ANSVAR INSURANCE LIMITED

ACN 007 216 506

Annual report for the financial year ended 31 December 2011

ANSVAR INSURANCE LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2011

ANSVAR INSURANCE LIMITED

DIRECTORS' REPORT

The directors of Ansvar Insurance Limited ("Ansvar Australia") submit herewith the annual financial report for the financial year ended 31 December 2011. 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:

Nicholas Barnett
B.Ec, ACA, MAICD
Chairman

Nicholas joined the board in July 2010 and was appointed Chairman in July 2011. He has 30 years experience as a Chartered Accountant and Business Consultant, including 11 years at KPMG with the last two years as a Partner of that firm. He has been the Managing Director of Barnett Consulting Group (Property and Financial Specialists) and Chief Executive Officer of Ambit Group (IT Recruitment Specialists). He is also a co-founder and director of Board Benchmarking Australia Pty Ltd. Mr Barnett is CEO of Insync Surveys Pty Ltd and a Director of Mission Australia Limited. Nicholas was formerly a Director (and Chairman) of First Samuel Limited.

Murray Baird
BA, LLB, MAICD
Chairman
(Resigned 21 July 2011)

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.

Jennifer George
PhD (Stanford) BSc (Hons) (Canterbury)
Director

Professor Jennifer George was appointed to the board in July 2010. Jennifer is currently the Deputy Dean 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.

Wayne Goodall
ANZIIF (Fellow), CIP, Dip of Bus
Executive Director
(Appointed 15 December 2011)

Wayne is the Chief Operating Officer of Ansvar Insurance Ltd in Australia and New Zealand and was appointed Executive Director in December 2011. Wayne joined Ansvar Insurance in 1998 as Claims Manager Australasia. He has more recently been involved with and part of Victorian Bushfire Reconstruction Authority and has also been appointed to a number of committees within the Insurance Council of Australia. As a qualified Insurance Professional, Wayne has 39 years experience in the insurance industry.

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.

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.

Bronwyn Hughes
BA, Dip Ed, Dip Mgt, D.B.A.
Director
(Resigned 13 October 2011)

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.

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DIRECTORS' REPORT

Trevor Lloyd BA, LLB, FAICD Director (Appointed 9 February 2012)	Trevor joined the board in February 2012. Trevor has over 30 years experience as a corporate and commercial lawyer and has extensive experience as a senior manager in both legal practice and in a corporate context. Past directorships have included appointments in the AXA group, with Members Equity and with the Victorian Managed Insurance Authority. Trevor currently advises independently as a lawyer, negotiator and management consultant.
Andrew Moon M.B.A. Director	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.
Jeffrey Thomas B.Ec, M.B.A.,FCA. Director (Resigned 14 April 2011)	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.
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.
Steve Wood BSc (Hons), FCII, Chartered Insurer Director (Resigned 13 October 2011) Alternate Director (Appointed 13 October 2011)	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 executive director responsible for corporate social responsibility at Ecclesiastical and is also heavily involved with Business in the Community. He has over 30 years of experience in general insurance, financial services and healthcare markets.

ANSVAR INSURANCE LIMITED

DIRECTORS' REPORT

Principal activities

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

Review of operations

2011 was an unprecedented year for both Australia and New Zealand with Cyclone Yasi and the Brisbane and Victorian floods and storms in Australia and the devastating February, June and December earthquakes in New Zealand.

In relation to the Australian events noted above, the gross insured loss was $4.25 billion across the industry. Ansvar incurred $70.31 million gross claims and $7.74 million net claims after reinsurance recoveries. We processed 2,604 claims from these weather events. In the latter part of 2011, we saw the reinsurance market react strongly to these adverse events, with sharp rises in reinsurance premiums across the industry. Despite the severity of these adverse weather events, Ansvar Australia only recorded a modest loss of $2.9 million, after tax, which is a pleasing result given the circumstances. During the year we also withdrew from the unprofitable underwriting of intermediated personal lines business.

Ansvar Australia continues to operate as a specialist insurer in the Faith, Care, Heritage, Education and Community Service market space, offering tailored commercial property and liability insurance products. The company also continued to participate in its Community Services Program by providing further funding of Community Education grants of $698,000 during the year, along with sponsorship of charitable programs.

In relation to New Zealand, the Canterbury earthquakes were devastating, with 185 lives lost in the February earthquake. Our New Zealand subsidiary incurred NZ$807 million gross claims and NZ$4 million net claims after reinsurance recoveries across all four of the major Canterbury earthquakes (including December 2010). The financial effect on the New Zealand company was significant, with the reported loss for the year being NZ$9.9 million. The total cost of claims in relation to the earthquakes continues to evolve. Due to the complexity of events it will take some considerable time for the final level of claims to be established. The company has engaged a team of experienced catastrophe claims professionals to assist with the assessment of claims.

Given the unsustainable rise in New Zealand reinsurance premiums and the financial burden on our New Zealand subsidiary, its directors took the prudent decision in September to close the operations to new business and after much analysis, cancelled all insurance policies in December. Effective 1 January 2012, the company operates solely as a claims management business.

As part of this cancellation, all customers were provided with an opportunity to take up temporary cover, excluding earthquake (natural disasters) cover, from the parent company, Ansvar Insurance Limited (Australia). This was effective 31 December 2011. This interim measure provided customers with sufficient time to find alternative insurance. The expiry dates of the temporary covers were to be the same expiry date as the customers' existing policies with our New Zealand subsidiary. The final policy transferred under this arrangement will expire on 7 December 2012.

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 above.

Subsequent Events

In relation to the Australian entity, the directors note the following events from 31 December 2011 to the date of this report.

- In March 2012, our subsidiary company, ACS (NZ) Limited, issued 100,000 new shares at $1.00 each to the ultimate parent company, Ecclesiastical Insurance Office plc ("Ecclesiastical"). Therefore ACS (NZ) Limited is no longer a wholly owned subsidiary of the company, but continues to be a subsidiary under Corporations Act 2001.

- Ecclesiastical has committed to subscribe a further $4.5 million $1.00 shares at a future date. As a result, when this occurs, ACS (NZ) Limited will cease to be a subsidiary of the company as per the Corporations Act 2001 and will become a subsidiary of Ecclesiastical.

Subsequent Events (Cont'd)

In relation to the New Zealand entity, the directors note the following events from 31 December 2011 to the date of this report.

- Effective 1 January 2012, the company operates as a claims management business.
- Effective 1 February 2012, the company changed its name from Ansvar Insurance Limited to ACS (NZ) Limited ("ACS").
- In March 2012, the company entered into a commercially priced, arms length reinsurance arrangement with the ultimate parent company, Ecclesiastical Insurance Office plc ("Ecclesiastical"), whereby Ecclesiastical provides a fixed maximum upper limit Property Catastrophe Excess of Loss Reinsurance Contract in respect of the February 2011 earthquake the premium for which is payable in installments. This arrangement is able to be cancelled by Ecclesiastical if the proposed contingent Scheme of Arrangement (referred to below) is not approved.
- In March 2012, the company issued 100,000 new shares at $1.00 each to Ecclesiastical. Ecclesiastical has committed to subscribe a further $4.5 million $1.00 shares at a future date, solely to enable the company to enter into, and to fund, the premiums on the reinsurance arrangement referred to in the paragraph above. As a result, when this occurs, the company will cease to be a subsidiary of Ansvar Insurance Limited (Australia) and will become a subsidiary of Ecclesiastical.
- In April 2012, the company entered into a short term loan facility with Ecclesiastical, for the amount of $20m. The drawn down loan amount will be utilised to fund certain earthquake claims and will be repaid to Ecclesiastical immediately upon receipt of the appropriate reinsurance recoveries.
- The company has committed substantial resources to claims settlement and is making good progress in resolving existing claims. As at the date hereof the company expects to meet all of its claims in full. However, the claims situation in Canterbury is still developing, and is subject to a high degree of complexity and uncertainty. It will take some time to stabilise, and several years for all claims to be resolved. To protect the situation of claimants in the event of circumstances changing adversely in the future, the company proposes to ask claimants to approve a contingent Scheme of Arrangement. The purpose is to ensure that, regardless of the financial position of the company, its current and future claimants are treated fairly, and claims are settled as quickly and as fully as possible. The proposed Scheme of Arrangement is described as "contingent" because the Scheme arrangements would only be triggered if the company's claims position deteriorated to the point where the company would be insolvent.

