Ansvar Insurance Limited

ACN 007 216 506
Annual report for the financial year ended 31 December 2010

Annual report
for the financial year ended 31 December 2010

Directors' report

The directors of Ansvar Insurance Limited submit herewith the annual financial report for the financial year ended 31 December 2010. 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:

Name	Particulars
Mr Murray Baird	BA, LLB, MAICD 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, and 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. He is also the Executive Officer of Ridley Melbourne Mission & Ministry College and the Chair of the Audit Committee for the Anglican Diocese of Melbourne.
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	BA, 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 as 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, as National Director for Mission Research and Development with the Bible Society, and as Leadership Research Fellow with Macquarie University Graduate School of Management. She is the outgoing Chairman of the Willow Creek Association Australia.
Mr John Peberdy	ANZIIF (Snr Assoc) CIP Director (Resigned 30 July 2010) 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 Nicholas Barnett	B.Ec, ACA, MA/CD Director (Appointed 12 May 2010) Nicholas joined the board during May 2010. Nicholas is a Director of Mission Australia Limited and Director (and Chairman) of Insync Surveys Pty Ltd. Nicholas was formerly a Director (and Chairman) of First Samuel Limited and a partner of KPMG. He has 30 years' experience as a Chartered Accountant and Business Consultant, including 11 years at KPMG with the last 2 years as a Partner of that firm. He has been the Managing Director of Barnett Consulting Group (Property and Financial Specialists), Chief Executive Officer of Ambit Group (IT Recruitment Specialists) and of Insync

Surveys, benchmarked stake holder survey and consulting specialists. He is also a co-founder and director of Board Benchmarking Australia Pty Ltd.

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.
Professor Jennifer George	PhD (Stanford) BSc (Hons) (Canterbury) Director (Appointed 12 May 2010) Professor Jennifer George was appointed to the board in May 2010. Jennifer is the Dean and Director of the Melbourne Business School, where she has been a faculty member since 1998. Her academic and professional interests are in mathematical modelling and management education. Jennifer is a member of the Australian Institute of Company Directors and has been a director of Ridley Melbourne Mission and Ministry College since 2007.
Mr Andrew Moon	MBA Director (Appointed 1 August 2010) Andrew is the CEO of Ansvar Insurance Ltd in Australia and New Zealand and joined the board in August 2010. Prior to commencing with Ansvar Insurance, Andrew held leadership roles in financial and corporate services in Australia and overseas. He is an accomplished senior executive working at CEO and GM level in a number of organisations including Tower Life's Australian operations, Colonial State Bank, First Chicago's Australian operations and Wardley Hong Kong. Andrew has also held the position of Chair of the Parkinson's Association of NSW.
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.
Mr William Graham Shearn	B.Arts, FCII Director (Resigned 18 February 2010) 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 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 29 years experience in general insurance, financial services and healthcare markets.

The 12 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 2010.

Review of operations
Following an unprecedented year in which four large natural events impacted our operating results a modest after tax profit of $4.889m was still achieved compared to last year's of $8.507m. The year was exceptionally challenging from a claims perspective. Australia experienced three of the aforementioned events, the Perth and Melbourne storms of March 2010 and the North Queensland floods in December with the combined gross cost of approximately $26.1m before reinsurance. Across the Tasman in New Zealand we experienced the fourth event, the Christchurch earthquake, which was also the largest event loss in our history. The gross claims stemming from the devastating earthquake in Christchurch in September 2010 total NZD$133.8m, before reinsurance. Our prudent reinsurance arrangements have mitigated the combined net cost of all the four events to $4.4m, including reinstatement premiums. We pay special thanks to all our staff and especially our claims teams who have worked tirelessly and under immense pressure to meet the needs of customers during these unprecedented times.

Growth in terms of Gross Written Premium was a modest 1.4% increasing to $162.4m from $160.1m last year. Our Personal Lines premium was significantly down following a review of our technical pricing and tightening of our underwriting standards. On the other hand, our Commercial Lines experienced solid growth as we focussed more of our efforts on our core segments of Faith, Care, Charity, Education and Heritage.

Ansvar Insurance continues to fulfil its obligations under the Community Education Program policy by providing a further $894,608 in grants during 2010.

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
Since the end of the financial year we have had a further three large natural events two being in Australia and the third in New Zealand.

- January 2011, Brisbane Floods : Gross claims cost $35.4m;
- February 2011, Cyclone Yasi/Melbourne Storms : Gross claims cost $13.3m;
- February 2011, Christchurch Earthquake: Gross claims cost $222.1m.

Whilst in gross terms the claims to date amount to approximately $271m before reinsurance, the net cost after reinsurance recoveries and reinstatement premiums will be approximately $12m. Whilst these events will impact the operating results for 2011, they are not expected to significantly affect the ongoing operations of the economic entity given the sound financial position of Ansvar Insurance.

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 2010, the directors have recommended the payment of a dividend of $3.571 million to the parent entity which was paid on 25 February 2011 (2009: $3.355 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, 2 community education program grants meetings and 3 nominations and remuneration committee meetings were held.

Directors' report (cont'd)

Directors	Board		Audit, Risk and 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	5	-	-	-	-	3	2	2	2
Mr B G Harris	5	5	5	5	-	-	-	-	2	2
Mr M H Tripp	5	5	-	-	-	-	3	1	-	-
Mr M P Baird	5	5	5	5	-	-	3	3	2	2
Mr J R Peberdy*	3	3	-	-	3	3	-	-	-	-
Mr D J Harrison	5	5	-	-	5	5	-	-	-	-
Mr G W Shearn*	1	1	-	-	-	-	-	-	-	-
Mr J O Thomas	5	5	5	5	5	5	-	-	-	-
Mr S A Wood	5	3	-	-	-	-	-	-	-	-
N Barnett*	3	3	-	-	2	2	1	1	-	-
J George*	3	3	2	2	-	-	-	-	2	2
Mr A M Moon*	2	2	-	-	2	2	-	-	2	2

*Indicates that the Director was either appointed or resigned during the period.

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

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M P Baird
Chairman

....

B G Harris
Director

Melbourne, 14 April 2011

Deloitte.

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14 April 2011

The Board of Directors
Ansvar Insurance Limited
432 St. Kilda Road,
MELBOURNE VIC 3004

Dear Board Members

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 2010, 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 TOHMATSU

Peter A. Caldwell
Partner
Chartered Accountants

Deloitte.

Deloitte Touche Tohmatsu
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Independent Auditor's Report to the members of Ansvar Insurance Limited

We have audited the accompanying financial report of Ansvar Insurance Limited, which comprises the statement of financial position as at 31 December 2010, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 9 to 54.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

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

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

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

Deloitte.

