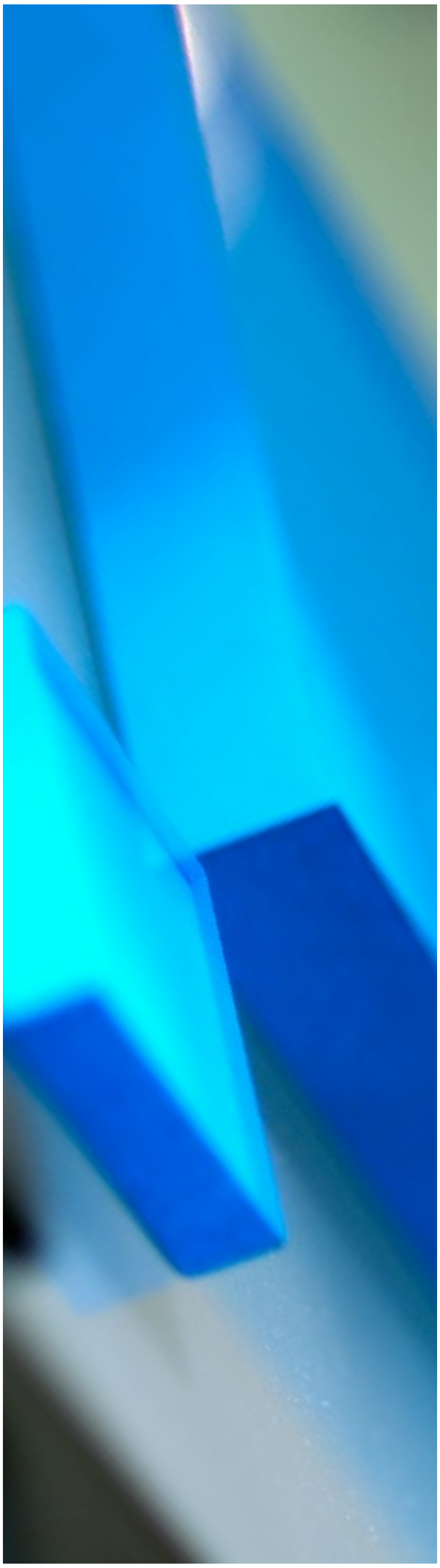
Annual Financial Report

Assetinsure Pty Limited

ABN 65 066 463 803

31 December 2013



Assetinsure Pty Limited
ABN 65 066 463 803

Contents

Assetinsure Pty Limited

ABN 65 066 463 803

Directors' report

The Directors present their report together with the financial report of Assetinsure Pty Limited ("the Company"), for the year ended 31 December 2013 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 $3,882,000 (2012: $4,858,000). The improved trading conditions experienced in 2012 continued in 2013. Profit before tax was only slightly down on the 2012 result prior to making allowance for a very large surety claim that occurred early in 2014. The claim arose from the collapse of the Forge Group and is the largest surety claim ever experienced by the business. Although the claim occurred in 2014 it is necessary to fully reflect its expected impact on bonds issued prior to balance date in the 2013 insurance liability valuation. After absorbing the margins for future losses allowed for in the valuation, additional acquisition cost write-offs and commission adjustments were required to account for the Forge Group claim. These reduced after tax profit for the 2013 year by $899,500.

Direct Insurance

Gross written premium from business written by the Company, either directly or as inwards reinsurance, in 2013 was $61,903,000 (2012: $56,497,000). When combined with the gross premium written by the underwriting agency business, the total gross written premium generated by the Company in 2013 was $97,792,000 (2012: $103,235,000).

In 2013 business written on the Company's paper grew by 15% to $54,129,000 (2012: $47,003,000). This business is written in a number of specialist classes including farm, SME, corporate property and professional risks.

Premium on business underwritten by the Company as underwriting agent was down 22% in 2013 primarily due to lower surety premium income. Under the agency arrangements the Company underwrites insurance 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 2013 the underwriting agency business generated $43,663,000 of gross written premium for the insurers it represents (2012: $56,232,000). 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 was $7,774,000 in 2013 down from $9,494,000 in the previous year. Surety premium income was lower in 2013 as income in the prior year included premium from bonding several large one-off projects and the benefit of increased limits provided to

Review and results of operations (continued)

Direct Insurance (continued)

some of the high volume surety clients. Bonding requirements were lower in 2013 and the commencement of some large projects has been deferred.

Agency fee, cost recovery and other service fee income decreased by 3% to $11,051,000 in 2013 (2012: $11,404,000). The reduction in surety underwriting agency activity during the year was largely offset by increased fee income from the Company's motor and SME business lines. The continued expansion of the IT Services business also contributed. IT Services fee income is generated from providing the insurance administration systems ,developed by the Company, and support to third party users.

Reinsurance Run-off

For the reinsurance business, premium adjustments received in 2013 on reinsurance treaties incepting prior to the reinsurance business being placed in run-off on 1 November 2002, produced gross written premium of $52,000 (2012: $25,000).

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

Reversing the trend of the previous two years the discount rate applied to discounting outstanding claims liabilities to present value at year end increased. This assisted the underwriting result for 2013. 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 $1,719,548 increase in discount applied to reinsurance run-off outstanding claims liabilities at the end of the year (2012: $1,394,000 discount reduction). Overall the reinsurance run-off produced a net $1,726,000 contribution to underwriting profits in 2013 (2012: $1,915,000 underwriting profit).

As the size of the portfolios of reinsurance run-off claims has diminished so has the value of the reserves that potentially may not be required to pay claims which can be released to profits. In the period since the Company was acquired by Assetinsure Holdings Pty Limited in 2003, the reinsurance run-off outstanding claims liabilities have been reduced from $198,570,000 to $23,697,000 (2012: $29,959,000).

Investment Activities

The Company's investment activities generated $5,601,000 of investment revenue during the year (2012: $6,380,000). The majority of the Company's investment assets in 2013 comprised cash, bank term deposits and bonds. During 2012, in response to declining yields on the Company's bond holdings, $40 million was transferred out of the bond portfolios and placed on bank term deposit. This has reduced investment earnings volatility and avoided the negative impact on bond values that would have resulted from the increase in the yield curve during the year. Notwithstanding the impact of the decline in interest rates over the last two years on investment earnings, interest revenue was up 8% in 2013. This was assisted by a favourable Court of Appeal decision in the first quarter of the year that resulted in the Company recovering $2,313,602 on a previously paid property claim. Due to the length of time since the claim was originally paid, the recovery included $1,224,459 of interest.

No equity investments were held during the year. The Company's last remaining equity investments, associate company Cumulus Wines Pty Limited and subsidiary company Assetsecure Pty Limited, were transferred to the parent entity on 31 December 2012. All investments were assessed for impairment at year end and no impairment adjustments were found to be necessary.

Dividends

During the year no dividend was declared or paid in respect of the 2013 or previous financial years (2012: $4,500,000).

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, other than the events described in Note 34, 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 up to the date the Company ceased holding shares in the companies 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.

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.

Assetinsure Pty Limited

Directors' report

Lead auditor's independence declaration

The Lead auditor's independence declaration is set out on page 5 and forms part of the Directors' report for the financial year ended 31 December 2013.

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 2014.

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

To: the directors of Assetinsure Pty Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 December 2013 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Andrew Reeves
Partner

Sydney

26 March 2014

Assetinsure Pty Limited
Statement of comprehensive income
For the year ended 31 December 2013

	Note	2013 $'000	2012 $'000
Revenue	5	90,708	76,670
Expenses	8	85,678	70,153
Profit before income tax		**5,030**	**6,517**
Income tax expense	10	1,148	1,659
Profit for the year		**3,882**	**4,858**
Other comprehensive income for the year net of income tax		-	-
Total comprehensive income for the year net of tax attributable to members of Assetinsure Pty Limited		**3,882**	**4,858**

The statement of comprehensive income is to be read in conjunction with the notes to the financial statements set out on pages 10 to 54.

Assetinsure Pty Limited
Statement of changes in equity
For the year ended 31 December 2013

	Issued capital	Retained earnings / (losses)	Total
	$'000	$'000	$'000
Balance at 1 January 2012	**50,000**	**641**	**50,641**
Dividends paid	-	(4,500)	(4,500)
Total transaction 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**
Balance at 1 January 2013	**50,000**	**999**	**50,999**
Dividends paid	-	-	-
Total transaction with owners	**-**	**-**	**-**
Profit for the year	-	3,882	3,882
Other comprehensive income	-	-	-
Total comprehensive income for the year	**-**	**3,882**	**3,882**
Balance at 31 December 2013	**50,000**	**4,881**	**54,881**

The statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on pages 10 to 54.

Assetinsure Pty Limited

Statement of financial position

As at 31 December 2013

	Note	2013 $'000	2012 $'000
Current assets			
Cash and cash equivalents	30	12,488	8,201
Trade and other receivables	12	34,607	23,623
Reinsurance and other recoveries receivable	13	8,173	6,635
Deferred acquisition costs	14	3,762	4,949
Investments	15	48,516	64,055
Current tax assets	16	70	4
Deferred reinsurance expense	17	16,191	13,312
Total current assets		**123,807**	**120,779**
Non-current assets			
Trade and other receivables	12	600	-
Reinsurance and other recoveries receivable	13	13,393	13,334
Investments	15	25,346	23,779
Plant and equipment	18	1,145	1,521
Intangible assets	19	3,877	3,740
Total non-current assets		**44,361**	**42,374**
Total assets		**168,168**	**163,153**
Current liabilities			
Trade and other payables	20	13,310	17,553
Current tax liabilities	16	192	89
Outstanding claims liabilities	21	26,900	23,921
Unearned premium liabilities	22	36,374	32,508
Total current liabilities		**76,776**	**74,071**
Non-current liabilities			
Outstanding claims liabilities	21	36,302	37,996
Deferred tax liabilities	23	209	87
Total non-current liabilities		**36,511**	**38,083**
Total liabilities		**113,287**	**112,154**
Net assets		**54,881**	**50,999**
Equity			
Issued capital	24	50,000	50,000
Retained earnings		4,881	999
Total equity		**54,881**	**50,999**

The statement of financial position is to be read in conjunction with the notes to the financial statements set out on pages 10 to 54.

