

**GORDIAN RUNOFF LIMITED  
NEW ZEALAND BRANCH**

FINANCIAL REPORT  
FOR THE YEAR ENDED  
31 DECEMBER 2013

GORDIAN RUNOFF LIMITED

NEW ZEALAND BRANCH

DIRECTORS' REPORT

AS AT 31 DECEMBER 2013

**Annual Report**

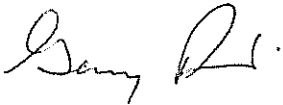
The Board of Directors present their Annual Report including the financial statements of Gordian RunOff Limited New Zealand Branch for the year ended 31 December 2013 and the auditor's report thereon.

For and on behalf of the Board:



Director

13, March 2014



Director

13 March 2014

**GORDIAN RUNOFF LIMITED**  
**NEW ZEALAND BRANCH**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2013**

	Notes	Year ended 31 Dec 2013 \$	Year ended 31 Dec 2012 \$
Premium (expense)/revenue	5	(11,380)	491
Net premium (expense)/revenue		<u>(11,380)</u>	<u>491</u>
Claims benefit/(expense)	7	35,668	(127,525)
Net claims benefit/(expense)		<u>35,668</u>	<u>(127,525)</u>
Underwriting income/(expense)		24,288	(127,034)
Net investment income	5	39,437	53,955
Underwriting income/(loss)		<u>63,725</u>	<u>(73,079)</u>
Management expenses		<u>(7,649)</u>	<u>(18,682)</u>
Operating profit/(loss) before tax		56,076	(91,761)
Income tax (expense)/benefit	6	<u>(18,323)</u>	<u>24,528</u>
Profit/(loss) for the year		37,753	(67,233)
Other comprehensive income for the year		<u>-</u>	<u>-</u>
Total comprehensive income for the year attributable to members of Gordian RunOff Limited		<u>37,753</u>	<u>(67,233)</u>

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 2013**

	Notes	As at 31 Dec 2013 \$	As at 31 Dec 2012 \$
<b>Current assets</b>			
Cash		582,339	2,076,521
Reinsurance and other recoveries receivable	10 (b)	3,069	4,726
Financial assets at fair value through profit or loss	9	1,540,355	-
Other receivables	8	<u>755,708</u>	<u>739,418</u>
<b>Total current assets</b>		<u>2,881,471</u>	<u>2,820,665</u>
<b>Non current assets</b>			
Financial assets at fair value through profit or loss	9	<u>1,047,508</u>	<u>1,089,677</u>
<b>Total non current assets</b>		<u>1,047,508</u>	<u>1,089,677</u>
<b>Total assets</b>		<u>3,928,979</u>	<u>3,910,342</u>
<b>Current liabilities</b>			
Outstanding claims	10 (a)	296,427	342,463
Trade creditors	11	<u>891,840</u>	<u>661,606</u>
<b>Total current liabilities</b>		<u>1,188,267</u>	<u>1,004,069</u>
<b>Non current liabilities</b>			
Outstanding claims	10 (a)	<u>819,866</u>	<u>1,023,180</u>
<b>Total non current liabilities</b>		<u>819,866</u>	<u>1,023,180</u>
<b>Total liabilities</b>		<u>2,008,133</u>	<u>2,027,249</u>
<b>Net assets</b>		<u>1,920,846</u>	<u>1,883,093</u>
<b>Head office account</b>			
Head office account	17	<u>1,920,846</u>	<u>1,883,093</u>

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 2013**

	<b>Head Office Account \$</b>
At 1 January 2012	1,950,326
Loss for the year and total comprehensive income	(67,233)
	<hr/>
At 31 December 2012	1,883,093
Profit for the year and total comprehensive income	37,753
	<hr/>
At 31 December 2013	<u>1,920,846</u>

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 2013**

**I. 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 2013 were authorised for issue on 13 March 2014.

**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.

The Company is exempt from being an issuer for the purposes of Financial Reporting Act 1993 for the year ended 31 December 2013.

**Standards and interpretations effective in the current period**

The Branch has adopted NZ IFRS 13 Fair Value Measurement with a mandatory effective date of 1 January 2013. Implementation of this standard has affected presentation and disclosure within this financial report but has not impacted the reported results or financial position of the branch.