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Ansvar Insurance Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

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 2010 and of their performance for the year ended on that date; and

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

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

DELOITTE TOUCHE TOHMATSU

Peter A. Caldwell
Partner
Chartered Accountant
Melbourne, 14 April 2011

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; and

c) in the directors' opinion, the financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board;

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, 14 April 2011

Statement of comprehensive income
for the financial year ended 31 December 2010

	Note	Consolidated 2010 $'000	Consolidated 2009 $'000	Company 2010 $'000	Company 2009 $'000
Direct premium revenue	5(a)	161,755	150,734	142,430	133,063
Outwards reinsurance premium expense		(80,722)	(73,071)	(68,869)	(62,516)
Net premium revenue		**81,033**	**77,663**	**73,561**	**70,547**
Direct claims expense	17	(219,519)	(106,939)	(106,023)	(95,862)
Reinsurance and other recoveries revenue	5(a)	169,887	62,170	61,896	55,889
Net claims incurred	17	**(49,632)**	**(44,769)**	**(44,127)**	**(39,973)**
Acquisition costs	19(b)	(31,502)	(27,677)	(27,681)	(24,101)
Fire brigade charges	19(b)	(10,146)	(9,032)	(10,146)	(9,031)
Underwriting expenses		**(41,648)**	**(36,709)**	**(37,827)**	**(33,132)**
Commissions Revenue	5(a)	15,979	15,172	13,789	13,193
Underwriting result		**5,732**	**11,357**	**5,396**	**10,635**
Interest and dividend revenue	5(a)	11,705	11,343	11,465	10,634
Changes in fair value					
- Realised losses on investments	5(a)	(621)	(642)	(622)	(686)
- Unrealised losses on investments	5(a)	(894)	(1,157)	(874)	(1,011)
Other operating income	5(a)	463	467	398	402
Finance costs	5(b)	-	(91)	-	(91)
General and administration expenses		(9,442)	(9,101)	(9,040)	(8,651)
Profit for the year before income tax		**6,943**	**12,176**	**6,723**	**11,232**
Income tax expense relating to ordinary activities	6	(2,054)	(3,669)	(1,864)	(3,396)
Profit for the year		**4,889**	**8,507**	**4,859**	**7,836**
Other comprehensive income					
Exchange differences arising from translation of foreign operations		(546)	(328)	-	-
Total comprehensive income for the year		**4,343**	**8,179**	**4,859**	**7,836**

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

Ansvar Insurance Limited

Statement of Financial Position
as at 31 December 2010

	Note	Consolidated 2010 $'000	Consolidated 2009 $'000	Company 2010 $'000	Company 2009 $'000
Current assets					
Cash and cash equivalents	28(a)	35,375	20,796	33,567	17,123
Receivables	9	116,375	114,098	102,853	101,542
Investments	10	15,013	38,994	11,979	34,578
Reinsurance recoveries receivable	11	147,570	35,981	42,259	30,648
Total current assets		**314,333**	**209,869**	**190,658**	**183,891**
Non-current assets					
Receivables	12	419	212	419	212
Investments	10	157,030	141,199	151,517	136,381
Reinsurance recoveries receivable	11	433	15,348	433	14,681
Property, plant and equipment	13	2,770	3,025	2,538	2,729
Deferred tax assets	6	4,635	3,658	4,702	3,658
Intangible assets	14	489	556	481	553
Total non-current assets		**165,776**	**163,998**	**160,090**	**158,214**
Total Assets		**480,109**	**373,867**	**350,748**	**342,105**
Current liabilities					
Payables	15	20,155	15,946	18,430	12,984
Current tax liabilities	6	922	2,931	885	2,850
Provisions	16	9,854	10,047	8,699	8,914
Outstanding claims liabilities	18	177,587	58,101	70,361	49,775
Unearned premium	19	91,389	91,339	80,955	80,983
Total current liabilities		**299,907**	**178,364**	**179,330**	**155,506**
Non-current liabilities					
Provisions	16	970	1,314	901	1,241
Deferred tax liabilities	6	-	42	-	-
Outstanding claims liabilities	18	99,087	114,774	97,724	113,853
Total non-current liabilities		**100,057**	**116,130**	**98,625**	**115,094**
Total liabilities		**399,964**	**294,494**	**277,955**	**270,600**
Net Assets		**80,145**	**79,373**	**72,793**	**71,505**
Equity					
Issued capital	23	5,000	5,000	5,000	5,000
Reserves		(960)	(414)	421	421
Retained earnings		76,105	74,787	67,372	66,084
Total Equity		**80,145**	**79,373**	**72,793**	**71,505**

The above statements of financial position 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 2010

	Consolidated				
	Fully paid ordinary shares $'000	Asset revaluation reserve $'000	Foreign currency translation reserve $'000	Retained earnings $'000	Total $'000
Balance at 1 January 2009	**5,000**	**421**	**(507)**	**69,635**	**74,549**
Exchange differences arising on translation of foreign operations	-	-	(328)	-	(328)
Profit for the year	-	-	-	8,507	8,507
Total comprehensive income	**5,000**	**421**	**(835)**	**8,507**	**8,180**
Payment of dividends	-	-	-	(3,355)	(3,355)
Balance at 31 December 2009	**5,000**	**421**	**(835)**	**74,787**	**79,373**
Exchange differences arising on translation of foreign operations	-	-	(546)	-	(546)
Profit for the year	-	-	-	4,889	4,889
Total comprehensive income	-	-	(546)	4,889	4,343
Payment of dividends	-	-	-	(3,571)	(3,571)
Balance at 31 December 2010	5,000	421	(1,381)	76,105	80,145

	Company				
	Fully paid ordinary shares $'000	Asset revaluation reserve $'000	Foreign currency translation reserve $'000	Retained earnings $'000	Total $'000
Balance at 1 January 2009	**5,000**	**421**	**-**	**61,222**	**66,643**
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**
Profit for the year	-	-	-	4,859	4,859
Total comprehensive income	**-**	**-**	**-**	**4,859**	**4,859**
Payment of dividends	-	-	-	(3,571)	(3,571)
Balance at 31 December 2010	5,000	421	-	67,372	72,793

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 2010

		Consolidated		Company	
		2010	2009	2010	2009
	Note	$'000	$'000	$'000	$'000
Cash flows from operating activities					
Premiums received		156,839	153,251	138,715	134,902
Reinsurance and other recoveries received		75,253	67,775	69,734	64,073
Interest and dividends received		11,782	11,464	11,447	10,657
Other revenue		978	1,147	306	514
Outwards reinsurance paid		(74,938)	(81,883)	(64,190)	(73,666)
Claims expense paid		(98,449)	(94,826)	(87,057)	(85,506)
Acquisition costs and other costs paid		(53,175)	(44,787)	(49,141)	(40,941)
Interest and other costs of finance paid		-	(90)	-	(90)
Income tax paid		(5,075)	(1,299)	(4,872)	(1,444)
Net cash provided by operating activities	**28(b)**	**13,215**	**10,752**	**14,942**	**8,499**
Cash flows from investing activities					
Rentals received		75	-	155	76
Payments for investments		(88,185)	(42,054)	(71,885)	(27,089)
Proceeds from sale of investments		94,108	35,990	77,853	22,157
Net advances (to)/from controlled entity		(317)	-	(317)	14
Payments for plant and equipment		(1,048)	(1,244)	(950)	(1,148)
Proceeds from sale of plant and equipment		1	-	1	-
Net cash provided by/(used in) investing activities		**4,634**	**(7,308)**	**4,857**	**(5,609)**
Cash flows from financing activities					
Dividends paid		(3,352)	(3,123)	(3,355)	(3,123)
Repayment of borrowings		-	(3,000)	-	(3,000)
Net cash used in financing activities		**(3,352)**	**(6,123)**	**(3,355)**	**(6,123)**
Net increase/(decrease) in cash and cash equivalents		**14,497**	**(2,679)**	**16,444**	**(3,233)**
Cash and cash equivalents at the beginning of the financial year	**28(a)**	**20,796**	**23,589**	**17,123**	**20,356**
Effects of exchange rate changes on the balance of cash held in foreign currencies		82	(114)	-	-
Cash and cash equivalents at the end of the financial year	**28(a)**	**35,375**	**20,796**	**33,567**	**17,123**

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 2010

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 Company and 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 14 April 2011.

