GORDIAN RUNOFF LIMITED
NEW ZEALAND BRANCH

FINANCIAL REPORT
FOR THE YEAR ENDED
31 DECEMBER 2012

GORDIAN RUNOFF LIMITED

NEW ZEALAND BRANCH

Annual Report

The Board of Directors present their Annual Report including the financial statements of Gordian RunOff Limited New Zealand Branch for the year ended 31 December 2012 and the auditor's report thereon.

For and on behalf of the Board:

, Director

11/4 2013

, Director

11/4/ 2013

GORDIAN RUNOFF LIMITED

NEW ZEALAND BRANCH

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	Year ended 31 Dec 2012 $	Year ended 31 Dec 2011 $
Premium revenue	5(a)	491	-
Net premium revenue		491	-
Claims (expense)/benefit	7	(127,525)	137,735
Reinsurance and other recoveries revenue	7	-	1,041
Net claims (expense)/benefit	7	(127,525)	138,776
Underwriting (expense)/income		(127,034)	138,776
Net investment income	5(a)	53,955	78,324
Underwriting result		(73,079)	217,100
Management expenses		(18,682)	(31,724)
Operating (loss)/profit before tax		(91,761)	185,376
Income tax benefit/(expense)	6	24,528	(55,613)
(Loss)/profit for the year		(67,233)	129,763
Other comprehensive income for the year		-	-
Total comprehensive income for the year attributable to members of Gordian RunOff Limited		(67,233)	129,763

The accompanying notes form an integral part of these financial statements.

GORDIAN RUNOFF LIMITED

NEW ZEALAND BRANCH

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2012

	Notes	As at 31 Dec 2012 $	As at 31 Dec 2011 $
Current assets			
Cash		2,076,521	2,015,263
Reinsurance & other recoveries receivable	10	4,726	16,953
Other receivables	8	739,418	1,345,779
Total current assets		2,820,665	3,377,995
Non current assets			
Financial assets at fair value through profit or loss	9	1,089,677	558,527
Total non current assets		1,089,677	558,527
Total assets		3,910,342	3,936,522
Current liabilities			
Outstanding claims	10	342,463	259,704
Trade creditors	11	661,606	689,134
Total current liabilities		1,004,069	948,838
Non current liabilities			
Outstanding claims	10	1,023,180	1,037,358
Total non current liabilities		1,023,180	1,037,358
Total liabilities		2,027,249	1,986,196
Net assets		1,883,093	1,950,326
Head office account			
Head office account	19	1,883,093	1,950,326

The accompanying notes form an integral part of these financial statements.

GORDIAN RUNOFF LIMITED

NEW ZEALAND BRANCH

STATEMENT OF CHANGES IN HEAD OFFICE ACCOUNT

FOR YEAR ENDED 31 DECEMBER 2012

	Head Office Account $
At 1 January 2011	1,729,251
Profit for the year and total comprehensive income	129,763
Intracompany transactions for the year	91,312
At 31 December 2011	1,950,326
Loss for the year and total comprehensive income	(67,233)
Intracompany transactions for the year	-
At 31 December 2012	1,883,093

The accompanying notes form an integral part of these financial statements.

GORDIAN RUNOFF LIMITED

NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2012

1. Statement of accounting policies

Basis of reporting:

Gordian RunOff Limited (the "Company") is an overseas company registered under the Companies Act 1993. Gordian RunOff Limited New Zealand Branch (the "Branch") is a branch of the Company. The Branch is registered under the Companies Act 1993 and is a reporting entity under the Financial Reporting Act 1993.

The financial statements of the Branch for the year ended 31 December 2012 were authorised for issue on 11 April 2013.

Statement of compliance

The financial statements have been prepared in accordance with New Zealand Accounting Standards. They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS"), and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities that qualify for and apply differential reporting concessions.

Standards and interpretations effective in the current period

No new standards or interpretations have been adopted in the current reporting period.

The financial statements have been prepared on the basis of historical cost with the exception of certain items for which specific accounting policies are identified.

The financial statements are presented in New Zealand dollars.

(a) Operating revenue

Operating revenue comprises investment income, reinsurance recoveries and premium revenue.

(b) Outstanding claims

The liability for outstanding claims at balance date comprises claims which have been reported but not yet paid, claims incurred but not yet reported ("IBNR claims"), and the anticipated direct and indirect costs of settling these claims. The liability is measured as the present value of the expected future ultimate costs of settling claims.

