Assetinsure Pty Limited
ABN 65 066 463 803

Annual Financial Report
31 December 2014

Registered office: 44 Pitt Street
Sydney NSW 2000

Assetinsure Pty Limited
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Contents

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Directors' report

The Directors present their report together with the financial report of Assetinsure Pty Limited ("the Company"), for the year ended 31 December 2014 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)
Mrs Julie Osborne	(appointed 25 November 2014)
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

In 2014 the Company result after income tax was a loss of $5,804,000 (2013: $3,882,000 profit).

In general the business performed soundly in 2014 with improvements in underwriting performance across a number of business lines and lower operating expenses. The Company's strong solvency position was maintained with a solvency coverage ratio of 2.25 at year end (2013: 2.42). However, this positive performance was overshadowed by a small number of high impact items that resulted in the Company reporting a loss for the year. In particular:

- The collapse of the Forge Group early in 2014 was the largest claim event ever experienced in the surety market in Australia. Assetinsure, as agent for Swiss Re International, paid out $114 million for its share of this loss. The Company's net share of the loss was $4,500,000. The 2014 results were impacted by $3,829,000 of this amount with the balance previously recognised in 2013 results as a write off of deferred acquisition expenses.

- In early 2014 the Company ceased underwriting professional indemnity and the business was placed in run-off. There are a number of claims in the portfolio in various stages of litigation. The claims were mainly for valuers related to property valuations done prior to the global financial crisis. Despite what was expected to be conservative reserving for these claims in 2013, during 2014 further adverse development emerged. The 2014 result was therefore adversely impacted by the need to set aside a further $3,593,000 for professional indemnity claims.

- During 2014 yields on Commonwealth Government bonds declined significantly. This resulted in a material decrease in the amount of discount applied to the Company's outstanding claims liabilities at year end. The remaining outstanding claims in the reinsurance run-off are predominantly long tail and consequently are materially affected by fluctuations in discount rates. The change in this economic factor contributed $2,473,000 to the loss generated by the reinsurance run-off in 2014 (2013: $1,719,548 profit from discount increase). The Company's strategy of not closely matching asset and liability durations at this point in the investment cycle has resulted in investments only providing limited mitigation of these discount fluctuations.

Review and results of operations (continued)

Direct Insurance

Gross written premium from business written by the Company, either directly or as inwards reinsurance, in 2014 was $53,968,000 (2013: $61,903,000). The Company's direct insurance business operates as a direct insurance underwriter and also an underwriting agent. When combined with the gross premium written by the underwriting agency business, the total gross written premium generated by the Company in 2014 was $84,693,000 (2013: $97,792,000).

In 2014 premium written on the Company's paper fell by 18% to $44,323,000 (2013: $54,129,000). This is business written in a number of specialist classes including farm, SME, corporate property and commercial strata. The decrease was partly due to the Company's decision in late 2013 to discontinue underwriting professional indemnity along with the commercial motor and business interruption lines previously written through an agency in Queensland. Increasing capacity and competition in the market affecting pricing and client retention rates were also factors.

The underwriting agency business 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 while also taking a share of the insurance risk and premium by providing reinsurance.

In 2014 the underwriting agency business generated $40,370,000 of gross written premium for the insurers it represents (2013: $43,663,000). 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. The decrease in gross written premium resulted from the Company ceasing underwriting professional indemnity insurance early in the year and lower aviation premium written.

Reinsurance premium written on business underwritten by the Company as underwriting agent increased by 24% to $9,644,000 in 2014 (2013: $7,774,000) due to growth in the credit enhancement business and an increased share of the surety premium generated by the surety underwriting agency. During the year the surety reinsurance arrangements were recalibrated resulting in the Company receiving an increased share of risk and premium income. This has in turn been reinsured so that the Company's net exposure to surety risks after the change is slightly reduced.

Agency fee, cost recovery and other service fee income decreased by 26% to $8,151,000 in 2014 (2013: $11,051,000). While IT Services fees charged by the Company were down $904,000 this is due to an operational change within the Assetinsure Holdings Group. For the second half of 2014 the IT Services were provided and fees recognised as revenue by the parent company. Overall for the Group, IT Services income grew by 36% to $3,375,000 in 2014 (2013: $2,485,000). This income is generated from licensing the insurance administration systems, developed by the Group, and providing support to third party users.

There was also a 24% decrease in underwriting agency fee income. The decrease in premium generated by the agency was a factor but the main component was a claw-back of previously recognised surety profit commission as a result of the loss from the Forge claim.

Reinsurance Run-off

For the reinsurance business, premium adjustments received in 2014 on reinsurance treaties incepting prior to the reinsurance business being placed in run-off on 1 November 2002, produced gross written premium of $32,333 (2013: $52,000).