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 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) **Investment income**
Dividend revenue from investments is recognised when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the consolidated entity and the amount of revenue can be measured reliably).

Interest revenue is recognised when it is probable that the economic benefits will flow to the consolidated entity and the amount of revenue can be measured reliably. Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

1. **Significant accounting policies (cont'd)**

(d) **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.

(e) **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.

(f) **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.

(g) **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.

(h) **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.

(i) **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.

(j) **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. Investments 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.

1. Significant accounting policies (cont'd)

(j) Financial Assets (cont'd)

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

(k) 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.

(l) 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 are 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
• Office furniture and fittings	3 - 15 years
• Computer hardware	3 - 5 years

1. Significant accounting policies (cont'd)

(m) 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 that are not expected to be settled within 12 months and are measured at 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 the 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.

(n) 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.

(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.

(p) Goods and Services Tax

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

a. 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
b. 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.

1. Significant accounting policies (cont'd)

(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 taxable 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.

1. **Significant accounting policies (cont'd)**

(r) **Income Tax (cont'd)**

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.

(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.

(w) **Adoption of new and revised Accounting Standards**

The consolidated entity adopts all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to the operations and effective for the current annual reporting period. For the reporting period to 31 December 2010, there was no adoption of new or revised accounting standards issued which would impact the reported financial position, financial performance and cash flows of the consolidated entity or accompanying notes. Of the new and revised IFRS-equivalent standards, the consolidated entity has elected not to early adopt the following:

- AASB 124 'Related Party Disclosures' (2009);
- AASB 2009 –12 Amendments to Australian Accounting Standards;
- AASB 9 'Financial Instruments' (December 2009);
- AASB 2009–11Amendments to Australian Accounting Standards arising from AASB 9.

The adoption of these standards is not expected to have any material impact on the Company or the Group.

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 claims 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 claims 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.

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.

2. Critical accounting estimates and judgements (cont'd)

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:

	2010		2009	
	Short-tail	Liability	Short-tail	Liability
Weighted average term to settlement (years)	0.66	5.37	0.60	6.21
Inflation rate	3.75%	3.75%	3.50%	3.50%
Superimposed inflation rate	0.0%	5.92%	0.0%	5.94%
Discount rate	0.0%	5.18%	0.0%	4.95%
Discounted mean term (years)	0.67	4.62	0.60	5.41
Claim handling expense ratio	11.60%	11.20%	10.80%	10.50%
Risk margin	11.90%	22.40%	12.20%	22.60%

(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).

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.

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.

3. Actuarial assumptions and methods (cont'd)

(b) Processes used to determine assumptions (cont'd)

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 2009 to 31 December 2010

Assumption category	Assumption change	Effect on net outstanding claims liabilities Increase / (decrease) $'000
Discount rates	Short tail: no change Liability: 5.00% to 5.25%	(867)
Claims inflation	Short tail: no change Liability: 9.50% to 9.75%	550
Specific short tail class assumptions (Australia):		
ICD assumptions		7
Specific liability class assumptions (Australia):		
Claim numbers		17
Payments per claim incurred (PPCI) assumptions		(721)
Projected case estimate (PCE) assumptions		(543)
Reinsurance		783
Changes from PPCI to PCE for 2002 Accident Year		(715)
Removal of Minimum loss ratio for 2004		(4,717)
Changes in Minimum loss ratio for other years		(4,329)
Special issues claims		489
Indexed Retention for Large Claim		
Specific short tail class assumptions (New Zealand):		
ICD assumptions		89
Specific liability class assumptions (New Zealand):		
Loss ratio		(139)

3. Actuarial assumptions and methods (cont'd)

(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		4,889	80,145
Variable	**Movement in variable**	**Movement in amount $'000**	
Average weighted term to settlement	+1 year	(3,544)	(3,544)
	- 1 year	3,730	3,730
Claims inflation rate	1.00%	3,050	3,050
	- 1.00%	(2,924)	(2,924)
Discount rate	1.00%	(2,924)	(2,924)
	- 1.00%	3,050	3,050
Minimum loss ratio	1.00%	688	688
	- 1.00%	(688)	(688)
Claims handling expenses ratio	1.00%	757	757
	- 1.00%	(757)	(757)

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 and note 24.

(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 maintained 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 and that the Board has satisfied itself as to the compliance with the RMS and REMS.

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;

4. **Risk management (cont'd)**

(a) Objectives in managing risks arising from insurance contracts and policies for mitigating those risks (cont'd)

- 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. At least two non executive directors and the Chief Executive Officer are elected as members of the Investment Committee. 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 and Risk 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.

5. Profit from operations

	Consolidated 2010 $'000	Consolidated 2009 $'000	Company 2010 $'000	Company 2009 $'000
(a) Revenue				
An analysis of the Group's revenue for the year is as follows:				
Premium revenue:				
Gross written premium	162,438	160,061	142,401	140,984
Movement in unearned premiums	(683)	(9,327)	29	(7,921)
Gross earned premiums	161,755	150,734	142,430	133,063
Reinsurance and other recoveries (note 17)	169,887	62,170	61,896	55,889
Total general insurance revenue	**331,642**	**212,904**	**204,326**	**188,952**
Investment income:				
Interest and dividend revenue	11,705	11,343	11,465	10,634
Changes in net market value of investments:				
Realised	(621)	(642)	(622)	(686)
Unrealised	(894)	(1,157)	(874)	(1,011)
	10,190	**9,544**	**9,969**	**8,937**
Commissions revenue	15,979	15,172	13,789	13,193
Other operating income	463	467	398	402
Total Revenue	**358,274**	**238,087**	**228,482**	**211,484**
(b) Profit before income tax				
Loss on sale of non-current assets	521	9	521	-
Finance costs:				
Ultimate parent entity	-	90	-	90
Other persons	-	1	-	1
	-	**91**	-	**91**
Depreciation of non-current assets	498	696	435	630
Amortization of non-current assets	240	306	233	266
Doubtful debts allowance:				
Reinsurance receivable	(10)	(292)	-	(294)
Other recoveries receivable	(606)	581	(606)	581
Trade debtors	801	80	803	68
	185	**369**	**197**	**355**
Employee benefits:				
Defined contribution plans	1,133	1,176	991	1,032
Other	62	49	62	49
	1,195	**1,225**	**1,053**	**1,081**
Rental expense relating to operating leases	1,593	1,339	1,402	1,182

6. Income taxes

Income tax recognised in profit or loss

	Consolidated		Company	
	2010	**2009**	**2010**	**2009**
	$'000	**$'000**	**$'000**	**$'000**
Tax expense comprises:				
Current tax expense	3,071	4,617	2,906	4,332
Adjustments recognised in the current year in relation to the current tax of prior years	3	(88)	3	6
Deferred tax benefit relating to the origination and reversal of timing differences	(1,020)	(860)	(1,045)	(941)
Total income tax expense	**2,054**	**3,669**	**1,864**	**3,397**

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

	Consolidated 2010 $'000	Consolidated 2009 $'000	Company 2010 $'000	Company 2009 $'000
Net profit for the year before income tax	6,943	12,178	6,723	11,232
Income tax expense calculated at 30%	2,083	3,653	2,017	3,370
Permanent Differences:				
Non deductible expenses	64	87	59	86
Allowable building allowances	(88)	(71)	(212)	(59)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(5)	-	-	-
	2,054	**3,669**	**1,864**	**3,397**

Income tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian and New Zealand corporate entities respectively on taxable profits under Australian and New Zealand tax laws. The New Zealand corporate tax rate will be reduced to 28% effective 1 April 2011. There has been no change in the corporate tax rate in Australia.