Where there is sufficient volume of claims of a particular type claims liability are assessed using statistical estimation referring to past experience. Other types of claims are assessed on a case by case basis.

(c) Reinsurance and other recoveries

Reinsurance and other recoveries received or receivable on paid claims and outstanding claims are recognised as revenue. Reinsurance and other recoveries are assessed based on a review of individual paid claims and outstanding claims.

The future benefit attributable to reinsurance and other recoveries is recognised as an asset in the statement of financial position. A provision is raised for any doubtful debts based on a review of all outstanding amounts at the end of the year. Bad debts are written off during the year in which they are identified.

1. Statement of accounting policies (continued)

(d) Investments

Valuation of investments

Investments are reported at fair market value. The market value of investments is determined by market quotations. Unrealised gains and losses on investments are reported in profit in the statement of comprehensive income. Interest revenue is brought to account on an accrual basis.

Investments comprise financial assets held to back insurance liabilities.

Financial assets held to back insurance liabilities.

Financial assets held to back the insurance liabilities of the Branch principally comprise cash, an intracompany receivable and New Zealand dollar denominated government bonds.

All financial assets held to back insurance liabilities are designated as fair value through profit or loss upon initial recognition, in accordance with the provisions of NZ IFRS 4 Appendix D. The measurement of general insurance liabilities under NZ IFRS 4 Appendix D incorporates current information; measuring the financial assets backing these general insurance liabilities at fair value eliminates or significantly reduces a potential measurement inconsistency which would arise if the assets were classified as available for sale or measured at amortised cost.

Financial assets designated as fair value through profit or loss are initially recorded at fair value (being the cost of acquisition excluding transaction costs) and are subsequently remeasured to fair value at each reporting date.

Changes in the fair value from the previous reporting date (or cost of acquisition excluding transaction costs if acquired during the financial period) are recognised as realised or unrealised investment gains or losses in profit or loss.

All purchases and sales of financial assets that require delivery of the asset within the time frame established by regulation or market convention ("regular way" transactions) are recognised at trade date, being the date on which a commitment is made to purchase or sell the asset.

Net gains or losses on financial assets designated at fair value through profit or loss exclude interest and dividend income.

(e) Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. A trade receivable is deemed to be uncollectible upon notification of insolvency of the debtor or upon receipt of similar evidence that the Branch will be unable to collect the trade receivable. Changes in the carrying amount of the allowance account are recognised in profit or loss.

1. Statement of accounting policies (continued)

(e) Impairment of financial assets (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed.

In respect of financial assets carried at amortised cost, with the exception of trade receivables, the impairment loss is reversed through profit or loss in the statement of comprehensive income to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised. Subsequent recoveries of trade receivables previously written off are credited against the allowance account.

In respect of available-for-sale debt instruments, the loss is reversed through profit or loss.

(f) Payables

Trade payables and other accounts payable are recognised when the branch becomes obliged to make future payments resulting from the purchase of goods and services.

(g) Income tax

The entity is not liable to pay income tax in New Zealand as the entity was a non-resident throughout 2011-2012 and did not carry on business through a fixed establishment in New Zealand. Tax expense relates to the Branch's proportion of the tax payable by the Company in Australia.

(h) Goods and Services Tax (GST)

The statement of comprehensive income has been prepared so that all components are stated exclusive of GST.

(i) Differential Reporting

The branch qualifies for differential reporting because it is not publicly accountable and there is no separation between its owners and the governing body.

Reporting exemptions allowed under the framework for Differential Reporting have been adopted except for:
- The exemption under NZ IAS 18 - Revenue, allowing the recording of revenue and expense inclusive of GST;
- The exemption under NZ IAS 21 - The effects of Changes in Foreign Exchange Rates, allowing the measurement of transactions in foreign currencies at the settlement rate; and
- Certain disclosure exemptions.

1. Statement of accounting policies (continued)

(j) Going concern

The directors of the Company believe that the Branch has access to sufficient resources to meet its future liabilities and commitments. For this reason the directors continue to adopt the going concern assumption in the preparation of the Branch financial statements.