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 2011, no dividend is recommended (2010: $3.571 million).

ANSVAR INSURANCE LIMITED

DIRECTORS' REPORT

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, and 5 nominations and remuneration committee meetings were held.

Directors	Board		Audit, Risk and Compliance Committee		Investment Committee		Nominations and Remuneration Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
N S Barnett	5	5	5	4	4	3	5	5
M Baird*	3	3	3	3	-	-	3	3
J George	5	4	5	4	2	2	-	-
W Goodall	1	1	-	-	-	-	-	-
B G Harris	5	5	5	5	-	-	-	-
D Harrison	5	5	-	-	4	3	-	-
B Hughes*	4	4	-	-	-	-	4	4
A M Moon	5	5	5	5	5	5	-	-
J Thomas*	2	1	2	1	-	-	-	-
M Tripp	5	5	-	-	-	-	5	4
S Wood	5	4	-	-	-	-	-	-

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

Indemnification of officers and auditors

The Company's Constitution (rule 104) provides an indemnity to every director, manager or officer of the Company, consistent with the provisions of the Corporations Act 2001 (Cwth). 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 officer or auditor.

Auditor's Independence Declaration

The auditor's independence declaration is included on page 7 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

N S Barnett
Chairman

B G Harris
Director

Melbourne
27 April 2012

Deloitte.

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The Board of Directors
Ansvar Insurance Limited
Level 12, 432 St Kilda Road
Melbourne VIC 3004

27 April 2012

Dear Directors

INDEPENDENCE DECLARATION 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 2011, 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

DELOITTE TOUCHE TOHMATSU

Peter Caldwell
Partner
Chartered Accountants

Deloitte.

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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 ("the Company"), which comprises the statement of financial position as at 31 December 2011, 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 Ansvar Insurance Limited and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 12 to 64.

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 gives a true and fair view and 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.

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.

Deloitte

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 2011 and of their performance for the year ended on that date; and

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

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

DELOITTE TOUCHE TOHMATSU

Peter Caldwell
Partner
Chartered Accountants
Melbourne, 27 April 2012

ANSVAR INSURANCE LIMITED

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

N S Barnett Chairman	**B G Harris** Director

Melbourne
27 April 2012

ANSVAR INSURANCE LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

		Consolidated		Company	
		2011	2010	2011	2010
	Note	$'000	$'000	$'000	$'000
Direct premium revenue	5(a)	161,118	161,755	138,319	142,430
Outwards reinsurance premium expense		(93,316)	(80,722)	(77,196)	(68,869)
Net premium revenue		**67,802**	**81,033**	**61,123**	**73,561**
Direct claims expense	17	(636,931)	(219,519)	(136,255)	(106,023)
Reinsurance and other recoveries revenue	5(a)	583,143	169,887	92,610	61,896
Net claims incurred	17	**(53,787)**	**(49,632)**	**(43,645)**	**(44,127)**
Acquisition costs	19(b)	(36,325)	(31,502)	(31,418)	(27,681)
Fire brigade charges	19(b)	(10,516)	(10,146)	(10,516)	(10,146)
Underwriting expenses		**(46,841)**	**(41,648)**	**(41,934)**	**(37,827)**
Commissions Revenue	5(a)	14,216	15,979	11,802	13,789
Underwriting result		**(18,610)**	**5,732**	**(12,654)**	**5,396**
Interest and dividend revenue	5(a)	11,752	11,705	11,585	11,465
Changes in fair value					
- Realised (losses)/gains on investments	5(a)	(234)	(621)	329	(622)
- Unrealised gains/(losses) on investments	5(a)	3,382	(894)	2,847	(874)
Other operating income	5(a)	407	463	354	398
Finance costs		(242)	-	(229)	-
General and administration expenses		(8,098)	(9,442)	(6,432)	(9,040)
		6,967	**1,211**	**8,454**	**1,327**
(Loss)/profit for the year before income tax		**(11,643)**	**6,943**	**(4,200)**	**6,723**
Income tax benefit/(expense) relating to ordinary activities	6	1,251	(2,054)	1,251	(1,864)
(Loss)/profit for the year		**(10,392)**	**4,889**	**(2,949)**	**4,859**
Other comprehensive income					
Exchange differences arising from translation of foreign operations		90	(546)	-	-
Gain on revaluation of property		49	-	49	-
Total comprehensive (loss)/income for the year		**(10,253)**	**4,343**	**(2,900)**	**4,859**

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 2011

	Note	Consolidated 2011 $'000	Consolidated 2010 $'000	Company 2011 $'000	Company 2010 $'000
Current assets					
Cash and cash equivalents	28(a)	44,777	35,375	40,184	33,567
Current tax asset	6	4	-	3	-
Receivables	9	111,067	116,375	77,193	102,853
Investments	10	12,594	15,013	12,171	11,979
Reinsurance recoveries receivable	11	155,479	147,570	9,976	42,259
Total current assets		**323,921**	**314,333**	**139,527**	**190,658**
Non-current assets					
Receivables	12	55,062	419	5,617	419
Investments	10	137,380	157,030	138,140	151,517
Reinsurance recoveries receivable	11	402,582	433	36,858	433
Property, plant and equipment	13	2,539	2,770	2,539	2,538
Deferred tax assets	6	5,949	4,635	5,949	4,702
Intangible assets	14	333	489	333	481
Total non-current assets		**603,846**	**165,776**	**189,436**	**160,090**
Total Assets		**927,767**	**480,109**	**328,963**	**350,748**
Current liabilities					
Payables	15	28,470	20,155	17,806	18,430
Current tax liability	6	-	922	-	885
Provisions	16	5,368	9,854	5,279	8,699
Outstanding claims liabilities	18	204,419	177,587	37,070	70,361
Unearned premium	19	61,154	91,389	61,154	80,955
Total current liabilities		**299,411**	**299,907**	**121,309**	**179,330**
Non-current liabilities					
Provisions	16	862	970	794	901
Outstanding claims liabilities	18	557,601	99,087	136,968	97,724
Total non-current liabilities		**558,464**	**100,057**	**137,762**	**98,625**
Total liabilities		**857,875**	**399,964**	**259,071**	**277,955**
Net Assets		**69,892**	**80,145**	**69,892**	**72,793**
Equity					
Issued capital	23	5,000	5,000	5,000	5,000
Reserves		(821)	(960)	469	421
Retained earnings		65,713	76,105	64,423	67,372
Total Equity		**69,892**	**80,145**	**69,892**	**72,793**

The above Statements of Financial Position are to be read in conjunction with the notes to the financial statements.

ANSVAR INSURANCE LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

	Consolidated				
	Fully paid ordinary shares	Asset revaluation reserve	Foreign currency translation reserve	Retained earnings	Total
	$'000	$'000	$'000	$'000	$'000
Balance at 1 January 2010	**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**
Other comprehensive income	-	49	90	-	139
Profit for the year	-	-	-	(10,392)	(10,392)
Total comprehensive income	**-**	**49**	**90**	**(10,392)**	**(10,253)**
Payment of dividends	-	-	-	-	-
Balance at 31 December 2011	**5,000**	**470**	**(1,291)**	**65,713**	**69,892**

	Company				
	Fully paid ordinary shares	Asset revaluation reserve	Foreign currency translation reserve	Retained earnings	Total
	$'000	$'000	$'000	$'000	$'000
Balance at 1 January 2010	**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**
Other comprehensive income	-	49	-	-	49
Profit for the year	-	-	-	(2,949)	(2,949)
Total comprehensive income	**-**	**49**	**-**	**(2,949)**	**(2,900)**
Payment of dividends	-	-	-	-	-
Balance at 31 December 2011	**5,000**	**469**	**-**	**64,423**	**69,892**

The above Statements of Changes in Equity are to be read in conjunction with the notes to the financial statements.