	Consolidated 2010 $'000	Consolidated 2009 $'000	Company 2010 $'000	Company 2009 $'000
Current tax assets and liabilities				
Income tax payable	922	2,931	885	2,850

6. Income taxes (cont'd)

Temporary Differences

Taxable and deductible temporary differences arise from the following:

2010

	Consolidated			
	Opening balance $'000	Charged to income $'000	Charged to equity $'000	Closing balance $'000
Gross deferred tax liabilities:				
Revenue receivable	(565)	(28)		(593)
Property	(180)	-	-	(180)
Unrealised gain on fixed interest securities	(634)	505	-	(129)
Total	**(1,379)**	**477**	**-**	**(902)**
Gross deferred tax assets:				
Provisions	1,142	(196)	-	946
Doubtful debts allowance	315	35	-	350
Indirect claims settlement costs	2,122	302	-	2,424
Unexpired risk liability	395	(124)	-	271
Purchased interest	403	(206)	-	197
Unrealised loss on fixed interest securities	609	732	-	1,341
Property, plant & equipment deductions	8	-	-	8
Total	**4,994**	**543**	**-**	**5,537**
Presented in the balance sheet as follows:				
Deferred tax liability				-
Deferred tax asset				4,635
				4,635

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)
Property	(180)	-	-	(180)
Unrealised gain on fixed interest securities	(969)	335	-	(634)
Total	**(1,696)**	**317**	**-**	**(1,379)**
Gross deferred tax assets:				
Provisions	1060	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**	**542**	**(39)**	**4,994**
Presented in the balance sheet as follows:				
Deferred tax liability				(42)
Deferred tax asset				3,658
				3,616

6. Income taxes (cont'd)

Temporary Differences

Taxable and deductible temporary differences arise from the following:

2010

	Company			
	Opening balance $'000	Charged to income $'000	Charged to equity $'000	Closing balance $'000
Gross deferred tax liabilities:				
Revenue receivable	(522)	(3)	-	(526)
Property	(180)	-	-	(180)
Unrealised gain on fixed interest securities	(634)	505	-	(129)
Total	**(1,337)**	**502**	**-**	**(835)**
Gross deferred tax assets:				
Provisions	714	(196)	-	518
Doubtful debts allowance	299	35	-	334
Indirect claims settlement costs	2,651	302	-	2953
Unexpired risk liability	318	(124)	-	194
Purchased interest	403	(206)	-	197
Unrealised loss on fixed interest securities	609	732	-	1,341
Total	**4,994**	**543**	**-**	**5,537**
Presented in the balance sheet as follows:				
Deferred tax liability				-
Deferred tax asset				4,702
				4,702

2009

	Company			
	Opening balance $'000	Charged to income $'000	Charged to equity $'000	Closing balance $'000
Gross deferred tax liabilities:				
Revenue receivable	(586)	64	-	(522)
Property	(180)	-	-	(180)
Unrealised gain on fixed interest securities	(969)	335	-	(634)
Total	**(1,735)**	**398**	**-**	**(1,336)**
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**	**542**	**-**	**4,994**
Presented in the balance sheet as follows:				
Deferred tax liability				-
Deferred tax asset				3,658
				3,658

6. Income taxes (cont'd)

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. Baird, Mr B. Harris, Mr D. Harrison, Dr B. Hughes, Mr N. Barnett, Mr J. Thomas, Professor J. George, Mr A. Moon, Mr M. Tripp, Mr S. Wood, Mr J. Peberdy and Mr W. Shearn.

(b) Key executives:

Chief Financial Officer	D. Muscari	
National Business Development Manager	C. Neame	
National Underwriting Manager	M. Guppy	(Departed 18/02/2011)
National Claims Manager	W. Goodall	
Human Resource Manager	J. Lord	
IT Manager	D. Green	
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	
	2010	2009
	$'000	$'000
Short-term employee benefits	3,578	2,013
Other long-term benefits	174	201
	3,752	2,214

8. Remuneration of auditors

	Consolidated		Company	
	2010	2009	2010	2009
	$	$	$	$
Auditor of the parent entity:				
Audit of the financial report	143,672	124,477	89,803	86,767
Other services (i)	73,580	64,492	62,642	53,524
	217,252	188,969	152,445	140,291

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

9. Current receivables

	Consolidated		Company	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Trade receivables	52,821	50,464	45,655	44,469
Allowance for doubtful debts	(1,177)	(376)	(1,150)	(347)
	51,644	**50,088**	**44,505**	**44,122**
Unsecured amounts receivable from related entity	-	-	464	147
Other debtors and prepayments	8,658	7,132	8,649	6,967
Deferred reinsurance expense (note 19(a))	37,450	36,768	32,152	31,617
Deferred acquisition costs (note 19(b))	11,999	13,551	10,466	12,130
Deferred fire service levy (note 19(b))	6,624	6,559	6,617	6,559
	116,375	**114,098**	**102,853**	**101,542**

10. Investments

	Consolidated		Company	
Investments carried at fair value	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Current:				
Government/semi-government fixed income securities	2,651	4,008	-	-
Debentures	12,354	34,977	11,971	34,569
Mortgages and other loans (at amortised cost)	8	9	8	9
	15,013	**38,994**	**11,979**	**34,578**
Non-current:				
Listed equity investments	7,066	4,571	7,066	4,571
Shares in controlled entities (at historical cost)	-	-	1,293	1,293
Government/semi-government fixed income securities	73,001	91,894	70,249	88,961
Debentures	76,963	44,734	72,909	41,556
	157,030	**141,199**	**151,517**	**136,381**
	172,043	**180,193**	**163,496**	**170,959**

11. Reinsurance recoveries receivable

	Consolidated		Company	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Expected future reinsurance recoveries				
- on claims reported	124,743	40,671	25,438	35,354
- on claims incurred but not reported	24,140	12,290	18,088	11,553
	148,883	52,961	43,526	46,907
Discount to present value	(90)	(834)	(90)	(834)
Provision for impairment of reinsurance assets	(790)	(801)	(744)	(744)
Reinsurance recoveries receivable	**148,003**	**51,326**	**42,692**	**45,329**
Current reinsurance recoveries	148,330	36,513	42,973	31,123
less: provision for impairment of reinsurance asset	(760)	(532)	(714)	(475)
	147,570	**35,981**	**42,259**	**30,648**
Non-current reinsurance recoveries	463	15,617	463	14,950
less: provision for impairment of reinsurance asset	(30)	(269)	(30)	(269)
	433	**15,348**	**433**	**14,681**

12. Non-current receivables

	Consolidated		Company	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Other recoveries receivable	431	911	431	911
Allowance for doubtful debts	(392)	(998)	(392)	(998)
	39	(87)	39	(87)
Other	380	299	380	299
	419	**212**	**419**	**212**

