Ansvar Insurance Annual Financial Report 2009

ansvar
insurance

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Directors' report

The directors of Ansvar Insurance Limited submit herewith the annual financial report for the financial year ended 31 December 2009. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

The names and particulars of the directors of the company during or since the end of the financial year are:

Mr Murray Baird
B.Arts, LLB
Chairman

Murray Baird was appointed to the Board in 2002 and became the Chairman in January 2006. Murray has been senior partner and chairman of Moores Legal, Melbourne, Australia since 1985. His professional practice includes advising in corporations law and governance. He is a member of the Australian Institute of Company Directors, has been a director of a number of non listed public companies, is a regular writer, speaker and consultant on Corporate Governance issues for the Not for Profit sector.

Mr Bruce Harris
CA, CPA, ACIS
Director

Bruce was appointed to the Board in 2005. Bruce is a former insurance executive director with experience in financial management, strategy, governance, compliance and risk management and has been a director of a number of non listed public companies. He is also the Executive Officer of Ridley Melbourne Mission & Ministry College and involved at board level in the not for profit sector.

Mr David Harrison
FNZIM
Director

David has been a Board Member since 2001. David joined the New Zealand Board of Ansvar Insurance in 1997, becoming Chairman in 2000. David has extensive experience in insurance. He is the former Chairman and Chief Executive of Marsh Ltd in New Zealand and the Pacific Islands and a member of the international team of Managing Directors, is Chairman of Aviation Co-operating Underwriters Pacific Ltd and has extensive interest at board level in the Charitable and Not for Profit sectors.

Dr Bronwyn Hughes
B.Arts, Dip Ed, Dip Mgt, D.B.A.
Director

Bronwyn became a Director in 2006. She has worked in both secular and Christian media for over 20 years including a producer for ABC Radio National, a presenter with FM103.2 and as Director of the Anglican Radio Unit. Bronwyn has also worked as the Communications Director with NCLS Research and as National Director for Mission Research and Development with the Bible Society. Currently she is employed as Leadership Research Fellow with Macquarie University Graduate School of Management, is the outgoing Chairman of the Willow Creek Association Australia and is the former Deputy Chair, Board of Management, Radio FM103.2.

Mr John Peberdy
ANZIIF (Snr Assoc) CIP
Director

John has been a Board member since 1997. John is the CEO of Ansvar Insurance Ltd in Australia and New Zealand. He commenced with the company in Adelaide in 1973 and has held various senior management roles in Ansvar Insurance since 1986. He was appointed CEO in May 1999. John is a Senior Associate of the Australia and New Zealand Institute of Insurance and Finance. He is a director of Global Interaction Australia and the Insurance Council of Australia.

Mr George Prescott
B.Arts, FCA
Director

George resigned from the Board in April 2009. George works for Ecclesiastical Group plc, originally appointed as Executive Director in 1995 and then in 2005 was appointed the Deputy Group Chief Executive. He has worked in the group for over 20 years and is primarily responsible for the Group's investment and accounting activities.

Mr William Graham Shearn
B.Arts, FCII
Director

Graham Shearn was a director on the Board from 2006 through to his retirement from the Board in February 2010. He has been closely involved with Ansvar Insurance since its acquisition by Ecclesiastical in 1998. Graham has worked in the insurance industry throughout his professional career and is a Chartered Insurer and Fellow of the Chartered Insurance Institute.

Mr Jeffrey Thomas
B.Ec, M.B.A.,FCA.
Director

Jeffrey has been a Board Member since 2004. He has been the Chairman of Jeffrey Thomas & Partners, Chartered Accountants, since 1981. His professional time is principally related to providing strategic and organisational advice to a wide range of businesses. He has held board positions previously with a diverse range of businesses and organisations, including an insurance broker.

Mr Michael Tripp
B.Sc., ARCS, FIA
Director
Group Chief Executive

Michael has been on the Board since 2007. He is the Group Chief Executive, Ecclesiastical Group plc based at the Head Office in Gloucester, UK. Prior to commencing with Ecclesiastical, Michael was a partner with the global professional services practice, Ernst & Young and Watson Wyatt. A qualified actuary, he has more than 30 years experience in the insurance industry. He is also a director of The Baptist Insurance Company plc.

Mr Steve Wood
BSc (Hons) in Mathematics, FCII, Chartered Insurer
Director

Steve joined the Board in October 2009. He is Managing Director for UK and Ireland at the Ecclesiastical Insurance Group, where he has been an executive director since January 2005. Steve is an executive director responsible for corporate social responsibility at Ecclesiastical and is also heavily involved with Business in the Community. He has 28 years in general insurance, financial services and healthcare markets.

The 10 above named directors held office during and since the end of the financial year unless otherwise stated.

Principal activities

The Group's principal activities in the course of the financial year consisted of insurance underwriting and investment.

There have been no significant changes in the activities of the consolidated entity during the year ended 31 December 2009.

Review of operations

The past year was one of considerable contrast. The insurance result was placed under pressure by our largest event loss, the Victorian Black Saturday Bushfires. Yet we also took significant steps toward the achievement of our vision through the commitment and dedication of a wonderful team of people.

The final financial result is impressive when the difficulties of the year are taken into account. After tax profit of $8.5m was down just $0.2m on the 2008 result. The unwinding of the 2008 unrealised capital gain on the bond portfolio prevented the improvement in underwriting performance from being fully reflected in the result.

Gross Written Premium increased from $142m to $160m in a market still exhibiting softness even though results have deteriorated in recent years. The loyalty of our customer base was a key ingredient in this increase.

It is always pleasing to report we have continued to fulfil our goal to assist with the development of youth in both Australia and New Zealand through the provision of Community Education program grants. We wish to thank the ultimate owner of the Ecclesiastical Group, All Churches Trust Ltd (UK) for again assisting with a generous gift to a New Zealand program.

Australia

The Australian story for 2009 is one of two halves. During the first half of the year, the claims cost from the Victorian Black Saturday Bushfires dominated the figures. However, more profitable results emerged from July onwards and we were finally able to report an after tax profit of $7.8m. This is only marginally less than the previous year's result of $8.4m.

Gross written premium increased to $141m from $125m. This rate of growth is well above the industry average.

The bushfires contributed $25.8m of the gross claims cost for the year of $96m.

Ansvar Insurance also fulfilled its obligations under the Community Education Program policy by providing 68 grants totalling $1,033,000.

New Zealand

We also experienced a year in two contrasting halves in 2009. However, the results were reversed. The first half of the year produced a superb result for us. In the second half there were four significant fires as a result of arson.

Despite the deterioration in the second half of the year, we were still able to deliver an after tax profit of NZ$840,000 which is a significant improvement on 2008 when the profit was NZ$357,000.

Gross Written Premium has increased by 19% in 2009 to NZ$23.8m. We are implementing our growth strategy very effectively and winning support from customers in the core segments and their distribution partners.

The arson attacks have been to properties owned by our faith and education customers. Recent discussions with the Insurance Council indicate arson was on the increase in 2009 across the community. This will place further pressure on rates moving forward.

Directors' report (continued)

The impact of impending regulation has also placed an increased burden on the Board. The addition of new directors over recent years has brought to Ansvar Insurance the skills needed to move us into this new environment. We have welcomed Brent Pattison to the Board in 2009. John Elliott has been appointed chairman of the Audit Committee at this important time of change in the New Zealand regulatory environment.

Summary

The past year has presented many challenges which have been converted into opportunities by our very capable teams. The financial trends are generally positive and the 2010 Business Plan is designed to ensure we are focussed on the issues that are important.

Changes in state of affairs

During the financial year there was no significant change in the state of affairs of the consolidated entity other than that referred to in the financial statements or notes thereto.

Subsequent Events

There has not been any matter or circumstance, other than that referred to in the financial statements or notes thereto, that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

Future Developments

Disclosure of information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the consolidated entity. Accordingly, this information has not been disclosed in this report.

Dividends

In respect of the financial year ended 31 December 2009, the directors have recommended the payment of a dividend of $3.355 million to the parent entity (2008: $3.123 million).

Directors' meetings

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member). During the financial year, 5 board meetings, 5 audit committee meetings, 5 investment committee meetings, 1 community education program grants meeting and 4 nominations and remuneration committee meetings were held.

Directors' meetings

Directors'	Board		Audit, Risk & Compliance Committee		Investment Committee		Nominations and Remuneration Committee		Community Education Program Grants Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Dr B E Hughes	5	4	-	-	-	-	4	4	1	-
Mr B G Harris	5	5	5	5	-	-	-	-	1	1
Mr M H Tripp	5	4	-	-	-	-	4	2	-	-
Mr G A Prescott	2	1	-	-	2	1	-	-	-	-
Mr M P Baird	5	5	5	5	-	-	4	4	1	1
Mr J R Peberdy	5	5	-	-	5	5	-	-	-	-
Mr D J Harrison	5	5	-	-	5	4	-	-	-	-
Mr W G Shearn	5	4	-	-	-	-	-	-	-	-
Mr J O Thomas	5	4	5	5	5	4	-	-	-	-
Mrs S A Wood	2	-								

Indemnification of officers and auditors

During the financial year, the company paid a premium in respect of a contract insuring the directors of the company (as named above), the company secretary and all executive officers of the company and of any related body corporate against a liability incurred as such a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The company has not otherwise, during or since the financial year, indemnified or agreed to indemnify an officer or auditor of the company or of any related body corporate against a liability incurred as such as officer or auditor.

Auditors' Independence Declaration

The auditors' independence declaration is included on page 6 of the financial report.

Rounding Off Of Amounts

The company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the directors' report and the financial report are rounded off to the nearest thousand dollars.

Signed in accordance with a resolution of the directors made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the Directors

M.P. Baird
Chairman

B.G. Harris
Director

Melbourne, 22 April 2010

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The Board of Directors
Ansvar Insurance Limited
Level 18, 303 Collins Street
Melbourne, VIC 3000

22 April 2010

Dear Directors,

Re: Ansvar Insurance Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Ansvar Insurance Limited.

As lead audit partner for the audit of the financial statements of Ansvar Insurance Limited for the financial year ended 31 December 2009, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche

DELOITTE TOUCHE TOHMATSU

Neil A Brown
Partner
Deloitte Touche Tohmatsu (Audit)

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Deloitte.

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Independent audit report to the members of Ansvar Insurance Limited

We have audited the accompanying financial report of Ansvar Insurance Limited, which comprises the balance sheet as at 31 December 2009, and the statement of comprehensive income, cash flow statement and statement of changes in equity for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end as set out on pages 9 to 57.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the consolidated financial statements and notes complies 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 and fair presentation of the financial report 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Auditor's Independence Declaration

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

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Auditor's Opinion

In our opinion:

(a) the financial report of Ansvar Insurance Limited is in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2009 and of their performance for the year ended on that date; and

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

(b) the consolidated financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

DELOITTE TOUCHE TOHMATSU

Neil A Brown
Partner
Chartered Accountants
Melbourne, 22 April 2010

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Directors' declaration

The directors declare that:

a. in the director's opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;

b. in the director's opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and the performance of the company and the consolidated entity.

Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors

M.P. Baird
Chairman

B.G. Harris
Director

Melbourne, 22 April 2010

Statement of Comprehensive Income for the financial year ended 31 December 2009

Other comprehensive income

		Consolidated		Company	
	Note	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Direct premium revenue	5a	150,734	136,516	133,063	121,135
Outwards reinsurance premium expense		(73,071)	(62,233)	(62,516)	(53,200)
Net premium revenue		**77,663**	**74,283**	**70,547**	**67,935**
Direct claims expense	20	(106,939)	(107,120)	(95,862)	(98,356)
Reinsurance and other recoveries revenue	5a	62,170	55,222	55,889	51,587
Net claims incurred	**20**	**(44,769)**	**(51,898)**	**(39,973)**	**(46,769)**
Acquisition costs		(12,505)	(11,915)	(10,909)	(10,189)
Fire brigade charges		(9,032)	(7,728)	(9,031)	(7,728)
Underwriting expenses		**(21,537)**	**(19,643)**	**(19,940)**	**(17,917)**
Underwriting result		**11,357**	**2,742**	**10,635**	**3,250**
Interest and dividend revenue	5a	11,343	11,982	10,634	11,134
Changes in fair value					
Realised losses on investments	5a	(642)	(682)	(686)	(705)
Unrealised (losses)/gains on investments	5a	(1,157)	5,920	(1,011)	5,693
Other operating income	5a	467	596	402	356
Finance costs	5b	(91)	(182)	(91)	(182)
General and administration expenses		(9,101)	(8,083)	(8,651)	(7,686)
Profit for the year before income tax	**5b**	**12,176**	**12,293**	**11,232**	**11,860**
Income tax expense relating to ordinary activities	6	(3,669)	(3,617)	(3,396)	(3,482)
Profit for the year		**8,507**	**8,676**	**7,836**	**8,378**
Other comprehensive income					
Exchange differences arising from translation of foreign operations		(328)	(496)	-	-
Gain on revaluation of property		-	95	-	95
Other comprehensive income for the year (net of tax)		**(328)**	**(401)**	**-**	**95**
Total comprehensive income for the year		**8,179**	**8,276**	**7,836**	**8,473**

The above statements of comprehensive income are to be read in conjunction with the notes to the financial statements.

Statement of Financial Position as at 31 December 2009

		Consolidated		Company	
	Note	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current assets					
Cash and cash equivalents	33a	20,796	23,589	17,123	20,356
Receivables	9	114,098	104,824	101,542	92,861
Investments	10	38,994	13,763	34,578	6,051
Reinsurance recoveries receivable	11	35,981	36,357	30,648	32,831
Current tax assets	6	-	315	-	44
Total current assets		**209,869**	**178,848**	**183,891**	**152,143**
Non-current assets					
Receivables	13	211	956	211	956
Investments	10	141,199	162,514	136,381	161,674
Reinsurance recoveries receivable	11	15,348	13,655	14,681	13,655
Property, plant and equipment	14	3,025	2,904	2,729	2,620
Deferred tax assets	6	3,658	2,756	3,658	2,717
Intangible assets	15	556	456	553	410
Total non-current assets		**163,997**	**183,241**	**158,214**	**182,032**
Total Assets		**373,867**	**362,089**	**342,105**	**334,175**
Current liabilities					
Payables	16	15,946	17,852	12,893	16,022
Interest bearing liabilities	17	-	3,000	-	3,000
Current tax liabilities	6	2,931	-	2,850	-
Provisions	18	10,047	8,971	8,914	7,977
Outstanding claims liabilities	21	58,101	65,219	49,775	57,386
Unearned premium	22	91,339	82,338	80,983	73,062
Total current liabilities		**178,364**	**177,380**	**155,506**	**157,447**
Non-current liabilities					
Provisions	18	1,314	1,072	1241	997
Deferred tax liabilities	6	42	-	-	-
Outstanding claims liabilities	21	114,774	109,088	113,853	109,088
Total non-current liabilities		**116,130**	**110,160**	**115,093**	**110,085**
Total liabilities		**294,494**	**287,540**	**270,599**	**267,532**
Net Assets		**79,373**	**74,549**	**71,505**	**66,643**
Equity					
Issued capital	26	5,000	5,000	5,000	5,000
Reserves	27	(414)	(86)	421	421
Retained earnings	28	74,787	69,635	66,084	61,222
Total Equity		**79,373**	**74,549**	**71,505**	**66,643**

The above balance sheets are to be read in conjunction with the notes to the financial statements.

Statement of changes in equity for the financial year ended 31 December 2009

Consolidated

	Fully paid ordinary shares $'000	Asset revaluation reserve $'000	Foreign currency translation reserve $'000	Retained earnings $'000	Total $'000
Balance at 1 January 2008	**5,000**	**326**	**(11)**	**64,082**	**69,397**
Exchange differences arising on translation of foreign operations	-	-	(496)	-	(496)
Revaluation increments	-	95	-	-	95
Profit for the year	-	-	-	8,676	8,676
Total comprehensive income	-	95	(496)	8,676	8,276
Payment of dividends	-	-	-	(3,123)	(3,123)
Balance at 31 December 2008	**5,000**	**421**	**(507)**	**69,635**	**74,549**
Exchange differences arising on translation of foreign operations	-	-	(328)	-	(328)
Revaluation increments	-	-	-	-	-
Profit for the year	-	-	-	8,507	8,507
Total comprehensive income	-	-	(328)	8,507	8,179
Payment of dividends	-	-	-	(3,355)	(3,355)
Balance at 31 December 2009	**5,000**	**421**	**(835)**	**74,787**	**79,373**

Company

	Fully paid ordinary shares $'000	Asset revaluation reserve $'000	Foreign currency translation reserve $'000	Retained earnings $'000	Total $'000
Balance at 1 January 2008	**5,000**	**326**	**-**	**55,967**	**61,293**
Revaluation increments	-	95	-	-	95
Profit for the year	-	-	-	8,378	8,378
Total comprehensive income	-	95	-	8,378	8,473
Payment of dividends	-	-	-	(3,123)	(3,123)
Balance at 31 December 2008	**5,000**	**421**	**-**	**61,222**	**66,643**
Revaluation increments	-	-	-	-	-
Profit for the year	-	-	-	7,836	7,836
Total comprehensive income	-	-	-	7,836	7,836
Payment of dividends	-	-	-	(2,974)	(2,974)
Balance at 31 December 2009	**5,000**	**421**	**-**	**66,084**	**71,505**

The above statements of changes in equity are to be read in conjunction with the notes to the financial statements.

Cash flow statement for the financial year ended 31 December 2009

		Consolidated		Company	
	Note	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Cash flows from operating activities					
Premiums received		153,251	140,311	134,902	124,105
Outwards reinsurance paid		(81,883)	(63,722)	(73,666)	(55,529)
Claims expense paid		(94,826)	(76,163)	(85,506)	(68,769)
Reinsurance and other recoveries received		67,775	53,392	64,073	50,342
Acquisition costs and other costs paid		(44,787)	(46,789)	(40,941)	(43,082)
Interest and other costs of finance paid		(90)	(180)	(90)	(180)
Interest received		11,464	12,485	10,657	11,605
Other revenue		1,147	917	895	550
Income tax paid		(1,299)	(682)	(1,444)	(619)
Net cash provided by operating activities	**33b**	**10,752**	**19,569**	**8,880**	**18,423**
Cash flows from investing activities					
Rentals received		-	-	76	59
Payments for investments		(42,054)	(195,970)	(27,089)	(187,329)
Proceeds from sale of investments		35,990	180,315	22,157	172,870
Net advances from/(to) controlled entity		-	-	14	(39)
Payments for plant and equipment		(1,245)	(841)	(1,148)	(721)
Proceeds from sale of plant and equipment		-	44	-	44
Net cash used in investing activities		**(7,309)**	**(16,452)**	**(5,990)**	**(15,116)**
Cash flows from financing activities					
Dividends paid		(3,123)	(2,995)	(3,123)	(2,995)
Repayment of borrowings		(3,000)	-	(3,000)	-
Net cash used in financing activities		**(6,123)**	**(2,995)**	**(6,123)**	**(2,995)**
Net (decrease)/increase in cash and cash equivalents		**(2,680)**	**122**	**(3,233)**	**312**
Cash and cash equivalents at the beginning of the financial year	**33a**	**23,589**	**23,637**	**20,356**	**20,044**
Effects of exchange rate changes on the balance of cash held in foreign currencies		(113)	(170)	-	-
Cash and cash equivalents at the end of the financial year	**33a**	**20,796**	**23,589**	**17,123**	**20,356**

The above cash flows statements are to be read in conjunction with the notes to the financial statements.

Notes to the financial statements for the financial year ended 31 December 2009

1. Significant accounting policies

Statement of Compliance

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and complies with other requirements of the law.

Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with the A-IFRS ensures that the consolidated financial statements and notes of the consolidated entity comply with International Financial Reporting Standards ('IFRS').

The financial report includes separate financial statements of the company and the consolidated financial statements of the Group. The financial statements were authorised for issue by the directors on 22 April 2010.

Basis of Preparation

The financial report has been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets.

All amounts are presented in Australian dollars. The company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

a. Principles of general insurance business

An insurance contract is defined as a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

b. Premium revenue

Direct premium comprises amounts charged to the policyholder or insurers including fire service levies, but excluding stamp duties collected on behalf of third parties. The earned portion of premiums received and receivable, including unclosed business, is recognised as revenue. Premium is treated as earned from the date of attachment of risk. Premiums on unclosed business are brought to account by reference to the previous year's premium processing delays with due allowance for any changes in the pattern of new business and renewals.

The pattern of recognition of income over the policy period is based on time, which closely approximates the pattern of risks underwritten. Unearned premium is determined by apportioning the premiums written in the year, after deducting reinsurance.

c. Claims

Claims expense and a liability for outstanding claims are recognised in respect of all business written. The liability covers claims reported but not yet paid, incurred but not reported claims ("IBNR") and the anticipated direct and indirect costs of settling those claims. Claims outstanding are assessed by reviewing individual claim files and estimating changes in the ultimate cost of settling claims with IBNRs and settlement costs using statistics based on past experience and trends.

No discounting has been applied to outstanding claims for 'short tail' classes as the impact is not significant. The liability for outstanding claims for 'long-tail' classes is measured as the present value of the expected future payments. These payments are estimated on the basis of the ultimate cost of settling claims, which is affected by factors arising during the period to settlement such as normal and 'superimposed' inflation. The expected future payments are discounted to present value at the balance date using risk free rates.

d. Outwards reinsurance

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 balance date as a prepayment.

e. Reinsurance and other recoveries receivable

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid and IBNRs are recognised as revenue. Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims.

f. Acquisition costs

Acquisition costs incurred in obtaining insurance contracts are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to revenue that will be recognised in the statement of comprehensive income in subsequent reporting periods. Deferred acquisition costs are measured at the lower of cost and recoverable amount. Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the general insurance contracts to which they relate. This pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue.

g. Fire brigade and other charges

A liability for fire brigade and other charges is recognised on business written to the balance date. Levies and charges payable by the company are expensed on the same basis as the recognition of premium revenue, with the portion relating to unearned premium being recorded as a prepayment.

h. Unearned premium liabilities

Unearned premium liability is determined by apportioning the premium written over the period from date of attachment of risk to the expiry of the policy term.

Liability adequacy testing is performed in order to recognise any deficiencies in the statement of comprehensive income arising from the carrying amount of the unearned premium liability less any related deferred acquisition costs and intangible assets not meeting the estimated future claims under current insurance contracts.

The estimated future claims under current insurance contracts are measured using the present value of the expected cash flows relating to future claims and associated expenses (discounted using a risk free discount rate) plus an additional fair value risk margin to reflect the inherent uncertainty of those estimated cash flows.

Liability adequacy testing is performed at the level of a portfolio of contracts that are subject to broadly similar risks and are managed together as a single portfolio.

i. Financial Assets

In accordance with AASB 1023 *General Insurance Contracts,* the consolidated entity is required to measure financial assets held to fund insurance provisions at fair value through profit or loss.

AASB 139 *Financial Instruments: Recognition and Measurement* has an option to measure all financial assets at fair value through profit or loss. Shareholders' funds constitute a group of financial assets which are managed, and their performance evaluated, on a fair value basis in accordance with the consolidated entity's documented investment strategy. Information prepared on this basis is provided to the consolidated entity's senior management. The consolidated entity has therefore elected to measure all financial assets that do not fund insurance provisions at fair value through profit or loss upon initial recognition and at the date of transition to AIFRS.

