-	(893)
	<u>2,984</u>	<u>-</u>	<u>2,984</u>	<u>3,196</u>	<u>-</u>	<u>3,196</u>
Balance at 31 December	<u>2,984</u>	<u>-</u>	<u>2,984</u>	<u>3,196</u>	<u>-</u>	<u>3,196</u>

The Branch 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 estimate included in the financial statements into context, allowing comparison of those claim estimates with the 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 accident 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)

Accident Year Ending 31 December

	2009 and Prior \$'000	2,010 \$'000	2,011 \$'000	2012 \$'000	2013 \$'000	Total \$'000
Estimate of Gross Ultimate Claims Cost						
At end of accident year				3,050	3,184	
One year later			1,089	2,217	-	
Two years later		250	1130	-	-	
Three years later	88	215	-	-	-	
Four years later	188	-	-	-	-	
Current estimate of cumulative claims	188	215	1,130	2,217	3,184	6,934
Cumulative payments to date	(185)	(199)	(993)	(1,783)	(1,107)	(4,267)
Undiscounted claims handling expenses	-	2	20	64	291	377
Gross outstanding claims - undiscounted	3	18	157	498	2,368	3,044
Discount impact	-	-	(3)	(12)	(45)	(60)
Gross outstanding claims - discounted	3	18	154	486	2,323	2,984

	2009 and Prior \$'000	2,010 \$'000	2,011 \$'000	2012 \$'000	2013 \$'000	Total \$'000
Estimate of Net Ultimate Claims Cost						
At end of accident year				3,050	3,184	
One year later			1,089	2,217	-	
Two years later		250	1130	-	-	
Three years later	88	215	-	-	-	
Four years later	188	-	-	-	-	
Current estimate of cumulative claims	188	215	1,130	2,217	3,184	6,934
Cumulative payments to date	(185)	(199)	(993)	(1,783)	(1,107)	(4,267)
Undiscounted claims handling expenses	-	2	20	64	291	377
Net outstanding claims - undiscounted	3	18	157	498	2,368	3,044
Discount impact	-	-	(3)	(12)	(45)	(60)
Net outstanding claims - discounted	3	18	154	486	2,323	2,984

(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 2013 is \$22,143,942 (31 December 2012: \$21,894,376), therefore the liability adequacy test at reporting date resulted in a surplus for the company.

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14 Unearned premium liability

	2013 \$'000	2012 \$'000
Balance as at 1 January	27,754	-
Acquisition of Insurance operation (note 19)	-	21,582
Premiums written during the year	22,033	17,148
Premiums earned during the year	<u>(18,702)</u>	<u>(10,976)</u>
Balance as at 31 December	<u>31,085</u>	<u>27,754</u>
Current	17,718	16,264
Non-current	<u>13,367</u>	<u>11,490</u>
	<u>31,085</u>	<u>27,754</u>

15 Capital adequacy

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

The excess of the Company's capital base over the PCA as at 31 December 2013 was \$151.1 million.

The available assets have exceeded the prudential capital requirement at all times during the prior year.

Prior to 1 January 2013, General companies were required to hold prudential reserves above the minimum capital requirement. Capital disclosures prior to 1 January 2013 were based on the capital standards in place at the time and have not been restated to reflect the LAGIC requirements.

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

15 Capital adequacy (continued)

LAGIC Disclosure

	2013 \$'000
(a) Capital Base	190,646
(b) Prescribed capital amount	39,567
Capital in excess of prescribed capital amount = (a) - (b)	<u>151,079</u>
Capital adequacy multiple = (a)/(b)	<u>4.82</u>

Capital Base:

Net Assets	186,013
Regulatory adjustment applied in the calculation of Tier 1 capital	4,632
Common Equity Tier 1 Capital	<u>190,645</u>

Prescribed capital amount:

Insurance Risk Charge	13,589
Insurance Concentration Risk Charge	23,113
Asset Risk Charge	3,036
Asset Concentration Risk Charge	-
Operational Risk Charge	2,139
Aggregation benefit	<u>(2,310)</u>
Prescribed capital amount	<u>39,567</u>

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

	2012 \$'000
Tier 1 capital	
Paid up ordinary shares	2,498
Retained earnings brought forward	102,334
Current year earnings	18,609
General reserve (tax consolidation reserve)	62,758
Excess technical provisions (net of tax)	<u>4,940</u>
	191,139
Less: deductions	<u>(3,072)</u>
Net Tier 1 capital	188,067
Tier 2 capital	
Net Tier 2 capital	<u>-</u>
Total Capital Base	<u>188,067</u>
Capital Requirement	
Minimum capital requirement	<u>53,828</u>
Capital Adequacy Multiple	<u>3.49</u>

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 2013.

(a) Transactions with related parties

	2013 \$	2012 \$
<i>Commission paid to:</i>		
GE Finance and Insurance NZ	5,273,187	3,402,443
<i>Management fees paid to/(received from):</i>		
Hallmark General Insurance Company Ltd	4,348,419	4,560,842
<i>Host Insurance depreciation and administrative costs recharges</i>		
GE Finance and Insurance Pty Ltd	-	61,134
<i>Advances from parent company</i>		
Hallmark General Insurance Company Ltd	5,963,500	-

(b) Outstanding balances with related parties

	2013 \$	2012 \$
<i>Receivables/(payables)</i>		
Hallmark General Insurance Company Ltd	(7,018,115)	(4,495,340)
Hallmark Life Insurance NZ	-	10,208
GE Finance and Insurance NZ	1,143,858	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
Liabilities	
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

	2013 \$'000	2012 \$'000
Profit for the year	6,879	1,546
Adjustments		
Effect of foreign exchange on cash and cash equivalents	-	393
Change in operating assets and liabilities:		
Decrease/(increase) in trade debtors	930	(2,010)
Decrease/(increase) in other receivables	3,170	(1,592)
(Increase) in deferred acquisition costs	(1,376)	(1,206)
Increase in trade and other payables	2,490	3,056
(Decrease)/increase in outstanding claim liability	(212)	928
Increase in unearned premium liability	3,331	6,172
Increase in current tax liabilities	515	-
Advances from parent company	(5,963)	-
Net cash inflow from operating activities	9,764	7,287