The Company has reserved, in accordance with independent actuarial advice, for outstanding claims incurred and unpaid at year end. During the year claims cost development in the reinsurance run-off was higher than expected. However, this was not considered by the Appointed Actuary to be sufficient to require any material adjustment to his previous assessment of the ultimate claims cost for the remaining run-off claims liabilities.

Assetinsure Pty Limited

Directors' report

Review and results of operations (continued)

Reinsurance Run-off (continued)

Overall the reinsurance run-off produced a net $2,364,000 underwriting loss in 2014 (2013: $1,726,000 underwriting profit). This loss was almost entirely due to the reduction in discount applied to discount outstanding claims liabilities to their present value at year end. The discount rate applied is derived from the yields of Commonwealth Government bonds. During 2014 Commonwealth Government bond yields declined substantially and at year end yields were at their lowest levels in more than a decade. 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 $2,473,000 decrease in discount applied to reinsurance run-off outstanding claims liabilities at the end of the year (2013: $1,719,548 discount increase).

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 $22,494,000 (2013: $23,697,000).

Investment Activities

The Company's investment activities generated $4,114,000 of investment revenue during the year (2013: $5,601,000). In 2014 the Company's investment assets comprised cash, bank term deposits, bonds and loans. During 2014 interest revenue on term deposits continued to decline as deposits matured and needed to be reinvested at the lower rates available in the market. The bond portfolio performed soundly generating an improved 4.07% net return for the year (2013: 3.72%).

The main factor in the reduction in income compared to the previous year is the inclusion in 2013 of $1,224,459 of interest income derived from a claim recovery. In 2013 a Court of Appeal decision 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.

Dividends

During the year no dividend was declared or paid in respect of the 2014 or previous financial years (2013: $nil).

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.

Assetinsure Pty Limited

Directors' report

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.

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 2014.

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 25th day of March 2015.

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 2014 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

AR

Andrew Reeves
Partner

Sydney

25 March 2014

Assetinsure Pty Limited
Statement of comprehensive income
For the year ended 31 December 2014

	Note	2014 $'000	2013 $'000
Revenue	5	91,132	90,708
Expenses	8	99,400	85,678
(Loss) / profit before income tax		**(8,268)**	**5,030**
Income tax (benefit) / expense	10	(2,464)	1,148
(Loss) / profit for the year		**(5,804)**	**3,882**
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		**(5,804)**	**3,882**

The statement of comprehensive income is to be read in conjunction with the notes to the financial statements set out on pages 10 to 52.

Assetinsure Pty Limited
Statement of changes in equity
For the year ended 31 December 2014

	Issued capital	Retained earnings / (losses)	Total
	$'000	$'000	$'000
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**
Balance at 1 January 2014	**50,000**	**4,881**	**54,881**
Capital distribution	**(8,140)**	**-**	**(8,140)**
Dividends paid	-	-	-
Total transaction with owners	**(8,140)**	**-**	**(8,140)**
(Loss) for the year	-	(5,804)	(5,804)
Other comprehensive income	-	-	-
Total comprehensive income for the year	**-**	**(5,804)**	**(5,804)**
Balance at 31 December 2014	**41,860**	**(923)**	**40,937**

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 52.

Assetinsure Pty Limited
Statement of financial position
As at 31 December 2014

	Note	2014 $'000	2013 $'000
Current assets			
Cash and cash equivalents	30	11,023	12,488
Trade and other receivables	12	30,603	34,607
Reinsurance and other recoveries receivable	13	9,816	8,173
Deferred acquisition costs	14	3,574	3,762
Investments	15	46,241	48,516
Current tax assets	16	-	70
Deferred reinsurance expense	17	13,884	16,191
Total current assets		**115,141**	**123,807**
Non-current assets			
Trade and other receivables	12	400	600
Reinsurance and other recoveries receivable	13	12,985	13,393
Investments	15	28,239	25,346
Plant and equipment	18	985	1,145
Intangible assets	19	-	3,877
Deferred tax assets	23	850	-
Total non-current assets		**43,459**	**44,361**
Total assets		**158,600**	**168,168**
Current liabilities			
Trade and other payables	20	14,284	13,310
Current tax liabilities	16	454	192
Outstanding claims liabilities	21	30,278	26,900
Unearned premium liabilities	22	32,558	36,374
Total current liabilities		**77,574**	**76,776**
Non-current liabilities			
Outstanding claims liabilities	21	40,089	36,302
Deferred tax liabilities	23	-	209
Total non-current liabilities		**40,089**	**36,511**
Total liabilities		**117,663**	**113,287**
Net assets		**40,937**	**54,881**
Equity			
Issued capital	24	41,860	50,000
Retained earnings		(923)	4,881
Total equity		**40,937**	**54,881**

The statement of financial position is to be read in conjunction with the notes to the financial statements set out on pages 10 to 52.