Fair value is determined by reference to the closing bid price of the instrument at balance sheet day.

Loans and receivables

Loans and receivables are measured at amortised cost using the effective interest method less impairment.

Notes to the financial statements for the financial year ended 31 December 2009

1. Significant accounting policies (continued)

j. Financial instruments issued by the company

Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

Transaction costs on the issue of equity instruments

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

Interest and dividends

Interest and dividends are classified as expenses or as distributions of profit consistent with the statement of financial position classification of the related debt or equity instruments.

k. Property, plant and equipment

Owner occupied land and buildings are measured at fair value. Fair value is determined on the basis of an independent valuation prepared by external valuation experts, based on discounted cash flows or capitalisation of net income (as appropriate). The independent valuation is carried out every three years. The fair values are recognised in the financial statements of the consolidated entity and are reviewed at the end of each reporting period to ensure that the carrying value of land and buildings is not materially different from their fair values.

Any revaluation increase arising on the revaluation of land and buildings is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense in profit or loss, in which case the increase is credited to the statement of comprehensive income to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of land and buildings is charged as an expense in profit or loss to the extent that it exceeds the balance, if any, held in the asset revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the asset revaluation reserve, net of any related deferred taxes, is transferred directly to retained earnings.

Plant and equipment and leasehold improvements are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives, residual values and depreciation method is reviewed at the end of each annual reporting period.

The following estimated useful lives are used in the calculation of depreciation:

Buildings	20-30 years
Leasehold improvements	Length of lease
Motor vehicles	5-7 years
Office furniture and fittings	3-15 years
Computer hardware	3-5 years

l. Employee benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months, are measured as the amount unpaid at the reporting date at current pay rates in respect of employees' services up to that date.

Provisions made in respect of employee benefits are not expected to be settled within 12 months and are measured as the present value of the expected future cash outflows to be made by the economic entity in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using interest rates on national government guaranteed securities with terms to maturity that match, as closely as possible, the estimated future cash outflows.

Defined contribution plans

Contributions to defined contribution superannuation plans are expensed when incurred.

m. Foreign currency

Foreign currency transactions

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at reporting date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

Foreign operations

Assets and liabilities of the controlled entity in New Zealand have been translated into Australian currency at year-end rates of exchange, while revenue and expenses of this controlled entity have been translated at the average of rates ruling during the year. As these foreign operations are all self sustaining, profits and losses arising on translation have been brought to account directly to the foreign currency translation reserve and have not been taken to the statement of comprehensive income.

n. Borrowings

Borrowings are recorded initially at fair value, net of transaction costs.

Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the borrowing using the effective interest rate method.

o. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment purposes; these are money market instruments with short maturities (three months or less from the date of acquisition) which are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Notes to the financial statements for the financial year ended 31 December 2009

1. Significant accounting policies (continued)

p. Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or

ii. for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

q. Impairment of Assets

At each reporting date, the consolidated entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

r. Income Tax

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, branches, associates and joint ventures except where the consolidated entity is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the consolidated entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the statement of comprehensive income, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

s. Intangible assets

Other intangible assets are non-monetary assets other than goodwill with no physical substance, which are separately identifiable, controlled by the consolidated entity and have future economic benefits.

Where the intangible asset is deemed to have indefinite life, it is not amortised but tested for impairment at least on an annual basis. If it is deemed to have finite useful life, it is to be amortised over its useful life and tested for impairment whenever there is an indication that the asset may be impaired.

Notes to the financial statements for the financial year ended 31 December 2009

1. Significant accounting policies (continued)

t. Leased assets

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

u. Payables

Payables are recognised when the company becomes obliged to make future payments resulting from the purchase of goods and services.

v. Principles of consolidation

The consolidated financial statements incorporate the financial statements of the company and entities controlled by the Company (its subsidiaries) referred to as “the Group” in these financial statements. Control is achieved where the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The consolidated financial statements include the information and results of each controlled entity from the date on which the company obtains control and until such time as the company ceases to control such entity.

Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

In preparing the consolidated financial statements, all intercompany balances and transactions, and unrealised profits arising within the economic entity are eliminated in full.

2. Critical accounting estimates and judgements

In the application of A-IFRS management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgments. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

Judgments made by management in the application of A-IFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

Significant estimates and judgements are made by the Group to arrive at certain key asset and liability amounts disclosed in the financial statements. These estimates and judgements are continually being evaluated and are based on historical experience, as well as enhancements to actuarial modelling techniques.

The key areas of significant estimates and judgements and the methodologies used to determine key assumptions are set out below.

a. Uncertainty over estimate of ultimate liability arising from claims made under general insurance contracts

Provision is made at the year end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not reported to the consolidated entity.

The estimation of outstanding claim liabilities is based largely on the assumption that past developments are an appropriate predictor of the future and involves a variety of actuarial techniques that analyse experience, trends and other relevant factors. The process commences with the actuarial projection of the future claim payments and claim handling costs incurred to the reporting date. Each class of business is usually examined separately and some or all of the following will be considered for each class in projecting future claim payments:

i. Historical trends in the development and incidence of the number of claims reported, number of claims finalised, claim payments and reported incurred costs;

ii. Exposure details, including policy counts, sums insured, earned premiums and policy limits;

iii. Claim frequencies and average claim sizes;

iv. The legislative framework, legal and court environments and social and economic factors that may impact upon each class of business;

v. Historical and likely future trends in standard inflationary pressures relating to commodity prices and wages;

vi. Historical and likely future trends of inflationary pressures in addition to price or wage inflation, termed superimposed inflation;

vii. Historical and likely future trends of expenses associated with managing claims to finalisation;

viii. Reinsurance recoveries available under contracts entered into by the insurer;

ix. Historical and likely future trends of recoveries from sources such as subrogation and third party actions; and

x. Insurer specific, relevant industry data and more general economic data is utilised in the estimation process.

Projected future claim payments and associated claim handling costs are discounted to a present value as required using appropriate risk free discount rates. A projection of future claims payments, both gross and net of reinsurance and other recoveries, is undertaken.

Notes to the financial statements for the financial year ended 31 December 2009

2. Critical accounting estimates and judgements (continued)

This projection is typically made without bias toward over or under estimation. As such, the resulting estimate is considered to be a net central estimate of outstanding claims liabilities that has an approximately equal chance of proving adequate as not. Where possible and appropriate, multiple actuarial methods will be applied to project future claim payments. This assists in providing a greater understanding of the trends inherent in the past data. The projections obtained from various methods also assist in setting the range of possible outcomes. The most appropriate method, or even a blend of methods, is selected taking into account the characteristics of the class of business and the extent of the development of each past accident period.

Large claims impacting each relevant business class are generally assessed separately, being measured on a case by case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims.

As an estimate of future outcomes, the net central estimate of outstanding claims liabilities is subject to uncertainty. This uncertainty may consist of one or more of the following components:

Modelling

The process of managing and finalising claims is a complex one. Actuarial models represent a simplification of this complex process giving rise to the possibility that the actual future outcomes may depart from the modelled outcome.

Assumption selection

Even with the perfect model, assumptions about future claim payment experience must be drawn from limited past data and are subject to sampling error.

Evolution of assumptions

Some assumptions will be subject to changes over time due to external sources, such as changes to the legislative environment and the economic environment, or internal sources such as claim management practices.

Random variation

There is a certain amount of residual randomness that drives differences between actual and expected outcomes.

Uncertainty from the above sources is examined for each class of business and expressed as a volatility of the net central estimate. The volatility for each class is derived after consideration of stochastic modelling and benchmarking to industry analysis.

The long tail classes of liability have the highest volatilities of the insurance classes as the longer average time to settle provides a greater opportunity for sources of uncertainty to emerge. Short tail classes such as Motor, Home and Contents and Property have lower levels of volatility.

As the volatility for each class of business is partially correlated with other classes, when combined across the entire company, the overall volatility will be less than the sum of the individual classes.

With an estimate of the overall volatility for general insurance business, a range of risk margins associated with a probability of the total net provision for outstanding claims liabilities proving adequate may be produced.

b. Assets arising from reinsurance contracts

Assets arising from reinsurance contracts are also computed using the above methods. In addition, the recoverability of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as counterparty and credit risk. Impairment is recognised where there is objective evidence that the company may not receive amounts due to it and these amounts can be reliably measured.

3. Actuarial assumptions and methods

a. Assumptions

The following assumptions have been made in determining the outstanding claims liabilities:

Consolidated	2009		2008	
	Short-tail	Liability	Short-tail	Liability
Weighted average term to settlement (years)	0.60	6.21	0.60	6.01
Inflation rate	3.50%	3.50%	2.50%	2.50%
Superimposed inflation rate	0.0%	5.94%	0.0%	5.94%
Discount rate	0.0%	4.95%	0.0%	3.46%
Discounted mean term (years)	0.60	5.41	0.60	5.46
Claim handling expense ratio	10.80%	10.50%	10.06%	10.01%
Risk margin	12.20%	22.60%	11.90%	16.68%

b. Processes used to determine assumptions

The valuations included in the reported results are calculated using assumptions including:

Average weighted term to settlement

The average weighted term to payment is calculated separately by class of business and is based on historic settlement patterns.

Inflation

Insurance costs are subject to inflationary pressures over time.

For the liability classes, claim costs associated with personal injuries are linked to the weekly earnings of the claimant. Medical and legal costs are subject to increases in the wages and disbursements of professionals in those fields. These standard inflationary pressures are collectively termed wage inflation for the purpose of this report.

For the motor and property classes, claim costs are related to the inflationary pressures of the materials and goods insured as well as labour costs to effect repairs. It is therefore expected that these costs will increase at a level between appropriate Consumer Price Index ("CPI") indices and wage inflation. The motor and property classes typically use an actuarial method in which the inflation assumption is implicit and incorporated in historical levels of claim development.

Superimposed inflation rate

There is a tendency for claim costs, particularly for the liability classes, to increase at levels in excess of standard inflationary pressures. This can be due to a number of factors including court awards and precedents and social and environmental pressures. This is often termed superimposed inflation and is analysed and forecast separately from wage inflation.

Discount rate

The outstanding claims liabilities are discounted at a rate equivalent to that inherent in a portfolio of risk free fixed interest securities with coupon and redemption cash flows exactly matching the projected inflation claim cash flows.

All outstanding claims liabilities are discounted to present value using a risk free rate based on Commonwealth Government bond yield curve (in Australia) and ten year government stock rate (in New Zealand), where applicable.

Expense allowance

An estimate of outstanding claims liabilities will typically incorporate an allowance for the future cost of administering the claims. This allowance is determined after analysing claim related expenses incurred by the classes of business.

Notes to the financial statements for the financial year ended 31 December 2009

3. Actuarial assumptions and methods (continued)

b. Processes used to determine assumptions (continued)

Risk margin

The overall risk margin is determined allowing for diversification between classes of business and the relative uncertainty of the outstanding claims estimate for each class.

The assumptions regarding uncertainty for each class are applied to the net central estimates and the results are aggregated, allowing for diversification, in order to arrive at an overall net provision that is intended to have an 80% probability of sufficiency.

Ultimate loss ratio

This is the ratio of incurred losses to earned premium (both net of reinsurance) inherent in actual experience to date plus outstanding payments.

Effects of changes in actuarial assumptions from 31 December 2008 to 31 December 2009

Assumption category	**Assumption change**	**Effect on net outstanding claims liabilities Increase/ (decrease) $'000**
Discount rates	Short tail: no change	-
	Liability: 3.50% to 5.00%	(6,601)
Claims inflation	Short tail: no change	-
	Liability: 8.50% to 9.5%	2,758
Claims handling expense ratio	No change	-
Risk margin	No change	-
Specific short tail class assumptions (Australia):		
ICD assumptions		103
Specific liability class assumptions (Australia):		
Claim numbers		44
PPCI assumptions		(1,090)
PCE assumptions		-
Reinsurance		540
Changes from PPCI to PCE for 2002 Accident Year		(1,068)
Removal of Minimum loss ratio for 2006		(7,916)
Changes in Minimum loss ratio for other years		(2,170)
Special issues claims		1,439
Indexed Retention for Large Claim		215
Specific short tail class assumptions (New Zealand):		
ICD assumptions		(59)
Specific liability class assumptions (New Zealand):		
Loss ratio		(382)

c. Sensitivity analysis

The consolidated entity conducts sensitivity analyses to quantify the exposure to the risk of changes in the underlying assumptions used in the financial statements.