The New Zealand Branch is part of Gordian RunOff Limited, which is incorporated in Australia. The assets of the Branch are legally available for the satisfaction of debts of the entire company, not solely those appearing on the accompanying statement of financial position and its debts may result in claims against assets not appearing thereon.

2. Critical accounting judgements and estimates

The Branch makes estimates and assumptions in respect of certain key assets and liabilities. Estimates and judgments 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 key areas in which critical estimates and judgments are applied are described below.

(a) The ultimate liability arising from claims made under insurance contracts

Provision is made at year-end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the Branch.

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 Branch takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. 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") is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Branch, where more information about the claim event is generally available. IBNR claims may often not be reported to the insurer until many years after the events giving rise to the claims has happened. The liability class 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 short tail class, 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 Branch uses a variety of estimation techniques, generally based upon 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 distortions 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 including:

- changes in Branch processes which might accelerate or slow down the development and/or recording of paid or incurred claims, compared with the statistics from previous periods;
- changes in the legal environment;
- the effects of inflation;
- the impact of large losses;
- movements in industry benchmarks.

2. Critical accounting judgements and estimates (continued)

(a) The ultimate liability arising from claims made under insurance contracts (continued)

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

Where possible the Branch adopts multiple techniques to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The projections given by the various methodologies also assist in setting the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions. Details of specific assumptions used in deriving the outstanding claims liability at year-end are detailed in note 3.

(b) Assets arising from reinsurance contracts

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

3. Actuarial methods and assumptions

The Branch ceased writing new business and renewals in late 1999 and has run an orderly runoff since. During 2011, the branch completed the acquisition of an inwards reinsurance portfolio from IAG New Zealand Limited. The process for determining the value of the outstanding claims liability is described below.

Claims estimates are derived from analysis of the results of several different actuarial models. These models take case estimates as well as payments into account and assume that reported incurred amounts or reported payment amounts will develop steadily from period to period. Other models adopt IBNR to Case Estimate ratios based on industry experience and judgement that also incorporates recent experience. The analysis is performed by either underwriting year or accident year dependent on the class of business.

Claims are first estimated on an undiscounted basis and are then discounted to allow for the time value of money. The valuation methods adopted include an implicit allowance for future inflation but do not identify the explicit rate. This allows for both general economic inflation as well as any superimposed inflation detected in the modelling of payments experience. Superimposed inflation arises from non-economic factors such as developments of legal precedent.

The liability class of business may be subject to the emergence of new types of latent claims, but no specific allowance is included for this as at the balance sheet date. Such uncertainties are considered when setting the risk margin appropriate for this class.

3. Actuarial methods and assumptions (continued)

The **reinsurance percentage** for the direct insurance business is calculated based on past reinsurance recovery rates and the structure of the reinsurance arrangements in place.

The **discount rates** are derived from market yields on Government securities as at the balance date, in the currency of the expected claim payments.

Expense rate Claim handling expenses are calculated based on the projected costs of administering the remaining claims until expiry.

The **ultimate to incurred claims ratio** is derived by accident or underwriting year based on historical development of claims from period to period. The effect of changes in the assumptions have been shown in the reconciliations of general insurance assets and liabilities below.

Process for determining risk margin

The risk margin was determined initially for each portfolio, allowing for the uncertainty of the outstanding claims estimate for each portfolio. Uncertainty was analysed for each portfolio taking into account past volatility in general insurance claims, potential uncertainties relating to the actuarial models and assumptions, the quality of the underlying data used in the models, and the general insurance environment. The estimate of uncertainty is generally greater for long tailed classes when compared to short tail classes due to the longer time until settlement of outstanding claims.

The overall risk margin was determined allowing for diversification between the different portfolios and the relative uncertainty of each portfolio. The assumptions regarding uncertainty for each class were applied to the net central estimates, and the results were aggregated, allowing for diversification in order to arrive at an overall provision that is intended to have a 75% probability of adequacy.

Risk margins applied	2012	2011
	%	%
	6.0	14.4

3. Actuarial methods and assumptions (continued)

Sensitivity analysis – general insurance contracts

There are a number of variables which impact the amounts recognised in the financial statements arising from insurance contracts.

The profit or loss and equity of the Branch are sensitive to movements in a number of key variables as described below.