Assetinsure Pty Limited
Statement of cash flows
For the year ended 31 December 2014

	Note	2014 $'000	2013 $'000
Cash flows from operating activities			
Cash receipts from customers		58,514	58,916
Reinsurance and retrocession premiums paid		(25,414)	(32,037)
Claims paid		(37,101)	(29,089)
Reinsurance and retrocession claim recoveries		18,858	11,609
Interest received		3,945	3,958
Rent received		250	431
Income tax benefit received / (paid)		1,403	(1,026)
Goods and services tax paid		(2,450)	(3,028)
Other underwriting expenses paid		(8,213)	(8,891)
Other operating income received		10,913	10,398
Payments to suppliers and employees		(16,345)	(19,276)
Net cash provided by /(used in) operating activities	**30(ii)**	**4,360**	**(8,035)**
Cash flows from investing activities			
Proceeds of sale of intangibles		4,040	1,000
Proceeds from sale of investments		12,798	16,487
Purchase of investments		(680)	(3,953)
Purchase of intangibles		(664)	(909)
Purchase of plant and equipment		(215)	(94)
Net cash provided by investing activities		**15,279**	**12,531**
Cash flows from financing activities			
Capital distribution		(8,140)	-
Loan to parent entity		(7,000)	-
Net cash (used in) financing activities		**(15,140)**	**-**
Net increase in cash held		**4,449**	**4,496**
Cash at the beginning of the financial year		**15,771**	**11,275**
Cash at the end of the financial year	**30(i)**	**20,220**	**15,771**

The statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 10 to 52.

Assetinsure Pty Limited

Notes to the financial statements

For the year ended 31 December 2014

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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 2014.

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 25 March 2015.

(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 2015 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 and 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% (2013: 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:

	2014 Direct Insurance	2014 Inwards Reinsurance	2013 Direct Insurance	2013 Inwards Reinsurance
Weighted average term to settlement from reporting date (years)	1.33	2.15	1.24	2.36
Claims handling expenses (% of net central estimate)	3.84%	3.84%	4.98%	4.98%
The following discount rates were used in the measurement of outstanding claims:	%	%	%	%
For the succeeding year	2.32 - 2.47	2.32 - 2.47	2.35 - 2.45	2.35 - 2.45
For the subsequent years	2.29 - 3.69	2.29 - 3.69	2.50 - 4.38	2.50 - 4.38

	2014 Inwards Reinsurance – Run-off	2013 Inwards Reinsurance – Run-off
Weighted average term to settlement from reporting date (years)	6.88	6.35
Claims handling expenses (% of net central estimate)	1.83%	1.82%
The following discount rates were used in the measurement of outstanding claims:		%
For the succeeding year	2.32	2.45
For the subsequent years	2.09 - 3.76	2.67 - 6.00

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 2014 $'000	Change in Net Outstanding Claims 2014 $'000
Economic Factors			
Discount rate	+1%	(1,759)	(1,521)
Discount rate	-1%	1,943	1,696
Inflation and superimposed inflation rates	+1%	1,943	1,696
Inflation and superimposed inflation rates	-1%	(1,759)	(1,521)
Claims handling expense	+1%	596	392
Claims handling expense	-1%	(596)	(392)
Inwards Reinsurance – Run-off			
IBNR ICD Run-off	+10%	387	387
IBNR ICD Run-off	-10%	(387)	(387)
Average weighted time to settlement	+ 1 year	(514)	(514)
Average weighted time to settlement	- 1 year	528	528
Direct Insurance			
Change in expected loss ratios	+5%	1,750	754
Change in expected loss ratios	-5%	(1,750)	(754)
Average weighted time to settlement	+1 Year	(761)	(298)
Average weighted time to settlement	-1 Year	779	305
Inwards Reinsurance			
Change in expected loss ratios	+5%	457	484
Change in expected loss ratios	-5%	(457)	(484)
Average weighted time to settlement	+1 Year	(198)	(191)
Average weighted time to settlement	-1 Year	203	196

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 where appropriate 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 $3.3 million per event for property exposures and $4.0 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 commercial property, 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). The Company extended this arrangement to include aviation in 2010. Underwriting professional indemnity ceased in 2014. 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.