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.

**Differential reporting**

The Branch qualifies for differential reporting because it is not large in terms of the criteria set out in the Differential Reporting Framework, is not an issuer for the purpose of the Financial Reports Act 1993 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.

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 is measured as the best estimate of the present value of expected future payments against claims incurred at the reporting date under general insurance contracts issued by the Branch, with an additional risk margin to allow for the inherent uncertainty in the best estimate.

**GORDIAN RUNOFF LIMITED**

**NEW ZEALAND BRANCH**

**NOTES TO THE FINANCIAL REPORT**

**FOR THE YEAR ENDED 31 DECEMBER 2013**

**1. Statement of accounting policies (continued)**

**(b) Outstanding claims (continued)**

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 only be indirectly associated with individual claims, such as claims administration costs.

The liability for outstanding claims includes an allowance for inflation and superimposed inflation and is measured as the present value of the expected future ultimate cost of settling claims. The expected future payments are discounted to present value using a risk free rate.

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

**(c) Reinsurance and other recoveries**

Reinsurance and other recoveries consist of receivables on paid claims and outstanding claims, and are recognised as revenue when claims are paid or the outstanding claim is raised. Reinsurance and other receivables are recognised initially at fair value being the amounts receivable. Reinsurance receivables are discounted to present value consistent with the discounting of outstanding claims set out above. A provision for impairment is recognised when there is objective evidence that the Branch will not be able to collect all amounts due according to the original terms of the receivables. The impairment charge is recognised in the statement of comprehensive income. Bad debts are written off as incurred.

**(d) Receivables**

Receivables are financial assets and are measured at fair value. Given the short-term nature of most receivables, the recoverable amount approximates fair value. A provision for impairment is recognised when there is objective evidence that the Branch will not be able to collect all amounts due according to the original terms of the receivables. The impairment charge is recognised in the statement of comprehensive income. Bad debts are written off as incurred.

**(e) Investments**

*Valuation of investments*

Investments are reported at fair value. The fair 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. The following policies apply to assets held to back general insurance liabilities.

**GORDIAN RUNOFF LIMITED**

**NEW ZEALAND BRANCH**

**NOTES TO THE FINANCIAL REPORT**

**FOR THE YEAR ENDED 31 DECEMBER 2013**

**I. Statement of accounting policies (continued)**

**(e) Investments (continued)**

*Financial assets*

Financial assets are designated at fair value through profit or loss. Initial recognition is at cost in the statement of financial position and subsequent measurement is at fair value with any resultant unrealised gains or losses recognised in the statement of comprehensive income. Details of fair value for the different types of financial assets are listed below:

*Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand that is available on demand and deposits held at call and on term with financial institutions. Cash and cash equivalents are carried at fair value, being the principal amount. For the purposes of the Statement of Cash Flows, cash also includes other highly liquid investments not subject to significant risk of change in value.

*Debt securities*

Debt securities are initially recognised at fair value, representing the purchase cost of the asset exclusive of any transaction costs. Debt securities are subsequently measured at fair value, with any realised and unrealised gains or losses arising from changes in the fair value being recognised in the statement of comprehensive income for the period in which they arise. The fair value of a traded interest bearing security reflects the bid price at balance date and accrued interest. Interest bearing securities that are not frequently traded are valued by discounting the estimated recoverable amounts, using prevailing interest rates. Debt securities are accounted for on a trade date basis.

**(f) 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.

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.



**GORDIAN RUNOFF LIMITED**

**NEW ZEALAND BRANCH**

**NOTES TO THE FINANCIAL REPORT**

**FOR THE YEAR ENDED 31 DECEMBER 2013**

**1. Statement of accounting policies (continued)**

**(f) Impairment of financial assets (continued)**

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.

**(g) 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.

**(h) Income tax**

The entity is not liable to pay income tax in New Zealand as the entity was a non-resident throughout 2012-2013 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.

**(i) Goods and Services Tax (GST)**

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

**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 statement of financial position 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.

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**NEW ZEALAND BRANCH**

**NOTES TO THE FINANCIAL REPORT**

**FOR THE YEAR ENDED 31 DECEMBER 2013**

**2. Critical accounting judgements and estimates (continued)**

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

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.

