asset insure

Assetinsure Pty Limited

ABN 65 066 463 803

31 December 2012

The Art of Underwriting

Sue Vidler, National Claims Manager
Gregor Pfitzer, CEO
Hamish Lilly, CFO

The Art of Underwriting

Underwriting complex risks is a subtle craft honed by years of experience.

Like an artist, underwriters have to be multi-dimensional, developing a deep understanding of client business needs and objectives. Where many underwriters apply rigid templates and global processes with a one-dimensional price focus, we take the time to consider each risk on its own merits.

Our underwriters develop their own portfolio management style within our corporate framework. Each senior underwriter is empowered to make clear, timely decisions. Our team is an expert, stable one, building client knowledge year after year, operating with the assurance that only comes from having seen a few turns of the insurance cycle.

Originality is an essential element of art and it is a value we encourage. We have an open mindset to product development and innovation. Our growth has come organically by listening to the market and with careful consideration, taking up opportunities that others might find too hard to pursue.

Assetinsure's growth and profitability have come from giving the Company its own unique touch and colour by understanding the subtleties of the risk business.

The art of underwriting underpins everything we do.

Martin McConnell, National Manager, Financial Risks
Ewen McKay, National Manager, Professional Risk

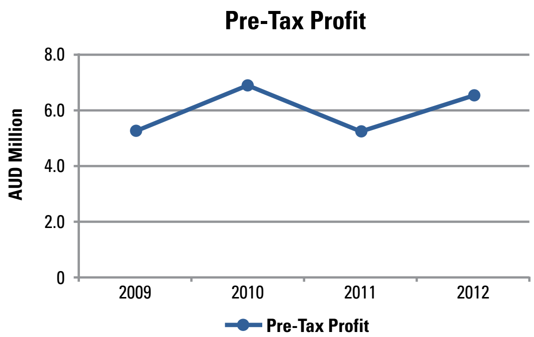
This report documents the financial results for the 2012 financial year for Assetinsure Pty Limited ("Assetinsure") along with the Company's outlook for 2013.

2012 Financial Year Results

Assetinsure's 2012 result was a profit before tax of $6.5m (2011: $5.3m) which represents a 23% increase compared to the previous year. This improvement in the Company's result is due to improved performance across most product lines and is a reflection of sound underwriting criteria being applied in the delivery of different covers to the market.

The 2012 result would have been further enhanced had it not been for the deterioration of the economic environment for the construction industry. The Surety division experienced a number of claims that have impacted the result by more than $4.0m. The incidence of surety claims in 2012 is not expected to be repeated in the current or future years.

Overall, we are pleased with the outcome given the Company's capital base and its stringent policy not to take excessive risk. The result in 2012 reflects another year of consistent performance and demonstrates the ability to deal with risk volatility successfully. At the same time, Assetinsure has carved out a niche as the specialist insurance group in the Australian insurance sector.



Increasing Diversity and Business Scale

As evidenced by the financial results, the Company is reaping the benefit of the strategies and product initiatives that have been implemented in the four years since the global financial crisis. A key element of these strategies has been the establishment of the "partnership" businesses. Through these arrangements, Assetinsure acts as managing general agent on behalf of certain highly-rated reinsurers. As the agent, Assetinsure sources and underwrites the business and manages all claims. The reinsurance "partner" provides both their credit rating and capacity. The interests of both parties are fully aligned as Assetinsure also insures a portion of the risk through its reinsurance line. Relevantly, Assetinsure acts as a risk carrier in all areas of the partnership business.

The partnership businesses cover:

- Surety
- General Aviation
- Professional Indemnity
- Credit Enhancement

"Assetinsure has been consistently profitable achieving a pre-tax return on capital in excess of 10% in each of the last four years and an average return of 11.8% per annum over the same period."

These partnership arrangements have been instrumental in lifting Assetinsure's market profile notably where broker or client policy mandates that a credit rating is required. In particular, the Surety and Aviation businesses have had impressive success establishing strong market positions in these specialist segments by delivering genuine value to our customer base.

The Company has also been developing the business it writes on its own Assetinsure paper. The main operation of this business is providing support to underwriting agencies that cater for distinct niche markets. In doing so, Assetinsure is assisting seasoned professionals to develop their businesses and make use of their networks and relationships. In order to deliver sustainable solutions to all stakeholders involved, a highly transparent business approach is adopted. This is supported by Assetinsure's IT systems. Further detail is provided under Product Lines on page 5.

Gross written premium from business written by the Company, either directly or as inwards reinsurance, in 2012 was $56.5m (2011: $50.7m). However, when combined with the gross premium generated by the underwriting agency business, the overall gross written premium generated by Assetinsure in 2012 totalled $103.2m (2011: $90.6m), a 14% increase on the previous year.

Assetinsure delivers IT services to a number of general insurers, reinsurers and underwriting agencies by providing them with the Company's modern insurance administration system and support. This provides cost effective insurance systems solutions to the Company's clients and also generates cost synergies for Assetinsure.

Other Main Developments Over the Last 12 Months

In 2012 the reinsurance run-off business continued to perform well. Assetinsure has honoured all its reinsurance contracts previously underwritten to policyholders. Within the scope of the underlying arrangements, claims continue to be managed in a pro-active manner. Recurring reviews of the entire claims portfolio are undertaken ensuring reserves are adequate and opportunities to settle claims are pursued. The overall claims development of this book has been quite favourable.

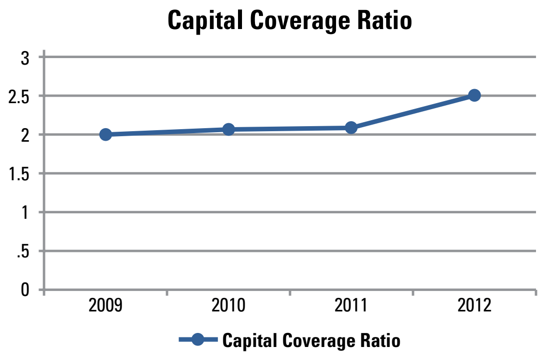
After nearly nine years in run-off, the active claims count in the reinsurance run-off has reduced to about 12% of what it was at the time the Company was acquired from Gerling Global Re in 2003. The reinsurance run-off does still require ongoing management attention given the overall size of the claims portfolio. Over the years Assetinsure has been able to transfer experienced administration and claims staff from the reinsurance run-off into the direct insurance business, reducing the need to increase overall staffing levels.

Despite the reinsurance run-off continuing to perform, the decrease in interest rates over the 2012 year reduced the level of discount applied to our outstanding claims reserves at year-end. This reduction had to be recognised as an expense.

Strong Solvency

Assetinsure, as a locally licensed entity, meets the requirements set by the Australian Prudential Regulation Authority (APRA) on an ongoing basis.

As at 31 December 2012, the Company's solvency was strong and stood at 2.5 times the APRA minimum capital requirement (2011: 2.1). On the basis of industry data published regularly by APRA, this places Assetinsure's solvency well above the level maintained by many of our peers. More importantly, this solid base puts Assetinsure in a comfortable position with regard to the new APRA solvency regime that was introduced on 1 January 2013 (LAGIC).



Assetinsure has the benefit of a very sound funding structure at operating and holding company levels. The operating company, Assetinsure Pty Ltd, has no debt whilst the holding company has only $5m of subordinated debt. No repayments are due until late 2014. This subordinated debt is partially allowable as a Tier 2 equity instrument for APRA solvency calculation purposes. The Company has the capital to expand the direct insurance business in the coming years without the need for additional capital input.