The sensitivity of the Group's profit and equity to key valuation assumptions is tabulated below (the assumed tax rate is 30%):

		Net profit $'000	**Equity $'000**
Recognised amounts in the financial statements		8,508	79,374
Variable	**Movement in variable**	**Movement in amount $'000**	
Average weighted term to settlement	+1 year - 1 year	-3,248 3,410	-3,248 3,410
Claims inflation rate	1.00% - 1.00%	3,629 -3,446	3,629 -3,446
Discount rate	1.00% - 1.00%	-3,446 3,629	-3,446 3,629
Minimum loss ratio	1.00% - 1.00%	491 -491	491 -491
Claims handling expenses ratio	1.00% - 1.00%	721 -721	721 -721

Notes to the financial statements for the financial year ended 31 December 2009

4. Risk management

The financial condition and operations of the consolidated entity are affected by a number of key risks including insurance risk, interest rate risk, currency risk, credit risk, market risk, liquidity risk, financial risk, compliance risk, fiscal risk and operational risk. Notes on the consolidated entity's policies and procedures in respect of managing these risks are set out in this note.

a. Objectives in managing risks arising from insurance contracts and policies for mitigating those risks

The consolidated entity has an objective to control insurance risk thus minimizing substantial unexpected losses that would expose the consolidated entity to an adverse financial capital loss.

In accordance with Prudential Standards GPS 220 Risk Management and GPS 230 Reinsurance Management issued by the Australian Prudential Regulation Authority (APRA), the Board and senior management of the Group has developed, implemented and maintain a sound and prudent Risk Management Strategy (RMS) and a Reinsurance Management Strategy (REMS).

The RMS and REMS identify the Group's policies and procedures, processes and controls that comprise its risk management and control systems. These systems address all material risks, financial and non-financial, likely to be faced by the Group. Annually, the Board certifies to APRA that adequate strategies have been put in place to monitor those risks, that the Group has systems in place to ensure compliance with legislative and prudential requirements.

The RMS and REMS have been approved by the Board and lodged with APRA. Key aspects of the processes established in the RMS to mitigate risks include:

- The maintenance and use of sophisticated management information systems, which provide up to date, reliable data on the risks to which the business is exposed at any point in time.
- Actuarial models, using information from the management information systems, are used to calculate premiums and monitor claims patterns. Past experience and statistical methods are used as part of the process.
- Documented procedures are followed for underwriting and accepting insurance risks.
- Reinsurance is used to limit the Group's exposure to large single claims and catastrophes.
- The mix of assets invested in is driven by the nature and term of insurance liabilities. The management of assets and liabilities is closely monitored to attempt to match the maturity dates of assets with the expected pattern of claim payments.
- The diversification of business over classes within the reinsurance portfolio, separate geographical segments and large numbers of uncorrelated individual risks seeks to reduce variability in loss experience.

b. Interest rate risk

None of the financial assets or liabilities arising from insurance or reinsurance contracts entered into by the Group are directly exposed to interest rate risk.

Insurance and reinsurance contracts are entered into annually. At the time of entering into the contract, all terms and conditions are negotiable or, in the case of renewals, renegotiable.

The Group is exposed to interest rate risk as the entities in the Group invest funds in fixed interest securities of various maturities. This exposure is closely monitored by Investment Committee. Assets and liabilities are appropriately matched in terms of type, duration and currency. The Committee's functions include reviewing the effectiveness of the company's investment strategy, recommending specific investment action, reviewing the investment risk management statement and recommending any changes of this statement to the Board of Directors.

c. Credit risk

Financial assets or liabilities arising from insurance and reinsurance contracts are stated in the balance sheet at the amount that best represents the maximum credit risk exposure at balance date. There are no significant concentrations of credit risk.

d. Terms and conditions of insurance business

The terms and conditions attaching to insurance contracts affect the level of insurance risk accepted by the Group. There are no special terms and conditions in any non standard contracts that have a material impact on the financial statements. The Group's exposure is diversified across Australia and New Zealand. Insurance contracts written in Australia and New Zealand are subject to substantially the same terms and conditions.

e. Concentration of insurance risk

The Group's exposure to concentrations of insurance risk is mitigated by a portfolio diversified into different classes of business comprising personal and commercial markets and short and long tail classes of risk written out of Australia and New Zealand. The portfolio is controlled and monitored by the Group's Risk Management Strategy and Audit, Risk and Compliance Committee. The Committee's role includes identifying and mitigating the high-level risks.

f. Terms and conditions of reinsurance contracts

The Group reinsures a portion of the risks it underwrites in order to control exposure to losses, stabilize earnings, protect capital resources and ensure efficient control and spread of underwriting risk.

The financial probity of reinsurers is determined by the UK based group reinsurance security committee which decides annually which reinsurers the group will utilise. This decision is based on the nominated reinsurers meeting a desired credit rating and performance criteria. There is flexibility for individual business units in particular circumstances to present a case to the committee to move outside this band of reinsurers.

g. Changes of interest rate in different territories

The asset/liability matching process also matches the currency of related assets and liabilities. The Group's assets and liabilities are affected by the different interest rates of the territories in which the Group operates – Australia and New Zealand. Those assets, which are interest bearing and not 100% matched, are therefore subject to the interest rate fluctuations for a number of different currencies in different proportions.

Notes to the financial statements for the financial year ended 31 December 2009

5. Profit from operations

a. Revenue

An analysis of the Group's revenue for the year is as follows:

	Consolidated		Company	
	2009 $'000	**2008 $'000**	**2009 $'000**	**2008 $'000**
Premium revenue				
Gross written premium	160,061	142,029	140,984	125,286
Movement in unearned premiums	(9,327)	(5,513)	(7,921)	(4,151)
Gross earned premiums	150,734	136,516	133,063	121,135
Reinsurance and other recoveries (note 20)	62,170	55,222	55,889	51,587
Total general insurance revenue	**212,904**	**191,738**	**188,952**	**172,722**
Investment income				
Interest and dividend revenue	11,343	11,982	10,634	11,134
Changes in net market value of investments:				
Realised	(642)	(682)	(686)	(705)
Unrealised	(1,157)	5,920	(1,011)	5,693
	9,544	**17,220**	**8,938**	**16,122**
Other operating income	467	596	402	356
Total Revenue	**222,915**	**209,554**	**198,292**	**189,200**

b. Profit before income tax

Profit for the year has been arrived at after charging the following:

Loss on sale of non-current assets	9	52	0	26
Finance costs				
Ultimate parent entity	90	180	90	180
Other persons	1	2	1	2
	91	**182**	**91**	**182**
Depreciation of non-current assets	696	502	630	480
Amortisation of non-current assets	306	582	266	441
Doubtful debts allowance				
Reinsurance receivable	(292)	172	(294)	160
Other recoveries receivable	581	110	581	110
Trade debtors	80	80	68	111
	369	**362**	**355**	**381**
Employee benefits				
Defined contribution plans	1,176	1,193	1,032	1,067
Other	49	52	49	52
	1,225	**1,245**	**1,082**	**1,119**
Rental expense relating to operating leases	1,339	1,135	1,182	1,032

6. Income taxes

Income tax recognised in profit or loss

	Consolidated		Company	
	2009 $'000	**2008 $'000**	**2009 $'000**	**2008 $'000**
Tax expense comprises				
Current tax expense	4,617	2,011	4,332	1,902
Adjustments recognised in the current year in relation to the current tax of prior years	(88)	-	6	-
Deferred tax (benefit)/expense relating to the origination and reversal of timing differences	(860)	1,606	(941)	1,580
Total income tax expense	**3,669**	**3,617**	**3,396**	**3,482**

The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax expense in the financial statements as follows:

Net profit for the year before income tax	12,176	12,293	11,232	11,860
Income tax expense calculated at 30%	3,653	3,688	3,370	3,558
Permanent Differences				
Non deductible expenses	87	65	85	60
Allowable building allowances	(71)	(136)	(59)	(136)
	3,669	**3,617**	**3,396**	**3,482**

Income tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian and New Zealand corporate entities on taxable profits under Australian and New Zealand tax laws. There has been no change in the corporate tax rate when compared with the previous reporting period.

Current tax assets and liabilities				
Income tax refundable	-	315	-	44
Income tax payable	2,931	-	2,850	-

Notes to the financial statements for the financial year ended 31 December 2009

6. Income taxes (continued) *Temporary Differences*

Taxable and deductible temporary differences arise from the following:

2009 — **Consolidated**

	Opening balance $'000	Charged to income $'000	Charged to equity $'000	Closing balance $'000
Gross deferred tax liabilities				
Revenue receivable	(547)	(18)		(565)
Deferred acquisition costs	-	-	-	-
Property	(180)	-	-	(180)
Unrealised gain on fixed interest securities	(969)	335	-	(634)
Total	**(1,696)**	**317**	**-**	**(1,379)**
Gross deferred tax assets				
Provisions	1,060	82	-	1,142
Doubtful debts allowance	141	174	-	315
Indirect claims settlement costs	2,084	77	(39)	2,122
Unexpired risk liability	185	210	-	395
Purchased interest	351	52	-	403
Unrealised loss on fixed interest securities	662	(53)	-	609
Property, plant & equipment deductions	8	-	-	8
Total	**4,491**	**543**	**(39)**	**4,995**
Presented in the balance sheet as follows:				
Deferred tax liability				(42)
Deferred tax asset				3,658
				3,616

2008 — **Consolidated**

	Opening balance $'000	Charged to income $'000	Charged to equity $'000	Closing balance $'000
Gross deferred tax liabilities				
Revenue receivable	(800)	214	-	(586)
Deferred acquisition costs	-	-	-	-
Property	(140)	-	(40)	(180)
Unrealised gain on fixed interest securities	-	(969)	-	(969)
Total	**(940)**	**(755)**	**(40)**	**(1,735)**
Gross deferred tax assets				
Provisions	1,224	(164)		1,060
Doubtful debts allowance	114	27		141
Indirect claims settlement costs	2,428	204	(548)	2,084
Unexpired risk liability	129	56		185
Purchased interest	612	(261)	-	351
Unrealised loss on fixed interest securities	1,372	(710)	-	662
Property, plant & equipment deductions	11	(3)		8
Total	**5,890**	**(851)**	**(548)**	**4,491**
Presented in the balance sheet as follows:				
Deferred tax liability				-
Deferred tax asset				2,756
				2,756

Taxable and deductible temporary differences arise from the following:

2009				Company
	Opening balance $'000	Charged to income $'000	Charged to equity $'000	Closing balance $'000
Gross deferred tax liabilities				
Revenue receivable	(586)	63	-	(523)
Property	(180)	-	-	(180)
Unrealised gain on fixed interest securities	(969)	335	-	(634)
Total	**(1,735)**	**398**	**-**	**(1,337)**
Gross deferred tax assets				
Provisions	632	82	-	714
Doubtful debts allowance	125	174	-	299
Indirect claims settlement costs	2,574	77	-	2,651
Unexpired risk liability	108	210	-	318
Purchased interest	351	52	-	403
Unrealised loss on fixed interest securities	662	(53)	-	609
Total	**4,452**	**543**	**-**	**4,995**
Presented in the balance sheet as follows:				
Deferred tax liability				-
Deferred tax asset				3,658
				3,658

2008				Company
	Opening balance $'000	Charged to income $'000	Charged to equity $'000	Closing balance $'000
Gross deferred tax liabilities				
Revenue receivable	(800)	214	-	(586)
Property	(140)	-	(40)	(180)
Unrealised gain on fixed interest securities	-	(969)	-	(969)
Total	**(940)**	**(755)**	**(40)**	**(1,735)**
Gross deferred tax assets				
Provisions	796	(164)	-	632
Doubtful debts allowance	98	27	-	125
Indirect claims settlement costs	2,347	227	-	2,574
Unexpired risk liability	52	56	-	108
Purchased interest	612	(261)	-	351
Unrealised loss on fixed interest securities	1,372	(710)	-	662
Total	**5,277**	**(825)**	**-**	**4,452**
Presented in the balance sheet as follows:				
Deferred tax liability				-
Deferred tax asset				2,717
				2,717

Notes to the financial statements for the financial year ended 31 December 2009

6. Income taxes (continued) *Tax Consolidation System*

Legislation to allow groups, comprising a parent entity and its Australian resident wholly-owned entities, to elect to consolidate and be treated as a single entity for income tax purposes was substantively enacted on 21 October 2002. This legislation, which includes both mandatory and elective elements, is applicable to the company.