Variable	Description of variable
Average weighted term to settlement	Expected payment patterns are used in determining the outstanding claims liability. A decrease in the average term to settlement would lead to claims being paid sooner than anticipated.
Discount rate	The outstanding claims liability is calculated by reference to expected future payments. These payments are discounted to adjust for the time value of money.
Expense rate	An estimate for the internal costs of administering claims is included in the outstanding claims liability.
Ultimate to incurred claims ratio	The estimated ultimate claims cost is generally greater than the claims reported as incurred to date, due to claims that are incurred but not reported (IBNR) or due to future developments on existing claims.

3. Actuarial methods and assumptions (continued)

The following table provides an analysis of the sensitivity of the profit after income tax and total equity to changes in these assumptions both gross and net of reinsurance.

2012		**Assumption at 12/12**		**Profit/(loss) / after tax**	
Variable	**Change in variable**	**Gross**	**Net**	**Gross $**	**Net $**
Average weighted term to settlement	+0.5 year	2.7 years	2.7 years	(8,535)	(8,535)
	-0.5 year			1,407	1,407
Discount rate[1]	+1%	1.0%	1.0%	27,278	27,278
	-1%			(20,691)	(20,691)
Expense rate	+1%	7.7%	7.7%	(6,653)	(6,653)
	-1%			6,653	6,653
Ultimate to incurred claims ratio[2]	+1%	101.7%	104.3%	(44,395)	(44,395)
	-1%			44,395	44,395

2011		**Assumption at 12/11**		**Profit/(Loss) / after tax**	
Variable	**Change in variable**	**Gross**	**Net**	**Gross $**	**Net $**
Average weighted term to settlement	+0.5 year	4.8 years	4.8 years	(4,626)	(4,626)
	-0.5 year			7,304	7,304
Discount rate[1]	+1%	1.4%	1.4%	35,451	35,451
	-1%			(37,665)	(37,655)
Expense rate	+1%	13.4%	13.4%	(5,335)	(5,335)
	-1%			5,335	5,335
Ultimate to incurred claims ratio[2]	+1%	101.5%	103.8%	(56,595)	(56,595)
	-1%			40,309	40,309

1. This sensitivity reflects the liability movements only.
2. This ratio has only been adjusted for years that are not considered to be fully developed.

4. Risk management policies and procedures and financial instruments

Operations of the Branch are governed by the risk management policies and practices of the Company. The Company has a risk management strategy for identifying, managing, monitoring and reporting on risks that could have a material impact on their operations.

Key elements of the risk management strategy include a governance structure and risk management framework, which incorporates specific risk strategies and responsibilities for material risk categories.

Governance
The Company's Board of Directors must ultimately be satisfied that appropriate, adequate and effective risk management systems are in place, and that these systems are operating effectively in practice, having regard to the risks they aim to control. The Board reviews key risk management information to satisfy itself in this regard and reviews and approves the risk management and reinsurance management strategies annually.

Day to day management, including implementation of strategies, policies and processes that support the risk management framework approved by the Board, is undertaken by executive management. Additional assurance is received from the appointment of an Appointed Actuary and a Peer (reviewing) Actuary.

The Company is also subject to the governance and risk management practices of its ultimate parent company.

Risk management framework
Key elements of the risk framework include development and maintenance of a risk management culture within the Company, assignment of risk management roles and responsibilities, creation of dynamic risk management processes to identify, monitor and manage material risks, and a regular risk management framework review process.

Financial risks include:
Interest rate risk
Interest rate risk arises to the extent that there is a mismatch between the fixed-interest portfolios used to back the outstanding claims liability and those outstanding claims.

The accounting policy notes describe the policies used to measure and report the assets and liabilities of the Branch. Where the applicable market value is determined by discounting future cash flows, movements in interest rates will result in a reported unrealised gain or loss in the profit and loss account.

The Branch seeks to reduce its interest rate risk through the use of investment portfolios as a hedge against its insurance liabilities. To the extent that these assets and liabilities can be matched, unrealised gains or losses on revaluation of liabilities resulting from interest rate movements will be offset by unrealised losses or gains on revaluation of investment assets. The portfolio is held in New Zealand dollars.

Interest rate sensitivity analysis
The following table demonstrates the impact of a 100 basis point change in New Zealand interest rates, with all other variables held constant, on the branch's shareholder return. It is assumed that the change occurs as at the reporting date (31 December) and there are concurrent movements in interest rates and parallel shifts in yield curves.