Promising Prospects for the Current Year

In 2013 we expect to capture and implement further business development opportunities across both our partnership and own portfolio businesses. Having witnessed quite competitive market conditions in all commercial lines in 2012, we anticipate more favourable trading conditions will develop as the market responds to the catastrophic peril events that have impacted on the industry's loss experience in 2011 and early 2013.

With increasing evidence of higher claims severity and claims frequency in casualty classes and indisputable evidence of losses resulting from natural perils, we expect the current soft market conditions to improve. Through increased product and geographical diversification, Assetinsure is well positioned to benefit from this global trend.

As it stands, the impact of the catastrophe events in early 2013 on Assetinsure has not been severe. The cumulative net loss out of the catastrophe events affecting Tasmania, Queensland and New South Wales in early 2013 amounts to $778k. It is worth highlighting that despite the Company's conservative risk retentions, it has not made a claim on its catastrophe reinsurance program since direct underwriting activities commenced in 2004.

Assetinsure continues to benefit from a number of factors that reduce the impact on profits of any catastrophe events:

- With improving product diversification, only 57% of our business[1] has natural perils exposure;
- The natural perils exposure we do have is carefully managed. Assetinsure has largely avoided accepting natural perils exposure in Far North Queensland, New Zealand and in flood exposed areas;
- The Company's prudent approach to underwriting has helped avoid business where margins are poor even in the absence of natural peril events.

With the renewal of our reinsurance program effective 1 April 2013, we are reaping the benefits of this prudent approach to exposure management.

We also expect other income to increase in 2013 as the scope and depth of the IT services we provide to third parties expands.

Corporate Restructure

As at 31 December 2012, Assetinsure has sold its interests in Assetsecure and Cumulus Wines to the group holding company. The transfer was done at carrying value and therefore it had no impact on Assetinsure's results for 2012. The strategic objective is to allow Assetinsure to focus on its core insurance businesses and make these entities more accessible to the shareholders. The transfer contributed significantly to the increase in solvency of Assetinsure.

AssetSecure

Assetsecure is a specialist company providing trade receivable funding to qualifying SMEs. The Assetsecure funding for trade receivables is more effective (higher proceeds) and less intrusive (debtor management retained by clients) compared to the traditional bank alternatives in the market. In delivering this form of finance, the company brings together a combination of third party funding (warehouse banking or capital markets), asset management (verification of trade receivables) and insurances (trade credit and credit enhancement).

The pipeline of potential customers is filling and more relevantly, the funding sources for the business are widening. Given the obvious value proposition offered, we expect the Assetsecure business to grow strongly in the future.

Cumulus Wines

It is nine years since Cumulus Wines was established by Assetinsure. In 2007 Assetinsure reduced its shareholding to 49% with the majority shareholder being the Berardo Group from Portugal, who also own a number of vineyards and wine operations in Canada and Spain.

Cumulus Wines is the largest wine producer in the Orange region including a 508-hectare vineyard, large winery facilities and a bottling plant. The Orange region, defined by its high elevation, continental climate and rich volcanic soils, allows Cumulus Wines to produce elegant cool climate wines. The main brands are Rolling, Climbing and Cumulus. We recommend a visit to the Cumulus Wines website **www.cumuluswines.com.au**.

[1]Measurement in terms of 2012 premium income including partnership business for 100%

Damian Gorman, Group Head of Credit
Andrew Calvert, National Manager, Surety
Steven Huynh, Senior Underwriter, Surety

Product Lines

I. Partnership Businesses

A. Surety

Surety bonds are an effective alternative to bank guarantees. However, unlike a bank guarantee, surety bonds do not tie up client assets as security. This makes surety an extremely useful and flexible balance sheet management tool.

Assetinsure has achieved significant market presence notwithstanding the fact that the Company only commenced writing surety bonds in March 2009. Our market entry has proven to be timely as demand from the construction and infrastructure industries is high whilst, in contrast, banking facilities have become more difficult to obtain.

To achieve broad acceptance of the instruments issued, Assetinsure entered into an agency agreement with Swiss Re International SE Australia Branch (SRI), a locally licensed member of the Swiss Re Group. The Swiss Re Group is one of the world's largest and longest established insurance and reinsurance groups. Assetinsure originates, underwrites and manages the business and Swiss Re International provides "the paper" which is currently rated AA- by Standard & Poor's.

Assetinsure was also able to attract highly regarded operatives to run the Surety division so that experience and responsiveness could be instantly delivered to our clients. In addition, Assetinsure has secured additional resources from the Lombard Insurance Group, the largest surety bond provider in South Africa. Through this arrangement, Assetinsure has access to substantial additional specialist resources such as mining engineers to assist in the underwriting of Mining Rehabilitation Bonds.

B. General Aviation

We provide insurance solutions for a variety of aviation risks including fixed and rotor wing, hangar keepers' liability, airports and aircraft manufacturers. Our teams are based in Brisbane and Sydney and have recognised experience across all classes of aviation insurance.

Assetinsure Aviation is the exclusive aviation insurance underwriting agent of SRI. This gives Assetinsure the capacity to accommodate very large risks and even multi-year arrangements. We take pride in our claims handling ability. Assetinsure uses a team of dedicated claims officers, experienced loss adjusters and aircraft repairers to get aviation clients back in the air as fast as possible.

C. Professional Indemnity

With Professional Indemnity Insurance (PI), we protect professionals against claims that can jeopardise their business. Assetinsure's service proposition centres around easy access to underwriters providing feedback on risk and coverage, our speed of policy documentation and responsiveness on claims matters. This also provides brokers with a more efficient service option for their clients. In a number of cases, the Company has been able to provide a PI Insurance solution where the client had previously been unable to obtain one. Acting as agent for Inter Hannover, a member of the Hannover Re Group, Assetinsure offers indisputable security (currently rated AA-). Additionally, Assetinsure insures valuers and private hospitals/clinics (not individual doctors) on the basis of a modern policy wording on its own paper.

D. Credit Enhancement

This cover provides credit support to lenders who advance funds or lines of credit to medium to large-sized enterprises. The credit enhancement product allows borrowers to obtain greater liquidity from assets financed and in turn provides lenders with comfort from the additional security support. Transactions have been underwritten in the commercial real estate and equipment finance sectors, however, the cover can also be applied to the many other lending products provided by lenders. In most cases, the policies are supported by tangible collateral such as equipment and real estate. Credit enhancement is also the essential insurance component in the finance programme distributed by Assetsecure Pty Limited. Assetinsure underwrites and manages the credit enhancement business and Inter Hannover provides the paper (rated AA- by Standard & Poor's).

"In light of the critical value of credit insurance products to the expanding mining and infrastructure base in Western Australia, Assetinsure opened an office in Perth in 2012."

Neil Dempsey, National Manager, Property
Nicola Dress, National Manager, Agency

II. Assetinsure Direct Business

A. Property and Engineering

Assetinsure insures the property risks of Australian companies. Our current portfolio covers a variety of corporate risks including manufacturing, retail centres, hotels and office blocks. Our value proposition to brokers is that we enhance the placement process by providing direct access to experienced decision makers. Assetinsure writes 60% of its property portfolio either 100%, or in a lead capacity. This emphasises the market acceptance gained by the Company since commencing business in 2004.