21 Contingent assets and contingent liabilities

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

22 Matters subsequent to the end of the financial year

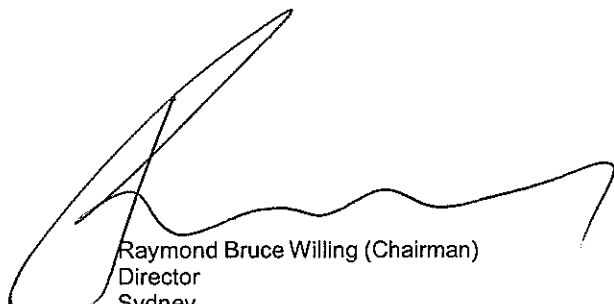
From the end of the financial year to the date of this report, there were no items, transactions or events of a material and unusual nature which, in the opinion of the Directors of the Branch, are likely to have significant effect on the Branch's operations, the results of those operations, or the state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

Directors' Declaration

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

- (a) the financial statements and notes set out on pages 2 to 35 are in accordance with the *Financial Reporting Act 1993*, including:
 - (i) giving a true and fair view of the Branch's financial position as at 31 December 2013 and of its performance for the financial year ended on that date; and
 - (ii) complying with generally accepted accounting practice in New Zealand;
- (b) the financial statements also comply with International Financial Reporting Standards as disclosed in note 1; and
- (c) there are reasonable grounds to believe that the Branch will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of Directors:



Raymond Bruce Willing (Chairman)
Director
Sydney
26 February 2014



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



Independent auditor's report

To the Shareholders of Hallmark 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 35. The financial statements comprise the statement of financial position as at 31 December 2013, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

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

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

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



Opinion

In our opinion the financial statements of Hallmark General Insurance Company Ltd New Zealand Branch on pages 2 to 35:

- comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of the financial position of the branch as at 31 December 2013 and of its financial performance and cash flows for the year then ended.

Report on other legal and regulatory requirements

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

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

KPMG

KPMG

Sydney

26 February 2014

Hallmark General Insurance Company Ltd

ABN 82 008 477 647

**Financial report
for the year ended 31 December 2013**

Hallmark General Insurance Company Ltd ABN 82 008 477 647
Financial report - 31 December 2013

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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 2013 and the auditor's report thereon.

Directors

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

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

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

Principal activities

The principal activity of the Company during the year was that of a general insurer, operating both in Australia and New Zealand. There has been no significant change in the nature of this activity during the year.

Dividends

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

Review of results and operations

The operating profit of the Company for the financial year after income tax was \$19,116,000 (2012: \$14,901,000).

The growth in premium revenue was in excess of \$8,026,000 versus 2012, this was experienced across all channels in Australia and New Zealand. Claims expenses have decreased by \$2,629,000 during 2013. This was driven primarily by a revision of prior year's claims experience.

As a result of the change in GE Corporate policy the business disposed of all equities in 2013. Investment income has been impacted by lower net gains and dividend income.

Significant changes in the state of affairs

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

Matters subsequent to the end of the financial year

From the end of the financial year to the date of this report, there were no items, transactions or events of a material and unusual nature which, in the opinion of the Directors of the Company, are likely to have 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.

Likely developments and expected results of operations

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

Indemnification and insurance of officers and auditors

Indemnification

Mandatory indemnification and legal costs

To the maximum extent permitted by law, the Company:

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

Permissive indemnification and legal costs

To the maximum extent permitted by law, the Company:

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

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

Insurance

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

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

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

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

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

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

Proceedings on behalf of the company

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

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

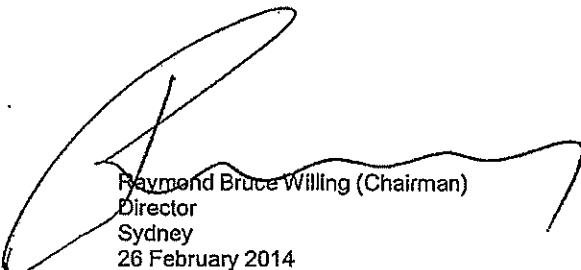
Lead Auditor's independence declaration

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


Rounding of amounts

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

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



Raymond Bruce Willing (Chairman)
Director
Sydney
26 February 2014



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



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

To: the directors of Hallmark 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 2013 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

A handwritten signature, appearing to be 'AR', written in black ink.

Andrew Reeves
Partner

Sydney

26 February 2014

Hallmark General Insurance Company Ltd ABN 82 008 477 647
Financial report - 31 December 2013

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

	Notes	2013 \$'000	2012 \$'000
Insurance premium revenue		59,380	51,347
Outwards reinsurance premium expense		(24)	(17)
Net insurance premium revenue	5	<u>59,356</u>	<u>51,330</u>
Claims expenses		10,854	12,342
Net claims incurred	6	<u>10,854</u>	<u>12,342</u>
Acquisition costs		11,284	10,328
Administration expenses		21,484	19,514
Underwriting expenses		<u>32,768</u>	<u>29,842</u>
Underwriting result		15,734	9,146
Investment income	7	9,504	11,986
Investment expenses		(400)	(345)
Other income/(expenses)		<u>94</u>	<u>(26)</u>
Profit before income tax	8	24,932	20,761
Income tax expense	9	5,816	5,860
Profit for the year		<u>19,116</u>	<u>14,901</u>
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		<u>583</u>	<u>20</u>
Total items that may be reclassified subsequently to profit or loss		<u>583</u>	<u>20</u>
Other comprehensive income for the year, net of tax		<u>583</u>	<u>20</u>
Total comprehensive income for the year		<u>19,699</u>	<u>14,921</u>
Profit is attributable to:			
Owners of Hallmark General Insurance Company Ltd		<u>19,116</u>	<u>14,901</u>
		<u>19,116</u>	<u>14,901</u>
Total comprehensive income for the year is attributable to:			
Owners of Hallmark General Insurance Company Ltd		<u>19,699</u>	<u>14,921</u>
		<u>19,699</u>	<u>14,921</u>