ANSVAR INSURANCE LIMITED

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

	Note	Consolidated		Company	
		2011	2010	2011	2010
		$'000	$'000	$'000	$'000
Cash flows from operating activities					
Premiums received		143,454	156,839	122,810	138,715
Reinsurance and other recoveries received		173,500	75,253	89,241	69,734
Interest and dividends received		11,740	11,782	11,585	11,447
Other revenue		12,284	978	12,157	306
Outwards reinsurance paid		(101,995)	(74,938)	(85,108)	(64,190)
Claims expense paid		(223,103)	(98,449)	(131,353)	(87,057)
Acquisition costs and other costs paid		(26,174)	(53,175)	(23,484)	(49,141)
Interest and other costs of finance paid		(229)	-	(229)	-
Income tax paid		(942)	(5,075)	(904)	(4,872)
Net cash (used in)/provided by operating activities	28(b)	**(11,465)**	**13,215**	**(5,286)**	**14,942**
Cash flows from investing activities					
Rentals received		-	75	-	155
Payments for investments		(96,286)	(88,185)	(92,800)	(71,885)
Proceeds from sale of investments		119,367	94,108	106,916	77,853
Net advances from/(to) related party entities		1,772	(317)	1,772	(317)
Payments for plant and equipment		(422)	(1,048)	(414)	(950)
Proceeds from sale of plant and equipment		-	1	-	1
Net cash provided by investing activities		**24,431**	**4,634**	**15,474**	**4,857**
Cash flows from financing activities					
Dividends paid		(3,571)	(3,352)	(3,571)	(3,355)
Repayment of borrowings		-	-	-	-
Net cash used in financing activities		**(3,571)**	**(3,352)**	**(3,571)**	**(3,355)**
Net increase in cash and cash equivalents		9,395	14,497	6,617	16,444
Cash and cash equivalents at the beginning of the financial year		**35,375**	**20,796**	**33,567**	**17,123**
Effects of exchange rate changes on the balance of cash held in foreign currencies		7	82	-	-
Cash and cash equivalents at the end of the financial year	28(a)	**44,777**	**35,375**	**40,184**	**33,567**

The above Statements of Cash Flows are to be read in conjunction with the notes to the financial statements.

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 27 April 2012.

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.

1. Significant accounting policies (Cont'd)

(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.

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.

1. Significant accounting policies (Cont'd)

(l) Property, plant and equipment (cont'd)

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

(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.

1. Significant accounting policies (Cont'd)

(n) Foreign currency (Cont'd)

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.

(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.

(q) Impairment of Assets (Cont'd)

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.

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.

1. Significant accounting policies (Cont'd)

(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

There are no new and revised standards and interpretations adopted in these financial statements affecting the reporting results or financial statements.

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.

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.

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

(a) Uncertainty over estimate of ultimate liability arising from claims made under general insurance contracts (Cont'd)

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

The most appropriate method, or even a blend of methods, is selected taking into account the characteristics of the class of business and the extent of the development of each past accident period.

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

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

Modelling

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

Assumption selection

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

Evolution of assumptions

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

Random variation

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

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

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

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

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

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

(b) Assets arising from reinsurance contracts

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

3. Actuarial assumptions and methods

(a) Assumptions

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

Consolidated	2011		2010	
	Short-tail	Long-tail	Short-tail	Long-tail
Weighted average term to settlement (years)	1.85	4.88	0.66	5.37
Inflation rate	2.25%	2.25%	3.75%	3.75%
Superimposed inflation rate	0.00%	4.97%	0.0%	5.92%
Discount rate	2.50%	3.23%	0.0%	5.18%
Discounted mean term (years)	0.75	4.45	0.67	4.62
Claim handling expense ratio	17.90%	11.90%	11.60%	11.20%
Risk margin	13.50%	22.40%	11.90%	22.40%

(b) Processes used to determine assumptions

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

<u>Average weighted term to settlement</u>

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

<u>Inflation</u>

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.

<u>Superimposed inflation rate</u>

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.

3. Actuarial assumptions and methods (Cont'd)

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

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.

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.

3. Actuarial assumptions and methods (Cont'd)

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

Effects of changes in actuarial assumptions from 31 December 2010 to 31 December 2011

Assumption category	Assumption change	Effect on net outstanding claims liabilities Increase / (decrease) $'000
Discount rates	Short tail: no change Liability: 5.25% to 3.25%	6,404
Claims inflation	Short tail: no change Liability: 9.75% to 7.25%	(9,206)
Specific short tail class assumptions (Australia):		
ICD assumptions		620
Specific liability class assumptions (Australia):		
Claim numbers		1
Payments per claim incurred (PPCI) assumptions		142
Projected case estimate (PCE) assumptions		439
Reinsurance		-
Changes from PPCI to PCE for 2002 Accident Year		976
Removal of Minimum loss ratio for 2004		(6,334)
Changes in Minimum loss ratio for other years		(6,286)
Special issues claims		(2,522)
Indexed Retention for Large Claim		790
Specific short tail class assumptions (New Zealand):		
ICD assumptions		107
Specific liability class assumptions (New Zealand):		
Loss ratio		(1,318)

(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.

3. Actuarial assumptions and methods (Cont'd)

(c) Sensitivity analysis (Cont'd)

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		(10,392)	69,892
Variable	**Movement in variable**	**Movement in amount $'000**	
Average weighted term to settlement	+1 year	(2,300)	(2,300)
	- 1 year	2,375	2,375
Claims inflation rate	1.00%	3,065	3,065
	- 1.00%	(2,941)	(2,941)
Discount rate	1.00%	(2,941)	(2,941)
	- 1.00%	3,065	3,065
Minimum loss ratio	1.00%	729	729
	- 1.00%	(729)	(729)
Claims handling expenses ratio	1.00%	789	789
	- 1.00%	(789)	(789)

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.

4. Risk management (Cont'd)

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

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

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

(b) Interest rate risk

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

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

The Group is exposed to interest rate risk as the entities in the Group invest funds in fixed interest securities of various maturities. This exposure is closely monitored by Investment Committee.

Assets and liabilities are appropriately matched in terms of type, duration and currency. 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 statement of financial position at the amount that best represents the maximum credit risk exposure at balance date. The Group actively monitors the credit ratings of reinsurers to ensure there is no significant exposure that requires immediate attention and action. There has been no issues or defaults with payment to date.

Refer to Note 24(d) for the composition of the Group's reinsurance asset split by Standard and Poor's rating.

(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.

4. Risk management (Cont'd)

(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		Company	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
(a) Revenue				
An analysis of the Group's revenue for the year is as follows:				
Premium revenue:				
Gross written premium	133,234	162,438	118,519	142,401
Movement in unearned premiums	27,884	(683)	19,800	29
Gross earned premiums	161,118	161,755	138,319	142,430
Reinsurance and other recoveries (note 17)	583,143	169,887	92,610	61,896
Total general insurance revenue	**744,262**	**331,642**	**230,929**	**204,326**
Investment income:				
Interest and dividend revenue	11,752	11,705	11,585	11,465
Changes in net market value of investments:				
Realised (losses)/gains	(234)	(621)	329	(622)
Unrealised gains/(losses)	3,382	(894)	2,847	(874)
Total investment income	**14,900**	**10,190**	**14,761**	**9,969**
Commissions revenue	14,216	15,979	11,802	13,789
Other operating income	407	463	354	398
Total Revenue	**773,784**	**358,274**	**257,846**	**228,482**
(b) Profit before income tax				
Loss on sale of non-current assets	-	521	-	521
Depreciation of non-current assets	482	498	436	435
Impairment of non-current assets	196	-	-	-
Amortisation of intangible assets	201	240	195	233
Impairment of intangible assets	2	-	-	-
Doubtful debts allowance:				
Reinsurance receivable	(744)	(10)	(744)	-
Other recoveries receivable	(92)	(606)	(92)	(606)
Trade debtors	(760)	801	(722)	803
	(1,596)	**185**	**(1,558)**	**197**
Employee benefits:				
Defined contribution plans	1,106	1,133	910	991
Other	63	62	55	62
	1,169	**1,195**	**965**	**1,053**
Rental expense relating to operating leases	1,526	1,593	1,345	1,402