B. insure that

This is a facility for Farm, SME Package and Home Owners business through a network of over 100 intermediaries across mainly rural Australia. Insurance products are made available to the network of intermediaries through the electronic underwriting system "TITEN". If a particular risk fits defined rules, the broker can issue the insurance documents from his office. Assetinsure handles all claims with individual claims officers assigned to the *insure that* business.

C. SME (Package) Business

Custodian Underwriting Agency (CUA) focuses on SME (Package) Business making use of extensive business experience and well established broker relationships. Activities are focused regionally on metropolitan NSW. In addition, corporate business also flows from CUA through to Assetinsure's own property underwriting division allowing us to provide brokers with Assetinsure capacity across their entire client spectrum.

D. SME Specialty

Specialist Underwriting Agency (SUA) has developed two products that cater for special requirements in the SME market. Business Income Protection Weekly (BIPW) facilitates the take-up and enhances the value of business interruption protection for this client group. Market interest in this offering is increasing due to the effectiveness of the product in addressing the needs of clients in loss situations. Excess Crime policies will be in increasing demand as the market hardens and automatic limits normally afforded in the underlying ISR policies are curtailed.

E. Heavy Motor

Specialist Underwriting Agency (SUA) underwrite Motor (Truck) Fleet business mainly on the basis of aggregate deductibles. This business assists in diversifying our portfolio. As a minimum fleet size is imposed, the premium income per account is material.

F. Private (Enthusiast) Motor

Enthusiast Underwriting Pty Ltd (Enthusiast) was created to support motoring clubs and motor enthusiasts. The focus of the agency is on individuals with high regard and passion for their motor vehicles. The agency covers all states with a team of experienced motor underwriters based in Queensland, Victoria and Western Australia.

G. Strata Insurance

Complete Strata Insurance Underwriting Pty Ltd (CSI) is an underwriting agency established to offer a genuine alternative in terms of strata insurance in Australia. CSI offers a full range of strata policies and insurance services. CSI target customers who recognise the benefits of long term sustainable risk management solutions.

Board of Assetinsure

Assetinsure has an experienced board of directors. The board is well balanced with only 2 of the 7 directors being executive Directors. Meetings are held bimonthly. For efficiency and regulatory compliance purposes, the board has established committees for Audit and Compliance, Investments and Remuneration.

Current Members of the Board are:

John Fahey AC, Chairman, former Premier of NSW and Federal Minister for Finance and Administration. Before entering politics, John practised law as a solicitor. John serves on a number of boards, is President of the World Anti-Doping Agency and Chairman of the Australian Government Reconstruction Inspectorate.

Brian Cairns, Non-Executive Director, has more than 40 years of experience in general insurance and reinsurance including roles as Managing Director of Gerling Global Reinsurance, Scor Re and General Manager of Australian International Insurance Ltd. Brian has a bachelor of commerce degree and is a fellow of the Chartered Insurance Institute.

Gregor Pfitzer was appointed Assetinsure's Chief Executive Officer, effective 1 January 2013. He has more than 20 years' experience in general insurance. Prior to joining Assetinsure in July 2003 as Chief Operating Officer, Gregor was Deputy Managing Director of Gerling Australia Insurance. Gregor holds a master's degree in economics from the University of Cologne.

Henricus Sprangers, Non-Executive Director, has more than 25 years' experience in general insurance, including eight years as Managing Director of Lumley General Insurance. Hans has a master's degree in economics from the University of Amsterdam.

Bev Walters, Non-Executive Director, has more than 30 years' experience in banking and finance and serves on a number of boards of Australian companies. Bev has a BSc mining geology degree, a B.Com business administration degree and an MBA.

Peter Wedgwood, Executive Director, was prior to 1 January 2013 Assetinsure's Chief Executive Officer. Peter is a Chartered Accountant with over 30 years in the insurance industry, most particularly in the business of underwriting financial risks.

Volker Weisbrodt, Non-Executive Director, is the Chief Executive Officer at GLOBAL (Germany). Volker has more than 25 years' experience in the general, credit and life insurance industries. He holds a degree in business administration and economics from the University of Cologne.

Christopher Old, (Alternate) Non-Executive Director, is the Managing Director of the GLOBAL Group of Australia Pty Limited and is an alternate director for Volker Weisbrodt. Chris has more than 40 years' experience in the insurance industry. He holds a bachelor of business degree and is a fellow of the Australian Society of Certified Practising Accountants and the Chartered Institute of Secretaries.

Directors' Report

The Directors present their report together with the financial report of Assetinsure Pty Limited ("the Company"), for the year ended 31 December 2012 and the auditor's report thereon.

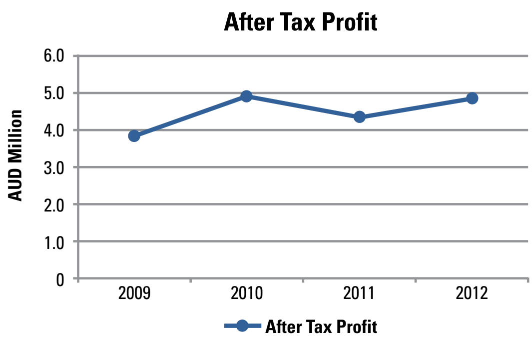
Directors

The names of the Directors of the Company in office during the year and until the date of signing and their dates of appointment are as follows:

Mr John Fahey – Chairman
(appointed 1 September 2003)
Mr Brian Cairns
(appointed 1 January 2007)
Mr Gregor Pfitzer
(appointed 3 August 2004)
Mr Henricus Sprangers
(appointed 1 September 2003)
Mr Beverley Walters
(appointed 1 September 2003)
Mr Peter Wedgwood
(appointed 1 September 2003)
Mr Volker Weisbrodt
(appointed 1 April 2002)
Mr Christopher Old - alternate
(appointed 7 December 2010)

Principal Activities

The principal activities of the Company during the course of the financial year were of an insurance underwriter, underwriting agent and reinsurance company in run-off. There were no significant changes in the nature of the activities of the Company during the year.

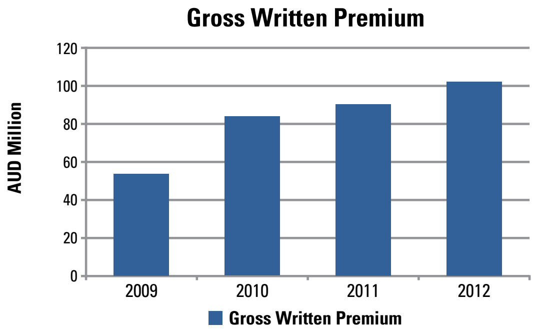


Review and Results of Operations

The profit of the Company after income tax amounted to $4,858,000 (2011: $4,349,000). The 2012 result reflects further improvement in underwriting performance in most business lines from 2011, particularly benefiting from premium rate increases and the much more benign claims environment.

Direct Insurance

Gross written premium from business written by the Company, either directly or as inwards reinsurance, in 2012 was $56,497,000 (2011: $50,721,000). However, when combined with the gross premium written by the underwriting agency business, the total gross written premium generated by the Company in 2012 was $103,235,000 (2011: $90,639,000), a 14% increase on the previous year.



In 2012 business written on the Company's paper grew by 7% to $47,003,000 (2011: $43,724,000). This business is written in a number of specialist classes including farm, SME, corporate property and professional risks.