Assetinsure Pty Limited
Notes to the financial statements
For the year ended 31 December 2014

		2014 $'000	2013 $'000
5	**Revenue**		
(a)	**Revenue from insurance activities**		
	Direct		
	Gross written premiums	44,323	54,129
	Movement in unearned premium	4,907	(3,691)
	Premium revenue – direct	**49,230**	**50,438**
	Inwards reinsurance		
	Gross written premiums	9,677	7,826
	Movement in unearned premium	(1,181)	(175)
	Premium revenue – inwards reinsurance	**8,496**	**7,651**
	Total premium revenue	**57,726**	**58,089**
	Reinsurance and other recoveries revenue	21,111	15,307
	Total insurance revenue	**78,837**	**73,396**
(b)	**Revenue from other activities**		
	From operating activities:		
	Services revenue		
	IT Services – other corporations	1,581	2,485
	Other Services – other corporations	6,570	8,566
	Investment revenue		
	Interest – other corporations	4,114	5,616
	Rent – other corporations	232	312
	Rent – wholly owned group	-	27
	Realised (loss) / gain on sale of investments	(126)	4
	Change in fair market value of investments	(76)	(358)
	From non-operating activities:		
	Gain on disposal of intangibles	-	660
	Total revenue from other activities	**12,295**	**17,312**
(c)	**Total revenue from all activities**		
	Insurance activities	78,837	73,396
	Other activities	12,295	17,312
		91,132	**90,708**

	2014 $'000	2013 $'000
6 Insurance underwriting result		
Premium revenue	57,727	58,089
Outwards reinsurance expense	(30,804)	(29,557)
Net premium revenue	**26,923**	**28,532**
Claims expense	(45,499)	(27,862)
Reinsurance and other recoveries revenue	21,111	15,307
Net claims incurred	**(24,388)**	**(12,555)**
Underwriting expenses	**(6,560)**	**(9,571)**
Underwriting result	**(4,025)**	**6,406**

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

	2014 Current year $'000	2014 Prior years $'000	2014 Total $'000
Gross claims incurred and related expenses – undiscounted	51,276	(8,124)	43,152
Reinsurance and other recoveries – undiscounted	(28,999)	7,850	(21,149)
Net claims incurred – undiscounted	22,277	(274)	22,003
Discount movement – gross claims	(661)	617	(44)
Discount movement – reinsurance and other recoveries	360	(322)	38
Net discount movement	(301)	295	(6)
Net Direct and Inwards Reinsurance claims incurred	21,976	21	21,997

	2013 Current year $'000	2013 Prior years $'000	2013 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

Net claims incurred increased due to the impact of a small number of large claims including the Forge surety claim, reserve increases on a small number of professional indemnity claims and increased claims arising from the severe storm that occurred in Brisbane on 27 November 2014.

7 Net claims incurred (continued)

Reinsurance Run-off

	Current year $'000	**2014** Prior years $'000	Total $'000
Gross claims incurred and related expenses – undiscounted	-	(82)	(82)
Reinsurance and other recoveries – undiscounted	-	-	-
Net claims incurred – undiscounted	-	(82)	(82)
Discount movement – gross claims	-	2,473	2,473
Discount movement – reinsurance and other recoveries	-	-	-
Net discount movement	-	2,473	2,473
Net Reinsurance Run-off claims incurred	-	2,391	2,391

	Current year $'000	**2013** 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)

The main reason for the increase in net claims incurred is the reduction in discount rate during the year.

	Note	2014 $'000	2013 $'000
8 Expenses			
Insurance activities			
Claims expense	6	45,498	27,862
Underwriting expenses	6	6,560	9,571
Outwards reinsurance expense	6	30,804	29,557
Management fees		15,050	16,573
Other expenses		1,488	2,115
Total expenses		**99,400**	**85,678**

9 Profit before income tax

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

	2014 $'000	2013 $'000
Insurance activities		
Foreign currency gains / (losses)	7	(2,849)
Increase / (decrease) in provision for impairment of reinsurance assets	33	(2,825)
All activities		
Depreciation	375	470
Amortisation	501	323
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.

	2014 $'000	2013 $'000

10 Income tax expense

Numerical reconciliation between income tax expense and pre-tax profit

	2014 $'000	2013 $'000
(Loss) / profit before income tax	(8,268)	5,030
Total income tax (expense)	2,464	(1,148)
(Loss) / profit after income tax	**(5,804)**	**3,882**
Income tax at the standard rate of 30% (2013: 30%)	(2,480)	1,509
Increase/(decrease) in income tax due to:		
Net non-deductible expenses	19	304
Tax incentives	-	(665)
Under/(over) provision in prior years	(3)	-
Total income tax expense attributable to operating profit	**(2,464)**	**1,148**
Income tax expense comprises:		
Provision attributable to prior years	(3)	-
Provision attributable to future years:		
Deferred tax assets	(1,547)	(26)
Deferred tax liabilities	489	148
Transferred to consolidated tax group	(1,403)	1,026
	(2,464)	**1,148**

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

	2014 $'000	2013 $'000
Dividends proposed and paid in the current year	-	-

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.