Change in Variable	**31 Dec 12** Impact on Profit after tax $	**31 Dec 11** Impact on Profit after tax $
+100 basis points	(16,708)	(12,239)
- 100 basis points	17,250	12,760

Note: Prior year comparatives have been adjusted for tax effect.

4. Risk management policies and procedures and financial instruments (continued)

Reinsurance risk management is the process of transferring insurance risk to another insurer for a price. It is a continual process whereby executive management select, monitor, review, control and document reinsurance arrangements, in accordance with a reinsurance management strategy approved by the Board. Reinsurers must carry an appropriate financial strength rating.

Concentration risk is the risk of exposure due to concentration of activity in certain geographical locations, industries or counterparties.

The Branch has insurance risk throughout New Zealand and globally and therefore has limited geographic concentration risk on insurance contracts; exposures are monitored but not limited by region. Limits are contained in underwriting policies and are embedded in systems and processes.

Credit risk arising from insurance contracts principally relates to the risk of default by reinsurers.

Credit risk arising from assets is the risk that a loss will be incurred because customers or counterparties fail to discharge their contractual obligations.

The Branch's principal exposure to credit risk is from cash and cash equivalents, intracompany receivable and financial assets at fair value through profit and loss.

- Cash and cash equivalent balances are held with registered banks in New Zealand (Credit rating A+, 2011 A+).
- Intracompany receivable with the Company (not rated and neither past due nor impaired)
- Financial assets at fair value through profit or loss comprise of New Zealand Government Bonds (Credit rating AA, 2011 AA).

The total credit exposure from the above accounts is $3,910,342 (2011: $3,936,522); this compares to the reported total Company net assets of AUD$436,494,000 at 31 December 2012 (2011: AUD$452,004,000).

Interest rate risk
This arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The only financial assets or liability subject to interest rate risk are the cash at bank and the government bond classified as financial assets at fair value through profit or loss.

Foreign currency risk
The entity recognises that there is a small foreign currency risk which it is willing to absorb.

Fair value
Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenue and expenses are recognised, in respect of each class of financial asset, financial liability and other investments are under and in Note 1(d).

4. Risk management policies and procedures and financial instruments (continued)

Categories of financial instruments

	Note	As at 31 Dec 2012 $	As at 31 Dec 2011 $
Fair value through the profit and loss:			
Financial assets			
Cash and cash equivalents		2,076,521	2,015,263
Other receivables	8	739,418	1,345,779
Financial assets at fair value through profit and loss	9	1,089,677	558,527
Financial liabilities			
Outstanding claims	10	1,365,643	1,297,062
Trade creditors	11	661,606	689,134

The recorded bid price equates to net fair value for listed debt securities. For the following financial instruments, the cost carrying amount is considered to equate to their fair value:

- cash deposits
- receivables
- trade creditors

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial assets at fair value through profit or loss (FVTPL)

	2012			
	Level 1 $	Level 2 $	Level 3 $	Total $
Government and semi-government bonds	-	1,089,677	-	1,089,677
Total investments at FVTPL	**-**	**1,089,677**	**-**	**1,089,677**
Expected to be realised				
- in more than 12 months	-	1,089,677	-	1,089,677
Total investments at FVTPL	**-**	**1,089,677**	**-**	**1,089,677**

There were no transfers between different levels of fair value hierarchy during the period.

4. Risk management policies and procedures and financial instruments (continued)

Financial assets at fair value through profit or loss (FVTPL)

	2011			
	Level 1	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
Government and semi-government bonds	-	558,527	-	558,527
Total investments at FVTPL	**-**	**558,527**	**-**	**558,527**
Expected to be realised				
- in more than 12 months	-	558,527	-	558,527
Total investments at FVTPL	**-**	**558,527**	**-**	**558,527**

There were no transfers between different levels of fair value hierarchy during the period.

Liquidity risk:

The table below summarises the maturity profile of the Branch's financial liabilities at 31 December based on contractual undiscounted obligations.