6. Income taxes

Income tax recognised in profit or loss

	Consolidated		Company	
	2011	**2010**	**2011**	**2010**
	$'000	**$'000**	**$'000**	**$'000**
Tax expense comprises:				
Current tax expense	-	3,071	-	2,906
Adjustments recognised in the current year in relation to the current tax of prior years	17	3	17	3
Unused tax credits charged to deferred tax	67	-	(1,003)	-
Deferred tax benefit relating to the origination and reversal of timing differences	(1,335)	(1,020)	(265)	(1,045)
Total income tax (benefit)/expense	**(1,251)**	**2,054**	**(1,251)**	**1,864**

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

Net (loss)/profit for the year before income tax	**(11,643)**	**6,943**	**(4,200)**	**6,723**
Income tax expense calculated at 30%	(3,493)	2,083	(1,260)	2,017
Permanent Differences:				
Non deductible expenses	175	64	171	59
Allowable building allowances	(62)	(88)	(62)	(212)
Adjustment to tax on investments	(100)	-	(100)	-
Tax credits not recognised	2,081	-	-	-
Effect of different tax rates of subsidiaries operating in other jurisdictions	148	(5)	-	-
Total income tax (benefit)/expense	**(1,251)**	**2,054**	**(1,251)**	**1,864**

Income tax rates used in the above reconciliation is at the corporate tax rate of 30% payable by the Australian entity and 28% payable by the New Zealand entity.

	Consolidated		Company	
	2011	**2010**	**2011**	**2010**
	$'000	**$'000**	**$'000**	**$'000**
Current tax assets and liabilities				
Income tax (receivable)/payable	(4)	922	(3)	885

6. Income taxes (cont'd)

Temporary Differences

Taxable and deductible temporary differences arise from the following:

2011	Consolidated			
	Opening balance $'000	Charged to income $'000	Charged to equity $'000	Closing balance $'000
Gross deferred tax liabilities:				
Revenue receivable	(593)	204	-	(389)
Property	(180)	-	(21)	(201)
Unrealised gain on fixed interest securities	(129)	(1,166)	-	(1,295)
Total	**(902)**	**(962)**	**(21)**	**(1,885)**
Gross deferred tax assets:				
Provisions	946	(317)	-	629
Doubtful debts allowance	350	(132)	-	218
Indirect claims settlement costs	2,424	560	-	2,984
Unexpired risk liability	271	2,629	-	2,900
Purchased interest	197	(128)	-	69
Unrealised loss on fixed interest securities	1,341	(1,310)	-	31
Property, plant & equipment deductions	8	(8)	-	-
Unused tax losses and credits	-	1,003	-	1,003
Total	**5,537**	**2,297**	**-**	**7,834**

Presented in the balance sheet as follows:	
Deferred tax liability	(1,885)
Deferred tax asset	7,834
	5,949

6. Income taxes (cont'd)

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
Unused tax losses and credits	-	-	-	-
Total	**4,994**	**543**	**-**	**5,537**
Presented in the balance sheet as follows:				
Deferred tax liability				-
Deferred tax asset				4,635
				4,635

6. Income taxes (cont'd)

2011	Company			
	Opening balance $'000	Charged to income $'000	Charged to equity $'000	Closing balance $'000
Gross deferred tax liabilities:				
Revenue receivable	(526)	137	-	(389)
Property	(180)	-	(21)	(201)
Unrealised gain on fixed interest securities	(129)	(1,166)	-	(1,295)
Total	**(835)**	**(1,029)**	**(21)**	**(1,885)**
Gross deferred tax assets:				
Provisions	518	111	-	629
Doubtful debts allowance	334	(116)	-	218
Indirect claims settlement costs	2,953	31	-	2,984
Unexpired risk liability	194	2,706	-	2,900
Purchased interest	197	(128)	-	69
Unrealised loss on fixed interest securities	1,341	(1,310)	-	31
Property, plant & equipment deductions	-	-	-	-
Unused tax losses and credits	-	1,003	-	1,003
Total	**5,537**	**1,294**	-	**7,834**

Presented in the balance sheet as follows:	
Deferred tax liability	(1,885)
Deferred tax asset	7,834
	5,949

6. Income taxes (cont'd)

2010	**Company**			
	Opening balance	**Charged to income**	**Charged to equity**	**Closing balance**
	$'000	**$'000**	**$'000**	**$'000**
Gross deferred tax liabilities:				
Revenue receivable	(523)	(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
Property, plant & equipment deductions	-	-	-	-
Unused tax losses and credits	-	-	-	-
Total	**4,994**	**543**	**-**	**5,537**
Presented in the balance sheet as follows:				
Deferred tax liability				-
Deferred tax asset				4,702
				4,702

7. Key management personnel compensation

(a) The directors of Ansvar Insurance Limited during the year were:

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

7. Key management personnel compensation (Cont'd)

(b) Key executives:

Chief Executive Officer	A. Moon	
Chief Financial Officer	D. Muscari A. Burns	(Resigned 29/04/2011) (Appointed 23/05/2011)
Chief Actuary	D. Davies	(Appointed 01/09/2011)
National Business Development Manager	C. Neame T. Farren	(Resigned 15/5/2011) (Appointed 01/8/2011)
National Underwriting Manager	M. Guppy R. Wyatt	(Resigned 18/02/2011) (Appointed 26/08/2011)
Chief Operating Officer	W. Goodall	
Human Resource Manager	J. Lord J. Lee	(Resigned 01/12/2011) (Appointed 01/12/2011)
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	
	2011	2010
	$'000	$'000
Short-term employee benefits	2,620	3,578
Other long-term benefits	174	174
	2,794	**3,752**

8. Remuneration of auditors

	Consolidated		Company	
	2011	2010	2011	2010
	$	$	$	$
Auditor of the parent entity:				
Audit of the financial report	213,667	143,672	152,568	89,803
Other services (i)	25,362	73,580	10,003	62,642
	239,030	**217,252**	**162,571**	**152,445**

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

9. Current receivables

	Consolidated		Company	
	2011	**2010**	**2011**	**2010**
	$'000	**$'000**	**$'000**	**$'000**
Trade receivables	33,881	52,821	29,341	45,655
Allowance for doubtful debts	(466)	(1,177)	(428)	(1,150)
	33,414	**51,644**	**28,913**	**44,505**
Unsecured amounts receivable from related entity	-	-	39	464
Other debtors and prepayments	11,661	7,237	8,193	7,228
Deferred GST on claims outstanding	20,434	1,421	762	1,421
Deferred reinsurance expense (note 19(a))	38,551	37,450	32,278	32,152
Deferred acquisition costs (note 19(b))	1,988	11,999	1,988	10,466
Deferred fire service levy (note 19(b))	5,019	6,624	5,019	6,617
	111,068	**116,375**	**77,193**	**102,853**

10. Investments

	Consolidated		Company	
Investments carried at fair value	**2011**	**2010**	**2011**	**2010**
	$'000	**$'000**	**$'000**	**$'000**
Current:				
Government/semi-government fixed income securities	423	2,651	-	-
Debentures	12,163	12,354	12,163	11,971
Mortgages and other loans (at amortised cost)	8	8	8	8
	12,594	**15,013**	**12,171**	**11,979**
Non-current:				
Listed equity investments	5,943	7,066	5,943	7,066
Shares in controlled entities (at fair value)	-	-	760	1,293
Government/semi-government fixed income securities	51,750	73,001	51,750	70,249
Debentures	79,687	76,963	79,687	72,909
	137,380	**157,030**	**138,140**	**151,517**
	149,974	**172,043**	**150,311**	**163,496**

At 31 December 2011, the Directors reviewed the carrying value of its investment in ACS (NZ) Limited and determined that the fair value of these shares are no longer at its historical cost.

The Directors' valuation of these shares is the value of the net assets in the New Zealand subsidiary at balance date. An Australian dollar equivalent of $760,213.