13. Property, plant and equipment

	Consolidated				
	Buildings	Leasehold improve-ments	Office furniture and fittings	Computer hardware	Total
	$'000	$'000	$'000	$'000	$'000
Cost or valuation					
Balance at 1 January 2009	**850**	**353**	**2,088**	**2,819**	**6,110**
Additions	-	177	67	591	836
Disposals	-	-	(15)	(35)	(50)
Revaluations	-	-	-	-	-
Net foreign currency exchange differences	-	(1)	(9)	(1)	(11)
Balance at 1 January 2010	**850**	**529**	**2,131**	**3,374**	**6,885**
Additions	-	221	192	390	803
Disposals	-	-	(997)	(583)	(1,580)
Revaluations	-	(22)	-	-	(22)
Net foreign currency exchange differences	-	(1)	(12)	(2)	(16)
Balance at 31 December 2010	**850**	**727**	**1,314**	**3,179**	**6,070**
Accumulated depreciation					
Balance at 1 January 2009	-	(247)	(919)	(2,040)	(3,206)
Disposals	-	-	10	31	41
Depreciation expense	-	(126)	(159)	(410)	(695)
Net foreign currency exchange differences	-	-	-	-	-
Balance at 1 January 2010	-	**(373)**	**(1,068)**	**(2,419)**	**(3,860)**
Disposals	-	-	517	541	1,058
Depreciation expense	-	(29)	(147)	(323)	(499)
Net foreign currency exchange differences	-	-	-	-	-
Balance at 31 December 2010	-	**(402)**	**(698)**	**(2,201)**	**(3,301)**
Net book value					
As at 31 December 2009	**850**	**157**	**1,063**	**955**	**3,025**
As at 31 December 2010	**850**	**326**	**616**	**978**	**2,770**

13. Property, plant and equipment (cont'd)

	Company				
	Buildings $'000	Leasehold improvements $'000	Office furniture and fittings $'000	Computer hardware $'000	Total $'000
Cost or valuation					
Balance at 1 January 2009	850	275	1,783	2,663	5,571
Additions	-	177	19	542	739
Disposals	-	-	-	-	-
-Revaluations	-	-	-	-	-
Balance at 1 January 2010	850	452	1,802	3,205	6,309
Additions	-	221	187	381	789
Disposals	-	-	(997)	(583)	(1,580)
Revaluations	-	(22)	-	-	(22)
Balance at 31 December 2010	850	651	992	3,003	5,496
Accumulated depreciation					
Balance at 1 January 2009	-	(190)	(847)	(1,914)	(2,951)
Disposals	-	-	-	-	-
Depreciation expense	-	(122)	(120)	(388)	(630)
Balance at 1 January 2010	-	(312)	(967)	(2,302)	(3,581)
Disposals	-	-	517	541	1,058
Depreciation expense	-	(24)	(113)	(298)	(435)
Balance at 31 December 2010	-	(336)	(563)	(2,059)	(2,958)
Net book value					
As at 31 December 2009	850	140	836	903	2,729
As at 31 December 2010	850	315	429	944	2,538

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

	Consolidated		Company	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Buildings	-	-	-	-
Leasehold improvements	29	126	24	122
Office furniture and fittings	147	159	113	120
Computer hardware	323	410	298	388
	499	695	435	630

14. Intangible assets

	Consolidated			Company		
	Trade-marks $'000	Computer software $'000	Total $'000	Trade-marks $'000	Computer software $'000	Total $'000
Gross carrying amount						
Balance at 1 January 2009	13	3,331	3,344	13	2,430	2,443
Additions	10	399	409	10	399	409
Net foreign currency exchange differences	-	(2)	(2)	-	-	-
Balance at 1 January 2010	23	3,728	3,751	23	2,829	2,852
Additions	-	173	173	-	161	161
Net foreign currency exchange differences	-	-	-	-	-	-
Balance at 31 December 2010	**23**	**3,901**	**3,924**	**23**	**2,990**	**3,013**
Accumulated amortisation						
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 1 January 2010	-	(3,194)	(3,194)	-	(2,299)	(2,299)
Amortisation expense (i)	-	(241)	(241)	-	(233)	(233)
Net foreign currency exchange differences	-	-	-	-	-	-
Balance at 31 December 2010	-	**(3,435)**	**(3,435)**	-	**(2,532)**	**(2,532)**
Net Book Value						
As at 31 December 2009	23	534	556	23	530	553
As at 31 December 2010	23	466	489	23	458	481

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

15. Current payables

	Consolidated		Company	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Direct insurance payables	2,524	3,252	1,814	2,581
Reinsurance ceded creditors	8,534	4,752	8,193	3,259
Sundry creditors and accruals	2,980	2,413	2,878	2,192
Dividend payable	3,571	3,736	3,571	3,355
Unsecured amount payable to parent entity	676	258	523	62
Indirect taxes	1,870	1,535	1,451	1,535
	20,155	**15,946**	**18,430**	**12,984**

16. Provisions

	Consolidated 2010 $'000	Consolidated 2009 $'000	Company 2010 $'000	Company 2009 $'000
Current				
Employee entitlements (note 21)	953	1,118	854	1,010
Deferred reinsurance commission	8,747	8,765	7,691	7,740
Other deferred revenue	154	164	154	164
	9,854	**10,047**	**8,699**	**8,914**
Non-current				
Employee entitlements (note 21)	471	788	471	788
Provision for make good	499	526	430	453
	970	**1,314**	**901**	**1,241**

Consolidated	Employee entitlements $'000	Reinsurance commission $'000	Other deferred revenue $'000	Provision for makegood $'000	Total $'000
Balance at 1 January 2010	1,915	8,765	164	525	11,369
Additional provisions recognised	-	92	(10)	199	281
Reductions arising from payments / other sacrifices of future economic benefits	-	-	-	-	-
Net foreign currency exchange differences		(110)	-	(4)	(711)
Used during the year	(490)	-	-	(221)	(221)
Balance at 31 December 2010	**1,425**	**8,747**	**154**	**499**	**10,824**

Company	Employee entitlements $'000	Reinsurance commission $'000	Other deferred revenue $'000	Provision for makegood $'000	Total $'000
Balance at 1 January 2010	**1,798**	**7,740**	**164**	**452**	**10,154**
Additional provisions recognised	-	(49)	(10)	199	139
Reductions arising from payments / other sacrifices of future economic benefits		-	-	-	-
Used during the year	(472)	-	-	(221)	(693)
Balance at 31 December 2010	**1,326**	**7,691**	**154**	**430**	**9,600**

17. Net claims incurred
Direct business

Consolidated	2010			2009		
	Current year $'000	Prior years $'000	Total $'000	Current year $'000	Prior years $'000	Total $'000
Gross claims expense						
Gross claims incurred - undiscounted	239,621	(20,289)	219,332	128,295	(21,337)	106,958
Discount movement	(664)	851	187	(725)	706	(19)
	238,957	**(19,438)**	**219,519**	**127,570**	**(20,631)**	**106,939**
Reinsurance and other recoveries revenue						
Reinsurance and other recoveries - undiscounted	(176,343)	6,638	(169,705)	(67,505)	5,666	(61,839)
Discount movement	5	(187)	(182)	60	(390)	(330)
	(176,338)	**6,451**	**(169,887)**	**(67,445)**	**5,276**	**(62,169)**
Net claims incurred	**62,619**	**(12,987)**	**49,632**	**60,125**	**(15,355)**	**44,770**

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	2010			2009		
	Current year $'000	Prior years $'000	Total $'000	Current year $'000	Prior years $'000	Total $'000
Gross claims expense						
Gross claims incurred - undiscounted	124,433	(18,597)	105,836	115,003	(19,122)	95,881
Discount movement	(664)	851	187	(725)	706	(19)
	123,769	**(17,746)**	**106,023**	**114,278**	**(18,416)**	**95,862**
Reinsurance and other recoveries revenue						
Reinsurance and other recoveries - undiscounted	(66,811)	5,096	(61,715)	(60,225)	4,666	(55,559)
Discount movement	5	(187)	(182)	60	(390)	(330)
	(66,806)	**4,909**	**(61,897)**	**(60,165)**	**4,276**	**(55,889)**
Net claims incurred	**56,963**	**(12,837)**	**44,127**	**54,113**	**(14,140)**	**39,973**

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.