The company and its wholly-owned Australian resident entity are eligible to consolidate for tax purposes under this legislation and have elected to be taxed as a single entity from 1 January 2004. The head entity within the tax-consolidated group for the purposes of the tax consolidation system is Ansvar Insurance Limited. No tax-sharing agreement has been entered into, and there is no financial effect of this consolidation on the group.

7. Key management personnel compensation

a. The directors of Ansvar Insurance Limited during the year were: Mr M.P Baird, Mr B.G. Harris, Mr D.J. Harrison, Dr B.E. Hughes, Mr J. R. Peberdy, Mr G.A. Prescott, Mr. W.G. Shearn, Mr J.O. Thomas, Mr M. H. Tripp and Mr S. A. Wood.

b. Key executives:

Chief Financial Officer	D. Muscari	
Operations Manager	D. Mullen	(resigned 23 March 2010)
National Claims Manager	W. Goodall	
Human Resource Manager	J. Lord	(appointed 6 April 2009)
IT Manager	D. Green	
Sales and Marketing Manager	M. Hurley	
Manager for New Zealand	D. Leather	

c. The aggregate compensation of the directors and the executives specified above, being the key management personnel of the Group and the company is set out below:

	Consolidated	
	2009 $'000	**2008 $'000**
Short-term employee benefits	2,013	1,909
Other long-term benefits	201	222
	2,215	**2,131**

8. Remuneration of auditors

	Consolidated		Company	
	2009 $	**2008 $**	**2009 $**	**2008 $**
Auditor of the parent entity				
Audit the financial report	124,477	134,470	86,767	86,767
Other services (i)	64,492	79,219	53,524	67,774
	188,969	**213,689**	**140,291**	**154,541**

(i) included tax services, engagements required by the regulator and other services.

9. Current receivables

	Consolidated		Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Trade receivables	50,464	45,969	44,469	39,914
Allowance for doubtful debts	(376)	(296)	(347)	(279)
	50,088	**45,673**	**44,122**	**39,635**
Unsecured amounts receivable from related entity	-	-	147	161
Other debtors and prepayments	7,132	9,244	6,967	8,910
Deferred reinsurance expense (note 22(a))	36,768	32,013	31,617	27,492
Deferred acquisition costs (note 22(b))	13,551	12,688	12,130	11,457
Deferred fire service levy (note 22(b))	6,559	5,206	6,559	5,206
	114,098	**104,824**	**101,542**	**92,861**

10. Investments

Investments carried at fair value

Current				
Government/semi-government fixed income securities	4,008	6,873	-	-
Debentures	34,977	6,882	34,569	6,044
Mortgages and other loans	9	7	9	7
	38,994	**13,763**	**34,578**	**6,051**
Non-current				
Shares	4,571	3,330	4,571	3,330
Shares in controlled entities	-	-	1,293	1,293
Government/semi-government fixed income securities	95,901	102,906	88,961	102,017
Debentures	44,734	56,279	41,557	55,034
	141,199	**162,514**	**136,381**	**161,674**
	180,192	**176,277**	**170,959**	**167,725**

11. Reinsurance recoveries receivable

Expected future reinsurance recoveries				
on claims reported	40,674	39,517	35,354	36,620
on claims incurred but not reported	12,290	13,486	11,553	12,803
	52,964	53,003	46,907	49,423
Discount to present value	(834)	(1,899)	(834)	(1,899)
Provision for impairment of reinsurance assets	(801)	(1,093)	(744)	(1,038)
Reinsurance recoveries receivable	**51,329**	**50,011**	**45,329**	**46,486**
Current reinsurance recoveries	36,513	36,692	31,123	33,111
less: provision for impairment of reinsurance asset	(532)	(335)	(475)	(280)
	35,981	**36,357**	**30,648**	**32,831**
Non-current reinsurance recoveries	15,617	14,413	14,950	14,413
less: provision for impairment of reinsurance asset	(269)	(758)	(269)	(758)
	15,348	**13,655**	**14,681**	**13,655**

Notes to the financial statements for the financial year ended 31 December 2009

12. Current tax assets

	Consolidated		Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Income tax refund receivable	-	315	-	44
	-	**315**	**-**	**44**

13. Non-current receivables

Other recoveries receivable	911	1,092	911	1,092
Allowance for doubtful debts	(998)	(417)	(998)	(417)
	(87)	675	(87)	675
Other	298	281	298	281
	211	**956**	**211**	**956**

14. Property, plant and equipment

Consolidated

	Buildings $'000	Leasehold improve-ments $'000	Motor vehicles $'000	Office furniture & fittings $'000	Computer hardware $'000	Total $'000
Cost or valuation						
Balance at 1 January 2008	715	275	43	1,963	2,726	5,722
Additions	-	78	-	271	220	569
Disposals	-	-	(43)	(143)	(125)	(311)
Revaluations	135	-	-	-	-	135
Net foreign currency exchange differences	-	-	-	(3)	(2)	(5)
Balance at 1 January 2009	**850**	**353**	**-**	**2,088**	**2,819**	**6,110**
Additions	-	178	-	67	591	836
Disposals	-	-	-	(15)	(35)	(50)
Revaluations	-	-	-	-	-	-
Net foreign currency exchange differences	-	(1)	-	(9)	(1)	(11)
Balance at 31 December 2009	**850**	**530**	**-**	**2,131**	**3,374**	**6,885**
Accumulated depreciation						
Balance at 1 January 2008	-	(214)	(35)	(868)	(1,828)	(2,945)
Disposals	-	-	38	80	123	241
Depreciation expense	-	(33)	(3)	(131)	(335)	(502)
Net foreign currency exchange differences	-	-	-	-	-	-
Balance at 1 January 2009	**-**	**(247)**	**-**	**(919)**	**(2,040)**	**(3,206)**
Disposals	-	-	-	10	31	41
Depreciation expense	-	(126)	-	(159)	(410)	(696)
Net foreign currency exchange differences	-	-	-	-	-	-
Balance at 31 December 2009	**-**	**(373)**	**-**	**(1,068)**	**(2,419)**	**(3,861)**
Net book value						
As at 31 December 2008	850	106	-	1,169	779	2,904
As at 31 December 2009	**850**	**157**	**-**	**1,063**	**955**	**3,025**

						Company
	Buildings $'000	Leasehold improve-ments $'000	Motor vehicles $'000	Office furniture & fittings $'000	Computer hardware $'000	Total $'000
Cost or valuation						
Balance at 1 January 2008	**715**	**220**	**42**	**1,805**	**2,502**	**5,284**
Additions	-	55	-	71	205	331
Disposals	-	-	(42)	(93)	(44)	(179)
Revaluations	135	-	-	-	-	135
Balance at 1 January 2009	**850**	**275**	**-**	**1,783**	**2,663**	**5,571**
Additions	-	177	-	19	542	739
Disposals	-	-	-	-		-
Revaluations	-	-	-	-	-	-
Balance at 31 December 2009	**850**	**452**	**-**	**1,802**	**3,205**	**6,310**
Accumulated depreciation						
Balance at 1 January 2008	**-**	**(158)**	**(35)**	**(776)**	**(1,636)**	**(2,605)**
Disposals	-	-	38	54	44	136
Depreciation expense	-	(32)	(3)	(125)	(321)	(481)
Balance at 1 January 2009	**-**	**(190)**	**-**	**(847)**	**(1,914)**	**(2,951)**
Disposals	-	-	-	-		-
Depreciation expense	-	(122)	-	(120)	(388)	(630)
Balance at 31 December 2009	**-**	**(312)**	**-**	**(967)**	**(2,302)**	**(3,581)**
Net book value						
As at 31 December 2008	850	85	-	936	749	2,620
As at 31 December 2009	**850**	**140**	**-**	**836**	**903**	**2,729**

Aggregate depreciation allocated, recognised as an expense during the year and disclosed in note 5 to the financial statements:

	Consolidated		Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Buildings	-	-	-	-
Leasehold improvements	126	33	122	32
Motor vehicles	-	3	-	3
Office furniture and fittings	159	131	120	125
Computer hardware	410	335	388	320
	696	**502**	**630**	**480**

Notes to the financial statements for the financial year ended 31 December 2009

15. Intangible assets

	Consolidated			Company		
	Trademarks $'000	Computer software $'000	Total $'000	Trademarks $'000	Computer software $'000	Total $'000
Gross carrying amount						
Balance at 1 January 2008	12	2,965	2,976	12	2,066	2,078
Additions	1	377	378	1	364	365
Net foreign currency exchange differences	-	(11)	(11)	-	-	-
Balance at 1 January 2009	13	3,331	3,343	13	2,430	2,443
Additions	10	399	409	10	399	409
Net foreign currency exchange differences	-	(2)	(2)	-	-	-
Balance at 31 December 2009	**23**	**3,728**	**3,750**	**23**	**2,829**	**2,852**
Accumulated amortisation						
Balance at 1 January 2008	-	(2,306)	(2,306)	-	(1,592)	(1,592)
Amortisation expense (i)	-	(580)	(580)	-	(441)	(441)
Net foreign currency exchange differences	-	(2)	(2)	-	-	-
Balance at 1 January 2009	-	(2,888)	(2,888)	-	(2,033)	(2,033)
Amortisation expense (i)	-	(306)	(306)	-	(266)	(266)
Net foreign currency exchange differences	-	-	-	-	-	-
Balance at 31 December 2009	**-**	**(3,194)**	**(3,194)**	**-**	**(2,299)**	**(2,299)**
Net Book Value						
As at 31 December 2008	13	443	456	13	397	410
As at 31 December 2009	**23**	**534**	**556**	**23**	**530**	**553**

(i) Amortisation expense is included in the line item 'general and administration expenses' in the income statement.