	2014 $'000	2013 $'000
12 Trade and other receivables		
Current		
Trade debtors:		
Other corporations	24,955	28,126
Sundry debtors:		
Other corporations	3,006	3,066
Related corporations	2,292	3,065
Related corporations - subordinated	350	350
Total trade and other receivables (current)	**30,603**	**34,607**
Non-Current		
Sundry debtors:		
Related corporations	400	600
Total trade and other receivables (non-current)	**400**	**600**

13 Reinsurance and other recoveries receivable

	2014 $'000	2013 $'000
Reinsurance and other recoveries:		
Current	9,816	8,173
Non-current	12,985	13,393
	22,801	**21,566**
The reinsurance and other recoveries comprise:		
Expected future reinsurance recoveries undiscounted:		
- On paid claims	17	5,493
- On outstanding claims liability	22,823	19,241
Total recoveries – undiscounted	22,840	24,734
Discount to present value	(39)	(65)
Provision for impairment of reinsurance assets:		
Non-current	-	(3,103)
Total reinsurance and other recoveries receivable	**22,801**	**21,566**

The reconciliation of reinsurance recoveries is included in Note 21.

14 Deferred acquisition costs

	2014 $'000	2013 $'000
Deferred acquisition costs at 1 January	3,762	4,949
Acquisition costs incurred in year	7,003	8,913
Amortisation charge	(7,191)	(9,430)
Write-off of acquisition costs (see Note 33)	-	(670)
Deferred acquisition costs at 31 December	**3,574**	**3,762**

	2014 $'000	2012 $'000
15 Investments		
Current		
Investments – unquoted		
Moneys at call	9,197	3,284
Fixed term deposits	32,719	35,837
Bank bills	993	1,986
Bank bonds	-	2,511
Corporate bonds	3,332	4,898
Total investments (current)	**46,241**	**48,516**
Non-current		
Investments – unquoted:		
Bank bonds	9,362	3,270
Corporate bonds	4,197	5,098
Corporate floating rate notes	3,000	3,000
Fixed term deposits	-	9,298
Loan to parent company ^	7,000	-
Loan to related corporations *	4,680	4,680
Total investments (non-current)	**28,239**	**25,346**

^ During 2014 the Company provided a loan to its parent company. The loan is on commercial terms. Interest is payable half yearly at a 3.0% margin over BBSW.

* 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 5.00% per annum (2013: 8.25% per annum). Interest accrued is included in Sundry debtors – Related corporations (refer Note 12) and amounted to $1,229,079 (2013: $907,858) at year end. During 2013 the parent entity distributed its investment in Cumulus Wines Pty Limited to its shareholders.

15 Investments (continued)

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)

	2014 $'000	2013 $'000
Level 1	-	-
Level 2	17,885	17,763
Level 3	-	-
Investments carried at fair value through profit and loss	**17,885**	**17,763**
Other investments	56,595	56,099
Total investments	**74,480**	**73,862**

16 Current tax balances

Current tax assets

Provision for goods and services tax – refund	-	70
Total current tax assets	**-**	**70**

Current tax liabilities

Provision for withholding tax payable	248	192
Provision for goods and services tax	206	-
Total current tax liabilities	**454**	**192**

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).

17 Deferred reinsurance expense

Current

Deferred reinsurance expense at 1 January	16,191	13,312
Deferral of reinsurance premiums in current year	28,497	32,436
Expensing of reinsurance premiums previously deferred	(30,804)	(29,557)
Deferred reinsurance expense at 31 December	**13,884**	**16,191**

18 Plant and equipment

	2014 $'000	2013 $'000
Plant and equipment – owned		
Valuation basis	At cost	At cost
Balance at 1 January	5,578	5,484
Acquisitions	215	94
Disposals	-	-
Balance at the end of the year	**5,793**	**5,578**
Depreciation and impairment losses		
Plant and equipment – owned		
Valuation basis	At cost	At cost
Balance at 1 January	4,433	3,963
Depreciation charge for the year	375	470
Disposals	-	-
Balance at the end of the year	**4,808**	**4,433**
Carrying amounts at the end of the year	**985**	**1,145**

19 Intangible assets

Capitalised development costs at beginning of year	5,985	5,525
Other acquisitions – internally developed	664	909
Disposals	(6,649)	(449)
Capitalised development costs at the end of the year	**-**	**5,985**
Amortisation		
Accumulated amortisation at beginning of year	2,108	1,785
Amortisation during the year	501	441
Accumulated amortisation on disposals	(2,609)	(118)
Accumulated amortisation at the end of the year	-	2,108
Carrying amount at the end of the year	**-**	**3,877**

20 Trade and other payables

Current

Trade creditors	13,524	12,286
Other creditors and accruals		
Other corporations	760	1,024
Total payables (current)	**14,284**	**13,310**

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

Hong Kong dollars	28	25

	2014 $'000	2013 $'000
21 Outstanding claims liabilities		
(a) Outstanding claims liabilities		
Outstanding claims liabilities:		
Current	30,278	26,900
Non-current	40,089	36,302
	70,367	63,202
Central estimate	65,329	60,468
Prudential margin	9,800	9,916
Claims handling costs	1,165	1,173
	76,294	71,557
Discount to present value	(5,927)	(8,355)
Gross outstanding claims liabilities	**70,367**	**63,202**

(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.