18. Outstanding claims liabilities

	Consolidated		Company	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
a) Gross outstanding claims liabilities				
Gross central estimate	259,451	157,493	151,684	149,008
Discount to present value	(12,457)	(12,355)	(12,456)	(12,356)
Claims handling costs	10,225	9,152	9,842	8,838
Risk margin	19,455	18,585	19,015	18,138
Gross outstanding claims liabilities	**276,674**	**172,875**	**168,085**	**163,628**
Current	177,587	58,101	70,361	49,775
Non-current	99,087	114,774	97,724	113,853
	276,674	**172,875**	**168,085**	**163,628**

b) Claims development table

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

Consolidated	Accident year						
	Prior	**2006**	**2007**	**2008**	**2009**	**2010**	**Total**
Ultimate claims cost estimate	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
At end of accident year		15,375	16,609	16,467	18,392	19,014	
One year later		15,127	14,106	14,052	16,553	-	
Two years later		10,664	13,879	13,393	-	-	
Three years later		8,184	9,556	-	-	-	
Four years later		7,936	-	-	-	-	
Current estimate of ultimate claims cost	60,292	7,936	9,556	13,393	16,553	19,014	126,744
Cumulative net payments	42,611	1,501	2,132	977	369	317	47,907
Undiscounted central estimates	**17,681**	**6,435**	**7,424**	**12,416**	**16,184**	**18,697**	**78,837**
Net discount							(2,778)
Claims handling expenses							8,443
Allowance for expected reinsurance claims							25
Risk margin							17,423
Net liability class outstanding claims							101,950
Net short tail outstanding claims							20,711
GST input tax credits associated with outstanding claims							(15,165)
Net outstanding claims liabilities							**107,496**
Reinsurance and other recoveries on outstanding claims							169,178
Gross outstanding claims liabilities							**276,674**

18. Outstanding claims liabilities (cont'd)

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

Consolidated

	2010			2009		
	Gross	Reinsurance and other recoveries	Net	Gross	Reinsurance and other recoveries	Net
	$'000	$'000	$'000	$'000	$'000	$'000
At 1 January	172,875	(57,635)	115,240	174,307	(58,341)	115,966
Increase due to claims incurred in current accident year	240,237	(188,878)	51,359	128,907	(68,837)	60,070
Movement in prior year claims provisions	(19,437)	6,409	(13,028)	(24,739)	8,183	(16,556)
Claim payments / recoveries	(113,348)	70,571	(42,777)	(105,439)	61,232	(44,207)
Foreign exchange	(3,653)	355	(3,298)	(161)	128	(33)
At 31 December	**276,674**	**(169,178)**	**107,496**	**172,875**	**(57,635)**	**115,240**

19. Unearned premium and deferred insurance costs

a) Unearned premium

Consolidated

	2010			2009		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	$'000	$'000	$'000	$'000	$'000	$'000
At 1 January	91,339	(36,768)	54,571	82,337	(32,013)	50,324
Premiums on contracts written	161,712	(65,015)	96,697	159,418	(63,359)	96,059
Earning of premiums written	(161,577)	64,300	(97,277)	(149,922)	58,361	(91,561)
Foreign exchange differences	(85)	33	(52)	(494)	243	(251)
At 31 December	**91,389**	**(37,450)**	**53,939**	**91,339**	**(36,768)**	**54,571**

Company

	2010			2009		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	$'000	$'000	$'000	$'000	$'000	$'000
At 1 January	80,983	(31,617)	49,366	73,062	(27,492)	45,570
Premiums on contracts written	142,223	(54,871)	87,352	140,171	(53,583)	86,588
Earning of premiums written	(142,251)	54,337	(87,914)	(132,250)	49,458	(82,791)
At 31 December	**80,955**	**(32,151)**	**48,804**	**80,983**	**(31,617)**	**49,366**

19. Unearned premium and deferred insurance costs (cont'd)

b) Deferred insurance costs

Consolidated

	2010		2009	
	Acquisition costs $'000	Fire service levy $'000	Acquisition costs $'000	Fire service levy $'000
At 1 January	13,551	6,559	12,688	5,202
Costs deferred in the year	34,415	10,211	30,600	10,388
Amortisation charged to income	(31,502)	(10,146)	(27,675)	(9,031)
Write down for premium deficiency (note 20)	(4,375)	-	(2,019)	-
Foreign exchange differences	(90)	-	(43)	-
At 31 December	**11,999**	**6,624**	**13,551**	**6,559**

Company

	2010		2009	
	Acquisition costs $'000	Fire service levy $'000	Acquisition costs $'000	Fire service levy $'000
At 1 January	12,130	6,559	11,457	5,206
Costs deferred in the year	29,793	10,204	26,116	9,081
Amortisation charged to income	(27,681)	(10,146)	(24,101)	(7,728)
Write down for premium deficiency (note 20)	(3,775)	-	(1,342)	-
At 31 December	**10,466**	**6,617**	**12,130**	**6,559**

20. Unexpired risk liability

The unearned premium liabilities in respect of the domestic and commercial portfolios were found to be deficient as at 31 December 2010. The entire deficiency of $4.375 million (Group) / $3.775 million (Company) was recognised. As at 31 December 2009, the domestic portfolio in Australia and both the domestic and commercial portfolios in New Zealand were found to be deficient. The entire deficiency of $2.019 million (Group) / $1.342 million (Company) was recognised. In recognising the deficiency the Company and the Group wrote down the related deferred insurance 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.

20. Unexpired risk liability (cont'd)

Calculation of deficiency	Consolidated 2010 $'000	Consolidated 2009 $'000	Company 2010 $'000	Company 2009 $'000
Unearned premium liability relating to insurance contracts issued	47,514	22,929	42,317	17,724
Related deferred acquisition costs	(7,636)	(4,265)	(6,559)	(3,192)
	39,878	**18,664**	**35,758**	**14,532**
Central estimate of present value of expected future cash flows arising from future claims on insurance contracts issued	37,700	18,978	33,709	14,372
Risk margin of 11.90% (Group) / 22.40% (Company)	6,553	1,706	5,824	1,502
	44,253	**20,684**	**39,533**	**15,874**
Net deficiency	**(4,375)**	**(2,019)**	**(3,775)**	**(1,342)**

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.

21. Employee benefits

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

	Consolidated 2010 $'000	Consolidated 2009 $'000	Company 2010 $'000	Company 2009 $'000
Current provision for employee benefits (note 16)	953	1,118	854	1,010
Non-current provision for employee benefits (note 16)	471	788	471	788
Aggregate employee benefits	**1,424**	**1,906**	**1,325**	**1,798**
Number of employees at end of financial year	170	167	141	138

22. Commitments

Operating lease commitments:	Consolidated 2010 $'000	Consolidated 2009 $'000	Company 2010 $'000	Company 2009 $'000
Not later than one year	1,185	1,328	990	1,162
Later than one year and not later than five years	3,521	1,932	3,209	1,504
Later than five years	-	-	-	-
	4,706	3,260	4,199	2,666

23. Share capital

	Consolidated 2010 $'000	Consolidated 2009 $'000	Company 2010 $'000	Company 2009 $'000
Issued share capital 5,000,000 ordinary shares each fully paid (2009: 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.