11. Reinsurance recoveries receivable

	Consolidated		Company	
	2011 $'000	**2010 $'000**	**2011 $'000**	**2010 $'000**
Expected future reinsurance recoveries				
- on claims reported	494,006	124,743	36,799	25,438
- on claims incurred but not reported	89,538	24,140	10,096	18,088
	583,543	**148,883**	**46,895**	**43,526**
Discount to present value	(25,483)	(90)	(62)	(90)
Provision for impairment of reinsurance assets	-	(790)	-	(744)
Reinsurance recoveries receivable	**558,061**	**148,003**	**46,833**	**42,692**
Current reinsurance recoveries	155,479	148,330	9,976	42,973
less: provision for impairment of reinsurance asset	-	(760)	-	(714)
	155,479	**147,570**	**9,976**	**42,259**
Non-current reinsurance recoveries	402,582	463	36,858	463
less: provision for impairment of reinsurance asset	-	(30)	-	(30)
	402,582	**433**	**36,858**	**433**

12. Non-current receivables

	Consolidated		Company	
	2011 $'000	**2010 $'000**	**2011 $'000**	**2010 $'000**
Other recoveries receivable	3,037	431	3,037	431
Allowance for doubtful debts	(236)	(392)	(236)	(392)
Net claim recoveries	**2,801**	**39**	**2,801**	**39**
Deferred GST on outstanding claims	52,261	380	2,816	380
	55,062	**419**	**5,617**	**419**

13. Property, plant and equipment

	Consolidated				
	Buildings $'000	Leasehold improve-ments $'000	Office furniture and fittings $'000	Computer hardware $'000	Total $'000
Cost or valuation					
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 1 January 2011	**850**	**727**	**1,314**	**3,179**	**6,070**
Additions	-	-	93	282	375
Disposals	-	-	-	-	-
Revaluations	70	-	-	-	70
Net foreign currency exchange differences	-	-	-	-	-
Balance at 31 December 2011	**920**	**727**	**1,407**	**3,461**	**6,515**
Accumulated depreciation					
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 1 January 2011	**-**	**(402)**	**(698)**	**(2,201)**	**(3,301)**
Disposals	-	-	-	-	-
Depreciation expense	-	(47)	(82)	(353)	(482)
Impairment charged	-	(11)	(160)	(25)	(196)
Net foreign currency exchange differences	-	1	1	1	3
Balance at 31 December 2011	**-**	**(460)**	**(939)**	**(2,577)**	**(3,976)**
Net Book Value					
As at 31 December 2010	850	326	616	978	2,770
As at 31 December 2011	**920**	**267**	**468**	**884**	**2,539**

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

	Company				
	Buildings	Leasehold improve-ments	Office furniture and fittings	Computer hardware	Total
	$'000	$'000	$'000	$'000	$'000
Cost or valuation					
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 1 January 2011	**850**	**651**	**992**	**3,003**	**5,496**
Additions	-	-	93	274	367
Disposals	-	-	-	-	-
Revaluations	70	-	-	-	70
Balance at 31 December 2011	**920**	**651**	**1,085**	**3,277**	**5,933**
Accumulated depreciation					
Balance at 1 January 2010	**-**	**(312)**	**(967)**	**(2,302)**	**(3,581)**
Disposals	-	-	517	541	1,058
Depreciation expense	-	(24)	(113)	(298)	(435)
Balance at 1 January 2011	**-**	**(336)**	**(563)**	**(2,059)**	**(2,958)**
Disposals	-	-	-	-	-
Depreciation expense	-	(47)	(54)	(334)	(436)
Balance at 31 December 2011	**-**	**(383)**	**(617)**	**(2,393)**	**(3,394)**
Net Book Value					
As at 31 December 2010	850	315	429	944	2,538
As at 31 December 2011	**920**	**268**	**468**	**884**	**2,539**

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

	Consolidated		Company	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Buildings	-	-	-	-
Leasehold improvements	47	29	47	24
Office furniture and fittings	82	147	54	113
Computer hardware	353	323	334	298
	482	**499**	**436**	**435**

14. Intangible assets

	Consolidated		
	Trademarks $'000	Computer software $'000	Total $'000
Gross carrying amount			
Balance at 1 January 2010	23	3,728	3,751
Additions	-	173	173
Net foreign currency exchange differences	-	-	-
Balance at 1 January 2011	**23**	**3,901**	**3,924**
Additions	-	47	47
Net foreign currency exchange differences	-	-	-
Balance at 31 December 2011	**23**	**3,948**	**3,971**
Accumulated amortisation			
Balance at 1 January 2010	-	(3,194)	(3,194)
Amortisation expense (i)	-	(241)	(241)
Net foreign currency exchange differences	-	-	-
Balance at 1 January 2011	**-**	**(3,435)**	**(3,435)**
Amortisation expense (i)	-	(201)	(201)
Impairment charged	-	(2)	(2)
Net foreign currency exchange differences	-	-	-
Balance at 31 December 2011	**-**	**(3,638)**	**(3,638)**
Net Book Value			
As at 31 December 2010	23	466	489
As at 31 December 2011	**23**	**310**	**333**

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

14. Intangible assets

	Company		
	Trademarks $'000	Computer software $'000	Total $'000
Gross carrying amount			
Balance at 1 January 2010	23	2,829	2,852
Additions	-	161	161
Net foreign currency exchange differences	-	-	-
Balance at 1 January 2011	**23**	**2,990**	**3,013**
Additions	-	47	47
Net foreign currency exchange differences	-	-	-
Balance at 31 December 2011	**23**	**3,037**	**3,060**
Accumulated amortisation			
Balance at 1 January 2010	-	(2,299)	(2,299)
Amortisation expense (i)	-	(233)	(233)
Net foreign currency exchange differences	-	-	-
Balance at 1 January 2011	**-**	**(2,532)**	**(2,532)**
Amortisation expense (i)	-	(195)	(195)
Net foreign currency exchange differences	-	-	-
Balance at 31 December 2011	**-**	**(2,727)**	**(2,727)**
Net Book Value			
As at 31 December 2010	23	458	481
As at 31 December 2011	**23**	**310**	**333**

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

15. Current payables

	Consolidated		Company	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Direct insurance payables	10,492	2,524	763	1,814
Reinsurance ceded creditors	475	3,348	407	3,348
Accrued reinsurance premium	6,026	5,186	6,026	4,848
Trade creditors	3,828	1,562	3,754	1,262
Sundry creditors and accruals	3,778	1,418	3,409	1,616
Dividend payable	-	3,571	-	3,571
Unsecured amount payable to parent entity	2,442	676	1,870	523
Indirect taxes	1,430	1,870	1,577	1,451
	28,470	**20,155**	**17,805**	**18,430**

16. Provisions

	Consolidated		Company	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Current				
Employee entitlements (note 21)	941	953	852	854
Deferred reinsurance commission	4,345	8,747	4,345	7,691
Other deferred revenue	82	154	82	154
	5,368	**9,854**	**5,279**	**8,699**
Non-current				
Employee entitlements (note 21)	438	471	438	471
Provision for make good	424	499	356	430
	862	**970**	**794**	**901**
Total Provisions	**6,230**	**10,824**	**6,073**	**9,600**

	Consolidated				
	Employee entitlements	Re-insurance commission	Other deferred revenue	Provision for make good	Total
	$'000	$'000	$'000	$'000	$'000
Balance at 1 January 2011	**1,425**	**8,747**	**154**	**499**	**10,824**
Additional provisions recognised	-	(4,402)	(72)	-	(4,474)
Used during the year	(46)	-	-	(75)	(120)
Balance at 31 December 2011	**1,379**	**4,345**	**82**	**424**	**6,230**

	Company				
	Employee entitlements	Re-insurance commission	Other deferred revenue	Provision for make good	Total
	$'000	$'000	$'000	$'000	$'000
Balance at 1 January 2011	**1,326**	**7,691**	**154**	**430**	**9,600**
Additional provisions recognised	-	(3,346)	(72)	-	(3,418)
Used during the year	(35)	-	-	(75)	(110)
Balance at 31 December 2011	**1,291**	**4,345**	**82**	**356**	**6,073**

