

GORDIAN RUNOFF LIMITED
NEW ZEALAND BRANCH

FINANCIAL REPORT
FOR THE YEAR ENDED
31 DECEMBER 2011

GORDIAN RUNOFF LIMITED

NEW ZEALAND BRANCH

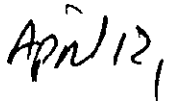
Annual Report

The Board of Directors present their Annual Report including the financial statements of the Branch for the year ended 31 December 2011 and the auditor's report thereon.

For and on behalf of the Board:



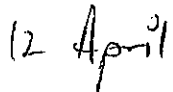
, Director



2012



, Director



2012

GORDIAN RUNOFF LIMITED
NEW ZEALAND BRANCH
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2011

| | | Year ended 31 Dec 2011 \$ | Year ended 31 Dec 2010 \$ |
|---|-------|---------------------------------|---------------------------------|
| | Notes | | |
| Claims benefit | 5(b) | 137,735 | 208,304 |
| Reinsurance and other recoveries revenue | 5(b) | <u>1,041</u> | <u>2,763</u> |
| Net claims benefit | 7 | 138,776 | 211,067 |
| Underwriting income | | 138,776 | 211,067 |
| Net investment income | 5(a) | <u>78,324</u> | <u>46,151</u> |
| Adjusted underwriting result | | 217,100 | 257,218 |
| Management expenses | 5(b) | <u>31,724</u> | <u>36,908</u> |
| Operating profit before tax | | 185,376 | 220,310 |
| Income tax expense | 6 | <u>55,613</u> | <u>66,093</u> |
| Profit for the year | | 129,763 | 154,217 |
| Other comprehensive income for the year | | <u>-</u> | <u>-</u> |
| Total comprehensive income for the year attributable to members of Gordian RunOff Limited | | <u>129,763</u> | <u>154,217</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 2011

| | | As at 31 Dec 2011 \$ | As at 31 Dec 2010 \$ |
|---|-------|----------------------------|----------------------------|
| | Notes | | |
| Current assets | | | |
| Cash | | 2,015,263 | 2,025,078 |
| Reinsurance & other recoveries receivable | 10 | 16,953 | 3,188 |
| Financial assets at fair value through profit or loss | 8 | - | 540,647 |
| Other receivables | 9 | <u>1,345,779</u> | <u>77</u> |
| Total current assets | | <u>3,377,995</u> | <u>2,568,990</u> |
| Non current assets | | | |
| Financial assets at fair value through profit or loss | 8 | <u>558,527</u> | <u>-</u> |
| Total non current assets | | <u>558,527</u> | <u>-</u> |
| Total assets | | <u>3,936,522</u> | <u>2,568,990</u> |
| Current liabilities | | | |
| Outstanding claims | 10 | 259,704 | 21,680 |
| Trade creditors | 11 | <u>689,134</u> | <u>730,407</u> |
| Total current liabilities | | <u>948,838</u> | <u>752,087</u> |
| Non current liabilities | | | |
| Outstanding claims | 10 | <u>1,037,358</u> | <u>87,652</u> |
| Total non current liabilities | | <u>1,037,358</u> | <u>87,652</u> |
| Total liabilities | | <u>1,986,196</u> | <u>839,739</u> |
| Net assets | | <u>1,950,326</u> | <u>1,729,251</u> |
| Head office account | | | |
| Head office account | 19 | <u>1,950,326</u> | <u>1,729,251</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 2011

| | Head Office Account \$ |
|--|---------------------------------------|
| At 1 January 2010 | 1,583,240 |
| Profit for the year and total comprehensive income | 154,217 |
| Intracompany transactions for the year | <u>(8,206)</u> |
| At 31 December 2010 | 1,729,251 |
| Profit for the year and total comprehensive income | 129,763 |
| Intracompany transactions for the year | <u>91,312</u> |
| At 31 December 2011 | <u><u>1,950,326</u></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 2011

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 2011 were authorised for issue on April 2012.