As in 2011, the strongest premium growth in 2012 was achieved in the business underwritten by the Company as underwriting agent. Under these arrangements the Company underwrites insurance as agent for several highly-rated third party insurers. In doing so, the Company provides underwriting expertise for which it receives fee and expense recovery income and also takes a share of the insurance risk and premium by providing reinsurance.

In 2012 the underwriting agency business generated $56,232,000 of gross written premium for the insurers it represents (2011: $46,916,000). The Company's inwards reinsurance share of this premium only, and not the full gross premium amount, is able to be reported as gross written premium revenue in the financial statements. Inwards reinsurance premium income from agency business increased to $9,494,000 in 2012 from

$6,998,000 in the previous year. Within the underwriting agency business the surety, credit and financial business lines were the main contributors to the premium growth in 2012.

Agency fee, cost recovery and other service fee income increased by 20% to $11,404,000 in 2012 (2011: $9,466,000). This reflects the growth achieved in the underwriting agency activity during the year along with continued expansion of the Company's IT services business. IT Services fee income is generated from providing the Company's modern insurance administration systems and support to third party users.

Reinsurance Run-off

For the reinsurance business, premium adjustments received in 2012 on reinsurance treaties incepting prior to the reinsurance business being placed in run-off on 1 November 2002, produced gross written premium of $25,000 (2011: $193,000).

The Company has reserved, in accordance with independent actuarial advice, for outstanding claims incurred and unpaid at year-end. During 2012 the reinsurance run-off continued to perform favourably with lower incurred loss development than expected.

There was further decline in the discount rates applied to discount outstanding claims liabilities to present value during the year. The change in this economic factor coupled with the Appointed Actuary's reassessment of the future pattern of run-off cash flows resulted in a $1,394,000 reduction in discount applied to reinsurance run-off outstanding claims liabilities at year-end (2011: $2,399,000 discount reduction). Overall the reinsurance run-off produced a net $1,915,000 contribution to underwriting profits in 2012 (2011: $476,000 underwriting profit).

In the period since the Company was acquired by Assetinsure Holdings Pty Limited, the reinsurance run-off outstanding claims liabilities have been reduced by $168,611,000 (2011: $162,697,000) to $29,959,000 (2011: $35,873,000).

Investment Activities

The Company's investment activities generated $6,380,000 of investment revenue during the year (2011: $6,634,000). The majority of the Company's investment assets in 2012 comprised cash, bank term deposits and bonds. During the year, in response to declining yields on the Company's bond holdings, $40 million was transferred out of the bond portfolios and placed in bank term deposits. This reduced the volatility of investment earnings for the balance of the year. At 31 December 2012 the Company's remaining equity investments in subsidiary company Assetsecure Pty Limited and associate company Cumulus Wines Pty Limited were transferred to the parent entity at book value. This removed the Company's exposure to the operational risk associated with these entities while also improving regulatory solvency. All remaining investments were assessed for impairment at year-end and no impairment adjustments were found to be necessary.

Dividends

During the year a $1,000,000 dividend was declared and paid in respect of the previous financial year (2011: $4,000,000). On 27 November 2012 a $3,500,000 dividend was declared and paid from 2012 earnings.

State of Affairs

In the opinion of the directors, there were no significant changes in the state of affairs of the Company during the financial year, other than those disclosed above.

Events Subsequent to Reporting Date

In the interval between the end of the financial year and the date of this report, no item, transaction or event of a material and unusual nature has occurred which is likely, in the opinion of the directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company, in future financial years.

Likely Developments

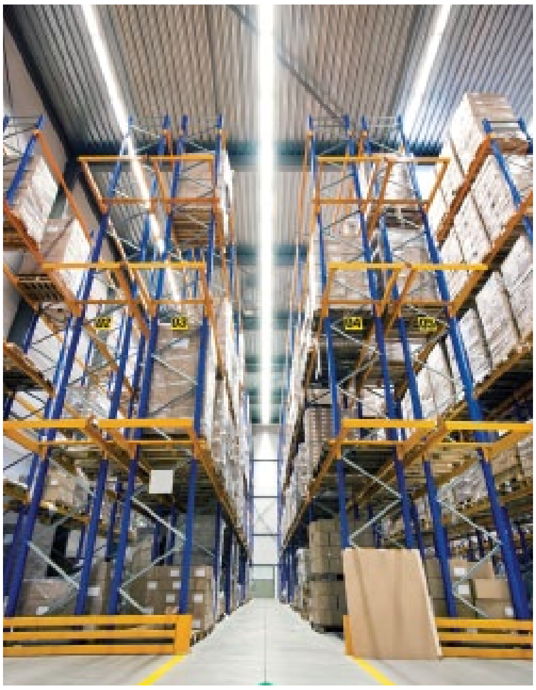
The Company expects to be able to meet its financial obligations resulting from all insurance liabilities. The Company will also proceed to further develop its direct insurance business.

Indemnification

The Company has agreed to indemnify the following present and past directors and officers of the Company: Mr P B Wedgwood, Mr G M Pfitzer, Mr B H Walters and Mr J M Hewitt to the full extent permitted by the law, against any liability that may arise from their position as directors of Assetsecure Pty Limited and Cumulus Wines Pty Limited except where the liability arises due to dishonest or grossly negligent conduct.

Insurance Premiums

Since the end of the previous financial year the ultimate holding company, Assetinsure Holdings Pty Limited, paid insurance premiums in respect of a directors' and officers' liability and legal expenses insurance contract, insuring past and present directors and officers, including executive officers of the Company and directors and executive officers and secretaries of its controlled entities. The directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the directors' and officers' liability and legal expenses insurance contract, as such disclosure is prohibited under the terms of the contract.



Environmental Regulation

The Company's operations are not significantly impacted by any environmental regulations under either Commonwealth or State legislation. The Company is not aware of any breach of these environmental regulations.

Tammy McCabe, Senior Underwriter, Aviation
Peter Freeman, National Manager, Aviation
Katrina Parker, Senior Underwriter, Aviation

Directors' Benefits

During or since the financial period, no director of the Company has received or become entitled to receive a benefit, other than a benefit included in the aggregate amount of emoluments received or due and receivable by the directors, by reason of a contract entered into by the Company or a body corporate that was related to the Company when the contract was made or when the director received, or became entitled to receive the benefit, with:

- a director; or
- a firm of which a director is a member; or
- an entity in which a director has a substantial financial interest.

Lead Auditor's Independence Declaration

The Lead auditor's independence declaration is set out on this page and forms part of the Directors' report for the financial year ended 31 December 2012.

Rounding Off

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial statements and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of the directors:

P B Wedgwood
Director

Dated at Sydney this 26th day of March 2013.

Auditor's Independence Declaration

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

To: the Directors of Assetinsure Pty Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 December 2012 there have been:

- no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Ian Moyser
Partner

Sydney
26th March 2013

Concise Financial Report for the Financial Year Ended 31 December 2012

This concise financial report has been derived from the full financial report of Assetinsure Pty Limited and has been prepared in accordance with the Australian accounting standards. The concise financial report cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the Company as the full financial report. Further information can be obtained from the financial report of Assetinsure Pty Limited.