Assetinsure Pty Limited

Statement of cash flows

For the year ended 31 December 2013

	Note	2013 $'000	2012 $'000
Cash flows from operating activities			
Cash receipts from customers		58,916	60,137
Reinsurance and retrocession premiums paid		(32,037)	(27,720)
Claims paid		(29,089)	(36,355)
Reinsurance and retrocession claim recoveries		11,609	18,050
Interest received		3,958	4,758
Rent received		431	431
Income tax paid		(1,026)	(1,263)
Goods and services tax paid		(3,028)	(3,303)
Other underwriting expenses paid		(8,891)	(6,356)
Other operating income received		10,398	10,649
Payments to suppliers and employees		(19,276)	(13,507)
Net cash (used in) / provided by operating activities	**30(ii)**	**(8,035)**	**5,521**
Cash flows from investing activities			
Proceeds of sale of intangibles		1,000	-
Proceeds from sale of investments		16,487	101,018
Purchase of investments		(3,953)	(99,906)
Purchase of intangibles		(909)	(851)
Purchase of plant and equipment		(94)	(1,036)
Net cash provided by / (used in) investing activities		**12,531**	**(775)**
Cash flows from financing activities			
Dividends paid		-	(4,500)
Net cash (used in) financing activities		**-**	**(4,500)**
Net increase in cash held		**4,496**	**246**
Cash at the beginning of the financial year	**30(i)**	**11,275**	**11,029**
Cash at the end of the financial year	**30(i)**	**15,771**	**11,275**

The statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 10 to 54.

Note Contents

Assetinsure Pty Limited

Notes to the financial statements

For the year ended 31 December 2013

1 Summary of significant accounting policies

Assetinsure Pty Limited (the "Company") is a for profit company domiciled in Australia. The address of the Company's registered office is 44 Pitt Street Sydney NSW 2000, Australia. Assetinsure Holdings Pty Limited is the ultimate parent entity. The financial statements are as at and for the year ended 31 December 2013.

The principal activities of the Company during the course of the financial year were of a direct insurance underwriter, underwriting agent and reinsurance company in run-off.

(a) Statement of compliance

The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards ("AASBs") adopted by the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001. The financial statements comply with International Financial Reporting Standards ("IFRSs") and interpretations adopted by the International Accounting Standards Board ("IASB").

The financial report was authorised for issue by Directors on 26 March 2014.

(b) Basis of preparation

The financial report is presented in Australian dollars, which is the Company's functional currency.

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014 and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Company except for:

- AASB 9 *Financial Instruments*, which becomes mandatory for the Company's 31 December 2017 financial statements and may change the classification and measurement of financial assets.

The Company does not plan to adopt this standard early and the extent of the impact has not been determined.

The financial report is prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value – outstanding claims, investments backing insurance liabilities. Receivables and payables are recognised at fair value and after initial recognition are measured at amortised cost.

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 report and Director's Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Judgements made by management in the application of Australian Accounting Standards that have significant effect on the financial report and estimates with a significant risk of material adjustment in the next year are discussed in Notes 2 and 3.

1 Summary of significant accounting policies (continued)

(c) Basis of consolidation

The Company has applied the exemption from the preparation and presentation of consolidated financial statements for its subsidiary and associate available under AASB *127 Consolidated and Separate Financial Statements*.

(i) Controlled entities

Controlled entities are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account.

Investments in controlled entities are carried at their cost of acquisition in the Company's financial statements less any impairment losses.

(ii) Associates/Joint Ventures

Associates are those entities in which the Company has significant influence, but not control, over the financial and operating policies. Joint ventures are those entities over whose activities the Company has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

In the Company's financial statements, investments in associates and joint ventures are carried at cost less any impairment losses.

(d) Classification of insurance contracts

Contracts under which the Company accepts significant insurance risk from another party (the policy holder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary are classified as insurance contracts. Insurance risk is risk other than financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

(e) Revenue recognition

Revenue is recognised for the major business activities as follows:

Premium revenue

Direct insurance premium comprises amounts charged to policyholders excluding taxes collected on behalf of third parties. Inwards reinsurance premium comprises premiums ceded by insurers, but excluding taxes collected on behalf of third parties. Premiums are brought to account from the date of attachment of risk and are earned over the period of indemnity in accordance with the pattern of incidence of risk.

The pattern of recognition of income over the policy, treaty or indemnity period is based on time where this closely approximates the pattern of risks underwritten. Unearned premium is determined by apportioning the premiums written in the year using the daily pro rata method.

1 Summary of significant accounting policies (continued)

(e) Revenue recognition (continued)

Rendering of services

Revenue from the rendering of services is recognised upon delivery of the service to the customer.

Interest revenue

Interest is recognised as it accrues using the effective interest method.

(f) 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 as a prepayment at reporting date.

(g) Acquisition costs

Acquisition costs incurred in obtaining general insurance contracts are deferred and recognised as assets where they can be reliably measured and where it is probable they will give rise to premium revenue that will be recognised in the statement of comprehensive income in subsequent periods.

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) Outstanding claims liability

The liability for outstanding claims is measured as the central estimate of the present value of expected future payments against claims incurred at the reporting date under general insurance and inwards reinsurance contracts issued by the Company, with an additional risk margin to allow for the inherent uncertainty in the central estimate.

The expected future payments include those in relation to claims reported but not yet paid: claims incurred but not reported (“IBNR”), claims incurred but not enough reported (“IBNER”) and anticipated claims handling costs.

Claims handling costs include costs that can be associated directly with individual claims, such as legal and other professional fees, and costs that can be indirectly associated with individual claims, such as claims administration costs.

The expected future payments are discounted to present value using a risk free rate. The risk free rate is derived from the yield curve for Australian Government Bonds at balance date as provided by the Reserve Bank of Australia.

A risk margin is applied to the outstanding claims liability, net of reinsurance and other recoveries, to reflect the inherent uncertainty in the central estimate. This risk margin increases the probability that the net liability is adequately provided for to a 75% probability of sufficiency.

1 Summary of significant accounting policies (continued)

(i) Reinsurance and other recoveries receivable

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid, IBNR, IBNER and unexpired risk liabilities are recognised as revenue. Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims. Recoveries receivable are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

(j) Unexpired risk liability

Provision is made for unexpired risks arising from general business where the expected value of claims and expenses attributed to the unexpired periods of policies in force at the statement of financial position date exceeds the unearned premiums provision in relation to such policies after the deduction of any deferred acquisition costs and related intangible assets. The provision for unexpired risk is calculated separately by reference to classes of business which are managed together and have broadly similar risks.

Any unexpired risk liability remaining after writing off any insurance related intangible assets and deferred acquisition costs is recognised immediately in the statement of comprehensive income.

(k) Assets backing general insurance liabilities

The assets backing general reinsurance and direct insurance liabilities are those assets required to cover the technical insurance liabilities (outstanding claims and unearned premium) plus an allowance for solvency.

The accounting policies applying to assets held to back general insurance and general reinsurance activities are:

Investments

The Company values financial assets and any assets backing insurance activities at fair value with any resultant realised and unrealised profits and losses recognised in the statement of comprehensive income.

The valuation methodology for assets valued at fair value is summarised below:

- Cash assets and bank overdrafts are carried at face value of the amounts deposited or drawn;
- Shares, fixed interest securities, options and units in trusts listed on stock exchanges are initially recognised at cost on the date the Company commits to purchase the investment. The subsequent fair value is taken as the quoted bid price of the investment.
- Unlisted shares are recorded at cost less any impairment losses; and
- Unlisted fixed interest securities are recorded at fair value determined as cost plus accrued interest less any impairment losses.

The fair value of financial instruments classified as fair value through profit and loss is their quoted bid price at reporting date. Purchases and sales are accounted for on the date of settlement, and any realised net gains or losses upon sale are recognised in the statement of comprehensive income excluding any interest or dividend income.

1 Summary of significant accounting policies (continued)

(l) Financial assets not backing general insurance liabilities

Investments that do not back general insurance liabilities comprise investments in subsidiaries, associates and joint ventures which are stated at cost less impairment losses, with any resultant loss recognised in the statement of comprehensive income.

(m) 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 are expensed on the same basis as the recognition of premium revenue, with the portion relating to unearned premium being recorded as a prepayment.

(n) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for taxation purposes; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit; nor any differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates substantively enacted at the statement of financial position date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Tax Consolidation

The Company is a wholly owned subsidiary in a tax-consolidated group with Assetinsure Holdings Pty Limited as the head entity. The implementation date of the tax-consolidated system for the tax-consolidated group was 1 January 2005.

The current and deferred tax amounts for the tax-consolidated group are allocated among the entities in the group using a stand-alone taxpayer approach whereby each entity in the tax-consolidated group measures its current and deferred taxes as if it continued to be a separately taxable entity in its own right. Intercompany transactions are not eliminated. Deferred tax assets and deferred tax liabilities are measured by reference to the carrying amounts of the assets and liabilities in the individual entity's statements of financial position and their tax values applying under tax consolidation. Each entity assesses the recovery of its unused tax losses and tax credits only in the period in which they arise, and before assumption by the head entity, in accordance with AASB 112 *Income Tax* applied in its own circumstances without regard to the circumstances of the tax consolidated group.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses assumed by the head entity from the subsidiaries in the tax-consolidated group are recognised in conjunction with any tax funding arrangement amounts (refer below).

1 Summary of significant accounting policies (continued)

(n) Income tax (continued)

Tax Consolidation (continued)

The members of the tax-consolidated group at balance date have entered into tax funding arrangements which set out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding arrangements require payments equal to the current tax liability (asset) assumed by the head entity and any tax loss deferred tax asset assumed by the head entity.

The members of the tax-consolidated group at balance date have also entered into valid Tax Sharing Agreements under the tax consolidation legislation which sets out the allocation of income tax liabilities between entities should the head entity default on its payment obligations and the treatment of entities leaving the tax-consolidated group.

(o) Receivables

The collectability of debts is assessed at year-end and specific provision is made for any impairment losses.

Trade debtors

Trade debtors are stated at fair value, being the amounts due, as they are generally settled within 120 days.

(p) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In those circumstances, the GST is recognised as part of the cost of acquisition of an asset or as part of an item of expense.

Receivables and payables are stated inclusive of GST. The net amount of GST recoverable from, or payable to, the tax authority is included as part of current asset or liability in the statement of financial position.

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

(q) Foreign currency

Foreign currency transactions

Foreign currency transactions are initially translated into Australian currency at the rate of exchange at the date of the transaction. At balance date amounts payable or receivable in foreign currencies are translated to Australian currency at rates of exchange current at the balance date. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income.

1 Summary of significant accounting policies (continued)

(r) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Depreciation is provided on a straight line basis over the estimated useful life of each class of asset.