2012

	Up to 1 year	**2 to 3 years**	**4 to 5 years**	**Over 5 years**	**Total**
	$	**$**	**$**	**$**	**$**
Financial liabilities:					
Outstanding claims	329,887	593,796	395,865	-	1,319,548
Payables	661,606	-	-	-	661,606
Total	**991,493**	**593,796**	**395,865**	**-**	**1,981,154**

2011

	Up to 1 year	**2 to 3 years**	**4 to 5 years**	**Over 5 years**	**Total**
	$	**$**	**$**	**$**	**$**
Financial liabilities:					
Outstanding claims	300,611	541,099	360,733	-	1,202,443
Payables	689,134	-	-	-	489,134
Total	**989,745**	**541,099**	**360,733**	**-**	**1,691,597**

5. Operating (loss)/profit

(a) Operating revenue

	Year ended 31 Dec 2012 $	Year ended 31 Dec 2011 $
Operating surplus has been arrived at after including:		
Premium revenue	491	-
Reinsurance and other recoveries revenue	-	1,041
Net investment income	53,955	78,324
Total operating revenue	54,446	79,365
Net investment income		
Interest income	76,758	48,121
Revaluation of investments	(20,924)	(5,943)
Other investment (expense)/income	(1,879)	36,146
Net investment income	53,955	78,324

(b) Operating (loss)/profit before income tax

	Year ended 31 Dec 2012 $	Year ended 31 Dec 2011 $
Premium revenue	491	-
Net premium revenue	491	-
Gross claims (expense)/benefit	(127,525)	137,735
Less: Reinsurance and other recoveries revenue	-	1,041
Net claims (expense)/benefit (Note 7)	(127,525)	138,776
Underwriting result	(127,034)	138,776
Add: Net investment income	53,955	78,324
Less: Management expenses	(18,682)	(31,724)
Operating (loss)/profit before income tax	(91,761)	185,376

6. Income tax

The entity is not liable to pay income tax in New Zealand as the entity was a non-resident throughout 2012 and 2011 and did not carry on business through a fixed establishment in New Zealand. Tax expense relates to the Branch's proportion of the tax payable by the Company in Australia.

	Year ended 31 Dec 2012 $	Year ended 31 Dec 2011 $
Operating (loss)/profit before tax	(91,761)	185,376
Prima facie income tax on operating surplus at 30%	27,528	(55,613)
Other adjustments	(3,000)	-
Income tax benefit/(expense)	24,528	(55,613)

7. Net claims (expense)/benefit

	Year ended 31 Dec 2012 $	Year ended 31 Dec 2011 $
Current		
Gross claims (expense)/benefit – discounted	(127,525)	137,735
Reinsurance and other recoveries revenue – discounted	-	1,041
Net claims (expense)/benefit – discounted	(127,525)	138,776
Net claims (expense)/benefit	(127,525)	138,776

7. Net claims (expense)/benefit (continued)

Net claims incurred

Current year claims relate to risks borne in the current financial year. Prior period claims relate to a reassessment of the risks borne in all previous years.

	Year ended 31 Dec 2012	31 Dec 2012 Prior Year	31 Dec 2012 Total	Year ended 31 Dec 2011	31 Dec 2011 Prior Year	31 Dec 2011 Total
	$	$	$	$	$	$
Gross claims incurred and related (expense)/revenue – undiscounted		(90,631)	(90,631		84,382	84,382
Reinsurance and other recoveries – undiscounted		-			1,041	1,041
Net claims incurred – undiscounted		(90,631)	(90,631		85,423	85,423
Discount and discount movement - gross claims incurred	-	(36,894)	(36,894)	-	53,353	53,353
Discount and discount movement - reinsurance and other recoveries	-	-	-	-	-	-
Net discount movement	-	(36,894)	(36,894)	-	53,353	53,353
Net claims incurred	-	(127,525)	(127,525)	-	138,776	138,776

8. Other assets

	As at 31 Dec 2012	As at 31 Dec 2011
	$	$
Current		
Other receivables	4,913	18,561
Other receivables-related party (note 14)	734,505	1,327,218
	739,418	1,345,779

9. Financial assets at fair value through profit or loss

	As at 31 Dec 2012	As at 31 Dec 2011
	$	$
Non current		
Government fixed interest security	1,089,677	558,527
	1,089,677	558,527