Statement of Comprehensive Income for the Year Ended 31 December 2012

	Note	2012 $'000	2011 $'000
Revenue	2	76,670	98,053
Expenses		70,153	92,768
Profit before income tax		**6,517**	**5,285**
Income tax expense		1,659	936
Profit for the period		**4,858**	**4,349**
Other comprehensive income for the period net of income tax		-	-
Total comprehensive income for the period net of tax attributable to members of Assetinsure Pty Limited		**4,858**	**4,349**

Discussion and Analysis of the Statement of Comprehensive Income

After weathering very challenging conditions in 2011 the business performed strongly in 2012. Profit before tax was up 23%. The 2011 pre-tax result did however include a $4.0m non-recurring profit from the sale of Assetinsure's Pitt Street office building. The profit generated in 2012 by the underlying operating business was therefore more than four times the result achieved in 2011.

Trading conditions for our property portfolios in 2012 improved substantially and were in stark contrast to the turbulent times experienced in 2011. There was market acceptance of the need to increase premium rates and price increases were able to be made for most property lines. This was less so in the commercial property sector which was not as severely affected by the catastrophe events in 2011 and remained highly competitive.

Underwriting performance improved in 2012 across most lines of business. Where 2011 was characterised by a previously unprecedented level of severe weather events (seven catastrophic events during the year in total), weather conditions in 2012 were quite benign. As a result, Assetinsure's property portfolios were not impacted by any recognised catastrophes during the year.

The notable exception to the improving trend in underwriting performance was the surety portfolio. In 2012 the economic environment in the construction sector in Australia deteriorated significantly. This was most keenly felt by the small and medium size contractors. Numerous business failures resulted. Assetinsure has grown to be the largest provider of insurance bonds to the construction sector and consequently our portfolio was not immune to the impact of the downturn.

In 2012 the underwriting result includes a $4.4m increase in claims expense from our contract surety portfolio. This was generated primarily from three large surety claims during the year.

Notwithstanding that total revenue reported in the statement of comprehensive income decreased in 2012, Assetinsure continued to successfully grow and develop its direct insurance and underwriting agency businesses. Assetinsure writes premium in two capacities, as a direct insurance underwriter and also as an underwriting agent for other highly-rated insurers. Gross written premium reported includes only the premium written on Assetinsure's paper and the Company's share of the premium written as underwriting agent (written as inwards reinsurance).

Gross premium written on Assetinsure's paper in 2012 increased by 7% to $47.0m (2011: $43.7m). However, as has been the case for the last three years, the main area of growth was premium written as underwriting agent. This grew by 20% in 2012 to $56.2m driven mainly by growth in the surety and financial risk portfolios (2011: $46.9m).

On a combined basis the Company wrote $103.2m of gross premium in 2012, up 14% on the $90.6m written in the previous year.

The decrease in total revenue was due to three factors:

(i) Assetinsure maintains prudent levels of reinsurance protection. In 2011 the increase in catastrophe and other weather-related losses generated substantial reinsurance recovery revenue. The absence of similar losses in 2012 has reduced this by 75%. The corresponding gross claims expense reduced 51% over the same period.

(ii) Revenue in 2011 included the $4.0m one-off gain on the sale of 44 Pitt Street.

(iii) Earned premium decreased slightly in 2012 due to the increasing influence of the surety and financial risk portfolios. Surety and financial risk bonds generally cover periods greater than 12 months and so premium is earned more slowly than for the more traditional insurance products. The growth in gross premium achieved in 2012 is reflected by a 14% increase in unearned premium at year-end which will flow into revenue in future periods.

Other key features of the 2012 result were:

- Consistent with the level of growth in the Company's underwriting agency activities, commission and fee income increased by 20% to $11.4m (2011: $9.5m).

Discussion and Analysis of the Statement of Comprehensive Income (continued)

- The strong performance of the reinsurance run-off. Claim development continued to be better than expected resulting in the run-off contributing $1.9m to the underwriting result in 2012 (2011: $476,000 contribution).
- Risk free discount rates fell further in 2012. A discount expense of $1.4m was incurred in 2012 flowing from the lower discount rates and reassessed pattern of cash flows applied to the outstanding claims liabilities in the reinsurance run-off at year-end (2011: $2.4m discount expense).
- Income from investments decreased slightly in 2012 (4% reduction in income). During the year the view was formed that the bond yield curve was nearing the bottom of the current cycle. In response, approximately 75% of the Company's bond investments were withdrawn and placed into higher yielding bank deposits.
- Management and other overhead expenses increased by 12% due to staff increases and the inclusion of a full year's office rent following the sale and lease-back of the Company's Sydney offices in mid-2011. The additional staff were needed to support the growing underwriting agency business (including Assetinsure opening an office in Perth) and to meet the increasing compliance burden flowing from APRA's post LAGIC prudential standards and other regulatory requirements. The increase in overhead expenses was fully offset by the increased commission and fee income earned during the year.
- The effective tax rate increased in 2012 from 18% to 25%. The 2011 tax rate was abnormally low due to some adjustments to deferred tax balances following the application of Division 230 of the Income Tax assessment Act 1997 to the taxation of financial arrangements "TOFA".

Statement of Changes in Equity for the Year Ended 31 December 2012

	Note	Issued capital $'000	Retained earnings/ (losses) $'000	Total $'000
Balance at 1 January 2011		**50,000**	**292**	**50,292**
Dividends paid		-	(4,000)	(4,000)
Total transaction with owners		**-**	**(4,000)**	**(4,000)**
Profit for the year		-	4,349	4,349
Other comprehensive income		-	-	-
Total comprehensive income for the year		**-**	**4,349**	**4,349**
Balance at 31 December 2011		**50,000**	**641**	**50,641**
Balance at 1 January 2012		**50,000**	**641**	**50,641**
Dividends paid	3	-	(4,500)	(4,500)
Total transactions with owners		-	(4,500)	(4,500)
Profit for the year		-	4,858	4,858
Other comprehensive income		-	-	-
Total comprehensive income for the year		**-**	**4,858**	**4,858**
Balance at 31 December 2012		**50,000**	**999**	**50,999**

Statement of Financial Position as at 31 December 2012

	2012 $'000	2011 $'000
Current assets		
Cash and cash equivalents	8,201	8,302
Trade and other receivables	23,623	22,344
Reinsurance and other recoveries receivable	6,635	8,014
Deferred acquisition costs	4,949	4,218
Investments	64,055	35,268
Current tax assets	4	-
Deferred reinsurance expense	13,312	12,661
Total current assets	**120,779**	**90,807**
Non-current assets		
Trade and other receivables	-	3,310
Reinsurance and other recoveries receivable	13,334	20,338
Investments	23,779	62,410
Property, plant and equipment	1,521	795
Intangible assets	3,740	3,309
Deferred tax assets	-	308
Total non-current assets	**42,374**	**90,470**
Total assets	**163,153**	**181,277**
Current liabilities		
Trade and other payables	17,553	23,510
Current tax liabilities	89	100
Outstanding claims liabilities	23,921	23,176
Unearned premium liabilities	32,508	28,614
Total current liabilities	**74,071**	**75,400**
Non-current liabilities		
Outstanding claims liabilities	37,996	55,236
Deferred tax liabilities	87	-
Total non-current liabilities	**38,083**	**55,236**
Total liabilities	**112,154**	**130,636**
Net assets	**50,999**	**50,641**
Equity		
Issued capital	50,000	50,000
Retained earnings	999	641
Total equity	**50,999**	**50,641**

Discussion and Analysis of the Statement of Financial Position

In 2012 Assetinsure further strengthened its solvency. The Assetinsure Board considers maintaining a sizable regulatory capital buffer above the Minimum Capital Requirement "MCR" is necessary to provide flexibility and maintain market confidence in the business. By year-end the Company's APRA Capital Coverage Ratio had grown to 2.5 times MCR up from 2.1 times MCR at the end of 2011. This is substantially above the industry average of 1.83 times MCR as published in APRA's December 2012 Quarterly General Insurance Performance Statistics.