16. Current payables

	Consolidated		Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Direct insurance payables	3,252	2,220	2,581	1,608
Reinsurance ceded creditors	4,752	9,613	3,259	9,177
Sundry creditors and accruals	2,413	890	2,192	777
Dividend payable	3,736	3,123	3,355	3,123
Unsecured amount payable to parent entity	258	316	62	211
Indirect taxes	1,535	1,690	1,535	1,126
	15,946	**17,852**	**12,983**	**16,022**

17. Current interest bearing liabilities

Loan from immediate parent entity	-	3,000	-	3,000
	-	**3,000**	**-**	**3,000**

18. Provisions

	Consolidated 2009 $'000	Consolidated 2008 $'000	Company 2009 $'000	Company 2008 $'000
Current				
Employee entitlements (note 24)	1,118	1,009	1,010	916
Deferred reinsurance commission	8,764	7,806	7,740	6,904
Other deferred revenue	165	156	164	157
	10,047	**8,971**	**8,914**	**7,977**
Non-current				
Employee entitlements (note 24)	788	722	788	722
Provision for makegood	526	350	452	275
	1,314	**1,072**	**1,241**	**997**

Consolidated

	Employee entitlements $'000	Reinsurance commission $'000	Other deferred revenue $'000	Provision for makegood $'000	Total $'000
Balance at 1 January 2009	1,731	7,805	157	350	10,043
Additional provisions recognised	175	992	7	178	1,352
Reductions arising from payments/ other sacrifices of future economic benefits	-	-	-	-	-
Net foreign currency exchange differences		(31)	-	(3)	(34)
Balance at 31 December 2009	**1,906**	**8,766**	**164**	**525**	**11,361**

Company

	Employee entitlements $'000	Reinsurance commission $'000	Other deferred revenue $'000	Provision for makegood $'000	Total $'000
Balance at 1 January 2009	1,638	6,904	157	275	8,974
Additional provisions recognised	160	836	7	177	1,181
Reductions arising from payments/ other sacrifices of future economic benefits		-	-	-	-
Balance at 31 December 2009	**1,798**	**7,740**	**164**	**452**	**10,155**

19. Non current interest bearing liabilities

	Consolidated 2009 $'000	Consolidated 2008 $'000	Company 2009 $'000	Company 2008 $'000
Loan from immediate parent entity (unsecured)	-	-	-	-
	-	**-**	**-**	**-**

Notes to the financial statements for the financial year ended 31 December 2009

20. Net claims incurred

Direct business

Consolidated	2009 Current year $'000	2009 Prior years $'000	2009 Total $'000	2008 Current year $'000	2008 Prior years $'000	2008 Total $'000
Gross claims expense						
Gross claims incurred – undiscounted	128,295	(21,337)	106,958	112,348	(4,642)	107,704
Discount movement	(725)	706	(19)	(546)	(38)	(584)
	127,570	**(20,631)**	**106,939**	**111,802**	**(4,680)**	**107,120**
Reinsurance and other recoveries revenue						
Reinsurance and other recoveries – undiscounted	(67,505)	5,666	(61,840)	(51,621)	(3,676)	(55,298)
Discount movement	60	(390)	(330)	3	70	74
	(67,445)	**5,276**	**(62,170)**	**(51,617)**	**(3,606)**	**(55,222)**
Net claims incurred	**60,125**	**(15,356)**	**44,769**	**60,185**	**(8,286)**	**51,898**

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

Company	2009 Current year $'000	2009 Prior years $'000	2009 Total $'000	2008 Current year $'000	2008 Prior years $'000	2008 Total $'000
Gross claims expense						
Gross claims incurred – undiscounted	115,003	(19,122)	95,881	103,345	(4,405)	98,940
Discount movement	(725)	706	(19)	(546)	(38)	(584)
	114,278	**(18,416)**	**95,862**	**102,799**	**(4,443)**	**98,356**
Reinsurance and other recoveries revenue						
Reinsurance and other recoveries – undiscounted	(60,225)	4,666	(55,559)	(47,604)	(4,057)	(51,661)
Discount movement	60	(390)	(330)	3	70	74
	(60,165)	**4,276**	**(55,889)**	**(47,600)**	**(3,987)**	**(51,587)**
Net claims incurred	**54,113**	**(14,140)**	**39,973**	**55,198**	**(8,430)**	**46,768**

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

21. Outstanding claims liabilities

a. Gross outstanding claims liabilities

	Consolidated		Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Gross central estimate	157,493	159,578	149,008	152,511
Discount to present value	(12,355)	(11,102)	(12,356)	(11,102)
Claims handling costs	9,152	8,875	8,838	8,580
Risk margin	18,585	16,956	18,138	16,485
Gross outstanding claims liabilities	**172,875**	**174,307**	**163,628**	**166,474**
Current	58,101	65,219	49,775	57,386
Non-current	114,774	109,088	113,853	109,088
	172,875	**174,307**	**163,628**	**166,474**

b. Claims development table – Liability business

The following table shows the development of net undiscounted outstanding claims for the liability class relative to the current estimated of ultimate claims costs for the five most recent accident years.

Consolidated						**Accident year**	
Ultimate claims cost estimate	Prior $'000	2005 $'000	2006 $'000	2007 $'000	2008 $'000	2009 $'000	Total $'000
At end of accident year		13,461	15,375	16,609	16,467	18,392	
One year later		11,992	15,127	14,106	14,052	-	
Two years later		11,013	10,664	13,879	-	-	
Three years later		9,055	8,184	-	-	-	
Four years later		7,097	-	-	-	-	
Current estimate of ultimate claims cost	54,870	7,097	8,184	13,879	14,052	18,392	116,474
Cumulative net payments	32,091	3,378	1,501	2,132	977	369	40,448
Undiscounted central estimates	**22,779**	**3,719**	**6,683**	**11,747**	**13,075**	**18,023**	**76,026**
Net discount							(2,784)
Claims handling expenses							269
Allowance for expected reinsurance claims							7,690
Risk margin							16,763
Net liability class outstanding claims							97,964
Net short tail outstanding claims							18,183
GST input tax credits associated with outstanding claims							-
Net outstanding claims liabilities							**115,239**
Reinsurance and other recoveries on outstanding claims							57,635
Gross outstanding claims liabilities							**172,874**

Notes to the financial statements for the financial year ended 31 December 2009

21. Outstanding claims liabilities (continued)

c. Reconciliation of movement in discounted outstanding claims provision and reinsurance recoveries

Consolidated	2009			2008		
	Gross $'000	Reinsurance and other recoveries $'000	Net $'000	Gross $'000	Reinsurance and other recoveries $'000	Net $'000
At 1 January	174,307	58,341	115,966	156,013	51,623	104,390
Increase due to claims incurred in current accident year	128,907	68,837	60,070	116,840	56,656	60,183
Movement in prior year claims provisions	(24,739)	(8,183)	(16,556)	(7,363)	761	(8,123)
Claim payments/recoveries	(105,439)	(61,232)	(44,207)	(90,879)	(50,535)	(40,344)
Foreign exchange	(162)	(128)	(34)	(305)	(165)	(140)
At 31 December	**172,874**	**57,635**	**115,239**	**174,307**	**58,341**	**115,966**

22. Unearned premium and deferred insurance costs

a. Unearned premium

Consolidated	2009			2008		
	Gross $'000	Reinsurance $'000	Net $'000	Gross $'000	Reinsurance $'000	Net $'000
At 1 January	82,337	32,013	50,324	77,260	28,911	48,349
Premiums on contracts written	159,418	63,359	96,059	142,907	54,361	88,545
Earning of premiums written	(149,922)	(58,361)	(91,561)	(137,336)	(51,026)	(86,310)
Foreign exchange differences	(494)	(243)	(251)	(493)	(233)	(260)
At 31 December	**91,339**	**36,768**	**54,571**	**82,338**	**32,013**	**50,324**

Company	2009			2008		
	Gross $'000	Reinsurance $'000	Net $'000	Gross $'000	Reinsurance $'000	Net $'000
At 1 January	73,062	27,492	45,570	68,911	24,981	43,930
Premiums on contracts written	140,171	53,583	86,588	126,106	45,895	80,211
Earning of premiums written	(132,249)	(49,458)	(82,792)	(121,955)	(43,384)	(78,571)
At 31 December	**80,983**	**31,617**	**49,366**	**73,062**	**27,492**	**45,570**

b. Deferred insurance costs

Consolidated	2009		2008	
	Acquisition costs $'000	Fire service levy $'000	Acquisition costs $'000	Fire service levy $'000
At 1 January	12,688	5,202	11,632	4,588
Costs deferred in the year	12,505	10,388	12,139	8,346
Amortisation charged to income	(9,580)	(9,031)	(9,985)	(7,728)
Write down for premium deficiency (note 23)	(2,019)	-	(1,601)	-
Foreign exchange differences	(43)	-	(74)	-
At 31 December	**13,551**	**6,559**	**12,688**	**5,206**

Company				
At 1 January	11,457	5,206	10,239	4,588
Costs deferred in the year	10,909	10,383	10,189	8,346
Amortisation charged to income	(8,894)	(9,031)	(7,803)	(7,728)
Write down for premium deficiency (note 23)	(1,342)	-	(1,168)	-
At 31 December	**12,130**	**6,559**	**11,457**	**5,206**

23. Unexpired risk liability

The unearned premium liability in respect of the domestic portfolio was found to be deficient as at 31 December 2009. The entire deficiency of $2.019 million (Group)/$1.342 million (Company) was recognised. As at 31 December 2008 the entire deficiency of $1.601 million (Group)/$1.168 million (Company) was recognised. In recognising the deficiency the Company and the Group wrote down the related deferred acquisition costs. No additional liability was required to be recognised in the balance sheet.

The probability of sufficiency ("POS") adopted in performing the liability adequacy test is set at the 80th percentile which is the same as that adopted in determining the outstanding claims liabilities ("OCL").

The POS for OCL is set at a level that is appropriate and sustainable to cover the Company's and the Group's claims obligations after having regard to the prevailing market environment and prudent industry practice.

Being a test of adequacy, the POS for the liability adequacy test ("LAT") is set to highlight deficiencies in product pricing following an analysis of the Group's profit margins that equates to the Group's cost of capital after having regard to regulatory minimum requirements.

Notes to the financial statements for the financial year ended 31 December 2009

23. Unexpired risk liability (continued)

Calculation of deficiency	Consolidated 2009 $'000	Consolidated 2008 $'000	Company 2009 $'000	Company 2008 $'000
Unearned premium liability relating to insurance contracts issued	22,929	19,959	17,724	17,694
Related reinsurance asset	-	-	-	-
Related deferred acquisition costs	(4,265)	(3,978)	(3,192)	(3,328)
	18,664	**15,981**	**14,532**	**14,366**
Central estimate of present value of expected future cash flows arising from future claims on insurance contracts issued	18,978	16,129	14,372	14,081
Risk margin of 12.20% (Group)/22.60% (Company)	1,706	1,453	1,502	1,453
Present value of expected future cash flows arising from reinsurance recoveries on future claims	-	-	-	-
	20,683	**17,582**	**15,874**	**15,534**
Net deficiency	**(2,019)**	**(1,601)**	**(1,342)**	**(1,168)**
Add back reinsurance element of present value of expected future cash flows for future claims	-	-	-	-
Gross deficiency	**(2,019)**	**(1,601)**	**(1,342)**	**(1,168)**

The liability test has identified a surplus for other portfolios of contracts that are subject to broadly similar risks that are managed together as a single portfolio.

The process of determining the overall risk margin, including the way in which diversification for risks has been allowed for is discussed in note 3.

24. Employee benefits

The aggregate employee benefits recognised and included in the financial statements is as follows:

Current provision for employee benefits (note 18)	1,118	1,009	1010	916
Non-current provision for employee benefits (note 18)	788	722	788	722
Aggregate employee benefits	**1,906**	**1,731**	**1,798**	**1,638**
Number of employees at end of financial year	167	155	138	131

25. Commitments

Operating lease commitments:

Not later than one year	1328	1,034	1,162	872
Later than one year and not later than five years	1,932	2,569	1,504	1,952
Later than five years	-	-	-	-
	3,260	**3,603**	**2,667**	**2,824**

26. Share capital

	Consolidated 2009 $'000	Consolidated 2008 $'000	Company 2009 $'000	Company 2008 $'000
Issued share capital 5,000,000 ordinary shares each fully paid (2008: 5,000,000)	5,000	5,000	5,000	5,000

Ordinary shares carry the right to dividends and one vote per share.

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the company does not have a limited amount of authorised capital and issued shares do not have a par value.