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

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

	Notes	2013 \$'000	2012 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	10	211,363	180,156
Trade and other receivables	11	7,707	17,546
Financial assets at fair value through profit or loss	12	23,346	17,512
Deferred acquisition costs	13	10,864	10,047
Total current assets		253,280	225,261
Non-current assets			
Financial assets at fair value through profit or loss	14	23,044	26,691
Deferred acquisition costs	13	9,635	8,220
Deferred tax assets	15	1,742	2,460
Total non-current assets		34,421	37,371
Total assets		287,701	262,632
LIABILITIES			
Current liabilities			
Trade and other payables	16	6,317	12,617
Current tax liabilities		698	334
Provisions	17	978	895
Unearned commission income	18	2	1
Outstanding claims liability	19	8,050	8,216
Unearned premium liability	20	50,699	47,722
Total current liabilities		66,744	69,785
Non-current liabilities			
Trade and other payables	21	146	-
Provisions	22	59	75
Outstanding claims liability	19	4,431	4,315
Unearned premium liability	20	44,959	39,360
Total non-current liabilities		49,595	43,750
Total liabilities		116,339	113,535
Net assets		171,362	149,097
EQUITY			
Issued capital	23	2,000	2,000
Reserves	24	53,402	50,253
Retained earnings		115,960	96,844
Total equity		171,362	149,097

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 2013

	Issued capital \$'000	Reserves \$'000	Retained earnings \$'000	Total equity \$'000
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
Balance at 1 January 2013	2,000	50,253	96,844	149,097
Profit for the year	-	-	19,116	19,116
Other comprehensive income	-	583	-	583
Total comprehensive income for the year	-	583	19,116	19,699
Transactions with owners in their capacity as owners:				
Current tax liability transferred to head entity	-	2,566	-	2,566
Balance at 31 December 2013	2,000	53,402	115,960	171,362

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 2013

	Notes	2013 \$'000	2012 \$'000
Cash flows from operating activities			
Net premium received		73,548	54,421
Outward reinsurance expense		(24)	(17)
Claims paid		(11,344)	(9,532)
Payments to suppliers and employees		(40,695)	(26,845)
Interest received		8,278	8,198
Dividends received		85	878
Income taxes allocated from tax consolidated group		(2,247)	(3,271)
Net cash inflow from operating activities	30	<u>27,601</u>	<u>23,832</u>
Cash flows from investing activities			
Payment for financial assets		(20,724)	(1,101)
Proceeds from sale of financial assets		19,831	2,018
Acquisition of New Zealand operation net of cash acquired	29	-	15,618
Net cash (outflow) inflow from investing activities		<u>(893)</u>	<u>16,535</u>
Cash flows from financing activities			
		-	-
Net cash inflow from financing activities		<u>-</u>	<u>-</u>
Net increase in cash and cash equivalents		26,708	40,367
Cash and cash equivalents at the beginning of the financial year		180,156	140,105
Effects of exchange rate changes on cash and cash equivalents		4,499	(316)
Cash and cash equivalents at end of year	10	<u>211,363</u>	<u>180,156</u>

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

Hallmark General Insurance Company Ltd
Notes to the financial statements
For the year ended 31 December 2013

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1 Summary of significant accounting policies

General information

Hallmark 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 26 February 2014. The directors have the power to amend and reissue the financial statements.

The Company is registered under the Insurance Act 1973.

(a) Basis of preparation

Statement of compliance

This general purpose financial statements covers the company and its New Zealand branch and has been prepared in accordance with Australian Accounting Standards (AASBs) and interpretations issued by the Australian Accounting Standards Board (AASB), and the *Corporations Act 2001*. The financial statements of the Company also comply with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

Changes in accounting policies and disclosures

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

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

(ii) *Change in definition of short-term and other long term employee benefits*

Short-term employee benefits under the superseded AASB 119 were benefits that are due to be settled within 12 months after the end of the period in which the employees render the related service. In contrast, under the revised AASB 119, only benefits that are expected to be settled wholly within 12 months after the end of the annual reporting period in which the employees render the related service are classified as short-term employee benefits. This will lead to a portion of the annual leave liabilities being recognised as other long term employee benefits, which will be required to be discounted.

1 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

Changes in accounting policies and disclosures (continued)

(iii) Adoption of new accounting policies

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

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

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

Basis of measurement

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

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

Critical accounting estimates

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

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

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

The unearned portion of premium is recognised within 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 profit or loss 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 profit or loss. Claims expenses represent total claim payments made during the year adjusted for the movement in the outstanding claims liability.

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

(d) Expenses

Expenses are recognised in the profit or loss 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.

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

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 2013 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.

1 Summary of significant accounting policies (continued)

(g) Income tax (continued)

Tax consolidation (continued)

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

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

New Zealand branch

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

Current income tax rate for NZ business is 28% (2012: 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.

1 Summary of significant accounting policies (continued)

(l) Assets backing general insurance liabilities

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

(m) Financial assets

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

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

Classification

(i) Short term deposits

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

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

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

(o) Trade and other payables

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

1 Summary of significant accounting policies (continued)

(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 IBNR's and the anticipated direct and indirect costs of settling these claims.

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% (2012: 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 profit or loss. 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 profit or loss. Refer to note 19(e).

(s) Employee benefits

(i) Wages and salaries, annual leave and sick leave

The provisions for employee entitlements to wages, salaries and annual leave expected to be settled wholly within 12 months of year end represents the amount which the Company has a present obligation to pay resulting from employees' services provided up to the balance date. The provisions have been calculated at undiscounted amounts based on wage and salary rates that the Company expects to pay including related on-costs.