	2014	2013
Overall margin allowing for diversification	18.8%	19.1%

21 Outstanding claims liabilities (continued)

(c) Reconciliation of movement in discounted outstanding claims liability

	Direct Insurance and Inwards Reinsurance					
	2014 $'000			2013 $'000		
	Gross	Re-insurance	Net	Gross	Re-insurance	Net
Balance at 1 January	39,505	(19,167)	20,338	31,958	(17,246)	14,712
Current year claims incurred	51,274	(8,122)	43,152	13,333	(6,938)	6,395
Change in previous years claims	(8,123)	(13,034)	(21,157)	17,032	(6,533)	10,499
Current year claims paid / reinsurance recovered	(20,737)	11,697	(9,040)	(4,391)	2,104	(2,287)
Previous year claims paid / reinsurance recovered	(14,001)	5,812	(8,189)	(17,858)	9,381	(8,477)
Undiscounted outstanding claims	**47,918**	**(22,814)**	**25,104**	**40,074**	**(19,232)**	**20,842**
Effect of change in discount allowance	(45)	39	(6)	(569)	65	(504)
Balance at 31 December	**47,873**	**(22,775)**	**25,098**	**39,505**	**(19,167)**	**20,338**

	Reinsurance Run-off					
	2014 $'000			2013 $'000		
	Gross	Retro-cession	Net	Gross	Retro-cession	Net
Balance at 1 January	23,697	(9)	23,688	29,959	(10)	29,949
Current year claims incurred				-	-	-
Change in previous years claims	(82)		(82)	(213)	(41)	(254)
Current year claims paid / reinsurance recovered	-	-	-	-	-	-
Previous year claims paid / reinsurance recovered	(3,594)	(17)	(3,611)	(4,329)	42	(4,287)
Undiscounted outstanding claims	**20,021**	**(26)**	**19,995**	**25,417**	**(9)**	**25,408**
Effect of change in discount allowance	2,473	-	2,473	(1,720)	-	(1,720)
Balance at 31 December	**22,494**	**(26)**	**22,468**	**23,697**	**(9)**	**23,688**

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	**2010 and prior $'000**	**2011 $'000**	**2012 $'000**	**2013 $'000**	**2014 $'000**	**Total $'000**
Estimate of ultimate claims cost:						
At end of underwriting year	122,673	10,847	12,789	11,917	22,099	180,325
One year later	148,295	26,036	29,880	26,943	-	231,154
Two years later	137,499	24,931	32,843	-	-	195,273
Three years later	138,625	23,110	-	-	-	161,735
Four years later	143,363	-	-	-	-	143,363
Current estimate of cumulative claims cost	143,363	23,110	32,843	26,943	22,099	248,358
Cumulative payments	(132,093)	(20,691)	(28,460)	(17,032)	(7,200)	(205,476)
Cumulative claims – undiscounted	11,270	2,419	4,383	9,911	14,899	42,882
Discount	(500)	(104)	(206)	(333)	(501)	(1,644)
Outstanding claims	10,770	2,315	4,177	9,578	14,398	41,238
Prudential margin and claims handling expenses	1,733	373	672	1,541	2,316	6,635
Total gross outstanding claims recognised in the statement of financial position	**12,503**	**2,688**	**4,849**	**11,119**	**16,714**	**47,873**

21 Outstanding claims liabilities (continued)

(d) Claims development tables (continued)

Direct Insurance and Inwards Reinsurance business (continued)

(ii) Net

Underwriting year	2010 and prior $'000	2011 $'000	2012 $'000	2013 $'000	2014 $'000	Total $'000
Estimate of ultimate claims cost:						
At end of underwriting year	38,667	5,654	5,818	5,661	9,437	65,237
One year later	47,427	14,103	14,486	12,612	-	88,628
Two years later	46,024	14,067	16,419	-	-	76,510
Three years later	47,523	12,505	-	-	-	60,028
Four years later	51,037	-	-	-	-	51,037
Current estimate of cumulative claims cost	51,037	12,505	16,419	12,612	9,437	102,010
Cumulative payments	(44,052)	(10,770)	(13,651)	(8,136)	(3,436)	(80,045)
Cumulative claims – undiscounted	**6,985**	**1,735**	**2,768**	**4,476**	**6,001**	**21,965**
Discount	(359)	(79)	(157)	(164)	(269)	(1,028)
Outstanding claims	6,626	1,656	2,611	4,312	5,732	20,937
Prudential margin and claims handling expenses	1,425	356	561	927	892	4,161
Total net outstanding claims recognised in the statement of financial position	**8,051**	**2,012**	**3,172**	**5,239**	**6,624**	**25,098**