27. Reserves

Foreign currency translation reserve	(835)	(507)	-	-
Assets revaluation reserve	421	421	421	421
	(414)	**(86)**	**421**	**421**

a. Foreign currency translation reserve

Balance at the beginning of financial year	(506)	(11)	-	-
Translation of the assets and liabilities of foreign operations	(328)	(495)	-	-
Balance at the end of financial year	**(835)**	**(506)**	**-**	**-**

b. Assets revaluation reserve

Balance at the beginning of financial year	421	326	421	326
Revaluation increments	-	135	-	135
Deferred tax liabilities arising from revaluation	-	(40)	-	(40)
Balance at the end of financial year	**421**	**421**	**421**	**421**

28. Retained Profits

Balance at beginning of financial year	69,635	64,082	61,222	55,967
Net profit	8,508	8,676	7,836	8,378
Dividends provided for or paid	(3,355)	(3,123)	(2,974)	(3,123)
Balance at end of financial year	**74,787**	**69,635**	**66,084**	**61,222**

Notes to the financial statements for the financial year ended 31 December 2009

29. Financial instruments

a. Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 of the financial statements.

b. Financial risk management objectives

It is ultimately the responsibility of the board of directors to ensure that there is an effective risk management control framework in place. Consistent with regulatory requirements the board has explicitly allocated to the Managing Director, the function of overseeing the establishment and maintenance of risk-based systems and controls across the Group.

As part of the overall governance framework the Group has established a number of board and management committees to oversee and manage financial risks, which are described in note 4 to the financial statements.

The Group has assessed the effectiveness of the controls in place to mitigate the risks and implemented appropriate policies for managing these risks. In order to establish the parameters within which risk must be managed, the Group has also developed a statement of 'risk appetite', or tolerance. Both the risk policies and risk appetite are subject to an annual review to ensure that they reflect the changing risk profile of the business.

c. Categories of financial instruments

		Consolidated		Company	
	Note	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Financial assets					
Cash and cash equivalents		20,796	23,589	17,123	20,356
Fair value through profit or loss		180,183	176,277	169,657	167,725
Loans and receivables		165,645	155,798	147,091	140,310
Financial liabilities					
Payables		15,946	17,852	12,893	16,022
Interest bearing liability		-	3,000	-	3,000

Financial assets carried at fair value through profit or loss have been designated as such upon initial recognition.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from 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).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

				Consolidated
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Fair value through profit and loss				
Listed shares	4,571	-	-	4,571
Listed fixed income securities	164,382	-	-	164,382
Unlisted fixed income securities	-	-	11,230	11,230
As at 31 December 2009	**168,953**	**-**	**11,230**	**180,183**

				Company
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Fair value through profit and loss				
Listed shares	4,571	-	-	4,571
Listed fixed income securities	153,856	-	-	153,856
Unlisted fixed income securities	-			11,230
As at 31 December 2009	**158,427**	**-**	**11,230**	**169,657**

During the year there were no transfers between the 3 levels.

Reconciliation of Level 3 fair value measurements of financial assets

	Consolidated & Company
	Total $'000
Balance at 1 January 2008	**11,597**
Unrealised losses in profit and loss	(367)
Reclassifications	-
Purchases	-
Sales	-
Balance at 31 December 2009	**11,230**

Notes to the financial statements for the financial year ended 31 December 2009

29. Financial instruments (continued)

d. Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the company. The Group has adopted the policy of only dealing with creditworthy counterparties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the risk of financial loss from defaults. The policies and procedures in place to mitigate the Group's exposure to credit risk are described in note 4 of this financial report.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The table below shows the maximum exposure to credit risk for the components of the balance sheet. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting or taking account of the value of any collateral or other security obtained.

Financial assets		Consolidated		Company	
	Note	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Financial assets					
Cash and cash equivalents (excluding bank overdraft)	33a	20,796	23,689	17,123	20,356
Financial assets at fair value through profit or loss					
Government/semi-government securities	10	95,902	109,779	88,960	102,017
Debentures	10	79,711	63,161	76,126	61,078
Equities	10	4,571	3,330	4,571	3,330
Loans and receivables					
Premiums receivable	9	50,088	45,673	44,122	39,635
Other debtors and prepayments	9	7,133	13,043	6,966	12,709
Receivable from related party	9	-	-	147	161
Mortgages and loans	10	9	7	9	7
Reinsurance assets	11	51,327	46,212	45,329	42,687
Other insurance receivables	9,13	57,089	50,863	50,517	45,111
Total		**366,624**	**355,757**	**333,870**	**327,090**

Credit risk exposure by credit rating

Table below provides information regarding credit risk exposure of the Group by classifying assets according to the Group's credit ratings of counterparties.

Consolidated				Neither past-due nor impaired	
	Investment grade (i) $'000	Non-investment grade: satis-factory (ii) $'000	Non-investment grade: unsatis-factory (iii) $'000	Past-due or impaired $'000	Total $'000
2009					
Financial Assets					
Cash and cash equivalents (excluding bank overdraft)	20,796	-	-	-	20,796
Financial assets at fair value through profit or loss					
Government/semi govt securities	95,902	-	-	-	95,902
Debentures	79,711	-	-	-	79,711
Equity securities	4,571	-	-	-	4,571
Loans and other receivables					
Premiums receivable	-	50,088	-	-	50,088
Other debtors and prepayments	-	7,133	-	-	7,133
Receivable from related party	-	-	-	-	-
Mortgages and loans	-	9	-	-	9
Reinsurance assets	51,327	-	-	-	51,327
Other insurance receivables	-	57,089	-	-	57,089
Total	**252,306**	**114,318**	**-**	**-**	**366,624**

2008					
Financial Assets					
Cash and cash equivalents	23,689	-	-	-	23,689
Financial assets at fair value through profit or loss					
Government/semi govt securities	109,779	-	-	-	109,779
Debentures	63,161	-	-	-	63,161
Equity securities	3,330	-	-	-	3,330
Loans and other receivables					-
Premiums receivable	-	45,673	-	-	45,673
Other debtors and prepayments	-	13,043	-	-	13,043
Receivable from related party	-	-	-	-	-
Mortgages and loans	-	7	-	-	7
Reinsurance assets	46,212	-	-	-	46,212
Other insurance receivables	-	50,863	-	-	50,863
Total	**246,171**	**109,586**	**-**	**-**	**355,757**

Notes to the financial statements for the financial year ended 31 December 2009

29. Financial instruments (continued)

d. Credit risk (continued)

Company				Neither past-due nor impaired	
	Investment grade (i) $'000	Non-investment grade: satis-factory (ii) $'000	Non-investment grade: unsatis-factory (iii) $'000	Past-due or impaired $'000	Total $'000
2009					
Financial Assets					
Cash and cash equivalents	17,123	-	-	-	17,123
Financial assets at fair value through profit or loss					
Government/semi govt securities	88,961	-	-	-	88,960
Debentures	76,126	-	-	-	76,126
Equity securities	4,571	-	-	-	4,571
Loans and other receivables					
Premiums receivable	-	44,122	-	-	44,122
Other debtors and prepayments	-	6,967	-	-	6,966
Receivable from related party	-	147	-	-	147
Mortgages and loans	-	9	-	-	9
Reinsurance assets	45,329	-	-	-	45,329
Other insurance receivables	-	50,517	-	-	50,517
Total	**232,110**	**101,762**	**-**	**-**	**333,870**
2008					
Financial Assets					
Cash and cash equivalents	20,356	-	-	-	20,356
Financial assets at fair value through profit or loss					0
Government/semi govt securities	102,017	-	-	-	102,017
Debentures	61,078	-	-	-	61,078
Equity securities	3,330	-	-	-	3,330
Loans and other receivables					0
Premiums receivable	-	39,635	-	-	39,635
Other debtors and prepayments	-	12,709	-	-	12,709
Receivable from related party	-	161	-	-	161
Mortgages and loans	-	7	-	-	7
Reinsurance assets	42,687	-	-	-	42,687
Other insurance receivables	-	45,111	-	-	45,111
Total	**229,468**	**97,623**	**-**	**-**	**327,091**

(i) The Group and the company classify all assets with Standard and Poors credit ratings of AAA to BBB as investment grade.

(ii) Non-investment grade (satisfactory) assets include assets that fall outside the rage of AAA to BBB Standard and Poors credit rating as well as non-rated assets that are within the risk parameters outlined by the Group's risk management policy.

(ii) Non-investment grade (unsatisfactory) assets include assets that fall outside the risk parameters outlined by the Group's risk management policy and assets that would otherwise be past due or impaired whose terms have been renegotiated.

e. Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial instruments. Ultimate responsibility for liquidity risk management rests with the board of directors, that has built a liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of assets and liabilities. As required by APRA Prudential Standard GPS 220, the Group has developed and implemented a Risk Management Strategy, which is described in note 4. The Group's overall strategy in liquidity risk management remains unchanged from 2008. The Group and the company have no significant concentration of liquidity risk.

The following tables summarise the maturity profile of the company's and the Group's financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay, except for outstanding claims liabilities, where maturity profiles are determined on the discounted estimated timing of net cash outflows.

The tables include both interest and principal cash flows. The adjustment column represents the possible future cash flows attributable to the instrument included in the maturity analysis which are not included in the carrying amount of the financial liability on the balance sheet.

Consolidated	Weighted average interest rate %	Less than 1 year $'000	1-5 years $'000	5+ years $'000	Adjustment $'000	Total $'000
2009						
Financial liabilities						
Outstanding claims liabilities		65,503	65,779	41,593	-	172,875
Non-interest bearing:						
Payables		16,904	-	-	-	16,904
Interest bearing:						
Interest bearing liability		-	-	-	-	-
Bank Overdraft	6.00	-	-	-	-	-
		82,407	**65,779**	**41,593**	**-**	**189,779**
2008						
Financial liabilities						
Outstanding claims liabilities		72,049	59,805	42,453	-	174,307
Non-interest bearing:						
Payables		17,852	-	-		17,852
Interest bearing:						
Interest bearing liability	6.00	180	3,090	-	(270)	3,000
Bank Overdraft		(100)	-	-	-	(100)
		90,181	**62,895**	**42,453**	**(270)**	**195,259**

Notes to the financial statements for the financial year ended 31 December 2009

29. Financial instruments (continued)

e. Liquidity risk (continued)

Company	Weighted average interest rate %	Less than 1 year $'000	1-5 years $'000	5+ years $'000	Adjustment $'000	Total $'000
2009						
Outstanding claims liabilities		57,177	64,895	41,593	-	163,628
Financial liabilities						
Non-interest bearing:						
Payables		12,893	-	-	-	12,893
Interest bearing:						
Interest bearing liability	6.00	-	-	-	-	-
		70,161	**64,857**	**41,593**	**-**	**176,611**
2008						
Outstanding claims liabilities		64,215	59,805	42,453	-	166,474
Financial liabilities						
Non-interest bearing:						
Payables		16,022	-	-	-	16,022
Interest bearing:						
Interest bearing liability	6.00	180	3,090	-	(270)	3,000
		80,417	**62,895**	**42,453**	**(270)**	**185,495**

f. Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign exchange (currency risk), market interest rates (interest rate risk) and market prices (price risk). The Group's policies and procedures put in place to mitigate the Group's exposure to market risk are described in note 4 to this financial report. There has been no change to the Group's exposure to market risks or the manner in which it manages and measure the risk.

Interest rate risk management

The Group's activities expose it to the financial risk of changes in interest rates. Floating rate instruments expose the Group to cash flow risk, whereas fixed interest rate instruments expose the Group to fair value interest rate risk. The Group's Investment Committee monitors the Group's and the company's exposures to interest rate risk as described in note 4 to this financial report.

The company's and the Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk section of this note.