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.

**GORDIAN RUNOFF LIMITED**

**NEW ZEALAND BRANCH**

**NOTES TO THE FINANCIAL REPORT**

**FOR THE YEAR ENDED 31 DECEMBER 2013**

**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.

A description of the processes used to determine the key assumptions is provided below.

The **average weighted term to settlement** is calculated separately by class of business, based on historical settlement patterns.

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.

The effect of changes in the assumptions has been shown in the reconciliation of general insurance assets and liabilities in Note 10 (a) and Note 10 (b).

GORDIAN RUNOFF LIMITED

NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

3. Actuarial methods and assumptions (continued)

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 at least a 75% probability of adequacy.

Risk margins applied	2013	2012
	%	%
	3.7	6.0

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 head office account 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.

**GORDIAN RUNOFF LIMITED**

**NEW ZEALAND BRANCH**

**NOTES TO THE FINANCIAL REPORT**

**FOR THE YEAR ENDED 31 DECEMBER 2013**

**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.

2013 Variable	Change in variable	Assumption at 12/13		Profit/(loss) after tax	
		Gross	Net	Gross \$	Net \$
Average weighted term to settlement	+0.5 year -0.5 year	2.2 years	2.2 years	8,649 (8,750)	8,649 (8,750)
Discount rate <sup>1</sup>	+1% -1%	2.3%	2.3%	16,514 (15,672)	16,514 (15,672)
Expense rate	+1% -1%	5.7%	5.7%	(6,555) 6,555	(6,555) 6,555
Ultimate to incurred claims ratio	+1% -1%	101.5%	103.9%	(36,249) 35,910	(36,249) 35,910
2012 Variable	Change in variable	Assumption at 12/12		Profit/(loss) after tax	
		Gross	Net	Gross \$	Net \$
Average weighted term to settlement	+0.5 year -0.5 year	2.7 years	2.7 years	(8,535) 1,407	(8,535) 1,407
Discount rate <sup>1</sup>	+1% -1%	1.0%	1.0%	27,278 (20,691)	27,278 (20,691)
Expense rate	+1% -1%	7.7%	7.7%	(6,653) 6,653	(6,653) 6,653
Ultimate to incurred claims ratio	+1% -1%	101.7%	104.3%	(44,395) 42,281	(44,395) 42,281

1. This sensitivity reflects the liability movements only.

**GORDIAN RUNOFF LIMITED**

**NEW ZEALAND BRANCH**

**NOTES TO THE FINANCIAL REPORT**

**FOR THE YEAR ENDED 31 DECEMBER 2013**

**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 its 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:**

**i. 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 interest rate risk is managed by matching the duration profiles of the investments assets and the outstanding claims liability.

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 statement of comprehensive income.

The Branch seeks to reduce its interest rate risk through the use of the invested assets 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 invested assets are 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 13	31 Dec 12
	Impact on Profit after tax	Impact on Profit after tax
	\$	\$
+100 basis points	(9,023)	(16,708)
- 100 basis points	9,225	17,250

**GORDIAN RUNOFF LIMITED**

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**NOTES TO THE FINANCIAL REPORT**

**FOR THE YEAR ENDED 31 DECEMBER 2013**

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

ii. Reinsurance risk

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.

iii. Concentration of insurance risk

The exposure to concentrations of insurance risk can be mitigated with the purchase of reinsurance where management believes that the price/risk transfer is suitable.

iv. Foreign currency risk

The Branch recognises it is exposed to foreign currency risk on liabilities which it is willing to absorb. Liabilities are currency matched at the Company level to minimise currency risk to the entity.

v. Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its debt obligations or other cash outflows as they fall due because of lack of liquid assets. The Company manages liquidity risk by maintaining adequate reserves and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of assets and liabilities.