(ii) Other long-term employee benefit obligations

The liability for employees entitled to long service leave represents the present value of the estimated future cash outflows to be made by the Company resulting from employees' services provided up to the balance date.

Liabilities for employee entitlements, which are not expected to be wholly settled within 12 months, are discounted using the rates attaching to Australian Commonwealth Government securities at balance date, which most closely match the terms of maturity of the related liabilities.

In determining the liability for employee entitlements, consideration has been given to future increases in wage and salary rates, and the Company's experience with staff tenure. Related on-costs have also been included in the liability.

1 Summary of significant accounting policies (continued)

(s) Employee benefits (continued)

(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.

(t) Foreign currency translation and functional currency

Functional and presentation currency

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

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

Transactions and balances

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

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

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

The results and financial position of 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.

1 Summary of significant accounting policies (continued)

(v) New accounting standards and interpretations

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

(w) Rounding of amounts

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

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 Company writes consumer credit insurances. These classes of business can be classified as follows:

Consumer Credit Insurance

The risks covered in this group include:

- Involuntary Unemployment
- Disability
- Gap
- 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 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.

3 Actuarial assumptions and methods (continued)

Process used to determine outstanding claims liabilities (actuarial methods) (continued)

Consumer Credit Insurance

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.

GAP, Stolen Card Cover, Merchandise and Price Protection

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.

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:

	2013 Unemployment*	2013 Disability*	2013 GAP/Price Protection	2012 Unemployment*	2012 Disability*	2012 GAP/Price Protection
Average weighted term to settlement*	2.2-3.5 months	6.9 months	4.5 months	2.1 months	6.6 months	4.9 months
Average monthly benefits/average claim size*	\$250-\$750 per month	\$250-\$750 per month	\$225	\$223-\$778 per month	\$223-\$785 per month	\$275
Expense rate	17%	17%	17%	17%	17%	17%
Discount rate	2.5%pa-5.6%pa	2.5%pa-5.6%pa	2.5%pa-5.6%pa	2.7% pa-4.6% pa	2.7% pa-4.6%pa	2.7%pa-4.6%pa

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

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:

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% (2012:17%) of the projected gross claim payments, was determined based on the results of an expense investigation carried out in 2013.

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 2013 as provided by the Australian Financial Review.

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.

3 Actuarial assumptions and methods (continued)

Sensitivity analysis (continued)

<i>Key actuarial assumptions</i>	<i>Changes</i>	<i>Impact on net outstanding claims liabilities (\$000's)</i>	<i>Impact on total outstanding claims liabilities (%)</i>
2013			
Claim Termination Rate*	Reduce the Branch Credit termination rates by 10%	623	9.3
Average Monthly	Increase the Branch Credit Insurances IBNR average monthly benefits by 10%	173	2.6
Number of IBNR Claims*	Increase the number of Branch Credit Insurances IBNR claims by 10%	173	2.6
Claims handling expense rate	Increase from 17% to 20%	201	3.0
2012			
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

* Branch credit insurance only

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). As of 31 December 2013, no liability has been projected for "Old Products" with all policies expired. 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.

Throughout the course of 2013, similar products were also offered on OneCard Visa NZ and GE Creditline NZ.

3 Actuarial assumptions and methods (continued)

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 IBNR'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 Credit Cards)

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

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, Material Damage and Bankruptcy (Old Products)

No liability has been projected as at 31 December 2013.

Disability, Redundancy and Merchandise Protection, Price Protection and Stolen Cards (Credit Cards 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.

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3 Actuarial assumptions and methods (continued)

Actuarial assumptions

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

	2013	2013	2012	2012
	Disability** (excl Credit Cards)	Redundancy** (excl Credit Cards)	Disability** (excl Credit Cards)	Redundancy** (excl Credit Cards)
Termination rates	4.5-14.5%*	10.0-32.0%*	4.5-14.5%*	9.0-15.0%*
Average weighted term to settlement	9.6 months	2.5-3.7 months**	9.2-9.7 months	3.2-6.2 months***
Number of IBNR claims accepted (total)	88	90	83	80
Average Claim Size for IBNR claims	\$4,900	\$1,250-\$1,850	\$3,804-\$4,084	\$1,601-\$2,482
Discount rate	3.20%	3.20%	2.53%pa	2.53%pa

* Assumption varies according to the future claim duration

** Varies depending on underwriting period

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

	2013	2013	2013	2012	2012	2012
	Disability (Credit Cards)	Redundancy (Credit Cards)	Merchandise Protection, Price Protection and Stolen Cards (Credit Cards)	Disability (Credit Cards)	Redundancy (Credit Cards)	Merchandise Protection, Price Protection and Stolen Cards (Credit Cards)
Average settlement size	\$2,500-\$2,800	\$1,700-\$2,500	\$350	\$2,002	\$1,601-\$2,162	\$304
Number of future finalisations	45	82	57	25	24	75

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 (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 (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 (Credit Cards only)

For Credit Cards policies, the adopted average claim size was based on historic ratios of claim payments to numbers of claims finalised.

Number of future finalisations (Credit Cards only)

For Credit Cards 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:

<i>Key actuarial assumptions</i>	<i>Changes</i>	<i>Impact on net outstanding claims liabilities (\$000's)</i>	<i>Impact on total outstanding claims liabilities (%)</i>
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%	98	3.6
Claims handling expense rate	Increase the claims handling expense rate from 17% to 21%	46	2.3

Changes to key assumptions

There are no major changes during the year.

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.

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 Insurance Concentration Risk Charge of \$21.29 million (NZ Branch \$6.68 million) at 31 December 2013 (2012: \$19.77 million, NZ Branch \$5.64 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.

4 Risk management (continued)

Insurance risk management (continued)

(iv) Concentration of insurance risk

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

Capital management

Capital consists of ordinary shares and retained earnings.

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

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

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

In addition to the Company's target surplus policy, external capital requirements are set and regulated by the Australian Prudential Regulation Authority (APRA). The Company calculates its capital position according to the relevant Prudential standards which ensures sufficient capital 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. Management conducts a regular review of the investment holdings, compliance is monitored and exposures or breaches are reported to the Board. The mandate is reviewed regularly for pertinence and for changes in the risk environment.