The following tables detail the company's and the Group's expected maturity for its financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the company or Group anticipates that the cash flow will occur in a different period. The adjustment column represents the possible future cash flows attributable to the instrument included in the maturity analysis which are not included in the carrying amount of the financial asset on the statement of financial position.

f. Market risk (continued)

Consolidated	Weighted average interest rate %	Less than 1 year $'000	1-5 years $'000	5+ years $'000	Adjustment $'000	Total $'000
2009						
Non-interest bearing:						
Cash		136	-	-	-	136
Net trade debtors		50,088	-	-	-	50,088
Mortgages and loans		9	-	-	-	9
Equity securities		4,449	-	-	-	4,449
Variable interest rate instruments:						
Cash	3.91	17,121	-	-	-	17,121
Fixed interest rate instruments:						
Short term bills and notes	7.79	3,540	-	-	-	3,540
Government/semi govt securities	4.58	7,431	65,668	-	22,803	95,902
Debentures	6.10	5,829	73,850	-	35,371	115,050
Interest bearing						
Interest bearing liability		-	-	-	-	-
Bank Overdraft		-	-	-	-	-
		88,604	**139,517**	**-**	**58,174**	**286,295**

Consolidated	Weighted average interest rate %	Less than 1 year $'000	1-5 years $'000	5+ years $'000	Adjustment $'000	Total $'000
2008						
Non-interest bearing:						
Cash		4	-	-	-	4
Net trade debtors		45,017	-	-	-	45,017
Mortgages and loans		7	-	-	-	7
Equity securities		3,330	-	-	-	3,330
Variable interest rate instruments:						0
Cash	3.91	19,353	-	-	-	19,353
Fixed interest rate instruments:						0
Short term bills and notes	7.79	4,338	-	-	(5)	4,333
Government/semi govt securities	4.58	4,606	107,657	12,769	(15,254)	109,778
Debentures	6.10	3,421	68,089	-	(8,348)	63,162
Interest bearing						
Interest bearing liability	6.00	(3,090)	-	-	90	(3,000)
Bank Overdraft		(100)	-	-	-	(100)
		76,886	**175,746**	**12,769**	**(23,517)**	**241,884**

Notes to the financial statements for the financial year ended 31 December 2009

29. Financial instruments (continued)

f. Market risk (continued)

Company	Weighted average interest rate %	Less than 1 year $'000	1-5 years $'000	5+ years $'000	Adjustment $'000	Total $'000
2009						
Non-interest bearing:						
Cash		3	-	-	-	3
Net trade debtors		44,122	-	-	-	44,122
Related party receivables		147	-	-	-	147
Mortgages and loans		9	-	-	-	9
Equity securities		4,449	-	-	-	4,449
Variable interest rate instruments:						
Cash	3.33	17,121	-	-	-	17,121
Fixed interest rate instruments:						
Short term bills and notes		-	-	-	-	-
Government/semi govt securities	4.58	3,423	62,735	-	22,803	88,961
Debentures	5.56	5,422	70,672	-	35,371	111,465
Interest bearing						
Interest bearing liability		-	-		-	-
		74,696	**133,407**	**-**	**58,174**	**266,277**

2008						
Non-interest bearing:						
Cash		4	-	-	-	4
Net trade debtors		39,636	-	-	-	39,636
Related party receivables		161	-	-	-	161
Mortgages and loans		7	-	-	-	7
Equity securities		3,330	-	-	-	3,330
Variable interest rate instruments:						
Cash	3.91	19,353	-	-	-	19,353
Fixed interest rate instruments:						
Short term bills and notes	5.12	1,005	-	-	(5)	1,000
Government/semi govt securities	4.37	3,780	100,721	12,769	(15,254)	102,017
Debentures	5.99	3,001	66,425	-	(8,348)	61,078
Interest bearing						
Interest bearing liability	6.00	(3,090)	-		90	(3,000)
		67,187	**167,146**	**12,769**	**(23,517)**	**223,586**

Insurance and reinsurance assets are not financial assets for purposes of disclosures relating to financial instruments.

f. Market risk (continued)

Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the possible change in interest rates.

At reporting date, if interest rates had been 50 basis points higher or lower and all other variables were held constant, the Group's:

- net profit would increase/decrease by $734 thousand (2008: decrease/increase by $1.260 million). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings. All other equity reserves would have been unaffected.

Foreign currency risk management

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group is mainly exposed to New Zealand dollars via its subsidiary in New Zealand. The Group's financial assets are primarily denominated in the same currencies as its insurance contract liabilities, which mitigates the foreign currency exchange risk for the overseas operations in New Zealand. Exchange rate exposure is managed in line with the Group's Risk Management Statement as described in note 4. The Group's overall strategy in foreign currency risk management remains unchanged from 2008.

Other price risks

The Group is exposed to equity price risks arising from equity investments. Equity investments are held for strategic rather than trading purposes. The Group does not actively trade these investments.

Equity price sensitivity

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date.

At reporting date, if the inputs to the valuation model had been 25% higher/lower while all other variables were held constant:

- net profit would increase/decrease by $800 thousand (2008: $582 thousand) as a result of the changes in fair value of equities designated as at 'fair value through profit or loss';
- other equity reserves would have been unaffected.

Notes to the financial statements for the financial year ended 31 December 2009

30. Related party disclosures

Related parties of Ansvar Insurance Limited fall into the following categories:

Controlled entities

Information relating to controlled entities is set out in note 31.

Ultimate parent entity

The ultimate parent entity in the wholly owned group is Allchurches Trust Limited, incorporated in the UK.

The immediate parent entity of the Group is Ecclesiastical Insurance Office Plc.

The parent entity in the economic entity is Ansvar Insurance Limited.

Directors

The names of persons who were directors of the parent entity during the financial year and their remuneration are set out in note 7.

Mr G. A. Prescott, Mr S. A. Wood and Mr. M. H. Tripp were directors of Ecclesiastical Insurance Office plc, the immediate parent entity of Ansvar Insurance Limited during the year.

Other Transactions with Directors

The profit from ordinary activities before income tax includes the following items of revenue and expense that resulted from transactions with directors or their director related entities:

	Consolidated		Company	
	2009	**2008**	**2009**	**2008**
Purchase of legal services from Moores Legal	11,838	13,760	11,838	13,760
Sponsorship payments to Willow Creek Australia	28,875	38,500	28,875	38,500

The above transactions were made on commercial terms and conditions and at market rates.

Wholly owned group

The wholly owned group consists of Allchurches Trust Limited and its wholly owned controlled entities, including Ansvar Insurance Limited and its controlled entities. Ownership interests in these controlled entities are set out in note 31.

The $3m long term loan provided by Ecclesiastical Insurance Office plc to Ansvar Insurance limited was fully repaid during the financial year including interest of $90k.

Other transactions between Ansvar Insurance Limited and related parties in the wholly owned group during the years ended 31 December 2009 and 31 December 2008 consisted of loans advanced by Ansvar Insurance Limited to its controlled entities. There was no interest payable on these loans.

The Parent of Ansvar Insurance Limited has agreed to act on behalf of the Group to obtain a portion of re-insurance cover from external parties at prevailing market terms and conditions. Under the terms of this agreement, the Parent will be reimbursed or will refund the net liability or net asset position of this reinsurance cover at the nominated frequency.

Aggregate amounts receivable from or payable to entities in the wholly owned group at balance date were as follows:

	Consolidated		Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current unsecured receivable from controlled entities	-	-	147	161
Current unsecured payable to parent entity	(2,987)	(3,229)	(3,036)	(3,334)
Current interest bearing liability payable to parent entity	-	3,000	-	3,000
Non-current interest bearing liability payable to parent entity	-	-	-	-

Ansvar Insurance Limited pays for certain operating expenses on behalf of Ansvar Insurance Limited (New Zealand); these costs are charged back to the subsidiary. During the year a total of $1,220 thousand (2008: $899 thousand) was charged back.

31. Controlled entities

Name of Entity	Country of incorporation	Ownership Interest	
		2009 %	2008 %
Ansvar Insurance Limited**	New Zealand	100	100

** Audited by a member firm of Deloitte Touche Tohmatsu

32. APRA capital adequacy

The following information refers to APRA's capital adequacy requirements and calculations of capital and some other balances are based on different methodologies from those used to prepare this financial report.

	2009 $'000	2008 $'000
Tier 1 Capital	81,151	75,517
Less: Net deferred tax assets	(4,363)	(3,317)
Other intangible assets	(553)	(410)
Other deductions required by APRA	(500)	(500)
Adjusted Tier 1 Capital	75,735	71,290
Tier 2 Capital	189	789
Total Capital Base	75,924	72,079
Minimum capital requirement (MCR)	36,088	32,273
MCR ratio	210.39%	223.34%

Notes to the financial statements for the financial year ended 31 December 2009

33. Notes to the cash flow statement

a. Reconciliation of cash and cash equivalents

For the purposes of the cash flow statement, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the statement of financial position as follows:

	Consolidated		Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Cash	13,491	9,711	13,358	9,711
Add: short term deposits (i)	7,305	13,978	3,766	10,645
Less: bank overdraft	-	(100)	-	-
	20,796	23,589	17,123	20,356

(i) money market instruments that qualify as cash equivalents under the Group's accounting policies: have short maturities (three months or less from the date of acquisition), are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

b. Reconciliation of profit for the year to net cash flows from operating activities

	Consolidated 2009 $'000	Consolidated 2008 $'000	Company 2009 $'000	Company 2008 $'000
Profit for the year	**8,507**	**8,676**	**7,836**	**8,378**
Depreciation and amortisation	1,002	1,084	896	921
Doubtful debts	369	362	355	381
Changes in fair value of investments	1,800	(5,238)	1,697	(4,988)
Dividends Received	(185)	(240)	(185)	(240)
Rentals received	-	-	(76)	(59)
Loss on sale of assets	9	52	-	26
Decrease in current tax liabilities	2,931	-	2,850	-
Increase/(decrease) in current tax assets	-	(315)	-	(44)
(Increase)/decrease in deferred tax balances	(902)	1,651	(941)	1,620
Changes in operating assets and liabilities:				
(Increase)/decrease in trade debtors	(4,495)	(2,106)	(4,555)	(1,181)
(Increase)/decrease in reinsurance recoveries receivable	(1,023)	(1,169)	1,451	(749)
Decrease/(increase) in other debtors	3,193	(3,131)	2,703	(3,787)
(Increase)/decrease in deferred insurance costs	(6,971)	(4,777)	(6,151)	(4,348)
(Decrease)/increase/(decrease) in net amount due to related entities for operating activities	(58)	163	(135)	88
Increase/(decrease) in sundry creditors and accruals	1,671	(232)	1,415	(176)
Increase/(decrease) in unearned premiums	9,001	5,077	7,921	4,151
(Decrease)/Increase in outstanding claims	(1,432)	18,293	(2,846)	17,338
Increase in provision for employee benefits	175	101	160	83
Increase in direct insurance payables	1,033	182	973	56
(Decrease)/Increase in reinsurance ceded creditors	(4,861)	620	(5,918)	572
(Decrease)/increase in indirect taxes	(155)	(440)	409	(431)
Increase in deferred reinsurance and other revenue	968	881	844	758
Increase in other operating provisions	175	75	177	55
Net cash flow from operating activities	**10,752**	**19,569**	**8,880**	**18,423**

34. Subsequent events

There have been no subsequent events noted.

35. Adoption of new and revised Accounting Standards

In the current year, the company has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period.

The company has adopted the following revised Standard issued by the Australian Accounting Standards Board:

• AASB 101 Presentation of Financial Statements

In accordance with AASB 101 the name of the Income Statements has been changed to Statements of Comprehensive Income and the name of the Balance Sheets has been changed to Statements of Financial Position. The company has also amended the layout of this Statement to comply with the accounting standard.

36. Additional company information

Ansvar Insurance Limited is a public company incorporated in Australia. The company operates in Australia and also New Zealand via its wholly owned New Zealand subsidiary. Ansvar Insurance Limited's registered office and its principal place of business is as follows:

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Member of the Ecclesiastical Insurance Group
Annual report for the financial year ended 31 December 2009

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