17. Net claims incurred

Direct business

Consolidated	2011			2010		
	Current year $'000	**Prior years $'000**	**Total $'000**	**Current year $'000**	**Prior years $'000**	**Total $'000**
Gross claims expense						
Gross claims incurred (undiscounted)	647,896	13,465	661,361	239,621	(20,289)	219,332
Discount movement	(24,431)	-	(24,431)	(664)	851	187
	623,466	**13,465**	**636,930**	**238,957**	**(19,438)**	**219,519**
Reinsurance and other recoveries revenue						
Reinsurance and other recoveries (undiscounted)	(576,732)	(31,952)	(608,684)	(176,343)	6,638	(169,705)
Discount movement	25,541	-	25,541	5	(187)	(182)
	(551,191)	**(31,952)**	**(583,143)**	**(176,338)**	**6,451**	**(169,887)**
Net claims incurred	**72,275**	**(18,487)**	**53,787**	**62,619**	**(12,987)**	**49,632**

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	2011			2010		
	Current year $'000	**Prior years $'000**	**Total $'000**	**Current year $'000**	**Prior years $'000**	**Total $'000**
Gross claims expense						
Gross claims incurred - undiscounted	132,768	2,420	135,188	124,433	(18,597)	105,836
Discount movement	1,067	-	1,067	(664)	851	187
	133,835	**2,420**	**136,255**	**123,769**	**(17,746)**	**106,023**
Reinsurance and other recoveries revenue						
Reinsurance and other recoveries - undiscounted	(71,486)	(21,166)	(92,652)	(66,811)	5,096	(61,715)
Discount movement	42	-	42	5	(186)	(181)
	(71,444)	**(21,166)**	**(92,610)**	**(66,806)**	**4,910**	**(61,896)**
Net claims incurred	**62,390**	**(18,746)**	**43,645**	**56,963**	**(12,837)**	**44,127**

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	
	2011	**2010**	**2011**	**2010**
	$'000	**$'000**	**$'000**	**$'000**
a) Gross outstanding claims liabilities				
Gross central estimate	736,972	259,451	156,717	151,684
Discount to present value	(37,523)	(12,457)	(12,102)	(12,456)
Claims handling costs	11,871	10,225	9,946	9,842
Risk margin	50,699	19,455	19,478	19,015
Gross outstanding claims liabilities	**762,020**	**276,674**	**174,039**	**168,085**
Current	204,419	177,587	37,070	70,361
Non-current	557,601	99,087	136,968	97,724
	762,020	**276,674**	**174,039**	**168,085**

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		16,609	16,467	18,392	19,014	18,770	
One year later		14,106	14,052	16,553	19,528	-	
Two years later		13,879	13,393	13,564	-	-	
Three years later		9,556	9,222	-	-	-	
Four years later		9,328	-	-	-	-	
Current estimate of ultimate claims cost	64,279	9,328	9,222	13,564	19,528	18,770	134,691
Cumulative net payments	41,732	4,146	3,559	1,955	2,696	54,433	54,433
Undiscounted central estimates	**22,547**	**5,182**	**5,663**	**11,609**	**16,832**	**18,425**	**80,258**
Net discount							(1,669)
Claims handling expenses							8,723
Allowance for expected reinsurance claims							(62)
Risk margin							17,933
Net liability class outstanding claims							105,183
Net short tail outstanding claims							21,833
GST input tax credits associated with outstanding claims							(69,118)
Net outstanding claims liabilities							**57,898**
Reinsurance and other recoveries on outstanding claims							704,122
Gross outstanding claims liabilities							**762,020**

18. Outstanding claims liabilities (Cont'd)

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

Consolidated	**2011**			**2010**		
	Gross	**Re-insurance and other recoveries**	**Net**	**Gross**	**Re-insurance and other recoveries**	**Net**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
At 1 January	276,674	(169,178)	107,496	172,375	(57,635)	115,240
Increase due to claims incurred in current accident year	562,663	(462,531)	100,132	240,237	(188,878)	51,359
Movement in prior year claims provisions	11,045	(10,786)	259	(19,437)	6,409	(13,028)
Claim payments / recoveries	(90,035)	86,084	(3,951)	(113,348)	70,571	(42,777)
Foreign exchange	1,673	(1,650)	23	(3,653)	355	(3,298)
At 31 December	**762,020**	**(558,061)**	**203,959**	**276,674**	**(169,178)**	**107,496**

19. Unearned premium and deferred insurance costs

a) Unearned premium

Consolidated	**2011**			**2010**		
	Gross	**Re-insurance**	**Net**	**Gross**	**Re-insurance**	**Net**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
At 1 January	91,389	(37,450)	53,939	91,339	(36,768)	54,571
Premiums on contracts written	129,734	(78,664)	51,070	161,712	(65,015)	96,697
Earning of premiums written	(160,057)	92,201	(67,856)	(161,577)	64,300	(97,277)
Foreign exchange differences	88	(45)	43	(85)	33	(52)
At 31 December	**61,154**	**(23,958)**	**37,196**	**91,389**	**(37,450)**	**53,939**

Company	**2011**			**2010**		
	Gross	**Re-insurance**	**Net**	**Gross**	**Re-insurance**	**Net**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
At 1 January	80,955	(32,152)	48,803	80,983	(31,617)	49,366
Premiums on contracts written	117,627	(69,002)	48,625	142,223	(54,871)	87,352
Earning of premiums written	(137,428)	77,196	(60,232)	(142,251)	54,337	(87,914)
At 31 December	**61,154**	**(23,958)**	**37,196**	**80,955**	**(32,151)**	**48,804**

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

b) Deferred insurance costs

Consolidated	2011		2010	
	Acquisition costs $'000	Fire service levy $'000	Acquisition costs $'000	Fire service levy $'000
At 1 January	11,999	6,624	13,551	6,559
Costs deferred in the year	32,603	8,918	34,415	10,211
Reverse deferred costs - cancellations	3,431	-	-	-
Amortisation charged to income	(36,325)	(10,516)	(31,502)	(10,146)
Write down for premium deficiency (note 20)	(9,663)	-	(4,375)	-
Foreign exchange differences	(57)	(7)	(90)	-
At 31 December	**1,988**	**5,019**	**11,999**	**6,624**

Company	2011		2010	
At 1 January	10,466	6,617	12,130	6,559
Costs deferred in the year	32,603	8,918	29,793	10,204
Amortisation charged to income	(31,418)	(10,516)	(27,681)	(10,146)
Write down for premium deficiency (note 20)	(9,663)	-	(3,775)	-
At 31 December	**1,988**	**5,019**	**10,466**	**6,617**

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 2011 (2010: Deficient). The entire deficiency of $9.663 million (Group) / $9.663 million (Company) was recognised (2010: Group $4.375m Group and Company $3.775m).

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 2011 $'000	Consolidated 2010 $'000	Company 2011 $'000	Company 2010 $'000
Unearned premium liability relating to insurance contracts issued	32,265	47,514	32,265	42,317
Related deferred acquisition costs	(7,309)	(7,636)	(7,309)	(6,559)
	24,956	**39,878**	**24,956**	**35,758**
Central estimate of present value of expected future cash flows arising from future claims on insurance contracts issued	31,066	37,700	31,066	33,709
Risk margin of 11.90% (Group) / 22.40% (Company)	3,553	6,553	3,553	5,824
	34,619	**44,253**	**34,619**	**39,533**
Net deficiency	**(9,663)**	**(4,375)**	**(9,663)**	**(3,775)**

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 2011 $'000	Consolidated 2010 $'000	Company 2011 $'000	Company 2010 $'000
Current provision for employee benefits (note 16)	941	953	852	854
Non-current provision for employee benefits (note 16)	438	471	438	471
Aggregate employee benefits	**1,379**	**1,424**	**1,290**	**1,325**
Number of employees at end of financial year	**165**	**170**	**141**	**141**

22. Commitments

Operating lease commitments:	Consolidated 2011 $'000	Consolidated 2010 $'000	Company 2011 $'000	Company 2010 $'000
Not later than one year	1,352	1,185	1,173	990
Later than one year and not later than five years	3,039	3,521	2,933	3,209
Later than five years	508	-	508	-
	4,899	**4,706**	**4,614**	**4,199**

23. Share capital

	Consolidated		Company	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Issued share capital 5,000,000 ordinary shares each fully paid (2010: 5,000,000)	5,000	5,000	5,000	5,000

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

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

		Consolidated		Company	
		2011	2010	2011	2010
	Note	$'000	$'000	$'000	$'000
Financial assets					
Cash and cash equivalents		44,777	35,375	40,184	33,567
Investment at fair value through profit or loss		149,966	172,035	149,543	162,195
Loans and receivables		773,140	264,805	129,652	145,972
Financial liabilities					
Payables		28,470	20,155	17,806	18,430

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	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**
Fair value through profit and loss				
Listed equity investments	5,943	-	-	5,943
Government / semi-government fixed income securities	52,173	-	-	52,173
Debentures	79,687	12,163	-	91,850
As at 31 December 2011	**137,803**	**12,163**	**-**	**149,966**

Company

	Level 1 $'000	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
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**
Fair value through profit and loss				
Listed equity investments	5,943	-	-	5,943
Government/semi-government fixed income securities	51,750	-	-	51,750
Debentures	79,687	12,163	-	91,850
As at 31 December 2011	**137,380**	**12,163**	**-**	**149,543**

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

24. Financial instruments (Cont'd)

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 actively monitors the credit ratings of reinsurers to ensure there is no significant exposure that requires immediate attention and action. There has been no issues or defaults with payments to date.