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

4 Risk management (continued)

(a) Credit risk (continued)

(ii) Reinsurance assets

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

(iii) Trade and other receivables

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

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

	Investment grade \$'000	Non- investment grade satisfactory * \$'000	Non- investment grade unsatisfactory \$'000	Total neither past due nor impaired \$'000	Past due or impaired \$'000	Total \$'000
2013						
Financial assets						
Cash and cash equivalents	211,363	-	-	211,363	-	211,363
Trade and other receivables	-	7,707	-	7,707	-	7,707
Financial assets at fair value through profit or loss						
Fixed interest securities	46,390	-	-	46,390	-	46,390
Total credit risk exposure	257,753	7,707	-	265,460	-	265,460

	Investment grade \$'000	Non- investment grade satisfactory * \$'000	Non- investment grade unsatisfactory \$'000	Total neither past due nor impaired \$'000	Past due or impaired \$'000	Total \$'000
2012						
Financial assets						
Cash and cash equivalents	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

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

4 Risk management (continued)

(a) Credit risk (continued)

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

2013	AAA \$'000	AA \$'000	A \$'000	BBB \$'000	Not rated \$'000	Total \$'000
Financial Assets						
Cash and cash equivalents	-	-	211,363	-	-	211,363
Trade and other receivables*	-	-	-	-	7,707	7,707
Financial assets at fair value through profit or loss						
Fixed interest securities	8,845	37,545	-	-	-	46,390
Total credit risk exposure	8,845	37,545	211,363	-	7,707	265,460
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	17,511
Fixed interest securities	-	26,691	-	-	-	26,691
Total credit risk exposure	-	32,129	187,753	3,564	18,458	241,904

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

No receivables are past due or impaired at balance date (2012: Nil).

(b) Liquidity risk

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

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

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

2013	Up to a year \$'000	1-2 years \$'000	2-5 years \$'000	Over 5 years \$'000	No term \$'000	Total \$'000
Trade and other payables	6,317	146	-	-	-	6,463
Outstanding claims liabilities	8,050	2,858	1,536	37	-	12,481
Net principal liabilities	14,367	3,004	1,536	37	-	18,944

4 Risk management (continued)

(b) Liquidity risk (continued)

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	12,617	-	-	-	-	12,617
Outstanding claims liabilities	8,216	2,721	1,562	32	-	12,531
Net principal liabilities	20,833	2,721	1,562	32	-	25,148

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	Up to a year \$'000	Impact on Equity		Over 5 years \$'000	Total
2013	\$'000	%	\$'000	\$'000	1-2 years \$'000	2-5 years \$'000	\$'000	\$'000
Financial assets								
Short term deposits	198,541	-1	(1,985)	(1,390)	-	-	-	(1,390)
Fixed interest securities	46,390	-1	(464)	(163)	(12)	(150)	-	(325)
	<u>244,931</u>		<u>(2,449)</u>	<u>(1,553)</u>	<u>(12)</u>	<u>(150)</u>	<u>-</u>	<u>(1,715)</u>

4 Risk management (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

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

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

(d) Fair value measurements

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

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

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
2013				
Financial assets designated at fair value through profit or loss	46,390	-	-	46,390
	<u>46,390</u>	<u>-</u>	<u>-</u>	<u>46,390</u>
2012				
Financial assets designated at fair value through profit or loss	44,203	-	-	44,203
	<u>44,203</u>	<u>-</u>	<u>-</u>	<u>44,203</u>

Hallmark General Insurance Company Ltd
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For the year ended 31 December 2013
(continued)

5 Net insurance premium revenue

	2013 \$'000	2012 \$'000
Premium revenue		
Gross written premium	65,698	61,576
Movement in unearned premiums	(6,318)	(10,229)
Outwards reinsurance premium expense	(24)	(17)
Net premium revenue	59,356	51,330

6 Net claims incurred

	2013			2012		
	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	12,444	(1,570)	10,874	12,682	(300)	12,382
Discount and discount movement - gross claims incurred	(207)	187	(20)	(215)	175	(40)
	<u>12,237</u>	<u>(1,383)</u>	<u>10,854</u>	<u>12,467</u>	<u>(125)</u>	<u>12,342</u>
Net claims incurred	12,237	(1,383)	10,854	12,467	(125)	12,342

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.

Prior year release of \$1,383,000 was due to better than expected claims experience across both the loans and credit card products (New Zealand branch) and better than expected payments experience for Loans disability and higher than expected claim terminations for Loan unemployment (Australia).

7 Investment income

	2013 \$'000	2012 \$'000
Interest income	8,021	8,196
Realised net gains/(losses)	979	(2,316)
Unrealised net gains	315	5,228
Dividend income	189	878
Total investment income	9,504	11,986

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

8 Profit before income tax

	2013 \$'000	2012 \$'000
Profit before income tax includes the following specific expenses:		
<i>Amortisation</i>		
Software development costs	-	131
<i>Employee costs</i>		
Personnel cost	8,810	9,499
Contribution to superannuation fund	784	710
Change in annual and long service leave provision	78	4
<i>Other administrative expenses</i>		
Marketing	548	138
Management fee	9,956	5,577

9 Income tax expense

(a) Income tax expense

	2013 \$'000	2012 \$'000
Current tax expense	5,957	5,116
Deferred tax expense (note 15)	(61)	699
(Over)/under provided in prior years	(80)	45
	<u>5,816</u>	<u>5,860</u>

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

9 Income tax expense (continued)

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

	2013 \$'000	2012 \$'000
Profit from continuing operations before income tax expense	<u>24,932</u>	<u>20,761</u>
Tax at the Australian tax rate of 30% (2012 - 30%) and tax at the New Zealand tax rate of 28% (2012 - 28%)	7,355	6,208
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Entertainment	10	31
Imputation credits	18	98
Non taxable income	(1,425)	(197)
Tax offset for franked dividends	<u>(62)</u>	<u>(325)</u>
	5,896	5,815
(Over)/under provision in prior years	<u>(80)</u>	<u>45</u>
Income tax expense	<u>5,816</u>	<u>5,860</u>