The estimated useful lives in the current and comparative periods are as follows:

Plant and equipment	7 - 20 years
Fixtures and fittings	5 years
Computer equipment	2.5 - 5 years

Assets are depreciated or amortised from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use.

Depreciation and amortisation rates and methods are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in current and future periods only. Depreciation is expensed in the statement of comprehensive income.

Sale of non-current assets

The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

(s) Operating assets

Payments made under operating leases are expensed on a straight line basis over the term of the lease, except where an alternative method is more representative of the pattern of benefits to be derived from the leased property.

Lease incentives are initially recognised as a liability and are subsequently reduced through recognition in profit or loss as an integral part of the total lease expense on a straight line basis over the period of the lease.

(t) Intangible assets

Expenditure on software development is only capitalised if the resulting development is technically and commercially feasible and adequate resources are available to complete the development. The capitalised development expenditure comprises all directly attributable costs, including staff costs and an appropriate apportion of relevant overheads. Other development expenditure is recognised in the statement of comprehensive income as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

Amortisation

Amortisation is charged to the statement of comprehensive income on a straight-line basis over the remaining estimated useful life of intangible assets. The estimated useful life in the current and comparative period is:

Capitalised software development costs	10 years

Amortisation of the capitalised software development costs will commence when the development is available for use, that is, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

1 Summary of significant accounting policies (continued)

(u) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents includes cash on hand and in banks and other short-term deposits with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(v) Employee benefits

Wages, salaries and annual leave

Liabilities for employee benefits for wages and salaries (including non-monetary benefits), and annual leave representing present obligations resulting from employees' services provided up to the reporting date. Current amounts are calculated based on the remuneration rates that the Company expects to pay and are not discounted. Any non-current amounts are discounted to their current value.

Long service leave

The provision for employee benefits for long service leave represents the present value of the estimated future cash outflows to be made resulting from employees' services provided up to reporting date. The provision is calculated using expected future increases in wage and salary rates and expected settlement dates based on turnover history and is discounted using the rates attaching to national government securities at balance date which most closely match the terms of maturity of the related liabilities. The unwinding of the discount is treated as long service leave expense.

Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the statement of comprehensive income as incurred.

(w) Impairment

An asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Company, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Company considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together loans and receivables with similar risk characteristics.

1 Summary of significant accounting policies (continued)

(w) Impairment (continued)

In assessing collective impairment the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss is recognised in profit or loss and reflected in an allowance account against loans and receivables. When a subsequent event (e.g. repayment by a debtor) causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(x) Trade and other payables

Trade and other payables are stated at fair value.

(y) Provisions

A provision is recognised in the statement of financial position when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, risks specific to the liability.

(z) Contributed equity

Ordinary share capital is recognised at fair value of consideration received by the Company. Ordinary shares have the right to receive dividends as declared and, in the event of winding up of the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

2 Accounting estimates and judgements

The preparation of a financial report requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances, the results of which form the basis for making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may vary from estimates.

These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision effects only that period, or in the period of the revision and future periods if the revision effects both current and future periods.

2 Accounting estimates and judgements (continued)

Key sources of estimation uncertainty

The key area of estimates uncertainty for the Company is in its estimation of Outstanding Claims Liabilities and Reinsurance Recoveries. These are discussed in detail in Note 21.

Certain critical accounting judgements adopted in applying the Company's accounting policies are described below.

(a) Estimation of Outstanding Claims Liabilities (refer Note 21)

Provision is made at the year end for the estimated cost of claims incurred but not settled at the statement of financial position date, including the cost of claims incurred but not yet reported to the Company.

The estimated cost of claims includes direct expenses to be incurred in settling claims gross of the expected value of salvage and other recoveries. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposure. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of claims incurred but not reported ("IBNR"), as defined in Notes 1(h) is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about the claim event is generally available. IBNR claims may often not be apparent to the insured until many years after the events giving rise to the claims have happened. The liability classes of business will typically display greater variations between initial estimates and final outcomes because there is a greater degree of difficulty in estimating IBNR reserves. For the Motor and Property classes, claims are typically reported soon after the claim event, and hence tend to display lower levels of volatility.

In calculating the estimated cost of unpaid claims, the Company uses a variety of estimation techniques, generally based upon statistical analysis of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortion in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims.

A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims. In estimating the cost of these the Company has regard to the claim circumstances as reported, any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods.

Large claims impacting each relevant business class are 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.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurance based upon the gross provisions.

Details of specific assumptions used in deriving the outstanding claims liability at year end are detailed in Note 3.

2 Accounting estimates and judgements (continued)

Key sources of estimation uncertainty (continued)

(b) Reinsurance recoveries receivable (refer Note 13)

Assets arising from reinsurance recoveries 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

The Company utilises valuations performed by the Company's Appointed Actuary to value the outstanding claims and related reinsurance recoveries.

The actuarial methods used are based on the underlying attributes of the claims portfolios. The valuations have been performed by grouping business expected to exhibit similar characteristics. The methodology for determining the outstanding claims liability for the major lines of business is summarised below.

Direct Insurance and Inwards Reinsurance

The Company commenced writing direct insurance in 2004. While the volume of business written and claims incurred has increased significantly since 2004, for some classes, there is still insufficient claims history to model future loss developments using the Company's experience alone. For these classes industry benchmarks from comparable insurers writing similar risks have been used to develop the Company's losses to their ultimate levels. For the classes where more credible Company claims experience is available past patterns of loss development have been used in modelling developing losses to their ultimate levels.

The Bornhuetter-Ferguson ("BF") approach has continued to be used to estimate the total insurance liability for each class of business. The BF method blends the actual claims experience to date with a loss estimate based on a combination of assumed ultimate loss ratios and the assumed loss development patterns. The assumed loss development patterns adopted as part of the application of the BF method have been updated (as described above) and the assumed ultimate loss ratios have been based on the Company's own recent experience together with adjustments to allow for increases in premium rates and restrictions the Company has placed on the risks underwritten. Where relevant an explicit IBNR/IBNER allowance is made for large claims as part of the valuation.

The valuation models include an implicit inflation assumption and so there is no explicit allowance for future inflation. Projected claims payments are discounted to allow for the time value of money.

Claims handling expenses are assumed to be 2.5% of the net outstanding claims liability.

Reinsurance Recoveries for Direct and Inwards Reinsurance

The reinsurance recoveries are calculated with reference to the actual reinsurance treaties entered by the Company having regard to the loss assumptions explicitly allowed for in the actuarial valuation techniques.

3 Actuarial assumptions and methods (continued)

Inwards Reinsurance - Run-off

Claims estimates for the Company's inwards reinsurance run-off portfolio are derived from analysis of past experience with respect to claim payments and changes in case estimates. The main valuation method used for this is the Incurred Cost Development ("ICD") method. The central estimate of outstanding claims liabilities is calculated by deducting the cumulative paid losses from the central estimate of ultimate claims losses. For future molestation claim reports and payments a stochastic model with key inputs surrounding expected claim reports, average settlement sizes, the Company's policy exposure periods, policy retentions, shares of each treaty layer, limits and indexation were utilised.

An explicit inflation assumption of 6.00% and 5.75% per annum is allowed for in the Asbestos and Molestation valuation models respectively. For all other valuation classes the models allow for inflation implicitly and therefore there is no explicit allowance for inflation.

It is assumed that there are no retrocessions recoveries for the Inwards Reinsurance – Run off classes.

Claims handling expenses are assumed to be 1.8% of the net outstanding claims liability.

The 75th percentile ultimate loss is used to generate the risk margin included in the liability valuation. The Paid Cost Development model is also studied to determine the appropriate cash flow pattern for outstanding and future claim payments. Projected claims payments are discounted to allow for the time value of money.

Actuarial assumptions

The actuarial assumptions used in determining the outstanding claims liabilities are:

	2013 Direct Insurance	2013 Inwards Reinsurance	2012 Direct Insurance	2012 Inwards Reinsurance
Weighted average term to settlement from reporting date (years)	1.24	2.36	1.27	1.95
Claims handling expenses (% of net central estimate)	2.5%	2.5%	2.5%	2.5%
The following discount rates were used in the measurement of outstanding claims:	%	%	%	%
For the succeeding year	2.35 - 2.45	2.35 - 2.45	2.70 - 2.85	2.70 - 2.85
For the subsequent years	2.50 - 4.38	2.50 - 4.38	2.68 - 3.13	2.68 - 3.13

	2013 Inwards Reinsurance – Run-off	2012 Inwards Reinsurance – Run-off
Weighted average term to settlement from reporting date (years)	6.35	5.08
Claims handling expenses (% of net central estimate)	1.8%	1.8%
The following discount rates were used in the measurement of outstanding claims:	%	%
For the succeeding year	2.45	2.71
For the subsequent years	2.67 – 6.00	2.64 - 4.74

3 Actuarial assumptions and methods (continued)

Sensitivity Analysis – Insurance Contracts

An analysis of sensitivity around various scenarios provides an indication of the adequacy of the Company's estimation process in respect of its valuation of outstanding claims. The table presented below demonstrates the sensitivity of insured liability estimates in the estimation process. Certain variables can be expected to impact outstanding claims liabilities more than others, and consequently a greater degree of sensitivity to these variables can be expected.

The tables presented below demonstrate the sensitivity of insured liability estimates to particular movements in assumptions used in the estimation process. The impact on reported profits of changes in key variables is:

	Change in Variable %	Change in Gross Outstanding Claims 2013 $'000	Change in Net Outstanding Claims 2013 $'000
Economic Factors			
Discount rate	+1%	(1,609)	(1,424)
Discount rate	-1%	1,780	1,587
Inflation and superimposed inflation rates	+1%	1,780	1,587
Inflation and superimposed inflation rates	-1%	(1,609)	(1,424)
Claims handling expense	+1%	521	357
Claims handling expense	-1%	(521)	(357)
Inwards Reinsurance – Run-off			
IBNR ICD Run-off	+10%	400	400
IBNR ICD Run-off	-10%	(400)	(400)
Average weighted time to settlement	+ 1 year	(769)	(769)
Average weighted time to settlement	- 1 year	801	801
Direct Insurance			
Change in expected loss ratios	+5%	1,900	753
Change in expected loss ratios	-5%	(1,900)	(753)
Average weighted time to settlement	+1 Year	(786)	(316)
Average weighted time to settlement	-1 Year	810	326
Inwards Reinsurance			
Change in expected loss ratios	+5%	498	483
Change in expected loss ratios	-5%	(498)	(483)
Average weighted time to settlement	+1 Year	(206)	(203)
Average weighted time to settlement	-1 Year	212	209

The changes above are relative to the outstanding claims and reinsurance recoveries set out in Note 21 and 13 respectively. The change in net claims equates to the change in equity before tax.