10. Outstanding claims

	As at 31 Dec 2012 $	As at 31 Dec 2011 $
(a) Central estimate	1,319,548	1,202,443
Risk margin	77,878	163,295
Discount to present value	(31,783)	(68,676)
Liability for outstanding claims	1,365,643	1,297,062
Comprising:		
Current	342,463	259,704
Non-current	1,023,180	1,037,358
	1,365,643	1,297,062
Reinsurance and other recoveries- on outstanding claims		
Current	-	-
Non-current	-	-
	-	-
Net outstanding claims	1,365,643	1,297,062
Reinsurance and other recoveries	4,726	16,953
Comprising:		
Reinsurance and other recoveries - on outstanding claims		
Current	-	-
Non-current	-	-
	-	-
Reinsurance and other recoveries - on paid claims		
Current	4,726	16,953
	4,726	16,953

(b) The weighted average expected term to settlement from the balance date of the outstanding claims is estimated by class of business as follows:

Short tail outstanding claims	0 years	3.25 years
Long tail outstanding claims	2.65 years	3.54 years

(c) The following average discount rates were used to measure the liability for outstanding claims:

Claims expected to be paid:

Not later than 1 year		
- Discount rate	2.62% to 2.96%	3.39% to 4.19%
Later than 1 year		
- Discount rate	2.57% to 3.39%	3.11% to 4.20%

10. Outstanding claims (continued)

(d) During the prior year the Branch completed the acquisition of an inwards reinsurance portfolio from IAG New Zealand Limited. The direct insurance outstanding claims provisions are allocated between Australia and New Zealand based on case estimates. This reflects the fact that the portfolio is well into run-off and case estimates provide a sufficient basis for allocation.

(e) The Company's Appointed Actuary is satisfied that the data adopted in the valuation of liabilities for the company as a whole is appropriate.

Reconciliation of movement in discounted outstanding claims liability

2012

	Gross $	Reinsurance $	Net $
Amount outstanding brought forward	1,297,062	-	1,297,062
Claim payments/ recoveries during the period	(58,945)	-	(58,945)
Effect of changes in assumptions	127,526	-	127,526
Effect of changes in exchange rates	-	-	-
Amount outstanding carried forward	**1,365,643**	**-**	**1,365,643**

2011

	Gross $	Reinsurance $	Net $
Amount outstanding brought forward	109,332	-	109,332
Claim payments/ recoveries during the period	1,002,248	(1,041)	1,001,207
Effect of changes in assumptions	185,482	1,041	186,523
Effect of changes in exchange rates	-	-	-
Amount outstanding carried forward	**1,297,062**	**-**	**1,297,062**

As described in note 1(b), the outstanding claims liability is the best estimate of the present value of the expected future payments, after the inclusion of a risk margin. At each balance date, the amount of the liability is reassessed and it is likely that changes will arise in the estimates of liabilities. The following table show the estimates of total ultimate claims at successive year ends.

10. Outstanding claims (continued)

Estimate of cumulative claims	Net	Gross
31 December 2005	12,622,129	18,455,740
31 December 2006	13,200,656	19,345,143
31 December 2007	13,531,548	19,816,339
31 December 2008	8,150,419	22,025,520
31 December 2009	8,602,769	23,309,611
31 December 2010	8,341,748	22,471,881
31 December 2011	9,300,012	23,430,146
31 December 2012	9,464,993	23,595,128
Estimate of cumulative claims at 31 December 2012	9,464,993	23,595,128
Cumulative payments	8,246,121	22,376,256
Undiscounted central estimate	**1,218,872**	**1,218,872**
Effect of discounting	22,767	22,767
Discounted central estimate	**1,196,105**	**1,196,105**
Risk margin		77,878
Claims administration expense provision		91,660
Gross outstanding claims as per the statement of financial position		**1,365,643**

11. Trade creditors

	As at 31 Dec 2012 $	As at 31 Dec 2011 $
Related party creditor due to tax residency status change	661,606	689,134
	661,606	689,134

12. Auditors' remuneration

Auditors' remuneration for the year ended 31 December 2012 and 31 December 2011 was paid on the Branch's behalf by the Company. The Company's auditor is KPMG. During the year Deloitte Touche Tohmatsu resigned as auditor of the Company. KPMG was subsequently appointed as auditor of the Company.

13. Segment information

The Branch operates solely in the general insurance industry in New Zealand.

14. Related party information

The immediate parent entity at 31 December 2012 is AG Australia Holdings Limited, incorporated in Australia. Enstar Group Limited, incorporated in Bermuda, is the ultimate parent entity.