10 Current assets - Cash and cash equivalents

	2013 \$'000	2012 \$'000
Cash at bank	12,822	9,368
Short term deposits	<u>198,541</u>	<u>170,788</u>
	<u>211,363</u>	<u>180,156</u>

11 Current assets - Trade and other receivables

	2013 \$'000	2012 \$'000
Trade debtors	1,443	4,099
Other receivables	<u>6,264</u>	<u>13,447</u>
	<u>7,707</u>	<u>17,546</u>

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

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

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

	2013 \$'000	2012 \$'000
Equity securities-listed	-	17,512
Fixed interest securities	23,346	-
	<u>23,346</u>	<u>17,512</u>

During the year, the Company disposed of all its equity investments.

13 Deferred acquisition costs

	2013 \$'000	2012 \$'000
<i>Deferred acquisition costs:</i>		
Current	10,864	10,047
Non-current	9,635	8,220
	<u>20,499</u>	<u>18,267</u>

	2013 \$'000	2012 \$'000
Reconciliation of changes in deferred acquisition costs:		
Balance at 1 January	18,267	12,925
Acquisition of New Zealand operation (note 29)	-	3,479
Acquisition costs incurred during the year	13,516	12,191
Amortisation charged to income	(11,284)	(10,328)
Balance at 31 December	<u>20,499</u>	<u>18,267</u>

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

	2013 \$'000	2012 \$'000
Fixed interest securities	<u>23,044</u>	<u>26,691</u>

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

15 Non-current assets - Deferred tax assets

	2013 \$'000	2012 \$'000
The balance comprises temporary differences attributable to:		
Employee entitlements	495	291
Operating accruals	707	1,492
Indirect claims handling expense	407	495
Financial assets at fair value through profit or loss	-	177
Other	133	5
	<u>1,742</u>	<u>2,460</u>
Movements		Total \$'000
Balance 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		<u>2,460</u>
At 1 January 2013		2,460
Charged to profit or loss (note 9)		61
Under/(over) provision in prior years		(779)
Closing balance at 31 December 2013		<u>1,742</u>

16 Current liabilities - Trade and other payables

	2013 \$'000	2012 \$'000
Trade payables	-	58
Other payables	6,317	12,559
	<u>6,317</u>	<u>12,617</u>

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

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

17 Current liabilities - Provisions

	2013 \$'000	2012 \$'000
Employee entitlements		
Annual leave	425	461
Long service leave	553	434
Total employee entitlements	<u>978</u>	<u>895</u>

18 Unearned commission income

	2013 \$'000	2012 \$'000
Balance at 1 January	1	1
Commission income on premium earned during the year	1	-
Balance at 31 December	<u>2</u>	<u>1</u>

19 Outstanding claims liability

	2013 \$'000	2012 \$'000
Central estimate	9,540	9,582
Risk margin	1,533	1,499
Claims handling expense	1,761	1,769
	<u>12,834</u>	<u>12,850</u>
Discount to present value	(353)	(319)
Gross outstanding claims liability	<u>12,481</u>	<u>12,531</u>
Current	8,050	8,216
Non-current	4,431	4,315
	<u>12,481</u>	<u>12,531</u>

(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 2.5 % (2012: 2.6%).

The subsequent years discount rate is 2.5 % - 5.6 % (2012: 2.7% - 4.6%).

The weighted average expected term to settlement of the outstanding claims from the end of the reporting period is estimated to be 1.22 years (2012: 1.08 years).

New Zealand Branch

The current year discount rate is 3.20 % (2012: 2.53%)

The subsequent years discount rate is 3.20 % (2012: 2.53%)

The weighted average expected term to settlement of the outstanding claims from the end of the reporting period is estimated to be 0.63 years (2012: 0.61 years)

19 Outstanding claims liability (continued)

(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.

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% (2012: 90%) probability of sufficiency.

The risk margins applied to the major segments of the portfolio for 90% (2012: 90%) level of adequacy are:

	2013 %	2012 %
Australia		
Consumer credit insurance - disability	12.2	11.4
Consumer credit insurance - unemployment	30.6	30.4
	2013 %	2012 %
New Zealand Branch		
Consumer credit insurance - disability	19.7	19.7
Consumer credit insurance - unemployment	45.9	45.9

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Notes to the financial statements
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(continued)

19 Outstanding claims liability (continued)

(c) Reconciliation of movement in discounted outstanding claims liability

	2013			2012		
	Gross \$'000	Reinsurance \$'000	Net \$'000	Gross \$'000	Reinsurance \$'000	Net \$'000
Balance at 1 January	12,531	-	12,531	7,920	-	7,920
Acquisition Transfer as at 5th March	-	-	-	1,816	-	1,816
Current year claims incurred	12,237	-	12,237	12,467	-	12,467
Change in previous years claims	(1,505)	-	(1,505)	(162)	-	(162)
Current year claims paid / reinsurance recovered	(4,592)	-	(4,592)	(3,857)	-	(3,857)
Previous year claims paid / reinsurance recovered	(6,945)	-	(6,945)	(5,675)	-	(5,675)
	<u>11,726</u>	<u>-</u>	<u>11,726</u>	<u>12,509</u>	<u>-</u>	<u>12,509</u>
Effect of change in discount rate	755	-	755	22	-	22
Balance at 31 December	<u>12,481</u>	<u>-</u>	<u>12,481</u>	<u>12,531</u>	<u>-</u>	<u>12,531</u>

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.