Process used to determine assumptions

A description of the processes used to determine these assumptions is provided below:

Discount rate

Discount rates are derived from the yield curve on Australian Government Bonds as at balance date.

3 Actuarial assumptions and methods (continued)

Sensitivity Analysis – Insurance Contracts (continued)

Process used to determine assumptions (continued)

Inflation and superimposed inflation

Superimposed inflation occurs due to non-economic effects such as court settlements increasing at a faster rate than wages or CPI inflation. All valuation models used implicitly project ordinary and superimposed inflation at the average levels evident in recent experience (3-5 years).

Claims handling expenses

Claims handling expenses are estimated after considering management’s projected cost of running off claims over the average term to settlement.

Average weighted time to settlement

The weighted average time to settlement is estimated by projecting the payment profile based on historic claim settlement patterns and industry data. The claim payment profile is separately calculated by major class of claim.

Average claim frequency

Claims frequency is not calculated due to the type of business written.

4 Insurance risk management

Risk management objectives and policies for mitigating insurance risk

The Company has established policies for accepting insurance risks. The risk under any one insurance contract arises out of the uncertainty surrounding the timing and severity of claims under the contract.

The majority of the reinsurance business is in run-off. The Company manages its insurance risk on its direct insurance business through underwriting limits, approval procedures for transactions that involve new products or that exceed set limits, underwriting and pricing guidelines, centralised management of reinsurance and monitoring of emerging issues. These policies and procedures are consistently applied to both businesses written by the Company as a direct insurer and as an agent for other insurers (where the Company shares in the risk via inwards reinsurance).

The Company uses several methods to assess and monitor insurance risk exposures both for individual types of risks insured and overall risks. These methods include internal risk measurement models, sensitivity analyses, scenario analyses and stress testing.

The theory of probability is applied to the pricing and provisioning for a portfolio of insurance contracts. The principal risk is that the frequency and severity of claims is greater than expected. Insurance events are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated using established statistical techniques.

4 Insurance risk management (continued)

Objectives in managing risk arising from insurance and policies for mitigating those risks

The Company has an objective to control insurance risk thus reducing the volatility of operating profits. In addition to the inherent uncertainty of insurance risk, which can lead to significant variability in the loss experience, profits from insurance business are affected by market factors, particularly competition and movements in asset values. Short-term variability is, to some extent, a feature of insurance business.

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 have developed, implemented and maintain a sound and prudent Risk Management Strategy (RMS) and a Reinsurance Management Strategy (REMS).

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

Key features of the processes established in the RMS and REMS to mitigate risks include:

- The use of sophisticated management information systems to provide up to date data on the risks to which the Company is exposed at any point in time.
- Documented procedures are followed for underwriting and accepting insurance risks.
- The mandatory use of proven premium rating tools to calculate required premium and deductibles when accepting insurance risks.
- Reinsurance is used to limit the Company's exposure to large single claims and catastrophes. Reinsurance is obtained only from reinsurers which have been assessed as providing high security.
- Where feasible the concentration of credit risk to any individual reinsurer or group of related reinsurers is limited.
- The nature and term of insurance liabilities is monitored and investment assets selected that match investment maturity dates with the expected pattern of claims payments.

Underwriting strategy

The Company's underwriting strategy seeks to limit claims frequency through the application of clearly defined underwriting guidelines. Risks are underwritten by a team of experienced underwriters who will only underwrite risks which fall within well defined parameters and authorities. Adherence to underwriting authorities is closely monitored.

The underwriting strategy is documented in an annual business plan that sets out the classes of business to be written and industry sectors to which the Company is prepared to expose itself. This strategy is cascaded down to individual underwriters through detailed underwriting authorities that set out the limits that any one underwriter can write by line size, class of business, territory and industry in order to enforce appropriate risk selection within the portfolio. Authorisation from the Chief Executive Officer must be obtained before entering into any contract which exceeds an individual underwriter's authority. The majority of contracts are annual in nature and the underwriters have the right to refuse renewal or to change the terms and conditions of the contract at renewal.

Adherence to the underwriting authorities is closely monitored using a combination of regular management, peer and internal audit reviews.

4 Insurance risk management (continued)

Reinsurance strategy

The Company buys a combination of proportional and non-proportional reinsurance treaties to reduce the net exposure to the Company to a maximum of $3.0 million per event for property exposures and $4.6 million for a small number of credit and surety exposures. In addition, underwriters are allowed to buy facultative reinsurance in certain specified circumstances. The process and authorities for the purchase of reinsurance is governed by the REMS which is reviewed and approved by the Board annually. The Chief Executive Officer is responsible for ensuring compliance with the REMS.

Terms and conditions of insurance contracts

The terms and conditions of issued insurance and reinsurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows arising from insurance contracts are discussed below.

Inwards Reinsurance

Apart from business written as underwriting agent where the Company accepts a share of the risk through inwards reinsurance, the Company ceased writing inwards reinsurance in 2002. All of the inwards reinsurance treaties in existence when the reinsurance business was placed into run-off in November 2002 have expired. Activities relating to these treaties are now confined to claims handling and associated administration. (Refer additional comments on surety, aviation, financial risk and professional indemnity business written as agent below).

Direct Insurance

The Company writes insurance risks mainly in Australia. Subject to specific terms provided and any limits or excesses, insurance indemnifies the policyholder against loss or damage to their own material property and business interruption arising from this damage, or in the case of liability business against claims from 3rd parties.

The return to shareholders from direct insurance arises from the premiums charged to policyholders less the amounts paid to cover claims and the expenses incurred by the Company. There is also scope for the Company to earn investment income owing to the time delay between the receipt of premiums and payment of claims.

The Company writes direct insurance in a small number of well defined product classes comprising professional indemnity, commercial property, engineering, aviation, motor, credit, surety and financial risk. Except for financial risk, the majority of direct insurance contracts are written on a standard form basis. There are no special terms or conditions in any of the non standard contracts that have a material impact on the financial statements. A small number of financial risk contracts are written each year. The terms and conditions of each contract are tailored to the individual risk underwritten.

During 2009 the Company commenced writing surety, financial risk and professional indemnity insurance as agent for two highly rated insurers (with an A+ or better Standard & Poor's credit rating). This was extended to include aviation in 2010. The Company shares in these risks as a reinsurer. The related reinsurance treaties are written on a standard form basis. There are no special terms or conditions in any of the non standard contracts that have a material impact on the financial statements.

Concentrations of insurance risks

Insurance risk is managed primarily through risk selection, product design, sensible pricing, appropriate investment strategy and reinsurance. It is vital that the Company reacts to changes in the general economic and commercial environment in which it operates.

4 Insurance risk management (continued)

Concentrations of insurance risks (continued)

Within the insurance process, concentrations of risk may arise where a particular event or series of events could impact heavily upon the Company's liabilities. Such concentrations may arise from a single insurance contract or through a small number of related contracts, and relate to circumstances where significant liabilities could arise.

The disclosures within these financial statements are designed to assist the users understand how statistical models are applied to relevant risk factors in order to determine the insurance approach adopted. For this purpose we examine the commercial property insurance product.

Commercial property is subject to a number of risks, including theft, fire, business interruption and weather. For property business there is a significant geographical concentration of risks so that external factors such as adverse weather conditions may adversely impact upon a large proportion of the risks insured in a particular geographical region.

The greatest likelihood of significant losses to the Company arise from catastrophe events, such as storm, hail or earthquake damage.

In the event of an earthquake, the Company expects to see high claims for structural damage to properties, and high claims for business interruption while transport links are inoperable and business properties are closed for repair.

The Company identifies the total aggregate exposure it is prepared to accept in certain territories to a range of events such as natural catastrophes. The current aggregate position is monitored at the time of underwriting a risk and regular reports are produced which show the key aggregations to which the Company is exposed. The Company uses a number of modelling tools to monitor aggregation and to simulate catastrophe losses in order to measure the effectiveness of the reinsurance programmes and its net exposure. A number of stress and scenario tests are run using these models during the year.

The assumptions the Company uses to calculate these risks are as follows:

- Measurement of geographic accumulations.
- Use of commercial catastrophe modelling software to assess the probable maximum loss (PML).

Excess of loss reinsurance has been bought that exceeds the amount needed to protect the Company against an up to a one in two hundred and fifty year loss as calculated by the models.

Interest rate risk

The insurance or reinsurance contracts contain no clauses that expose the Company directly to interest rate risk. The majority of insurance and reinsurance contracts are annually renewable.

Credit risk

The Company is exposed to credit risk on insurance contracts as a result of exposure to individual clients, intermediaries or reinsurers.

The Company has a Credit Quality Risk Management Strategy which is reviewed and approved by the Board annually. Other than with respect to premium receivables, the Company does not have any material exposure to individual clients or intermediaries which would materially impact the operating profit. In the event of non-payment of premium the Company has the right to cancel the policy issued. The credit risk to reinsurers is managed by having a pre-determined policy on the appropriate rating a reinsurer must have to participate in the reinsurance programme. At year end, with only some minor exceptions, the entire reinsurance programme has been placed with reinsurers with either a Standard & Poor's or AM Best credit ratings of "A-" or better.

	2013 $'000	2012 $'000
5 Revenue		
(a) Revenue from insurance activities		
Direct		
Gross written premiums	54,129	47,003
Movement in unearned premium	(3,691)	(1,983)
Premium revenue – direct	**50,438**	**45,020**
Inwards reinsurance		
Gross written premiums	7,826	9,519
Movement in unearned premium	(175)	(1,911)
Premium revenue – inwards reinsurance	**7,651**	**7,608**
Total premium revenue	**58,089**	**52,628**
Reinsurance and other recoveries revenue	15,307	6,258
Total insurance revenue	**73,396**	**58,886**
(b) Revenue from other activities		
From operating activities:		
Services revenue		
IT Services – other corporations	2,485	1,950
Other Services – other corporations	8,566	9,454
Investment revenue		
Interest – other corporations	5,616	5,195
Rent – other corporations	312	220
Rent – wholly owned group	27	56
Realised gain on sale of investments	4	1,411
Change in fair market value of investments	(358)	(502)
From non-operating activities:		
Gain on disposal of intangibles	660	-
Total revenue from other activities	**17,312**	**17,784**
(c) Total revenue from all activities		
Insurance activities	73,396	58,886
Other activities	17,312	17,784
	90,708	**76,670**

6 Insurance underwriting result

	2013 $'000	2012 $'000
Premium revenue	58,089	52,628
Outwards reinsurance expense	(29,557)	(26,944)
Net premium revenue	**28,532**	**25,684**
Claims expense	(27,862)	(17,930)
Reinsurance and other recoveries revenue	15,307	6,258
Net claims incurred	**(12,555)**	**(11,672)**
Underwriting expenses	**(9,571)**	**(7,118)**
Underwriting result	**6,406**	**6,894**

7 Net claims incurred

During the year the Company underwrote direct insurance and inwards reinsurance contracts as well as continuing to manage the run-off of the reinsurance business which was placed in run-off in 2002. The total net claims incurred for these activities are presented below.