Reinsurance Run-off

(i) Gross

Underwriting year	2010 and prior $'000	2011 $'000	2012 $'000	2013 $'000	2014 $'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
Eleven years later	1,019,285					1,019,285
Current estimate of cumulative claims cost	1,019,473	-	-	-	-	1,019,473
Cumulative payments	(997,027)	-	-	-	-	(997,027)
Cumulative claims – undiscounted	**22,446**	-	-	-	-	**22,446**
Discount	(4,283)	-	-	-	-	(4,283)
Outstanding claims	**18,163**	-	-	-	-	**18,163**
Prudential margin and claims handling expenses	4,331	-	-	-	-	4,331
Total gross outstanding claims recognised in the statement of financial position	**22,494**	-	-	-	-	**22,494**

21 Outstanding claims liabilities (continued)

(d) Claims development tables (continued)

Reinsurance Run-off (continued)

(ii) Net

Underwriting year	**2010 and prior $'000**	**2011 $'000**	**2012 $'000**	**2013 $'000**	**2014 $'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
Eleven years later	832,330					832,330
Current estimate of cumulative claims cost	832,523	-	-	-		832,523
Cumulative payments	(810,103)	-	-	-		(810,103)
Cumulative claims – undiscounted	**22,420**	**-**	**-**	**-**		**22,420**
Discount	(4,283)	-	-	-		(4,283)
Outstanding claims	**18,137**	**-**	**-**	**-**		**18,137**
Prudential margin and claims handling expenses	4,331	-	-	-	-	4,331
Total net outstanding claims recognised in the statement of financial position	**22,468**	-	-	-	-	**22,468**

	2014 $'000	2013 $'000
22 Unearned premium liabilities		
Unearned premium liabilities at 1 January	36,374	32,508
Deferral of premiums written in the period	32,558	36,374
Earning of premiums written in previous periods	(36,374)	(32,508)
Unearned premium liabilities at 31 December	**32,558**	**36,374**

23 Deferred tax balances

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

	2014 $'000	2013 $'000
Assets:		
Plant and equipment	272	305
Provisions	592	596
Investments	7	543
Deferred tax asset	871	1,444
Liabilities:		
Provisions	(21)	(378)
Investments	-	(94)
Intangibles	-	(107)
Plant and equipment	-	(1,074)
Deferred tax liabilities	(21)	(1,653)
Net deferred tax asset	**850**	**(209)**

24 Issued capital

Issued and paid-up share capital

	2014 $'000	2013 $'000
Issued capital at 1 January	50,000	50,000
Capital reduction	(8,140)	-
Issued capital at 31 December	**41,860**	**50,000**

Issued capital comprised 50,000,000 ordinary shares. The Company does not have authorised capital or par value in respect of its issued shares. On 16 December 2014 the Company completed an $8,140,000 capital reduction satisfied by the transfer of the Graile computer software to the parent entity at book value $4,040,000 and $4,100,000 in cash.

25 Auditors' remuneration

Amounts in whole dollars	2014 $	2013 $
Amounts paid or payable to KPMG for:		
Audit services	151,000	149,500
Taxation services	-	-
Other services	70,750	40,750
Amounts paid or payable to non-KPMG audit firms for audit services	-	6,695
Total auditors' remuneration	**221,750**	**196,945**

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 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 2014 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	2014 $'000	2013 $'000
Tier 1 capital			
Paid up ordinary shares	24	41,860	50,000
Retained earnings brought forward		4,909	999
Current year earnings		(5,821)	3,910
Dividends paid		-	-
APRA accounting basis adjustments		(1,094)	(7,187)
		39,854	47,722
Less: deductions			
Intangible assets		-	(3,877)
Net Tier 1 capital		**39,854**	**43,845**
Net Tier 2 capital		**-**	**900**
Total capital base		**39,854**	**44,745**
Prudential capital requirement		**17,743**	**18,596**
Capital adequacy multiple		**2.25**	**2.42**

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
Mrs Julie Osborne
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:

	2014 $	2013 $
Short-term employee benefits	1,642,320	1,499,842
Other long term benefits	-	-
Post-employment benefits	75,145	95,857
Termination benefits	-	-
Total	**1,717,465**	**1,595,699**

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 the parent company $15,715,791 (2013: $17,482,193) for actual expenses incurred on behalf of the Company. Pursuant to the tax funding and tax sharing agreements in place, the Company was reimbursed by the parent company $1,402,707 for the Company's share of the income tax benefit receivable by the tax consolidated group arising from the income tax loss generated by the Company (2013: $1,026,435 reimbursement paid to the parent company for tax payable).