As at 31 December 2011, the Group's reinsurance asset is comprised of the following percentage split based on Standard & Poor's ratings (except where noted):

Standard & Poor's Ratings	% Split
AAA	2.50%
AA-	67.64%
A+	14.23%
A	10.70%
A-	2.66%
A- (AM Best)	2.26%

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	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Financial assets				
Cash and cash equivalents (excluding bank overdraft)	44,777	35,375	40,184	33,567
Financial assets at fair value through profit or loss				
Government / semi-government securities	52,173	75,652	51,750	70,249
Debentures	91,850	89,317	91,850	84,880
Equities	5,943	7,066	5,943	7,066
Loans and receivables				
Premiums receivable	33,415	51,644	28,913	45,655
Other debtors and prepayments	11,661	8,658	8,193	8,649
Receivable from related party	-	-	39	464
Mortgages and loans	8	8	8	8
Reinsurance assets	607,001	148,003	46,833	42,692
Other insurance receivables	121,054	56,492	45,664	49,654
Total	**967,883**	**472,216**	**319,379**	**342,834**

24. Financial instruments (Cont'd)

d) Credit risk (Cont'd)

Credit risk exposure by credit rating

The tables following 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: satisfactory [(ii)] $'000**	**Non-investment grade: unsatis-factory [(iii)] $'000**	**Past-due or impaired $'000**	**Total $'000**
2011					
Financial assets					
Cash and cash equivalents	44,777	-	-	-	44,777
Financial assets at fair value through profit or loss					
Government / semi government securities	52,173	-	-	-	52,173
Debentures	91,850	-	-	-	91,850
Equity securities	5,943	-	-	-	5,943
Loans and receivables					
Premiums receivable	-	33,415	-	-	33,415
Other debtors and prepayments	-	11,661	-	-	11,661
Mortgages and loans	-	8	-	-	8
Reinsurance assets	607,001	-	-	-	607,001
Other insurance receivables	-	121,054	-	-	121,054
Total	**801,744**	**166,139**	**-**	**-**	**967,883**
2010					
Financial assets					
Cash and cash equivalents	35,375	-	-	-	35,375
Financial assets at fair value through profit or loss					
Government / semi government 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**

24. Financial instruments (Cont'd)

d) Credit risk (Cont'd)

Company	Neither past-due nor impaired				
	Investment grade [i] $'000	Non-investment grade: satisfactory [ii] $'000	Non-investment grade: unsatis-factory [iii] $'000	Past-due or impaired $'000	Total $'000
2011					
Financial assets					
Cash and cash equivalents	40,184	-	-	-	40,184
Financial assets at fair value through profit or loss					
Government / semi government securities	51,750	-	-	-	51,750
Debentures	91,850	-	-	-	91,850
Equity securities	5,943	-	-	-	5,943
Loans and receivables					
Premiums receivable	-	28,913	-	-	28,913
Other debtors and prepayments	-	8,193	-	-	8,193
Receivable from related party	-	39	-	-	39
Mortgages and loans	-	8	-	-	8
Reinsurance assets	46,833		-	-	46,833
Other insurance receivables	-	44,664	-	-	45,664
Total	**236,560**	**82,819**	**-**	**-**	**319,379**
2010					
Financial assets					
Cash and cash equivalents	33,567	-	-	-	33,567
Financial assets at fair value through profit or loss					
Government / semi government 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**	**-**	**-**	**341,734**

24. Financial instruments (Cont'd)

d) Credit risk (Cont'd)

(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.

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

e) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial instruments. Ultimate responsibility for liquidity risk management rests with the board of directors, that has built a liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of assets and liabilities. As required by APRA Prudential Standard GPS 220, the Group has developed and implemented a Risk Management Strategy, which is described in note 4. The Group's overall strategy in liquidity risk management remains unchanged from 2010. 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	Adjust-ment $'000	Total $'000
2011						
Financial liabilities						
Outstanding claims liabilities	-	211,654	623,448	-	(47,661)	787,441
Non-interest bearing:						
Payables	-	28,470	-	-	-	28,470
		240,124	**623,448**	**-**	**(47,661)**	**815,911**
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**

24. Financial instruments (Cont'd)

e) Liquidity risk (Cont'd)

	Weighted average interest rate %	Less than 1 year $'000	1-5 years $'000	5+ years $'000	Adjust-ment $'000	Total $'000
Company						
2011						
Financial liabilities						
Outstanding claims liabilities	-	37,070	149,071	-	(12,102)	174,039
Non-interest bearing:						
Payables	-	17,806	-	-	-	17,806
		54,876	**149,071**	**-**	**(12,102)**	**191,845**
2010						
Financial liabilities						
Outstanding claims liabilities	-	70,361	81,374	28,806	(12,456)	168,085
Non-interest bearing:						
Payables	-	18,430	-	-	-	18,430
		88,791	**81,374**	**28,806**	**(12,456)**	**186,515**

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 **2011**	**Weighted average interest rate** **%**	**Less than 1 year** **$'000**	**1 - 5 years** **$'000**	**5+ years** **$'000**	**Adjust-ment** **$'000**	**Total** **$'000**
Non-interest bearing:						
Cash	-	9,474	-	-	-	9,474
Net trade debtors	-	134,502	-	-	-	134,502
Other debtors and prepayments	-	32,095	-	-	-	32,095
Mortgages and loans	-	8	-	-	-	8
Reinsurance assets	-	607,001	-	-	-	607,001
Equity securities	-	5,943	-	-	-	5,943
Variable interest rate instruments:						
Cash	3.65	21,303	-	-	-	21,303
Fixed interest rate instruments:						
Short term bills and notes	0.91	14,000	-	-	-	14,000
Government / semi government securities	4.42	2,119	61,575	1,095	(12,616)	52,173
Debentures	5.66	4,231	90,802	1,095	(4,278)	91,850
		830,676	**152,377**	**2,190**	**(16,894)**	**968,349**

Consolidated **2010**	**Weighted average interest rate** **%**	**Less than 1 year** **$'000**	**1 - 5 years** **$'000**	**5+ years** **$'000**	**Adjust-ment** **$'000**	**Total** **$'000**
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	75,653
Debentures	6.036	6,571	83,946	-	(1,200)	89,317
		319,515	**146,388**	**877**	**5,437**	**472,217**

24. Financial instruments (Cont'd)

f) Market risk (Cont'd)

Company **2011**	**Weighted average interest rate %**	**Less than 1 year $'000**	**1 - 5 years $'000**	**5+ years $'000**	**Adjust-ment $'000**	**Total $'000**
Non-interest bearing:						
Cash	-	4,881	-	-	-	4,881
Net trade debtors	-	74,244	-	-	-	74,244
Other debtors and prepayments	-	8,955	-	-	-	8,955
Related party receivables	-	39	-	-	-	39
Mortgages and loans	-	8	-	-	-	8
Reinsurance assets	-	46,833	-	-	-	46,833
Equity securities	-	5,943	-	-	-	5,943
Variable interest rate instruments:						
Cash	3.65	21,303	-	-	-	21,303
Fixed interest rate instruments:						
Short term bills and notes	0.91	14,000	-	-	-	14,000
Government / semi government securities	4.42	1,696	61,575	1,095	(12,616)	51,750
Debentures	5.66	4,231	90,802	1,095	(4,278)	91,850
		182,133	**152,377**	**2,190**	**(16,894)**	**319,806**

Company **2010**	**Weighted average interest rate %**	**Less than 1 year $'000**	**1 - 5 years $'000**	**5+ years $'000**	**Adjust-ment $'000**	**Total $'000**
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 government securities	5.25	3,045	59,691	877	6,636	70,249
Debentures	6.09	4,156	81,923	324	(1,523)	84,880
		194,906	**141,614**	**1,201**	**5,113**	**342,834**

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 $0.981 million (2010: decrease/increase by $1.205 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 2010.