Direct Insurance and Inwards Reinsurance

		2013	
	Current year $'000	Prior years $'000	Total $'000
Gross claims incurred and related expenses – undiscounted	34,807	(4,442)	30,365
Reinsurance and other recoveries – undiscounted	(18,746)	3,415	(15,331)
Net claims incurred – undiscounted	16,061	(1,027)	15,034
Discount movement – gross claims	(596)	27	(569)
Discount movement – reinsurance and other recoveries	300	(235)	65
Net discount movement	(296)	(208)	(504)
Net Direct and Inwards Reinsurance claims incurred	15,765	(1,235)	14,530

		2012	
	Current year $'000	Prior years $'000	Total $'000
Gross claims incurred and related expenses – undiscounted	33,278	(13,006)	20,272
Reinsurance and other recoveries – undiscounted	(16,474)	9,200	(7,274)
Net claims incurred – undiscounted	16,804	(3,806)	12,998
Discount movement – gross claims	(521)	2,621	2,100
Discount movement – reinsurance and other recoveries	276	(1,756)	(1,480)
Net discount movement	(245)	865	620
Net Direct and Inwards Reinsurance claims incurred	**16,559**	**(2,941)**	**13,618**

7 Net claims incurred (continued)

Reinsurance Run-off

		2013	
	Current year $'000	Prior years $'000	Total $'000
Gross claims incurred and related expenses – undiscounted	-	(214)	(214)
Reinsurance and other recoveries – undiscounted	-	(41)	(41)
Net claims incurred – undiscounted	-	(255)	(255)
Discount movement – gross claims	-	(1,720)	(1,720)
Discount movement – reinsurance and other recoveries	-		
Net discount movement	-	(1,720)	(1,720)
Net Reinsurance Run-off claims incurred	-	(1,975)	(1,975)

		2012	
	Current year $'000	Prior years $'000	Total $'000
Gross claims incurred and related expenses – undiscounted	-	(3,340)	(3,340)
Reinsurance and other recoveries – undiscounted	-	-	-
Net claims incurred – undiscounted	-	(3,340)	(3,340)
Discount movement – gross claims	-	1,394	1,394
Discount movement – reinsurance and other recoveries	-	-	-
Net discount movement	-	1,394	1,394
Net Reinsurance Run-off claims incurred	**-**	**(1,946)**	**(1,946)**

		Note	2013 $'000	2012 $'000
8	**Expenses**			
	Insurance activities			
	Claims expense	6	27,862	20,426
	Underwriting expenses	6	9,571	7,118
	Outwards reinsurance expense	6	29,557	24,446
	Management fees		16,573	14,556
	Other expenses		2,115	3,607
	Total expenses		**85,678**	**70,153**

9 Profit before income tax

Profit before income tax has been arrived at after charging/(crediting) the following items:

	2013 $'000	2012 $'000
Insurance activities		
Foreign currency (losses)	(2,849)	(29)
(Decrease) in provision for impairment of reinsurance assets	(2,825)	(1,121)
All activities		
Depreciation	470	310
Amortisation	323	420
Gain on disposal of intangibles	660	-
Personnel expenses:		
Wages and salaries	-	-
Increase in liability for long service leave	-	-
Contributions to defined contribution plans	-	-

All personnel are employed by the parent entity.

10 Income tax expense

	2013 $'000	2012 $'000
Numerical reconciliation between income tax expense and pre-tax profit		
Profit before income tax	5,030	6,517
Total income tax (expense)	(1,148)	(1,659)
Profit after income tax	**3,882**	**4,858**
Income tax at the standard rate of 30% (2012: 30%)	1,509	1,955
Increase/(decrease) in income tax due to:		
Net non-deductible expenses	304	426
Tax incentives	(665)	(562)
Under/(over) provision in prior years	-	(160)
Total income tax expense attributable to operating profit	**1,148**	**1,659**
Income tax expense comprises:		
Provision attributable to prior years	-	(160)
Provision attributable to future years:		
Deferred tax assets	(26)	529
Deferred tax liabilities	148	27
Transferred to consolidated tax group	1,026	1,263
	1,148	**1,659**

Tax consolidation

Effective 1 January 2005, the parent entity implemented the tax consolidation legislation. The accounting policy in relation to this legislation is set out in Note 1.

11 Dividends

	2013 $'000	2012 $'000
Dividends proposed and paid in the current year	-	4,500

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 of the tax consolidated group.

12 Trade and other receivables

	2013 $'000	2012 $'000
Current		
Trade debtors:		
Other corporations	28,126	20,163
Sundry debtors:		
Other corporations	3,066	2,721
Related corporations	3,065	389
Related corporations - subordinated	350	350
Total trade and other receivables (current)	**34,607**	**23,623**
Non-Current		
Sundry debtors:		
Related corporations	600	-
Total trade and other receivables (non-current)	**600**	**-**

13 Reinsurance and other recoveries receivable

	2013 $'000	2012 $'000
Reinsurance and other recoveries:		
Current	8,173	6,635
Non-current	13,393	13,334
	21,566	**19,969**
The reinsurance and other recoveries comprises:		
Expected future reinsurance recoveries undiscounted:		
- On paid claims	5,493	8,641
- On outstanding claims liability	19,241	17,769
Total recoveries – undiscounted	24,734	26,410
Discount to present value	(65)	(513)
Provision for impairment of reinsurance assets:		
Non-current	(3,103)	(5,928)
Total reinsurance and other recoveries receivable	**21,566**	**19,969**

The reconciliation of reinsurance recoveries is included in Note 21.

14 Deferred acquisition costs

	2013 $'000	2012 $'000
Deferred acquisition costs at 1 January	4,949	4,218
Acquisition costs incurred in year	8,913	6,861
Amortisation charge	(9,430)	(6,130)
Write-off of acquisition costs (see Note 33)	(670)	-
Deferred acquisition costs at 31 December	**3,762**	**4,949**

	2013 $'000	2012 $'000
15 Investments		
Current		
Investments – unquoted		
Moneys at call	3,284	3,074
Fixed term deposits	35,837	58,762
Bank bills	1,986	688
Bank bonds	2,511	1,531
Corporate bonds	4,898	-
Total investments (current)	**48,516**	**64,055**
Non-current		
Investments – unquoted:		
Bank bonds	3,270	6,107
Corporate bonds	5,098	9,992
Corporate floating rate notes	3,000	3,000
Loan to related corporation *	4,680	4,680
Fixed term deposits	9,298	-
Total investments (non-current)	**25,346**	**23,779**

* Loan to related corporation represents the amount due from Cumulus Wines Pty Limited. The loan is secured by a fixed and floating charge over the assets of the company along with a second mortgage over their winery and vineyard properties. Interest is payable at the rate of 8.25% per annum (2012: 8.25% per annum). During 2013 the parent entity distributed its investment in Cumulus Wines Pty Limited to its shareholders.

Fair value hierarchy

The investments carried at fair value have been classified under the three levels of the IFRS fair value hierarchy as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset whether directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset that are not based on observable market data (unobservable inputs)

	2013 $'000	2012 $'000
Level 1	-	-
Level 2	17,763	18,318
Level 3	-	-
Investments carried at fair value through profit and loss	**17,763**	**18,318**
Other investments	56,099	69,516
Total investments	**73,862**	**87,834**

There were no transfers between levels in the current or prior year.

	2013 $'000	2012 $'000
16 Current tax balances		
Current tax assets		
Provision for goods and services tax – refund	70	4
Total current tax assets	**70**	**4**
Current tax liabilities		
Provision for withholding tax payable	192	89
Total current tax liabilities	**192**	**89**

All income tax payable amounts have been transferred to Assetinsure Holdings Pty Limited, the head entity of the tax consolidated group, and are included in payables (refer Note 20).

	2013 $'000	2012 $'000
17 Deferred reinsurance expense		
Current		
Deferred reinsurance expense	**16,191**	**13,312**
Reconciliation of changes in deferred reinsurance expense:		
Deferred reinsurance expense at 1 January	13,312	12,661
Deferral of reinsurance premiums in current year	32,436	27,596
Expensing of reinsurance premiums previously deferred	(29,557)	(26,945)
Deferred reinsurance expense at 31 December	**16,191**	**13,312**

18 Plant and equipment

	2013 $'000	2012 $'000
Plant and equipment – owned		
Valuation basis	At cost	At cost
Balance at 1 January	5,484	4,448
Acquisitions	94	1,036
Disposals	-	-
Balance at the end of the year	**5,578**	**5,484**
Depreciation and impairment losses		
Plant and equipment – owned		
Valuation basis	At cost	At cost
Balance at 1 January	3,963	3,653
Depreciation charge for the year	470	310
Disposals	-	-
Balance at the end of the year	**4,433**	**3,963**
Carrying amounts at the end of the year	**1,145**	**1,521**

19 Intangible assets

	2013 $'000	2012 $'000
Capitalised development costs at beginning of year	5,525	4,674
Other acquisitions – internally developed	909	851
Disposals	(449)	-
Capitalised development costs at the end of the year	**5,985**	**5,525**
Amortisation		
Accumulated amortisation at beginning of year	1,785	1,365
Amortisation during the year	441	420
Accumulated amortisation on disposals	(118)	-
Accumulated amortisation at the end of the year	2,108	1,785
Carrying amount at the end of the year	**3,877**	**3,740**

20 Trade and other payables

	2013 $'000	2012 $'000
Current		
Trade creditors	12,286	16,587
Other creditors and accruals		
Other corporations	1,024	966
Total payables (current)	**13,310**	**17,553**

Australian dollar equivalent of amounts payable in foreign currencies not effectively hedged (other than the natural hedge in debtors):

Hong Kong dollars	25	24

	2013 $'000	2012 $'000
21 Outstanding claims liabilities		
(a) Outstanding claims liabilities		
Outstanding claims liabilities:		
Current	26,900	23,921
Non-current	36,302	37,996
	63,202	61,917
Central estimate	60,468	56,445
Prudential margin	9,916	10,437
Claims handling costs	1,173	1,102
	71,557	67,984
Discount to present value	(8,355)	(6,067)
Gross outstanding claims liabilities	**63,202**	**61,917**

(b) Prudential margin

Process for determining prudential margin

The prudential margin is an additional allowance for uncertainty in the ultimate cost of claims. The overall margin adopted is determined by the Board after considering the uncertainty in the portfolio, industry trends and the entity's risk appetite.