24. 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 Chief Executive Officer, 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

	Note	Consolidated 2010 $'000	Consolidated 2009 $'000	Company 2010 $'000	Company 2009 $'000
Financial assets					
Cash and cash equivalents		35,375	20,796	33,567	17,123
Fair value through profit or loss		172,035	180,183	162,195	169,657
Loans and receivables		264,805	165,645	145,972	147,091
Financial liabilities					
Payables		20,155	15,946	18,430	12,893

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

24. Financial instruments (cont'd)

c) Categories of financial instruments (cont'd)

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 equity investments	4,571	-	-	4,571
Government/semi-government fixed income securities	95,902	-	-	95,902
Debentures	68,481	11,230	-	79,711
As at 31 December 2009	**168,954**	**11,230**	**-**	**180,184**
Fair value through profit and loss				
Listed equity investments	7,066	-	-	7,066
Government/semi-government fixed income securities	75,652	-	-	75,652
Debentures	77,230	12,087	-	89,317
As at 31 December 2010	**159,948**	**12,087**	**-**	**172,035**

Company

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Fair value through profit and loss				
Listed equity investments	4,571	-	-	4,571
Government/semi-government fixed income securities	88,961	-	-	88,961
Debentures	64,895	11,230	-	76,125
As at 31 December 2009	**158,427**	**11,230**	**-**	**169,657**
Fair value through profit and loss				
Listed equity investments	7,066	-	-	7,066
Government/semi-government fixed income securities	70,249	-	-	70,249
Debentures	72,793	12,087	-	84,880
As at 31 December 2010	**150,108**	**12,087**	**-**	**162,195**

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

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.

	Consolidated		Company	
	2010	**2009**	**2010**	**2009**
	$'000	**$'000**	**$'000**	**$'000**
Financial assets				
Cash and cash equivalents (excluding bank overdraft)	35,375	20,796	33,567	17,123
Financial assets at fair value through profit or loss				
Government / semi-government securities	75,652	95,902	70,249	88,961
Debentures	89,317	79,711	84,880	76,125
Equities	7,066	4,571	7,066	4,571
Loans and receivables				
Premiums receivable	51,644	50,088	45,605	44,122
Other debtors and prepayments	8,658	7,133	8,649	6,967
Receivable from related party	-	-	464	147
Mortgages and loans	8	9	8	8
Reinsurance assets	148,004	51,327	42,692	45,329
Other insurance receivables	56,492	57,089	49,654	50,517
Total	**472,216**	**366,626**	**342,834**	**333,870**

24. Financial instruments (cont'd)

d) Credit risk (cont'd)

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
2010					
Financial assets					
Cash and cash equivalents	35,375	-	-	-	35,375
Financial assets at fair value through profit or loss					
Government / semi govt securities	75,652	-	-	-	75,652
Debentures	89,317	-	-	-	89,317
Equity securities	7,066	-	-	-	7,066
Loans and receivables		-	-	-	
Premiums receivable	-	51,644	-	-	51,644
Other debtors and prepayments	-	8,658	-	-	8,658
Mortgages and loans	-	8	-	-	8
Reinsurance assets	148,004	-	-	-	148,004
Other insurance receivables	-	56,492	-	-	56,492
Total	**355,414**	**116,802**	**-**	**-**	**472,216**
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
Mortgages and loans	-	9	-	-	9
Reinsurance assets	51,327	-	-	-	51,327
Other insurance receivables	-	57,089	-	-	57,089
Total	**252,307**	**114,319**	**-**	**-**	**366,626**

Notes to the financial statements for the financial year ended 31 December 2010

24. Financial instruments (cont'd)

d) Credit risk (cont'd)

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
2010					
Financial assets					
Cash and cash equivalents	33,567	-	-	-	33,567
Financial assets at fair value through profit or loss					
Government / semi govt securities	70,249	-	-	-	70,249
Debentures	84,880	-	-	-	84,880
Equity Securities	7,066	-	-	-	7,066
Loans and receivables					
Premiums receivable	-	44,505	-	-	45,605
Other debtors and prepayments	-	8,649	-	-	8,649
Receivable from related party	-	464	-	-	464
Mortgages and loans	-	8	-	-	8
Reinsurance assets	42,692	-	-	-	42,692
Other insurance receivables	-	49,654	-	-	49,654
Total	**238,454**	**103,280**	**-**	**-**	**342,834**
2009					
Financial Assets					
Cash and cash equivalents	17,123	-	-	-	17,123
Financial assets at fair value through profit or loss					
Government / semi govt securities	88,960	-	-	-	88,961
Debentures	76,126	-	-	-	76,125
Equity securities	4,571	-	-	-	4,571
Loans and other receivables					
Premiums receivable	-	44,122	-	-	44,122
Other debtors and prepayments	-	6,967	-	-	6,967
Receivable from related party	-	147	-	-	147
Mortgages and loans	-	8	-	-	8
Reinsurance assets	45,329	-	-	-	45,329
Other insurance receivables	-	50,517	-	-	50,517
Total	**232,109**	**101,761**	**-**	**-**	**333,870**

(i) The Group and the Company classify all assets with Standard and Poor's 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 Poor's 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.

24. Financial instruments (cont'd)

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 2009. 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
2010						
Financial liabilities						
Outstanding claims liabilities	-	177,587	82,737	28,806	(12,456)	276,674
Non-interest bearing:						
Payables	-	20,155	-	-	-	20,155
		197,742	**82,737**	**28,806**	**(12,456)**	**296,829**
2009						
Financial liabilities						
Outstanding claims liabilities	-	65,503	73,348	46,380	(12,356)	172,875
Non-interest bearing:						
Payables	-	16,904	-	-	-	16,904
		82,407	**73,348**	**46,380**	**(12,356)**	**189,779**

24. Financial instruments (cont'd)

e) Liquidity risk (cont'd)

	Weighted average interest rate	Less than 1 year	1-5 years	5+ years	Adjustment	Total
	%	$'000	$'000	$'000	$'000	$'000
Company						
2010						
Outstanding claims liabilities	-	70,361	81,374	28,806	(12,456)	168,085
Financial liabilities						
Non-interest bearing:						
Payables	-	18,430	-	-	-	18,430
		88,791	**81,374**	**28,806**	**(12,456)**	**186,515**
2009						
Outstanding claims liabilities	-	57,177	72,388	46,419	(12,356)	163,628
Financial liabilities						
Non-interest bearing:						
Payables	-	12,983	-	-	-	12,983
		70,160	**72,388**	**46,419**	**(12,356)**	**176,611**

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.