During 2012 APRA finalised the new prudential standards developed during their Life and General Insurance Capital Review "LAGIC" project. The new standards became effective on 1 January 2013 and increased minimum capital requirements in a number of areas. The Company has assessed the new requirements and determined that they will not have a material impact on minimum capital required. Assetinsure's very strong solvency at 31 December 2012 ensures the Company is well placed to deal with any future developments.

In late 2012 the decision was made to restructure the Assetinsure Group and allow Assetinsure to focus on its core insurance business. The restructure involved the transfer of Assetinsure's investment in subsidiary company, Assetsecure Pty Limited, and associate company, Cumulus Wines Pty Limited, to Assetinsure Holdings Pty Limited. These transfers were completed by year-end and at the investments carrying values. This is the main reason for the 10% reduction in investments at year-end. These equity investments attracted high regulatory capital charges. Transferring them out of the Company was the main contributor to the improvement in solvency in 2012.

Reinsurance run-off claims continued to be settled in an orderly manner. Strong growth in the business lines written by the Company as underwriting agent and reinsurer is also enhancing capital efficiency. For this, business capital is only required to support the portion of the risk reinsured by the Company, rather than the full amount, as is the case for the direct insurance lines.

Trade and other receivables outstanding at year-end decreased by 8%. Trade receivables increased broadly in line with the increase in premium written for the year offset by a decrease in sundry and related company debts. The decrease in debts from related companies was also a component of the group restructure.

Reinsurance and other recoveries receivable at year-end were 30% lower than in 2011. As discussed in the analysis of the income statement, the decrease in claims activity in 2012 coupled with the settlement of the remaining catastrophe-related claims from 2011, is the reason for this reduction. The allocation of reinsurance recoveries between current and non-current reflects the allocation of the underlying claims liabilities as determined by the Appointed Actuary during his insurance liability valuation.

At year-end 95% of investment funds were invested in cash deposits, bank bills and corporate notes/bonds. The majority of these investments are highly liquid.

Deferred acquisition costs increased by 17% in 2012, slightly more than the increase in premium written. During the year the proportion of direct insurance premium sourced from third party underwriting agencies continued to increase. Acquisition costs for premium written through underwriting agencies is higher than for business underwritten in house due to the agency commission incurred.

Deferred reinsurance expense outstanding was up 5% at year-end compared to 2011. This was due to the increase in direct insurance premium written. For business written by Assetinsure as underwriting agent, the inwards reinsurance line is calibrated to the Company's risk appetite in each class of business. Generally no further reinsurance is required.

Trade and other payables decreased by 25% in 2012. The decrease was primarily due to the transfers associated with the group restructure noted above.

Outstanding claims liabilities at year-end were 21% lower than in 2011. In 2012 the majority of the storm and weather-related claims from 2011 were finalised. This along with the continued settlement of reinsurance run-off claims, were the main reasons for the reduction.

Statement of cash flows for the year ended 31 December 2012

	2012 $'000	2011 $'000
Cash flows from operating activities		
Cash receipts from customers	60,137	55,231
Reinsurance and retrocession premiums paid	(27,720)	(27,527)
Claims paid	(36,355)	(34,938)
Reinsurance and retrocession claim recoveries	18,050	19,718
Interest received	4,758	5,044
Rent received	431	431
Income tax paid	(1,263)	(1,461)
Goods and services tax paid	(3,303)	(2,908)
Other underwriting expenses paid	(6,356)	(8,344)
Other operating income received	10,649	9,467
Payments to suppliers and employees	(13,507)	(12,310)
Net cash provided by operating activities	**5,521**	**2,403**
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	-	12,325
Proceeds from sale of investments	101,018	70,423
Purchase of investments	(99,906)	(82,287)
Purchase of intangible assets	(851)	(928)
Purchase of property, plant and equipment	(1,036)	(341)
Net cash provided by investing activities	**(775)**	**(808)**
Cash flows from financing activities		
Dividends paid	(4,500)	(4,000)
Net cash (used in) financing activities	**(4,500)**	**(4,000)**
Net increase / (decrease) in cash held	**246**	**(2,405)**
Cash at the beginning of the financial year	**11,029**	**13,434**
Cash at the end of the financial year	**11,275**	**11,029**

Discussion and Analysis of the Statement of Cash Flows for the Year Ended 31 December 2012

Cash provided by the operating business was up 130% on the previous year. The level of claims settlements in the reinsurance run-off at $3.2m was the same as in the previous year (2011; $3.2m) emphasising the growing cash generation capability of the direct insurance business.

Cash receipts from customers increased by 9% in 2012, driven by the increase in premium written. Reinsurance and retrocession payments increased by only 1%. The balance of the increase in reinsurance premium expense is reflected in higher trade and other payables at year-end.

Claim payments remained high due to the increase in surety claim payments made and as the residue of the 2011 weather-related claims were settled. As surety bonds generally require payment "on demand", increases in surety claims flow quickly into claims paid.

Cash receipts from reinsurance and retrocession recoveries decreased in 2012 despite the increase in claims paid. This was also surety related. Assetinsure writes its share of surety premium as inwards reinsurance with little need for further retrocession. The increase in surety claims paid did not therefore generate a corresponding increase in retrocession recoveries.

Interest received was only slightly down in 2012 despite falling interest rates in the market. This was due to the decision to increase the investment allocation to bank term deposits during the year.

Cash paid for underwriting expenses decreased by $2.0m in 2012 due to the timing of our Fire Services Levy and net commission payments.

Commission and fee receipts were up 12% in 2012. There was a 16% increase in agency fees which was partially offset by a small decline in IT services fees.

Payments made to suppliers and employees increased by 10% in 2012. This was broadly in line with the increase in management expenses during the year. All employees and the majority of suppliers are paid by the parent company with the cost passed on to the Company through parent company charges. The timing of settlement of these charges determines how closely changes in expenses are reflected in the cash flows.

Notes to the Concise Financial Report for the Year Ended 31 December 2012

1 Basis of preparation of concise financial report

The concise financial report has been prepared in accordance with the Corporations Act 2001, Accounting Standard AASB 1039 Concise Financial Reports. The financial statements and specific disclosures required by AASB 1039 have been derived from the Company's full financial report for the financial year. Other information included in the concise financial report is consistent with the Company's full financial report. Assetinsure Pty Limited (the "Company") is a company domiciled in Australia.

The report has been prepared on the basis of historical costs and except where stated, does not take into account changing money values or fair values of non-current assets. These accounting policies have been consistently applied and are consistent with those applied in the previous year. The report has been presented in Australian dollars.

A full description of the accounting policies adopted by the Company may be found in the Company's full financial report.