To determine the margin adopted the Appointed Actuary has reviewed the factors impacting the portfolio to establish a recommended margin at the level required by the Board. Factors considered include:

- variability of claims experience of the portfolio
- quality of historical data
- diversification between different classes within the portfolio

The level of uncertainty varies between classes of business, and as such the adopted prudential margin varies between business classes. The prudential margin adopted is applied to the central estimate with appropriate reinsurance recoveries provided. The aggregate prudential margin, after diversification allowance, is intended to achieve a 75% probability of sufficiency.

The prudential margin was determined for each of the individual valuation classes with the overall margin allowing for diversification between the classes. The prudential margin for the whole portfolio is set out below.

	2013	2012
Overall margin allowing for diversification	19.1%	21.8%

21 Outstanding claims liabilities (continued)

(c) Reconciliation of movement in discounted outstanding claims liability

	Direct Insurance and Inwards Reinsurance					
	2013 $'000			2012 $'000		
	Gross	**Re-insurance**	**Net**	**Gross**	**Re-insurance**	**Net**
Balance at 1 January	31,958	(17,246)	14,712	42,539	(25,693)	16,846
Current year claims incurred	13,333	(6,938)	6,395	14,660	(7,884)	6,776
Change in previous years claims	17,032	(6,533)	10,499	5,612	819	6,431
Current year claims paid / reinsurance recovered	(4,391)	2,104	(2,287)	(3,035)	1,552	(1,483)
Previous year claims paid / reinsurance recovered	(17,858)	9,381	(8,477)	(29,918)	15,440	(14,478)
Undiscounted outstanding claims	**40,074**	**(19,232)**	**20,842**	**29,858**	**(15,766)**	**14,092**
Effect of change in discount allowance	(569)	65	(504)	2,100	(1,480)	620
Balance at 31 December	**39,505**	**(19,167)**	**20,338**	**31,958**	**(17,246)**	**14,712**

	Reinsurance Run-off					
	2013 $'000			2012 $'000		
	Gross	**Retro-cession**	**Net**	**Gross**	**Retro-cession**	**Net**
Balance at 1 January	29,959	(10)	29,949	35,873	(10)	35,863
Current year claims incurred	-	-	-	-	-	-
Change in previous years claims	(213)	(41)	(254)	(3,342)	-	(3,342)
Current year claims paid / reinsurance recovered	-	-	-	-	-	-
Previous year claims paid / reinsurance recovered	(4,329)	42	(4,287)	(3,966)	-	(3,966)
Undiscounted outstanding claims	**25,417**	**(9)**	**25,408**	**28,565**	**(10)**	**28,555**
Effect of change in discount allowance	(1,720)	-	(1,720)	1,394	-	1,394
Balance at 31 December	**23,697**	**(9)**	**23,688**	**29,959**	**(10)**	**29,949**

21 Outstanding claims liabilities (continued)

(d) Claims development tables

The following tables show the development of gross and net undiscounted outstanding claims relative to the ultimate expected claims for the five most recent underwriting years. The estimate of ultimate claims cost at the end of the underwriting year does not include the premium liability at that point in time. By one year later generally the entire premium has been earned and the estimate of ultimate claims cost reflects the full amount in respect of the premium written in the relevant underwriting year.

Claims development tables are disclosed in order to put the claims estimates included in the financial statements into a context, allowing comparison of those claims estimates with the claims results seen in previous years. In effect, the tables highlight the Company's ability to provide an estimate of the total value of claims. The top part of the table provides a review of current estimates of cumulative claims and demonstrates how the estimated claims have changed at subsequent reporting or accident year-ends. The lower part of the table provides a reconciliation of the total reserve included in the statement of financial position and the estimates of cumulative claims. The analysis includes the aggregated results of long tail classes. These long tail classes include Professional Indemnity.

Direct Insurance and Inwards Reinsurance business

(i) Gross

Underwriting year	**2009 and prior $'000**	**2010 $'000**	**2011 $'000**	**2012 $'000**	**2013 $'000**	**Total $'000**
Estimate of ultimate claims cost:						
At end of underwriting year	95,400	22,616	10,847	12,789	11,917	153,569
One year later	100,860	47,927	26,036	29,881		204,704
Two years later	101,164	42,755	24,931			168,850
Three years later	95,395	44,043				139,438
Four years later	95,234					95,234
Current estimate of cumulative claims cost	95,234	44,043	24,931	29,881	11,917	206,006
Cumulative payments	(89,331)	(39,732)	(21,117)	(16,817)	(4,392)	(171,389)
Cumulative claims – undiscounted	5,903	4,311	3,814	13,064	7,525	34,617
Discount	(202)	(299)	(258)	(523)	(317)	(1,599)
Outstanding claims	5,701	4,012	3,556	12,541	7,208	33,018
Prudential margin and claims handling expenses	1,120	788	699	2,464	1,416	6,487
Total gross outstanding claims recognised in the statement of financial position	**6,821**	**4,800**	**4,255**	**15,005**	**8,624**	**39,505**

21 Outstanding claims liabilities (continued)

(d) Claims development tables (continued)

Direct Insurance and Inwards Reinsurance business (continued)

(ii) Net

Underwriting year	**2009 and prior $'000**	**2010 $'000**	**2011 $'000**	**2012 $'000**	**2013 $'000**	**Total $'000**
Estimate of ultimate claims cost:						
At end of underwriting year	28,268	9,837	5,654	5,818	5,661	55,238
One year later	29,266	18,442	14,103	14,486		76,297
Two years later	29,411	17,921	14,067			61,399
Three years later	28,526	19,506				48,032
Four years later	28,440					28,440
Current estimate of cumulative claims cost	28,440	19,506	14,067	14,486	5,661	82,160
Cumulative payments	(25,963)	(16,417)	(11,708)	(8,189)	(2,288)	(64,565)
Cumulative claims – undiscounted	**2,477**	**3,089**	**2,359**	**6,297**	**3,373**	**17,595**
Discount	(74)	(261)	(207)	(323)	(157)	(1,022)
Outstanding claims	2,403	2,828	2,152	5,974	3,216	16,573
Prudential margin and claims handling expenses	545	642	488	1,356	734	3,765
Total net outstanding claims recognised in the statement of financial position	**2,948**	**3,470**	**2,640**	**7,330**	**3,950**	**20,338**

Reinsurance Run-off

(i) Gross

Underwriting year	**2008 and prior $'000**	**2009 $'000**	**2010 $'000**	**2012 $'000**	**2013 $'000**	**Total $'000**
Estimate of ultimate claims cost:						
At end of underwriting year	983,911	-	-	-	-	983,911
One year later	1,039,091	-	-	-	-	1,039,091
Two years later	1,053,784	-	-	-	-	1,053,784
Three years later	1,049,356	-	-	-	-	1,049,356
Four years later	1,054,336	-	-	-	-	1,054,336
Five years later	1,049,188	-	-	-	-	1,049,188
Six years later	1,045,114	-	-	-	-	1,045,114
Seven years later	1,033,147	-	-	-	-	1,033,147
Eight years later	1,030,735	-	-	-	-	1,030,735
Nine years later	1,028,229	-	-	-	-	1,028,229
Ten years later	1,017,884	-	-	-	-	1,017,884
Current estimate of cumulative claims cost	1,019,285	-	-	-	-	1,019,285
Cumulative payments	(993,434)	-	-	-	-	(993,434)
Cumulative claims – undiscounted	**25,851**	**-**	**-**	**-**	**-**	**25,851**
Discount	(6,757)	-	-	-	-	(6,757)
Outstanding claims	**19,094**	**-**	**-**	**-**	**-**	**19,094**
Prudential margin and claims handling expenses	4,603	-	-	-	-	4,603
Total gross outstanding claims recognised in the statement of financial position	**23,697**	**-**	**-**	**-**	**-**	**23,697**

21 Outstanding claims liabilities (continued)

(d) Claims development tables (continued)

Reinsurance Run-off (continued)

(ii) Net

Underwriting year	**2008 and prior $'000**	**2009 $'000**	**2010 $'000**	**2012 $'000**	**2013 $'000**	**Total $'000**
Estimate of ultimate claims cost:						
At end of underwriting year	831,395	-	-	-	-	831,395
One year later	870,652	-	-	-	-	870,652
Two years later	860,191	-	-	-	-	860,191
Three years later	857,189	-	-	-	-	857,189
Four years later	862,036	-	-	-	-	862,036
Five years later	860,793	-	-	-	-	860,793
Six years later	855,534	-	-	-	-	855,534
Seven years later	843,389	-	-	-	-	843,389
Eight years later	840,661	-	-	-	-	840,661
Nine years later	839,892	-	-	-	-	839,892
Ten years later	830,938	-	-	-	-	830,938
Current estimate of cumulative claims cost	832,330	-	-	-	-	832,330
Cumulative payments	(806,488)	-	-	-	-	(806,488)
Cumulative claims – undiscounted	**25,842**	**-**	**-**	**-**	**-**	**25,842**
Discount	(6,757)	-	-	-	-	(6,757)
Outstanding claims	**19,085**	**-**	**-**	**-**	**-**	**19,085**
Prudential margin and claims handling expenses	4,603	-	-	-	-	4,603
Total net outstanding claims recognised in the statement of financial position	**23,688**	**-**	**-**	**-**	**-**	**23,688**

	2013 $'000	2012 $'000
22 Unearned premium liabilities		
Unearned premium liabilities at 1 January	32,508	28,614
Deferral of premiums written in the period	36,374	32,508
Earning of premiums written in previous periods	(32,508)	(28,614)
Unearned premium liabilities at 31 December	**36,374**	**32,508**

23 Deferred tax balances

Deferred tax (assets) and liabilities are attributable to the following:

	2013 $'000	2012 $'000
Assets:		
Plant and equipment	(305)	(360)
Provisions	(596)	(547)
Investments	(543)	(684)
Deferred tax asset	(1,444)	(1,591)
Liabilities:		
Provisions	378	432
Investments	94	189
Intangibles	107	107
Plant and equipment	1,074	950
Deferred tax liabilities	1,653	1,678
Net deferred tax liability	**209**	**87**

24 Issued capital

Issued and paid-up share capital

	2013 $'000	2012 $'000
50,000,000 ordinary shares	**50,000**	**50,000**

The Company does not have authorised capital or par value in respect of its issued shares.