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

**2013**

	Up to 1 year	2 to 3 years	4 to 5 years	Over 5 years	Total
	\$	\$	\$	\$	\$
Financial liabilities:					
Outstanding claims	282,559	508,607	339,072	-	1,130,238
Trade creditors	891,840	-	-	-	891,840
<b>Total</b>	<b>1,174,399</b>	<b>508,607</b>	<b>339,072</b>	<b>-</b>	<b>2,082,078</b>

**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
Trade creditors	661,606	-	-	-	661,606
<b>Total</b>	<b>991,493</b>	<b>593,796</b>	<b>395,865</b>	<b>-</b>	<b>1,981,154</b>

**GORDIAN RUNOFF LIMITED**

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**NOTES TO THE FINANCIAL REPORT**

**FOR THE YEAR ENDED 31 DECEMBER 2013**

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

vi. Credit risk

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.

The table below provides information regarding the credit risk exposure of the Branch by classifying assets according to the Branch's credit rating of counter parties:

	2013		2012	
	Reinsurance and other recoveries \$	Other financial instruments \$	Reinsurance and other recoveries \$	Other financial instruments \$
AA	-	1,047,508	-	1,089,677
A	-	2,122,694	-	2,076,521
Not rated	3,069	-	4,726	-
<b>Total</b>	<b>3,069</b>	<b>3,170,202</b>	<b>4,726</b>	<b>3,166,198</b>

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(e).

Categories of financial instruments	Note	As at 31 Dec 2013 \$	As at 31 Dec 2012 \$
Fair value through the profit and loss:			
<b>Financial assets</b>			
Cash and cash equivalents		582,339	2,076,521
Reinsurance and other recoveries	10 (b)	3,069	4,726
Other receivables	8	755,708	739,418
Financial assets at fair value through profit or loss	9	2,587,863	1,089,677
<b>Financial liabilities</b>			
Outstanding claims	10 (a)	1,116,293	1,365,643
Reinsurance payables	11	213,411	-
Trade creditors	11	678,429	661,606



**GORDIAN RUNOFF LIMITED**

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**NOTES TO THE FINANCIAL REPORT**

**FOR THE YEAR ENDED 31 DECEMBER 2013**

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

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 and term 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)**

	2013			
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Term deposit	-	1,540,355	-	1,540,355
Government and semi-government bonds	-	1,047,508	-	1,047,508
<b>Total investments at FVTPL</b>	<b>-</b>	<b>2,587,863</b>	<b>-</b>	<b>2,587,863</b>
Expected to be realised				
- in less than 12 months	-	1,540,355	-	1,540,355
- in more than 12 months	-	1,047,508	-	1,047,508
<b>Total investments at FVTPL</b>	<b>-</b>	<b>2,587,863</b>	<b>-</b>	<b>2,587,863</b>

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

**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
<b>Total investments at FVTPL</b>	<b>-</b>	<b>1,089,677</b>	<b>-</b>	<b>1,089,677</b>
Expected to be realised				
- in more than 12 months	-	1,089,677	-	1,089,677
<b>Total investments at FVTPL</b>	<b>-</b>	<b>1,089,677</b>	<b>-</b>	<b>1,089,677</b>

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

**GORDIAN RUNOFF LIMITED**

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**FOR THE YEAR ENDED 31 DECEMBER 2013**

**5. Operating profit**

	Year ended 31 Dec 2013	Year ended 31 Dec 2012
	\$	\$
<b>Operating revenue</b>		
Operating surplus has been arrived at after including:		
Premium (expense)/revenue	(11,380)	491
Net investment income	39,437	53,955
Total operating revenue	26,057	54,446
Net investment income		
Interest income	123,890	76,758
Revaluation of investments	(42,171)	(20,924)
Other investment expense	(42,282)	(1,879)
Net investment income	39,437	53,955

**6. Income tax**

The entity is not liable to pay income tax in New Zealand as the entity was a non-resident throughout 2013 and 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.