		2012 $'000	2011 $'000
2	**Revenue**		
(a)	**Revenue from insurance activities**		
	Direct		
	Gross written premiums	47,003	43,724
	Movement in unearned premium	(1,983)	3,838
	Premium revenue – direct	**45,020**	**47,562**
	Inwards reinsurance		
	Gross written premiums	9,519	7,190
	Movement in unearned premium	(1,911)	(1,564)
	Premium revenue – inwards reinsurance	**7,608**	**5,626**
	Total premium revenue	**52,628**	**53,188**
	Reinsurance and other recoveries revenue	6,258	24,767
	Total insurance revenue	**58,886**	**77,955**
(b)	**Revenue from other activities**		
	From operating activities:		
	Services revenue		
	Services – other corporations	11,404	9,466
	Investment revenue		
	Interest – other corporations	5,195	5,011
	Rent – other corporations	220	375
	Rent – wholly owned group	56	56
	Realised gain on sale of investments	1,411	802
	Change in fair market value of investments	(502)	390
	From non-operating activities:		
	Gain on disposal of property, plant and equipment	-	3,998
	Total revenue from other activities	**17,784**	**20,098**

Notes to the Concise Financial Report for the Year Ended 31 December 2012

		2012 $'000	2011 $'000
2	**Revenue** ***(continued)***		
(c)	**Total revenue from all activities**		
	Insurance activities	58,886	77,955
	Other activities	17,784	20,098
		76,670	**98,053**
3	**Dividends**		
	Dividends proposed and paid in the current year	4,500	4,000

The Company is part of a consolidated group for income tax. The ultimate parent entity, Assetinsure Holdings Pty Limited, is the head company in the group. Dividends paid within the tax consolidated group are not taxable when received by the recipient. The entitlement to all franking credits generated by the Company during the year rests with the head company.

During the year a $1,000,000 dividend was declared and paid in respect of the previous financial year (2011: $4,000,000). In November 2012 a $3,500,000 dividend was declared and paid from 2012 earnings. No further dividend is proposed.

4 Segment reporting

The Company operates in a single segment, the general insurance segment in Australia.

5 Events subsequent to balance date

There are no material events occurring after balance date that the Company is aware of as at the date of this report.

DIRECTORS' DECLARATION

In the opinion of the Directors of Assetinsure Pty Limited, the accompanying concise financial report of the Company for the year ended 31 December 2012, set out on pages 14 to 23:

(a) has been derived from or is consistent with the full financial report for the financial year; and

(b) complies with the Accounting Standard AASB 1039 "Concise Financial Reports". There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors:

P B Wedgwood
Director

Dated at Sydney this 26th day of March 2013.

Independent Auditor's Report to the Members of Assetinsure Pty Limited

Report on the Concise Financial Report

We have audited the accompanying concise financial report of Assetinsure Pty Limited (the Company) which comprises the statement of financial position as at 31 December 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and related notes 1 to 5 derived from the audited financial report of Assetinsure Pty Limited for the year ended 31 December 2012 and the discussion and analysis. The concise financial report does not contain all the disclosures required by Australian Accounting Standards and accordingly, reading the concise financial report is not a substitute for reading the audited financial report.

Directors' responsibility for the concise financial report

The directors of the Company are responsible for the preparation and presentation of the concise financial report in accordance with Australian Accounting Standard AASB 1039 Concise Financial Reports and the Corporations Act 2001 and for such internal control as the directors determine are necessary to enable the preparation of the concise financial report.

Auditor's Responsibility

Our responsibility is to express an opinion on the concise financial report based on our audit procedures which were conducted in accordance with Auditing Standard ASA 810 Engagements to Report on Summary Financial Standards. We have conducted an independent audit in accordance with Australian Auditing Standards, of the financial report of Assetinsure Pty Limited for the year ended 31 December 2012. We expressed an unmodified audit opinion on the financial report in our report dated 26 March 2013. The Australian Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report for the year is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the concise financial report. The procedures selected depend on the auditor's judgement, including the risk of material misstatement of the concise 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 concise financial report in order to design 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. Our procedures included testing that the information in the concise financial report is derived from, and is consistent with, the financial report for the year, and examination on a test basis, of evidence supporting the amounts, discussion and analysis, and other disclosures which were not directly derived from the financial report for the year. These procedures have been undertaken to form an opinion whether, in all material respects, the concise financial report complies with Australian Accounting Standard AASB 1039 Concise Financial Reports and whether the discussion and analysis complies with the requirements laid down in Australian Accounting Standard AASB 1039 Concise Financial Reports.

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

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ('KPMG International'), a Swiss entity.

Independence

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

Auditor's Opinion

In our opinion, the concise financial report, including the discussion and analysis, of Assetinsure Pty Limited for the year ended 31 December 2012 complies with Australian Accounting Standard AASB 1039 Concise Financial Reports.