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

19 Outstanding claims liability (continued)

(d) Claims development tables (continued)

(i) Gross

Reporting Year	2009 and prior* \$'000	2010* \$'000	2011* \$'000	2012 \$'000	2013 \$'000	Total \$'000
Estimate of gross ultimate claims cost						
At end of reporting year	42,309	7,655	7,564	11,517	11,531	
One year later	38,236	6,831	8,483	10,093	-	
Two years later	36,960	7,386	8,778	-	-	
Three years later	37,298	7,565	-	-	-	
Four years later	37,671	-	-	-	-	
Current estimate of cumulative claims	37,671	7,565	8,778	10,093	11,531	75,638
Cumulative payments to date	(37,561)	(7,159)	(7,798)	(7,635)	(4,412)	(64,565)
Undiscounted claims handling expenses	16	68	162	401	1,114	1,761
Gross outstanding claims - undiscounted	126	474	1,142	2,859	8,233	12,834
Discount impact	(2)	(12)	(32)	(89)	(218)	(353)
Gross outstanding claims - discounted	124	462	1,110	2,770	8,015	12,481

(ii) Net

Reporting Year	2009 and prior* \$'000	2010* \$'000	2011* \$'000	2012 \$'000	2013 \$'000	Total \$'000
Estimate of net ultimate claims cost						
At end of reporting year	42,309	7,655	7,564	11,517	11,531	
One year later	38,236	6,831	8,483	10,093	-	
Two years later	36,960	7,386	8,778	-	-	
Three years later	37,298	7,565	-	-	-	
Four years later	37,671	-	-	-	-	
Current estimate of cumulative claims	37,671	7,565	8,778	10,093	11,531	75,638
Cumulative payments to date	(37,561)	(7,159)	(7,798)	(7,635)	(4,412)	(64,565)
Undiscounted claims handling expenses	16	68	162	401	1,114	1,761
Net outstanding claims - undiscounted	126	474	1,142	2,859	8,233	12,834
Discount impact	(2)	(12)	(32)	(89)	(218)	(353)
Net outstanding claims - discounted	124	462	1,110	2,770	8,015	12,481

* 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 2013 is \$68,080,250 (2012: \$63,836,191), therefore the liability adequacy test at reporting date resulted in a surplus for the company.

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(continued)

20 Unearned premium liability

	2013 \$'000	2012 \$'000
Balance as at 1 January	87,082	59,480
Acquisition of New Zealand operation (note 29)	-	17,373
Premiums written during the year	65,675	61,576
Premiums earned during the year	(57,099)	(51,347)
Balance as at 31 December	<u>95,658</u>	<u>87,082</u>
Current	50,699	47,722
Non-current	<u>44,959</u>	<u>39,360</u>
	<u>95,658</u>	<u>87,082</u>

21 Non-current liabilities - Trade and other payables

	2013 \$'000	2012 \$'000
Other payables	<u>146</u>	-
	<u>146</u>	-

22 Non-current liabilities - Provisions

	2013 \$'000	2012 \$'000
Employee entitlements:		
Long service leave	<u>59</u>	<u>75</u>
	<u>59</u>	<u>75</u>

Total Number of Employees 2013: 68 (2012: 73)

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

23 Issued capital

(a) Share capital

	2013 No. of Shares	2012 No. of Shares	2013 \$'000	2012 \$'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.

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

	2013 \$'000	2012 \$'000
Foreign currency translation reserve	603	20
Tax consolidation reserve	52,799	50,233
	<u>53,402</u>	<u>50,253</u>

	2013 \$'000	2012 \$'000
--	----------------	----------------

Movements:

Foreign currency translation reserve

Balance at 1 January	20	-
Exchange differences on translation of foreign operations	583	20
Balance 31 December	<u>603</u>	<u>20</u>

Tax consolidation reserve

Balance at 1 January	50,233	44,009
Current tax liability transferred to Head Entity	2,566	6,224
Balance 31 December	<u>52,799</u>	<u>50,233</u>

25 Capital adequacy

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

The excess of the Company's capital base over the PCA as at 31 December 2013 was \$139.2 million.

The available assets of each statutory fund have also exceeded the prudential requirements at all time during the prior year.

Prior to 1 January 2013, General insurance companies were required to hold prudential reserves above the minimum capital requirement. Capital disclosures prior to 1 January 2013 were based on the capital standards in place at the time and have not been restated to reflect the LAGIC requirements.

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

LAGIC Disclosure

	2013 \$'000
(a) Capital Base	175,630
(b) Prescribed capital amount	36,451
Capital in excess of prescribed capital amount = (a) - (b)	<u>139,179</u>
Capital adequacy multiple = (a)/(b)	<u>4.82</u>
Capital Base:	
Net Assets	171,362
Regulatory adjustment applied in the calculation of Tier 1 capital	4,268
Common Equity Tier 1 Capital	<u>175,630</u>
Prescribed capital amount:	
Insurance Risk Charge	12,519
Insurance Concentration Risk Charge	21,292
Asset Risk Charge	2,797
Asset Concentration Risk Charge	-
Operational Risk Charge	1,971
Aggregation benefit	<u>(2,128)</u>
Prescribed capital amount	<u>36,451</u>

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

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

25 Capital adequacy (continued)

	2012 \$'000
Tier 1 capital	
Paid up ordinary shares	2,000
Retained earnings brought forward	81,943
Current year earnings	14,901
General reserve (tax consolidation reserve)	50,253
Excess technical provisions (net of tax)	3,956
	<u>153,053</u>
Less: deductions	<u>(2,460)</u>
Net Tier 1 capital	<u>150,593</u>
Tier 2 capital	
Net Tier 2 capital	<u>-</u>
Total Capital Base	<u>150,593</u>
Capital Requirement	
Minimum capital requirement	<u>43,102</u>
Capital Adequacy Multiple	<u>3.49</u>

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 Brian McCann
Scott Kingsley Miller

(ii) Other Executives

Colleen Chapman
Rosalyn Patrice Exley
Helen Mediat
Julie Anne Winkler
Kevin Peter Smith
Emma Robinson
Gordon Halnan
Julie Taylor
Tien Tifa

(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.