	Year ended 31 Dec 2013	Year ended 31 Dec 2012
	\$	\$
Operating profit/(loss) before tax	56,076	(91,761)
Prima facie income tax on operating profit/(loss) at 30% (2012: 30%)	(16,823)	27,528
Other adjustments	(1,500)	(3,000)
Income tax (expense)/benefit	(18,323)	24,528

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

	Year ended 31 Dec 2013	Year ended 31 Dec 2012
	\$	\$
<b>Current</b>		
Gross claims benefit/(expense) – discounted	35,668	(127,525)
Net claims benefit/(expense) – discounted	35,668	(127,525)
Net claims benefit/(expense)	35,668	(127,525)

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**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 2013 \$	31 Dec 2013 Prior year \$	31 Dec 2013 Total \$	Year ended 31 Dec 2012 \$	31 Dec 2012 Prior year \$	31 Dec 2012 Total \$
Gross claims incurred and related revenue/(expense) – undiscounted		13,307	13,307	-	(90,631)	(90,631)
Net claims incurred – undiscounted		13,307	13,307		(90,631)	(90,631)
Discount and discount movement - gross claims incurred	-	22,361	22,361	-	(36,894)	(36,894)
Net discount movement	-	22,361	22,361	-	(36,894)	(36,894)
Net claims incurred	-	35,668	35,668	-	(127,525)	(127,525)

**8. Other receivables**

	As at 31 Dec 2013 \$	As at 31 Dec 2012 \$
<b>Current</b>		
Other receivables	11,236	4,913
Other receivables-related party	744,472	734,505
	<u>755,708</u>	<u>739,418</u>

**9. Financial assets at fair value through profit or loss**

	As at 31 Dec 2013 \$	As at 31 Dec 2012 \$
<b>Current</b>		
Term deposit	1,540,355	-
<b>Non current</b>		
Government fixed interest security	1,047,508	1,089,677
<b>Total financial assets at fair value through profit or loss</b>	<u>2,587,863</u>	<u>1,089,677</u>

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**10. Outstanding claims**

	As at 31 Dec 2013	As at 31 Dec 2012
	\$	\$
(a) Central estimate	1,130,238	1,319,548
Risk margin	40,198	77,878
Discount to present value	(54,143)	(31,783)
Liability for outstanding claims	1,116,293	1,365,643
Comprising:		
Current	296,427	342,463
Non-current	819,866	1,023,180
	1,116,293	1,365,643
Outstanding claims	1,116,293	1,365,643
(b) Reinsurance and other recoveries	3,069	4,726
Comprising:		
Current		
Reinsurance and other recoveries - on paid claims	3,069	4,726
	3,069	4,726
(c) 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	0 years
Long tail outstanding claims	2.13 years	2.65 years
(d) 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	2.39% to 2.44%	2.62% to 2.96%
Later than 1 year		
- Discount rate	2.40% to 4.36%	2.57% to 3.39%
(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.		

**GORDIAN RUNOFF LIMITED**

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**10. Outstanding claims (continued)**

(f) Reconciliation of movement in discounted outstanding claims liability

**2013**

	Gross \$	Reinsurance \$	Net \$
Amount outstanding brought forward	1,365,643	-	1,365,643
Claim payments/ recoveries during the period	(196,580)	-	(196,580)
Effect of changes in assumptions	(52,770)	-	(52,770)
Amount outstanding carried forward	<u>1,116,293</u>	-	<u>1,116,293</u>

**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
Amount outstanding carried forward	<u>1,365,643</u>	-	<u>1,365,643</u>

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.

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**10. Outstanding claims (continued)**

Estimate of cumulative claims	Net	Gross
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
31 December 2013	9,507,718	23,659,269
Estimate of cumulative claims at 31 December 2013	9,507,718	23,659,269
Cumulative payments	8,442,700	22,594,251
<b>Undiscounted central estimate</b>	<b>1,065,018</b>	<b>1,065,018</b>
Effect of discounting	47,058	47,058
<b>Discounted central estimate</b>	<b>1,017,960</b>	<b>1,017,960</b>
Risk margin		40,198
Claims administration expense provision		58,135
<b>Gross outstanding claims as per the statement of financial position</b>		<b>1,116,293</b>

**11. Trade creditors**

	As at 31 Dec 2013	As at 31 Dec 2012
	\$	\$
Reinsurance payables	213,411	-
Related party creditor due to tax residency status change	678,429	661,606
	<u>891,840</u>	<u>661,606</u>

**12. Auditor's remuneration**

Auditor's remuneration for the year ended 31 December 2013 and 31 December 2012 was paid on the Branch's behalf by the Company. The Company's auditor is KPMG.