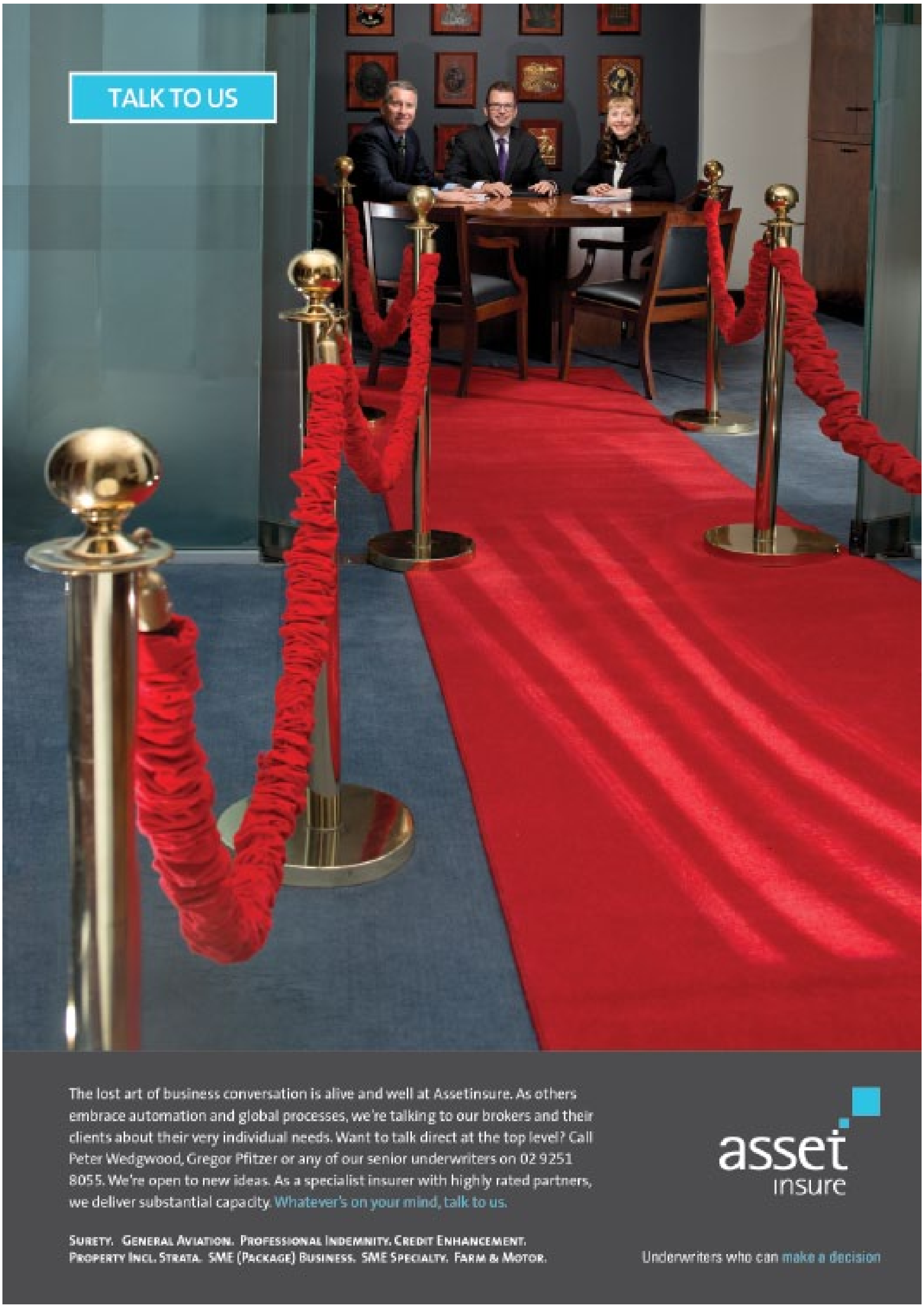
KPMG

Ian Moyser
Partner
Sydney
26 March 2013

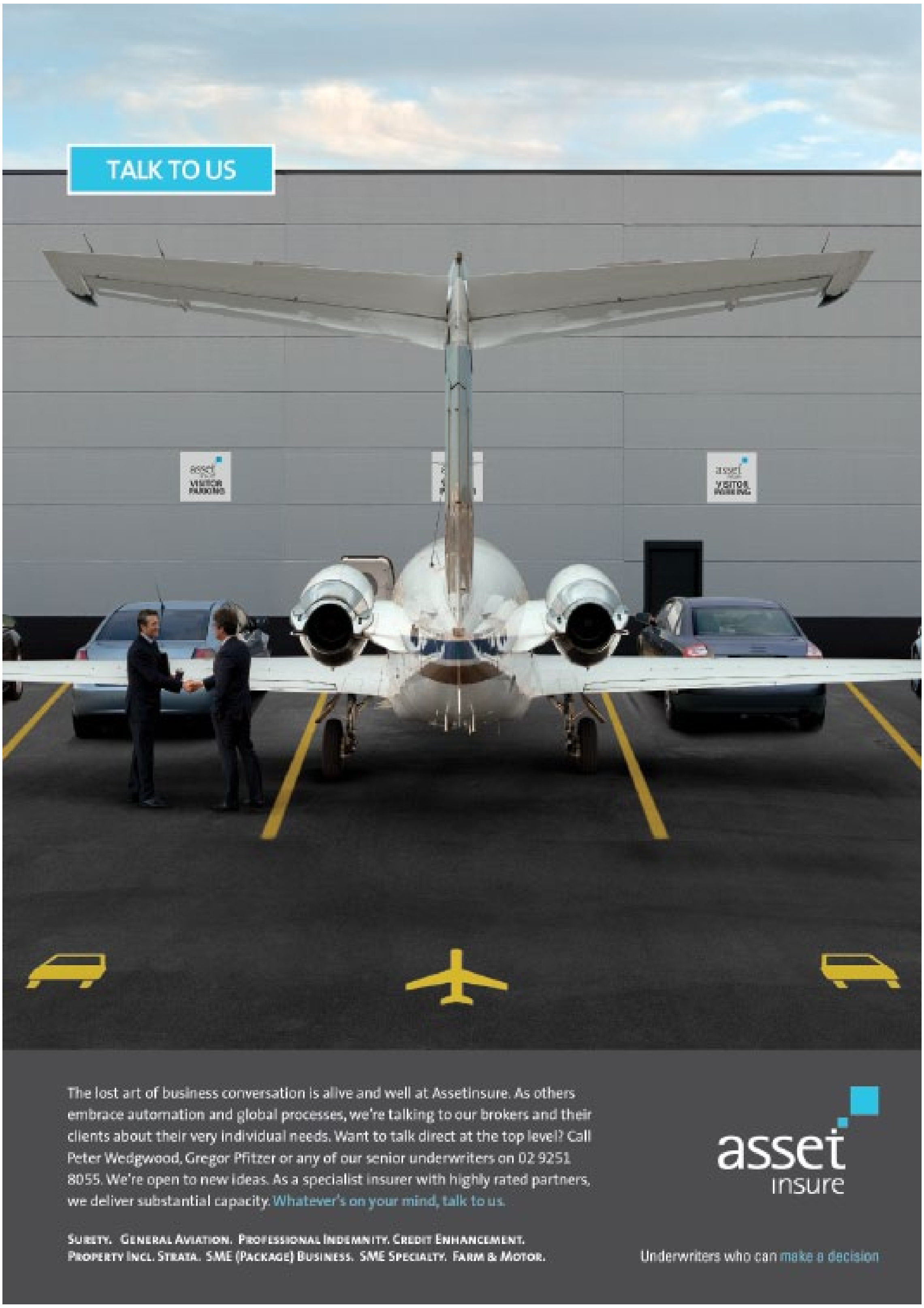
Jody Holdsworth, Team Leader, Development
Pranav Ramnath, Software Developer
David Blacketer, Chief Information Officer

2012/2013 ADVERTISING CAMPAIGN

Assetinsure's 2012/13 ad campaign focuses on our openness to new ideas and business concepts. You can always contact Assetinsure at the highest levels to discuss your business, or gauge our interest in developing new products. Each year we have launched exciting new products that meet genuine needs in the market, all from our willingness to listen. We're keen to talk to you.


TALK TO US
The lost art of business conversation is alive and well at Assetinsure. As others embrace automation and global processes, we're talking to our brokers and their clients about their very individual needs. Want to talk direct at the top level? Call Peter Wedgwood, Gregor Pfitzer or any of our senior underwriters on 02 9251 8055. We're open to new ideas. As a specialist insurer with highly rated partners, we deliver substantial capacity. Whatever's on your mind, talk to us.
Surety. General Aviation. Professional Indemnity. Credit Enhancement. Property Incl. Strata. SME (Package) Business. SME Specialty. Farm & Motor.
asset insure
Underwriters who can make a decision

2012/2013 ADVERTISING CAMPAIGN


TALK TO US
The lost art of business conversation is alive and well at Assetinsure. As others embrace automation and global processes, we're talking to our brokers and their clients about their very individual needs. Want to talk direct at the top level? Call Peter Wedgwood, Gregor Pfitzer or any of our senior underwriters on 02 9251 8055. We're open to new ideas. As a specialist insurer with highly rated partners, we deliver substantial capacity. Whatever's on your mind, talk to us.
Surety. General Aviation. Professional Indemnity. Credit Enhancement.
Property Incl. Strata. SME (Package) Business. SME Specialty. Farm & Motor.
asset insure
Underwriters who can make a decision

We aim to create stakeholder value by delivering innovative specialist insurance solutions to the business community. We differentiate ourselves by engaging experienced and disciplined professionals who can make a decision.

Assetinsure Pty Ltd
ABN 65 066 463 803
www.assetinsure.com.au

Sydney
44 Pitt Street
Sydney NSW 2000
Australia
T (02) 9251 8055
F (02) 9251 8061

Melbourne
330 Collins Street
Melbourne Vic 3000
Australia
T (03) 8602 6300
F (03) 9606 0035

Brisbane
324 Queen Street
Brisbane Qld 4000
Australia
T (07) 3051 5005
F (07) 3051 5099

Perth
Suite 27, 44 King's Park Road
West Perth WA 6005
Australia
T (08) 9226 1222
F (08) 9226 3111