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

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

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

27 Remuneration of auditors

(a) Audit services

	2013 \$	2012 \$
<i>KPMG</i>		
Audit and review of financial statements	<u>110,010</u>	<u>106,810</u>
	<u>110,010</u>	<u>106,810</u>

(b) Non-audit services

	2013 \$	2012 \$
<i>KPMG</i>		
APRA Return	34,982	29,650
AFSL Audit	6,030	5,850
Actuarial External Peer Review	<u>44,920</u>	<u>40,700</u>
	<u>85,932</u>	<u>76,200</u>
 Total remuneration for audit and other assurance services	 <u>195,942</u>	 <u>183,010</u>

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

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.

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

28 Related party transactions (continued)

(b) Transactions with related parties

The following transactions occurred with related parties:

	2013 \$	2012 \$
<i>Management fees paid to/(received from):</i>		
GE Personal Finance Pty Ltd	777,764	802,957
Hallmark Life Insurance Company Ltd	(2,834,970)	(3,002,688)
Simply Insurance New Zealand Ltd	-	(642,953)
GE Capital Finance Australasia Pty Ltd	10,701,114	8,419,601
<i>Gross charges paid to:</i>		
GE Personal Finance Pty Ltd	35,417	216,221
GE Capital Finance Australasia Pty Ltd	6,469,309	6,933,817
<i>Transactional sales costs paid to:</i>		
GE Capital Finance Australasia Pty Ltd	2,296,176	3,250,481
<i>Commission paid to:</i>		
Avco Access Pty Ltd	389	947
GE Personal Finance Pty Ltd	5,108,736	4,397,655
GE Capital Finance Australia	3,201,737	2,711,836
GE Finance and Insurance Pty Ltd (NZ)	4,243,948	2,666,941
<i>Host insurance depreciation charge:</i>		
GE Finance and Insurance Pty Ltd (NZ)	-	47,840
<i>Royalty paid:</i>		
GE Capital Registry, Inc.	308,348	254,586

(c) Outstanding balances with related parties

	2013 \$	2012 \$
<i>Receivables/(payables)</i>		
Avco Access Pty Ltd	415	723
GE Capital Finance Australasia Pty Ltd	171,501	(1,349,195)
GE Personal Finance Pty Ltd	2,001,896	2,008,844
Hallmark Life Insurance Company Ltd	1,670,897	5,249,562
GE Capital Finance Australia	1,493,534	1,691,548
GE Finance and Insurance Pty Ltd (NZ)	1,053,762	2,073,266
GE Capital Holdings Partnership	(997,480)	(899,754)

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

At 31 December 2013, there are no amounts outstanding owed by Hallmark 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 2013 or prior years.

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

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	<u>20,516</u>
Liabilities	
Trade and other payables	1,327
Outstanding claims liability	1,816
Unearned premium liability	17,373
Total Liabilities	<u>20,516</u>
Net Assets	<u>-</u>
Equity	
Issued capital	-
Retained earnings	-
Total Equity	<u>-</u>

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

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

	2013 \$'000	2012 \$'000
Profit for the year	19,116	14,901
Adjustments		
Realised (gains)/losses on sale of financial assets	(979)	2,316
Unrealised (gains) in value of financial assets	(315)	(5,228)
Effect of foreign exchange on cash and cash equivalents	(4,499)	(315)
Change in operating assets and liabilities:		
Decrease/(increase) in trade debtors	9,702	(1,030)
(Decrease) in trade and other payables	(6,154)	(1,199)
Decrease/(increase) in other receivables	137	(3,667)
(Increase) in deferred acquisition costs	(2,231)	(1,863)
Increase in employees entitlements	67	23
(Decrease)/increase in outstanding claim liability	(50)	2,795
Increase in unearned premium liability	8,576	10,229
Increase/(decrease) in tax consolidation reserve	2,557	6,224
Increase in foreign currency translation reserve	592	20
Decrease in net deferred tax assets	718	626
Increase in current tax liability	364	-
Net cash inflow from operating activities	<u>27,601</u>	<u>23,832</u>

31 Contingent assets and contingent liabilities

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

32 Matters subsequent to the end of the financial year

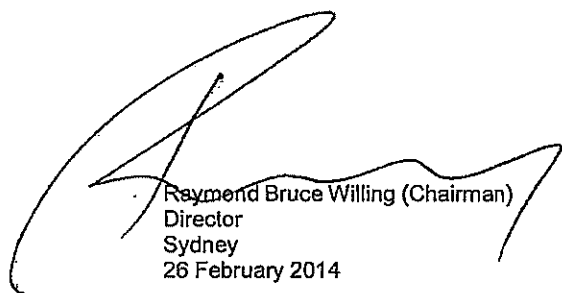
From the end of the financial year to the date of this report, there were no items, transactions or events of a material and unusual nature which, in the opinion of the Directors of the Company, are likely to have significant effect on the Company's operations, the results of those operations, or the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

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 51 are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Company's financial position as at 31 December 2013 and of its performance for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*;
- (b) the financial statements also comply with International Financial Reporting Standards as disclosed in note 1; and
- (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of Directors:



Raymond Bruce Willing (Chairman)
Director
Sydney
26 February 2014



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



Independent auditor's report to the members of Hallmark 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 2013, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, notes 1 to 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.



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 2013 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1.

KPMG

KPMG

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Andrew Reeves
Partner

Sydney

26 February 2014

13 June 2014

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 2013 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 2013 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 GPS320 Actuarial and Related Matters.

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 2013. 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, 14 and 15 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 financial statements dated 25 February 2014, the actuarial information provided has been appropriately included in the preparation and completion of HGIC's 31 December 2013 year end financial statements.

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

Financial Condition Report

The appointed actuary must prepare a Financial Condition Report which must:

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

The appointed actuary in the financial condition report must comment on:

- a. The solvency position of the insurer if a catastrophe or extreme event, such as outlined in the Catastrophe Risk Capital Charge section of the 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 2013 with a Capital Adequacy Multiple of 4.82. 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,

A handwritten signature in black ink, appearing to read 'Gard', is written in a cursive style.

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