Enstar Group Limited and Enstar Australia Limited, both related entities within the wholly owned group, provide operational and administrative (including employee related) services to the Branch and the Company. The services are reflected in the accounts of the Company, and are provided in the normal course of business and on normal commercial terms and conditions. These services have not been reflected in the accounts of the Branch.

There is $661,606 (2011: $689,134) payable to the Company due to tax residency status change.

15. Capital expenditure commitments

There are no capital expenditure commitments at balance date (2011: $nil).

16. Contingent liabilities

There are no contingent liabilities at balance date (2011: $nil).

17. Reinsurance programme

The general insurance activities carried out by Gordian RunOff Limited New Zealand Branch is covered by a global reinsurance protection programme. This programme covers the general insurance policies written by, as they were known at the time, AMP General Insurance Limited and GIO General Insurance Limited and their controlled entities in Australia, New Zealand and the United Kingdom.

18. Rating of branch

Gordian RunOff Limited New Zealand Branch is unrated and no longer rated by major ratings agencies.

19. Head office account

As the insurer is in run-off and there is considered to be little risk of significant claims volatility in future periods, the Branch has not retained a specific amount for the purpose of financial soundness. The Company is in a positive net asset position.

	As at 31 Dec 2012 $	As at 31 Dec 2011 $
Opening balance	1,950,326	1,729,251
Operating (loss)/profit after tax	(67,233)	129,763
Intercompany transactions for the year	-	91,312
Closing balance	1,883,093	1,950,326

20. Capital Management

The Branch is not subject to any minimum capital requirements, and accordingly does not have its own capital management plan.

Capital is managed by the Company at a corporate level in accordance with requirements of its prudential regulator and shareholders. The Reserve Bank of New Zealand, under section 244 of the Insurance (Prudential Supervision) Act 2010, issued a provisional licence to carry on insurance business in New Zealand on 16 January 2012. Under the branch's provisional licence, the branch has been exempted from compliance with the Solvency Standard on condition that the branch reports the Company's solvency position calculated in accordance with APRA Prudential requirements.

The Branch aims to be self-sufficient in terms of cash flow. Surplus cash flows are transferred to the Company in Australia, and conversely cash flow deficits, if any, are supported by the Company. The Branch is required to have a security deposit with a face value of $500,000 with the New Zealand Public Trust office.

The Company complies with APRA Prudential Standard GPS110 *Capital Adequacy* and the requirements set out in its insurance license. The Minimum Capital Requirement (MCR) as a ratio of the Company's capital base is shown in the table below.

Tier 1 Capital	**2012 A$'000**	**2011 A$'000**
Paid-up ordinary shares	1,463,100	1,463,100
Accumulated losses	(1,031,096)	(1,022,386)
Current year earnings	4,490	11,290
Excess technical provisions (net of tax)	2,589	-
Less: deductions	349,610	343,170
Net Tier 1 Capital	89,473	108,834
Net Tier 2 Capital	-	-
Total Capital Base	89,473	108,834
Minimum Capital Requirement	26,037	28,008
Capital Adequacy Multiple	3.44	3.89

21. Events occurring after the reporting date.

No matter or circumstance has arisen since the end of the financial year that has significantly affected or may significantly affect:

(i). the entity's operations in future financial years; or
(ii). the results of those operations in future financial years; or
(iii). the entity's state of affairs in future financial years

Independent Auditor's Report

To the Shareholders of Gordian RunOff Limited New Zealand Branch

Report on the Financial Statements

We have audited the accompanying financial statements of Gordian RunOff Limited New Zealand Branch ("the branch") on pages 2 to 24. The financial statements comprise the statement of financial position as at 31 December 2012 and the statements of comprehensive income and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the branch's preparation of the financial statements that give a true and fair view of the matters to which they relate 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 branch's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

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

Other than in our capacity as auditors we have no relationship with, or interests in, the branch.

KPMG

Opinion

In our opinion the financial statements of Gordian RunOff Limited New Zealand Branch on pages 2 to 24:

- comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of the financial position of the branch as at 31 December 2012 and of its financial performance and cash flows for the year ended on that date.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of section 16(1)(d) and section 16(1)(e) of the Financial Reporting Act 1993, we report that:

- we have obtained all the information and explanations we have required; and
- in our opinion proper accounting records have been kept by Gordian RunOff Limited New Zealand Branch as far as appears from our examination of those records.

KPMG

KPMG

Sydney

11 April 2013