24. Financial instruments (cont'd)

f) Market risk (cont'd)

Consolidated	Weighted average interest rate %	Less than 1 year $'000	1-5 years $'000	5+ years $'000	Adjust-ment $'000	Total $'000
2010						
Non-interest bearing:						
Cash	-	138	-	-	-	138
Net trade debtors	-	108,136	-	-	-	108,136
Other debtors and prepayments	-	8,658	-	-	-	8,658
Mortgages and loans	-	8	-	-	-	8
Reinsurance assets	-	148,004	-	-	-	148,004
Equity securities	-	7,066	-	-	-	7,066
Variable interest rate instruments:						
Cash	4.138	24,599	-	-	-	24,599
Fixed interest rate instruments:						
Short term bills and notes	0.867	10,638	-	-	-	10,638
Government / semi govt securities	5.108	5,697	62,442	877	6,637	75,652
Debentures	6.036	6,571	83,946	-	(1,200)	89,317
		319,515	**146,388**	**877**	**5,437**	**472,216**
2009						
Non-interest bearing:						
Cash	-	135	-	-	-	135
Net trade debtors	-	107,177	-	-	-	107,177
Other debtors and prepayments	-	7,133	-	-	-	7,133
Mortgages and loans	-	9	-	-	-	9
Reinsurance assets	-	51,327	-	-	-	51,327
Equity securities	-	4,571	-	-	-	4,571
Variable interest rate instruments:						
Cash	3.91	17,121	-	-	-	17,121
Fixed interest rate instruments:						
Short term bills and notes	2.75	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	-	32	79,711
		204,273	**139,518**	**-**	**22,835**	**366,626**

24. Financial instruments (cont'd)

f) Market risk (cont'd)

Company	Weighted average interest rate	Less than 1 year	1-5 years	5+ years	Adjust-ment	Total
	%	$'000	$'000	$'000	$'000	$'000
2010						
Non-interest bearing:						
Cash	-	3	-	-	-	3
Net trade debtors	-	95,259	-	-	-	95,259
Other debtors and prepayments	-	8,649	-	-	-	8,649
Related party receivables	-	464	-	-	-	464
Mortgages and loans	-	8	-	-	-	8
Reinsurance assets	-	42,692	-	-	-	42,692
Equity Securities	-	7,066	-	-	-	7,066
Variable interest rate instruments:						
Cash	4.14	24,598	-	-	-	24,598
Fixed interest rate instruments:						
Short term bills and notes	0.49	8,966	-	-	-	8,966
Government / semi govt securities	5.25	3,045	59,691	877	6,636	70,249
Debentures	6.09	4,156	81,923	324	(1,523)	84,880
		194,904	**141,614**	**1,201**	**5,115**	**342,834**
2009						
Non-interest bearing:						
Cash	-	1	-	-	-	1
Net trade debtors	-	94,639	-	-	-	94,639
Other debtors and prepayments	-	6,967	-	-	-	6,967
Related party receivables	-	147	-	-	-	147
Mortgages and loans	-	9	-	-	-	9
Reinsurance assets	-	45,329	-	-	-	45,329
Equity securities	-	4,571	-	-	-	4,571
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	35,394	-	35,309	76,125
		177,629	**98,129**	-	**58,112**	**333,870**

24. **Financial instruments (cont'd)**

f) Market risk (cont'd)

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 $1.205 million (2009: decrease/increase by $0.734 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 2009.

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 $1.766 million (2009: $0.8 million) 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.

25. **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 26.

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.

25. Related party disclosures (cont'd)

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 S. A. Wood and Mr. M. H. Tripp were directors of Ecclesiastical Insurance Office plc, the immediate 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	
	2010	**2009**	**2010**	**2009**
Insync Surveys Pty Ltd	21,175	-	21,175	-
Purchase of legal services from Moores Legal	15,031	11,838	15,031	11,838
Sponsorship payments to Willow Creek Australia	-	28,875	-	28,875

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 26.

During the financial year Ecclesiastical Insurance Office plc provided a long term loan to Ansvar Insurance limited. Interest is payable on this loan.

Other transactions between Ansvar Insurance Limited and related parties in the wholly-owned group during the years ended 31 December 2010 and 31 December 2009 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	
	2010	**2009**	**2010**	**2009**
	$'000	**$'000**	**$'000**	**$'000**
Current unsecured receivable from controlled entities	-	-	464	147
Current unsecured payable to parent entity	(153)	(2,987)	-	(3,036)

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 $1.503 million (2009: $1.220 million) was charged back.

26. Controlled entities

Name of Entity	**Country of incorporation**	**Ownership Interest**	
		2010	**2009**
		%	**%**
Ansvar Insurance Limited**	New Zealand	100	100

** Audited by a member firm of Deloitte Touche Tohmatsu

27. 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.

	2010 $'000	2009 $'000
Tier 1 Capital	80,348	81,151
Less: Net deferred tax assets	(4,702)	(4,363)
Other intangible assets	(482)	(553)
Other deductions required by APRA	(500)	(500)
Adjusted Tier 1 Capital	74,664	75,735
Tier 2 Capital	189	189
Total Capital Base	74,853	75,924
Minimum capital requirement (MCR)	37,505	36,088
MCR ratio	199.58%	210.39%

28. Notes to the cash flow statement

	Consolidated		Company	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000

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 balance sheet as follows:

	Consolidated 2010 $'000	Consolidated 2009 $'000	Company 2010 $'000	Company 2009 $'000
Cash	21,132	13,491	20,996	13,358
Add: short term deposits (i)	14,243	7,305	12,571	3,766
	35,375	20,796	33,567	17,124

(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.

28. Notes to the cash flow statement (cont'd)

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

	Consolidated		Company	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Profit for the year	**4,889**	**8,507**	**4,859**	**7,836**
Depreciation and amortisation	738	1,002	668	896
Doubtful debts	185	369	197	355
Changes in fair value of investments	1,515	1,800	1,495	1,697
Dividends received	-	(185)	-	(185)
Rentals received	75	-	(75)	(76)
Loss on sale of assets	521	9	521	-
Decrease in current tax liabilities	(2,009)	2,931	(1,965)	2,850
Increase / (decrease) in current tax assets	-	-	-	-
(Increase) /decrease in deferred tax balances	(1,020)	(902)	(1,045)	(941)
Changes in operating assets and liabilities:				
(Increase) /decrease in trade debtors	(2,357)	(4,495)	(1,186)	(4,555)
(Increase) /decrease in reinsurance recoveries receivable	(96,663)	(1,023)	2,637	1,451
Decrease /(increase) in other debtors	(1,142)	3,193	(1,023)	2,703
(Increase) /decrease in deferred insurance costs	805	(6,971)	1,071	(6,151)
(Decrease)/increase/(decrease) in net amount due to related entities for operating activities	418	(58)	144	(135)
Increase/(decrease) in sundry creditors and accruals	567	1,671	686	1,415
Increase/(decrease) in unearned premiums	50	9,001	(28)	7,921
(Decrease) / Increase in outstanding claims	103,799	(1,432)	4,457	(2,846)
Increase in provision for employee benefits	(490)	175	(472)	160
Increase in direct insurance payables	(728)	1,033	(767)	973
(Decrease)/Increase in reinsurance ceded creditors	3,782	(4,861)	4,934	(5,918)
(Decrease)/increase in indirect taxes	335	(155)	(84)	409
Increase in deferred reinsurance and other revenue	(28)	968	(59)	844
Increase in other operating provisions	(27)	175	(23)	177
Net cash flow from operating activities	**13,215**	**10,752**	**14,942**	**8,880**

29. Subsequent events

Since the end of the financial year there have been a further three large natural events; two being in Australia and the third in New Zealand.

- January 2011, Brisbane Floods : Gross claims cost $35.4m;
- February 2011, Cyclone Yasi/Melbourne Storms : Gross claims cost $13.3m;
- February 2011, Christchurch Earthquake: Gross claims cost $222.1m.

Whilst in gross terms the claims to date amount to approximately $271m before reinsurance, the net cost after reinsurance recoveries and reinstatement premiums will be approximately $12m. Whilst these events will impact the operating results for 2011, they are not expected to significantly affect the ongoing operations of the economic entity given the sound financial position of Ansvar Insurance.

30. Additional Company information

Ansvar Insurance Limited is a public company incorporated and operating in Australia and New Zealand. Ansvar Insurance Limited's registered office and its principal place of business is as follows:

Ansvar House
Level 12
432 St. Kilda Road
MELBOURNE VIC 3004
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