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 $1,486 million (2010: $1.766 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.

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 parent entity of Ansvar Insurance Limited during the year.

Other Transactions with Directors

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

	Consolidated		Company	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Purchase of legal services from Moores Legal	13	15	13	15
Purchase of survey services from Insync Surveys	13	-	13	-
Sponsorship payments to Willow Creek Australia	15	-	15	-

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 2011 and 31 December 2010 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.

25. Related party disclosures (Cont'd)

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

	Consolidated		Company	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Current unsecured receivable from controlled entities	-	-	39	464
Current unsecured payable to parent entity	(1,870)	(153)	(1,870)	-

Ansvar Insurance Limited pays for certain operating expenses on behalf of ACS (NZ) Limited; these costs are charged back to the subsidiary. During the year a total of $3.584 million (2010: $1.503 million) was charged back.

On 22 November 2011 ACS (NZ) Limited entered into a secured $20 million AUD lending facility with its parent Ansvar Insurance Limited. No balance was outstanding as at balance date. The loan is secured over all the assets of ACS and interest is charged at the official cash rate set by the Reserve Bank of Australia plus 0.5%.

26. Controlled entities

Name of Entity	Country of incorporation	Ownership Interest	
		2011	2010
		%	%
ACS (NZ) Limited	New Zealand	100	100

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.

	2011	2010
	$'000	$'000
Tier 1 Capital	72,343	80,348
Less: Net deferred tax assets	(5,949)	(4,702)
Other intangible assets	(334)	(482)
Other deductions required by APRA	(500)	(500)
Adjusted Tier 1 Capital	65,560	74,664
Tier 2 Capital	211	189
Total Capital Base	65,771	74,853
Minimum capital requirement (MCR)	36,854	37,505
MCR ratio	178.46%	199.58%

28. Notes to the cash flow statement

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:

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

a) Reconciliation of cash and cash equivalents

	Consolidated		Company	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Cash	30,084	21,132	25,491	20,996
Add: short term deposits (i)	14,693	14,243	14,693	12,571
	44,777	35,375	40,184	33,567

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

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

	Consolidated		Company	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
(Loss)/profit for the year	**(10,392)**	**4,889**	**(2,949)**	**4,859**
Depreciation and amortisation	686	738	436	668
Doubtful debts	(1,558)	185	(1,558)	197
Changes in fair value of investments	3,711	1,515	3,176	1,495
Dividends received	(75)	-	-	-
Rentals received	-	75	(75)	(75)
Loss on sale of assets	-	521	-	521
Decrease in current tax liabilities	(919)	(2,009)	(882)	(1,965)
(Increase) /decrease in deferred tax balances	(1,378)	(1,020)	(1,247)	(1,045)
Changes in operating assets and liabilities:				
(Increase) /decrease in trade debtors	14,126	(2,357)	15,581	(1,186)
(Increase) /decrease in reinsurance recoveries receivable	4,141	(96,663)	4,141	2,637
Decrease /(increase) in other debtors	(5,348)	(1,142)	(5,348)	(1,023)
(Increase) /decrease in deferred insurance costs	(126)	805	(126)	1,071
(Decrease)/increase/(decrease) in net amount due to related entities for operating activities	1,761	418	1,772	144
Increase/(decrease) in sundry creditors and accruals	6,740	567	6,740	686
Increase/(decrease) in unearned premiums	(11,458)	50	(19,801)	(28)
(Decrease) / Increase in outstanding claims	1,739	103,799	5,954	4,457
Increase in provision for employee benefits	(35)	(490)	(35)	(472)
Increase in direct insurance payables	(1,051)	(728)	(1,051)	(767)
(Decrease)/Increase in reinsurance ceded creditors	(8,515)	3,782	(7,786)	4,934
(Decrease)/increase in indirect taxes	126	335	126	(84)
Increase in deferred reinsurance and other revenue	(3,346)	(28)	(3,346)	(59)
Increase in other operating provisions	(293)	(27)	(72)	(23)
Net cash flow from operating activities	**(11,465)**	**13,215**	**(5,286)**	**14,942**

29. Subsequent events

In relation to the Australian entity, the directors note the following events from 31 December 2011 to the date of this report.

- In March 2012, our subsidiary company, ACS (NZ) Limited, issued 100,000 new shares at $1.00 each to the ultimate parent company, Ecclesiastical Insurance Office plc ("Ecclesiastical"). Therefore ACS (NZ) Limited is no longer a wholly owned subsidiary of the company, but continues to be a subsidiary under Corporations Act 2001.

- Ecclesiastical has committed to subscribe a further $4.5 million $1.00 shares at a future date. As a result, when this occurs, ACS (NZ) Limited will cease to be a subsidiary of the company as per the Corporations Act 2001 and will become a subsidiary of Ecclesiastical.

In relation to the New Zealand entity, the directors note the following events from 31 December 2011 to the date of this report.

- Effective 1 January 2012, the company operates as a claims management business.

- Effective 1 February 2012, the company changed its name from Ansvar Insurance Limited to ACS (NZ) Limited ("ACS").

- In March 2012, the company entered into a commercially priced, arms length reinsurance arrangement with the ultimate parent company, Ecclesiastical Insurance Office plc ("Ecclesiastical"), whereby Ecclesiastical provides a fixed maximum upper limit Property Catastrophe Excess of Loss Reinsurance Contract in respect of the February 2011 earthquake the premium for which is payable in installments. This arrangement is able to be cancelled by Ecclesiastical if the proposed contingent Scheme of Arrangement (referred to below) is not approved.

- In March 2012, the company issued 100,000 new shares at $1.00 each to Ecclesiastical. Ecclesiastical has committed to subscribe a further $4.5 million $1.00 shares at a future date, solely to enable the company to enter into, and to fund, the premiums on the reinsurance arrangement referred to in the paragraph above. As a result, when this occurs, the company will cease to be a subsidiary of Ansvar Insurance Limited (Australia) and will become a subsidiary of Ecclesiastical.

- In April 2012, the company entered into a short term loan facility with Ecclesiastical, for the amount of $20m. The drawn down loan amount will to be utilised to fund certain earthquake claims and will be repaid to Ecclesiastical immediately upon receipt of the appropriate reinsurance recoveries.

- The company has committed substantial resources to claims settlement and is making good progress in resolving existing claims. As at the date hereof the company expects to meet all of its claims in full. However, the claims situation in Canterbury is still developing, and is subject to a high degree of complexity and uncertainty. It will take some time to stabilise, and several years for all claims to be resolved. To protect the situation of claimants in the event of circumstances changing adversely in the future, the company proposes to ask claimants to approve a contingent Scheme of Arrangement. The purpose is to ensure that, regardless of the financial position of the company, its current and future claimants are treated fairly, and claims are settled as quickly and as fully as possible. The proposed Scheme of Arrangement is described as "contingent" because the Scheme arrangements would only be triggered if the company's claims position deteriorated to the point where the company would be insolvent.

30. Additional Company information

Ansvar Insurance Limited is a company incorporated and operating in Australia

Ansvar Insurance Limited's registered office and its principal place of business is as follows:

Level 12
Ansvar House
432 St. Kilda Road
MELBOURNE VIC 3004
Tel: (03) 8630 3100

The subsidiary, ACS (NZ) Limited is a company incorporated and operating in New Zealand.