During the year the Company assigned to the parent company ownership of the Graile computer software which had been developed by the Assetinsure Group. The parent entity paid consideration of $4,040,000 for the assignment and no profit or loss resulted.

29 Ultimate parent entity

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

30 Notes to the statements of cash flows (continued)

(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:

	2014 $'000	2013 $'000
Cash at bank	11,023	12,488
Money on short term deposit	9,197	3,284
Total cash	**20,220**	**15,772**

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

	2014 $'000	2013 $'000
(Loss) / profit after income tax	(5,804)	3,882
Depreciation / amortisation	876	793
Amounts set aside to provisions	33	(1,447)
Foreign exchange losses	(7)	2,849
Realised loss / (gain) on sale of investments	126	(4)
Unrealised losses on investments	76	358
Profit on sale of intangibles	-	(660)
Net cash (used) / provided by operating activities before change in assets and liabilities	(4,700)	5,771
Change in assets and liabilities during the financial year:		
Receivables	2,969	(13,181)
Deferred expenses	2,495	(1,692)
Accounts payable	974	(4,243)
Provision of goods and services tax	332	(66)
Provision for withholding tax payable	-	103
Outstanding claims	7,165	1,285
Unearned premiums	(3,816)	3,866
Deferred tax assets	(850)	147
Deferred income tax liabilities	(209)	(25)
Net cash provided by /(used in) operating activities	4,360	(8,035)

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 2014 or 31 December 2013.

(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 documented in the Company's Asset and Asset Concentration Risk Management Strategy 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 2014 or 31 December 2013.

(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
2014			
Financial assets			
Investments	17,885	145	145
Financial liabilities			
Outstanding claims	70,367	(1,759)	1,943
Net amount	88,252	(1,614)	2,088
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

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 statement 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:

	2014 $'000	2013 $'000
National Australia Bank	32,903	31,074
Commonwealth Bank Group	11,132	5,211
Westpac Banking Corporation	8,621	10,611
Australia and New Zealand Banking Group Limited	11,468	10,502
Hannover Ruckversicherung AG	7,041	6,531
Swiss Re	5,959	8,516
Cumulus Wines Pty Limited	5,909	5,588

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
2014						
Trade and other receivables	30,373	247	383	630	-	31,003
Reinsurance and other recoveries receivable	22,801	-	-	-	-	22,801
	53,174	**247**	**383**	**630**	**-**	**53,804**
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**

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

	2014 $'000	2013 $'000
Impaired reinsurance and other recoveries before allowance for impairment	199	5,493
Less:		
Allowance for impairments at 1 January	(3,103)	(5,928)
(Increase) / decrease in impairment recognised during the year	(33)	2,825
Write off of previously impaired reinsurance recoveries	2,937	-
Allowance for impairments at 31 December	(199)	(3,103)
Impaired reinsurance and other recoveries after allowance for impairments	**-**	**2,390**

In previous years an allowance was made against some reinsurance recoveries in view of the uncertainties as to whether the Company would be able to recover them from the third party reinsurers. During the year a final settlement was received from the liquidator and the amount confirmed as uncollectable was written off.

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 counter party. AAA is the highest possible rating. As at 31 December 2014 and 2013 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
2014						
Cash	-	11,023	-	-	-	11,023
Investments	2,236	46,002	10,526	1,036	14,680	74,480
Reinsurance and other recoveries receivable	7	14,347	6,470	-	1,977	22,801
	2,243	**71,372**	**16,996**	**1,036**	**16,657**	**108,304**
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**

(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
2014					
Investments	55,286	7,514	11,680	-	74,480
Net discounted insurance liabilities	16,263	14,493	4,415	12,395	47,566
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

(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

	2014 $'000	2013 $'000
Due within 1 year	1,194	1,131
Due within 2 to 5 years	4,380	4,871
Due after 5 years	-	553
Total cash	**5,574**	**6,555**

The Company leases its Pitt Street, Sydney office building and Queen Street, Brisbane office under operating leases expiring in 2019 and 2017. The leases are subject to annual reviews with increases subject to set percentages stipulated in the lease agreements other than in 2017 for the Sydney lease. On this review date 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) has identified a surplus of each portfolio of contracts that are subject to broadly similar risks and are managed together as a single portfolio.

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 $12,060,000 (2013: $16,260,000) comprises the discounted central estimate including allowance for future claims handling expenses, policy administration expenses and reinsurance costs of $9,820,000 (2013: $13,810,000), and a risk margin of $2,240,000 (2013: $2,450,000).

34 Events subsequent to balance date

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 6 to 52, 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 2014 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 25th March 2015.

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 statement of financial position as at 31 December 2014, and the statement of comprehensive income, statement of changes in equity and 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 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 its performance.

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

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 2014 and of its performance for the year ended on that date; and

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

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

KPMG

KPMG

Andrew Reeves
Partner

Sydney

25 March 2014