25 Auditors' remuneration

Amounts in whole dollars	2013 $	2012 $
Amounts paid or payable to KPMG for:		
Audit services	149,500	143,731
Taxation services	-	-
Other services	40,750	37,750
Amounts paid or payable to non-KPMG audit firms for audit services	6,695	6,695
Total auditors' remuneration	**196,945**	**188,176**

26 Capital management

(a) Capital management strategy

The capital management strategy plays a central role in managing risk to create shareholder value whilst meeting the crucial and equally important objective of providing an appropriate level of capital to protect policyholders' and lenders' interests and satisfy regulators. Capital finances growth, capital expenditure and business plans and also provides support in the face of adverse outcomes from insurance, other activities and investment performance.

The determination of the capital amount and mix is built around two core considerations:

(i) Regulatory capital

The Company is registered with APRA and is subject to the prudential standards which set out the basis for calculating the prudential capital requirement ("PCR") which is a minimum level of capital that the regulator deems must be held to meet policyholder obligations. The capital base is expected to be adequate for the size, business mix, complexity and risk profile of its business and so the PCR utilises a risk based approach to capital adequacy. The Company uses the standardised framework for calculating the PCR detailed in the relevant prudential standard and referred to as the prescribed method which is determined to be the sum of the capital charges for insurance, investment, investment concentration and catastrophe concentration risk. It is Company policy to hold regulatory capital in excess of the PCR as required by APRA. PCR is a derivation of the required capital to meet the 1 in 200 year risk of absolute ruin. Capital calculations for regulatory purposes are based on the premium liabilities model which is different to the deferral and matching model which underpins the measurement of assets and liabilities in the financial statements. The premium liabilities model assesses future claim payments arising from future events insured under existing policies. This differs to the measurement of the outstanding claims liability on the statement of financial position which considers claims relating to events that occur only up to and including the reporting date.

Effective 1 January 2013, the Company has implemented an Internal Capital Adequacy Assessment Process (ICAAP) as part of its compliance with the new prudential standards that came into effect on that date. The purpose of ICAAP is to assist the Company in making a proactive internal assessment of its capital requirements considering the current strategy, business plan and associated risks inherent in that business plan. In addition to the internal capital requirement, the ICAAP recognises the capital required for regulatory purposes, and identifies planned and potential sources of capital required to meet these objectives. The ICAAP is also designed to further augment the current corporate governance practices undertaken in respect of the ongoing assessment of the Company's risk profile, risk appetite, strategic plan and capital adequacy.

(ii) Economic capital

In conjunction with the considerations set out above, which are important to the functioning of the business, consideration is given to the operational capital needs of the business. The capital objectives are achieved through dynamic management of the statement of financial position and capital mix.

(b) Capital composition

Total capital is calculated as equity as shown in the statement of financial position.

26 Capital management (continued)

(c) Regulatory capital compliance

Prudential standards effective at 31 December 2013 set out the basis for calculating the PCR of licensed insurers. The PCR utilises a risk-based approach and is determined as the sum of the capital charges for insurance, investment, investment concentration and catastrophe risk.

The PCR of the Company is as follows:

	Note	2013 $'000	2012 $'000
Tier 1 capital			
Paid up ordinary shares	24	50,000	50,000
Retained earnings brought forward		999	641
Current year earnings		3,910	4,858
Dividends paid		-	(4,500)
APRA accounting basis adjustments		(7,187)	(2,883)
		47,722	48,116
Less: deductions			
Intangible assets		(3,877)	(3,744)
Net Tier 1 capital		**43,845**	**44,372**
Net Tier 2 capital		**900**	**2,000**
Total capital base		**44,745**	**46,372**
Prudential capital requirement		**18,596**	**18,517**
Capital adequacy multiple		**2.42**	**2.50**

27 Director and executive disclosures

Key management personnel disclosures

The following were key management personnel of the Company at any time during the reporting period. Directors unless otherwise indicated were Directors for the entire period.

Non-executive Directors
Mr John Fahey (Chairperson)
Mr Brian Cairns
Mr Henricus Sprangers
Mr Beverley Walters
Mr Volker Weisbrodt
Mr Christopher Old (alternate)

Executive Directors
Mr Gregor Pfitzer
Mr Peter Wedgwood

Executives
Mr Hamish Lilly (Chief Financial Officer, Assetinsure Holdings Pty Limited)

27 Director and executive disclosures (continued)

Key management personnel disclosures (continued)

Transactions with key management personnel

Apart from the details disclosed in this note, no Director has entered into a material contract with the Company since the end of the previous financial year and there were no material contracts involving Directors' interests existing at year end.

Directors of the Company hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. The terms and conditions of the transactions with Directors and their Director related entities were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-Director related entities on an arm's length basis.

Key management personnel

No personnel are employed by the Company. All personnel providing services to the Company are employed by the parent or associated entities. Key management personnel compensations paid by the parent entity or associated entity were as follows:

	2013 $	2012 $
Short-term employee benefits	1,499,842	1,317,447
Other long term benefits	-	-
Post employment benefits	95,857	124,551
Termination benefits	-	-
Share option plan benefits	-	31,450
Total	**1,595,699**	**1,473,448**

28 Non-director and executive related parties

The Company has a related party relationship with its parent entity, other subsidiary, and associate companies in the Assetinsure Holdings Group and with its Directors and executive officers.

Transactions with parent entity

During the year, the Company reimbursed Assetinsure Holdings Pty Limited $17,482,193 (2012: $15,407,586) for actual expenses incurred on behalf of the Company. Pursuant to the tax funding and tax sharing agreements in place, the Company reimbursed Assetinsure Holdings Pty Limited $1,026,435 (2012: $1,262,969) for the Company's share of income tax paid/payable by the tax consolidated group.

28 Non-director and executive related parties (continued)

Wholly-owned group transactions

During the year the Company received $35,956 (2012: $56,200) of rent from related company Assetsecure Pty Limited for space provided in its building. The Company also sold Assetsecure Pty Limited the “Assetwatch” computer software for $1,000,000. The purchase price is payable in five $200,000 annual instalments with the first payment due (and paid) on 31 December 2013. A $660,000 gain on sale was realised from the transaction.

On 21 August 2013, the Company extended the term of the $350,000 (2012: $350,000) loan provided to related company Assetsecure Pty Limited for a further 6 month period. The loan accrues interest at 7.0% per annum. Per the Deed of Subordination entered into in 2012 the Company’s right to repayment is subordinated to the rights of any of Assetsecure Pty Limited’s unsecured creditors. On 21 August 2013 the Company entered into an additional Deed of Subordination with Challenger Specialised Finance Pty Limited in relation to the loan. Under this deed the loan cannot be repaid unless Assetsecure Pty Limited has net tangible assets of at least $1.1m.

29 Ultimate parent entity

The ultimate Australian entity and parent entity is Assetinsure Holdings Pty Limited.

30 Notes to the statements of cash flows

(i) Reconciliation of cash

For the purposes of the statements of cash flows, cash includes cash on hand and at bank and short term deposits. Cash as at the end of the financial year as shown in the statements of cash flows is reconciled to the related items in the statement of financial position as follows:

	2013 $’000	2012 $’000
Cash at bank	12,488	8,201
Money on short term deposit	3,284	3,074
Total cash	**15,772**	**11,275**

30 Notes to the statements of cash flows (continued)

(ii) Reconciliation of profit from ordinary activities after income tax to net cash provided by operating activities

	2013 $'000	2012 $'000
Profit after income tax	3,882	4,858
Depreciation / amortisation	793	730
Amounts set aside to provisions	(1,447)	(1,121)
Foreign exchange loss / (gain)	2,849	(29)
Realised gain on sale of investments	(4)	(1,411)
Unrealised losses on investments	358	502
Profit on sale of intangibles	(660)	-
Net cash provided by operating activities before change in assets and liabilities	5,771	3,529
Change in assets and liabilities during the financial year:		
Receivables	(13,181)	10,414
Deferred expenses	(1,692)	(1,382)
Accounts payable	(4,243)	5,173
Provision of goods and services tax	(66)	(71)
Provision for withholding tax payable	103	64
Outstanding claims	1,285	(16,495)
Unearned premiums	3,866	3,894
Deferred tax assets	147	369
Deferred income tax liabilities	(25)	26
Net cash (used in) / provided by operating activities	(8,035)	5,521

31 Financial risk management

The activities of the Company expose it to a variety of financial risks such as market risk (including currency risk, cash flow and fair value interest rate risk and price risk), credit risk and liquidity risk. The Board and senior management of the Company have developed, implemented and maintain a Risk Management Strategy ("RMS") which is discussed in more detail in Note 4. The Company's risk management framework recognises the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Company.

The key objectives of the Company's asset and liability management strategy are to ensure sufficient liquidity is maintained at all times to meet the Company's obligations, including its settlement of insurance liabilities and, within these parameters, to optimise investment returns for policyholders and shareholders.

31 Financial risk management (continued)

(a) Market risk

(i) Currency risk

Currency risk is the risk of loss arising from an unfavourable move in market exchange rates. The Company is exposed to currency risk on its receivables and payables denominated in a currency other than Australian dollars.

Financial assets and liabilities dominated in foreign currency are summarised in Note 20. The sensitivity analysis of financial assets/liabilities to currency risk was not prepared because the Company was not exposed to significant currency risk as at 31 December 2013 or 31 December 2012.

(ii) Price risk

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate and currency risk). The Company is exposed to price risk on its investment in fixed interest securities. To manage its price risk arising from these investments, the Company diversifies its portfolio. Diversification of the portfolio is done in accordance with limits in the Company's Investment Policy Statement.

The sensitivity analysis of financial assets/liabilities to price risk was not prepared because the Company was not exposed to significant price risk as at 31 December 2013 or 31 December 2012.

(iii) Cash flow and fair value interest rate risk

Interest rate risk is the risk of loss arising from an unfavourable movement in market interest rates. The Company is exposed to interest rate risk arising from interest bearing assets. Assets with floating rate interest expose the Company to cash flow interest rate risk. Fixed interest rate assets expose the Company to fair value interest rate risk. The Company's strategy is to invest in high quality, liquid fixed interest securities and cash and to actively manage duration. The investment portfolios are actively managed to achieve a balance between cash flow interest rate risk and fair value interest rate risk bearing in mind the need to meet the liquidity requirements of the insurance business.