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**13. Related party information**

The immediate parent entity at 31 December 2013 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 \$678,429 (2012: \$661,606) payable to the Company due to tax residency status change.

**14. Capital expenditure commitments**

There are no capital expenditure commitments at balance date (2012: \$nil).

**15. Contingent liabilities**

There are no contingent liabilities at balance date (2012: \$nil).

**16. 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.

**17. 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 2013	As at 31 Dec 2012
	\$	\$
Opening balance	1,883,093	1,950,326
Operating profit/(loss) after tax	37,753	(67,233)
Closing balance	<u>1,920,846</u>	<u>1,883,093</u>

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**18. 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 19 of the Insurance (Prudential Supervision) Act 2010, issued a licence to carry on insurance business in New Zealand on 14 May 2013. Under the Branch's 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 Company complies with APRA Prudential Standard GPS110 *Capital Adequacy* and the requirements set out in its insurance license. The Prescribed Capital Amount (2012 Minimum Capital Requirement) as a ratio of the Company's capital base is shown in the table below.

Tier 1 Capital	2013 A\$'000	2012 A\$'000
Paid-up ordinary shares	1,463,100	1,463,100
Accumulated losses	(1,026,606)	(1,031,096)
Current year earnings	21,385	4,490
Excess technical provisions (net of tax)	1,548	2,589
Less: deductions	348,569	349,610
Total Capital Base	<u>110,858</u>	<u>89,473</u>
Prescribed Capital Amount / Minimum Capital Requirement	<u>27,174</u>	<u>26,037</u>
Solvency Coverage Ratio	4.08	3.44

**19. 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 shareholder 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 23. The financial statements comprise the statement of financial position as at 31 December 2013, the statements of comprehensive income and changes in head office account 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 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 auditor we have no relationship with, or interest in, the branch.



### *Opinion*

In our opinion the financial statements on pages 2 to 23:

- 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 2013 and of its financial performance for the year then ended.

### **Report on other legal and regulatory requirements**

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

- we have obtained all the information and explanations that 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.

*Kem S*

13 March 2014  
Sydney



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Chief Executive & Financial Officer  
Enstar Australia Holdings Pty Limited  
Level 9  
220 George Street  
Sydney NSW 2000

4 April 2014

## Gordian RunOff Limited Insurance Liabilities as at 31 December 2013

Dear Sandra

Gordian RunOff Limited ("Gordian") is an Australian authorised insurer regulated by the Australian Prudential Regulatory Authority ("APRA") and has a provisional licence issued by the Reserve Bank New Zealand ("RBNZ").

Gordian has appointed me, Warrick Gard, Ernst & Young to be Gordian's Appointed Actuary as described by the Insurance Act 1973 and related Prudential Standards and Guidance Notes current at 31 December 2013 and by the New Zealand Insurance (Prudential Supervision) Act 2010. I have no relationship with Gordian other than being its Appointed Actuary.

The prime responsibility of the Appointed Actuary is to provide advice to the Board of a general insurer on the value of its insurance liabilities and the preparation of the actuarial information contained in its financial statements. The Appointed Actuary must provide written advice to the Board of the insurer on the value of insurance liabilities in accordance with APRA's Prudential Standard GPS320 Actuarial and Related Matters.

It is ultimately the responsibility of the Board of Gordian to place an appropriate valuation on Gordian's insurance liabilities, after considering actuarial and other advice. A report has been prepared and a formal recommendation of the value of the insurance liabilities at 31 December 2013 has been completed to assist the Board in meeting this responsibility.

The scope of the review includes all insurance and reinsurance run off liabilities owned by Gordian at 31 December 2013. There were no limitations placed on me in preparing the actuarial information.

I can confirm that I have obtained all information and explanations as required and in my opinion from an actuarial perspective:

- ▶ The actuarial information contained in the financial statements and any group financial statements has been appropriately included in these statements
- ▶ The actuarial information used in the preparation of the financial statements and any group financial statements has been used appropriately.

In my opinion and from an actuarial perspective, Gordian is maintaining the solvency margin that applies under a condition imposed under section 21(2)(b) of the Insurance (Prudential Supervision) Act 2010.

Yours sincerely,

Warrick Gard