The Company is also exposed to interest rate risk arising from long-term interest bearing liabilities.

31 Financial risk management (continued)

(a) Market risk (continued)

(iv) Summarised sensitivity analysis

The impact from the measurement of the Company's interest bearing assets and liabilities held at reporting date of a change in interest rates at reporting date by +1% or -1% on profit and equity is shown in the table below:

	Carrying amount $'000	Interest rate risk -1% Profit/equity $'000	Interest rate risk +1% Profit/equity $'000
2013			
Financial assets			
Investments	17,763	220	(220)
Financial liabilities			
Outstanding claims	63,202	(1,609)	1,780
Net amount	45,439	(1,389)	1,560
2012			
Financial assets			
Investments	18,318	374	(374)
Financial liabilities			
Outstanding claims	61,917	(1,648)	1,496
Net amount	43,599	(1,274)	1,122

The sensitivity analysis provided in the table demonstrates the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. The sensitivity analysis does not take into consideration that the Company's assets and liabilities are actively managed and so assumes no action by the Company in response to movements in the factor. Additionally, the financial position of the Company may vary at the time that any actual market movement occurs.

(b) Credit risk

Credit risk is the risk of loss from a counterparty failing to meet their financial obligations. The Company's credit risk arises predominantly from investment activities and reinsurance activities.

The Company has a Credit Quality Risk Management Strategy which is reviewed and approved by the Board annually. Other than with respect to premium receivables, the Company does not have any material exposure to individual clients or intermediaries which would materially impact the operating profit. In the event of non-payment of premium the Company has the right to cancel the policy issued.

The credit risk to reinsurers is managed through the Company having a pre-determined policy on the appropriate rating a reinsurer must have to participate in the reinsurance programme.

The Company's maximum exposure to credit risk at balance date in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the statements of financial position.

31 Financial risk management (continued)

(b) Credit risk (continued)

At balance date other than the following, the company had no significant concentrations of credit risk:

	2013 $'000	2012 $'000
National Australia Bank	31,074	35,034
Bendigo Bank	10,611	-
ING	10,502	-
Hannover Ruckversicherung AG	6,531	3,607
Cumulus Wines Pty Limited	5,588	5,202

The ageing of the Company's trade and other receivables and reinsurance and other recoveries receivable is as follows:

	Not yet due $'000	91-180 days $'000's	180+ days $'000's	Total past due but not impaired $'000	Past due and impaired $'000	Total $'000
2013						
Trade and other receivables	34,746	186	275	461	-	35,207
Reinsurance and other recoveries receivable	19,176	-	2,390	-	2,390	21,566
	53,922	**186**	**2,665**	**461**	**2,390**	**56,773**
2012						
Trade and other receivables	23,356	267	-	267	-	23,623
Reinsurance and other recoveries receivable	17,220	-	2,749	-	2,749	19,969
	40,576	**267**	**2,749**	**267**	**2,749**	**43,592**

Impaired reinsurance and other recoveries receivable and movement of allowance for impairments are:

	2013 $'000	2012 $'000
Impaired reinsurance and other recoveries before allowance for impairment	5,493	8,677
Less:		
Allowance for impairments at 1 January	(5,928)	(7,049)
Decrease in impairment recognised during the year	2,825	1,121
Allowance for impairments at 31 December	(3,103)	(5,928)
Impaired reinsurance and other recoveries after allowance for impairments	**2,390**	**2,749**

An allowance has been made against some reinsurance recoveries in view of the significant uncertainties as to whether the Company will eventually be able to recover them from the related third party reinsurers.

31 Financial risk management (continued)

(b) Credit risk (continued)

The credit risk relating to investments is monitored and assessed and maximum exposures are limited. The investments comprising assets held to back insurance liabilities are restricted to investment grade securities.

The table below provides information regarding the Company's credit risk exposure by classifying cash and investment assets according to the Standard & Poors (S&P) credit rating for each counterparty. AAA is the highest possible rating. As at 31 December 2013 and 2012 the Company did not hold any rated financial assets with an S&P credit rating below BBB.

	AAA $'000	AA $'000	A $'000	BBB $'000	Not rated $'000	Total $'000
2013						
Cash	-	12,488	-	-	-	12,488
Investments	3,285	50,026	12,328	543	7,680	73,862
Reinsurance and other recoveries receivable	92	16,482	2,998	-	1,994	21,566
	3,377	**78,996**	**15,326**	**543**	**9,674**	**107,916**
2012						
Cash	-	8,201	-	-	-	8,201
Investments	3,329	64,674	11,607	544	7,680	87,834
Reinsurance and other recoveries receivable	-	15,339	1,745	161	2,724	19,969
	3,329	**88,214**	**13,352**	**705**	**10,404**	**116,004**

(c) Liquidity risk

Liquidity risk is concerned with the risk of there being insufficient cash resources to meet payment obligations without affecting the daily operations or the financial condition of the Company.

Management of liquidity risk includes assets and liability management strategies. The assets held to back insurance liabilities consist mainly of fixed interest securities and other very high quality securities which can generally be readily sold or exchanged for cash. The money market securities are restricted to investment grade securities with concentrations of investments managed as per the Investment mandate. Details of the Company's financial assets are provided in Notes 12 to 16.

31 Financial risk management (continued)

(c) Liquidity risk (continued)

Maturity profiles

The table below summarises the maturity profile of the insurance liabilities of the Company based on the estimated timing of net cash outflows and the investments held by the Company.

The maturity profile is a key tool used in the investment of assets backing insurance liabilities to ensure that sufficient cash resources will be available to satisfy the estimated pattern of claims payments.

	Up to a year $'000	1 – 3 years $'000	3 – 5 years $'000	More than 5 years $'000	Total $'000
2013					
Investments	48,516	17,997	2,669	4,680	73,862
Net discounted insurance liabilities	15,055	10,264	5,078	13,629	44,026
2012					
Investments	64,055	12,512	6,587	4,680	87,834
Net discounted insurance liabilities	13,970	12,629	6,314	11,748	44,661

(d) Net fair values

The Company's financial assets and liabilities are carried in the statement of financial position at amounts that approximate fair value.

The carrying amounts of all financial assets and liabilities are reviewed to ensure they are not in excess of the net fair value.

32 Commitments

Capital commitments

There were no capital commitments contracted for at the current or prior year reporting date.

Operating lease commitments

	2013 $'000	2012 $'000
Due within 1 year	1,131	1,103
Due within 2 to 5 years	4,871	4,701
Due after 5 years	553	1,854
Total cash	**6,555**	**7,658**

The Company leases its Pitt Street, Sydney office building and Queen Street, Brisbane office under operating leases expiring in 2019 and 2014. The Pitt Street building lease is cancellable in 2017 if there is a change in control of the Company or its parent entity prior to 1 June 2014. The leases are subject to annual reviews with increases subject to set percentages stipulated in the lease agreements other than in 2014 and 2017 for the Sydney lease. On these review dates the increase will be a based on a market review. There are no options to renew the leases or to purchase the relevant assets on expiry of the lease term.

33 Unexpired risk liability

The liability adequacy test (LAT) initially identified a surplus of each portfolio of contracts that are subject to broadly similar risks and are managed together as a single portfolio. After making allowance for the increase in premium liabilities necessary for surety claims flowing from the collapse of the Forge Group, an event which occurred subsequent to balance date (refer Note 34), the liability adequacy test identified a $670,000 deficit. Consequently, $670,000 of deferred acquisition expenses have been written off at the end of the year.

The LAT test has been calculated to achieve a Probability of Sufficiency ("PoS") consistent with the Outstanding Claim Liability discussed in Note 21.

For the purposes of the liability adequacy test, the present value of expected future cash flows for future claims including the risk margin for the entity of $16,260,000 (2012: $16,640,000) comprises the discounted central estimate including allowance for future claims handling expenses, policy administration expenses and reinsurance costs of $13,810,000 (2012: $14,570,000), and a risk margin of $2,450,000 (2012: $2,070,000).

34 Events subsequent to balance date

On 5 February 2014 Assetinsure Holdings Pty Limited announced that its shareholders had entered into a binding agreement to sell all of the shares to Bermudan based Ironshore Inc. via its Australian subsidiary Ironshore Australia Holdings Pty Limited. The sale is subject to APRA approval and other customary closing conditions and is expected to complete in the second quarter of 2014. Ironshore Inc. has an AM Best "A" Excellent credit rating. Discussions have commenced with AM Best regarding making this rating available to the Company.

On 11 February 2014 the Forge Group went into receivership. At the time the Company had a gross exposure for reinsurance provided on surety bonds issued on the Forge Group's behalf amounting to $10,925,341 before retrocession recoveries and $4,565,068 net after retrocession. This included $3,112,324 of gross exposure relating to bonds issued subsequent to balance date.

34 Events subsequent to balance date (continued)

In February 2014 bond calls were received and paid amounting to $9,968,122. The full impact of the Company's exposure on bonds issued prior to balance date has been reflected in the assessment of the present value of future cash flows in the valuation of insurance liabilities as at 31 December 2013. The increase in future cash flows results in a $670,000 LAT test deficit (refer Note 33). This Forge Group claim will also result in a $614,650 reduction in profit commission income for the surety agency activity. This has also been recognised in the statement of comprehensive income for the year.

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

Assetinsure Pty Limited
Directors' declaration

In the opinion of the Directors of Assetinsure Pty Limited ("the Company"):

(a) the financial statements and notes, set out on pages 5 to 54, are in accordance with the Corporations Act 2001, including:

  (i) giving a true and fair view of the Company's financial position as at 31 December 2013 and of its performance for the financial year ended on that date;

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

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

(c) The Directors draw attention to Note 1(a) to the financial statements, which include a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the Directors:

P B Wedgwood
Director

Dated at Sydney this 26th March 2014.

KPMG

Independent auditor's report to the members of Assetinsure Pty Limited

Report on the financial report

We have audited the accompanying financial report of Assetinsure Pty Limited (the Company), which comprises the consolidated statements of financial position as at 31 December 2013, and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 34 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Company's financial position and of their performance.

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

KPMG

Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of Assetinsure Pty Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Company's financial position as at 31 December 2013 and of their performance for the year ended on that date; and

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

(b) the financial report of the Company also complies with International Financial Reporting Standards as disclosed in Note 1.

KPMG

KPMG

Andrew Reeves
Partner

Sydney

26 March 2014

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

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