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 and reinsurance recoveries.

(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.

(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.

GORDIAN RUNOFF LIMITED
NEW ZEALAND BRANCH
NOTES TO THE FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2011

1. Statement of accounting policies (continued)

(d) Investments (continued)

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 a New Zealand dollar denominated government bond.

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.

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 2011

1. Statement of accounting policies (continued)

(e) 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.

(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 2010-2011 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.

(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

(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.

GORDIAN RUNOFF LIMITED
NEW ZEALAND BRANCH
NOTES TO THE FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2011

1. Statement of accounting policies (continued)

(k) Statement of compliance

The financial statements have been prepared in accordance with NZ GAAP. 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.

(l) Standards and interpretations effective in the current period

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

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.

GORDIAN RUNOFF LIMITED

NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2011

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. This 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 an ultimate loss ratio for each year that reflects both the long term expected level, as well as incorporating 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.

GORDIAN RUNOFF LIMITED

NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2011

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 | 2011 | 2010 |
|----------------------|-------------|-------------|
| | % | % |
| | 14.4 | 1.2 |

GORDIAN RUNOFF LIMITED

NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2011

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. |
| Reinsurance percentage | The direct class assumes money will be recoverable from reinsurers on future claims paid. |

GORDIAN RUNOFF LIMITED

NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2011

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.

| 2011 | | Assumption at 12/11 | | Profit/(Loss) (after tax) | |
|--|---------------------------|----------------------------|------------|------------------------------------|----------------------------------|
| Variable | Change in variable | Gross | Net | Gross of Reinsurance \$ | Net of Reinsurance \$ |
| Average weighted term to settlement | +0.5 year -0.5 year | 4.8 years | 4.8 years | (4,626) 7,304 | (4,626) 7,304 |
| Reinsurance percentage (as % of gross IBNR) | +1% -1% | n/a | - | - - | - - |
| Discount rate ¹ | +1% -1% | 1.4% | 1.4% | 35,451 (37,665) | 35,451 (37,655) |
| Expense rate | +1% -1% | 13.4% | n/a | (5,335) 5,335 | (5,335) 5,335 |
| Ultimate to incurred claims ratio ² | +1% -1% | 101.5% | 103.8% | (56,595) 40,309 | (56,595) 40,309 |
| | | | | | |
| 2010 | | Assumption at 12/10 | | Profit/(Loss) (after tax) | |
| Variable | Change in variable | Gross | Net | Gross of Reinsurance \$ | Net of Reinsurance \$ |
| Average weighted term to settlement | +0.5 year -0.5 year | 2.5 years | 2.5 years | (2,059) 2,030 | (2,071) 2,018 |
| Reinsurance percentage (as % of gross IBNR) | +1% -1% | n/a | 15.7% | - - | - - |
| Discount rate ¹ | +1% -1% | 5.4% | 5.4% | 2,292 (2,519) | 2,351 (2,500) |
| Expense rate | +1% -1% | 28.0% | n/a | (598) 598 | (598) 598 |
| Ultimate to incurred claims ratio ² | +1% -1% | 102.0% | 104.0% | (15,158) 2,397 | (12,133) 1,675 |

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.

GORDIAN RUNOFF LIMITED

NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2011

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, 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 11 | 31 Dec 10 |
|--------------------|-------------------------------|-------------------------------|
| | Impact on Profit after tax | Impact on Profit after tax |
| | \$ | \$ |
| +100 basis points | (17,484) | (4,517) |
| - 100 basis points | 18,229 | 4,599 |

GORDIAN RUNOFF LIMITED

NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2011

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 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.
- Intracompany receivable with the Company
- Financial assets at fair value through profit or loss comprise a bond with the New Zealand Public Trust Office.

The total credit exposure from the above accounts is \$3,936,522 (2010: \$2,568,990); this compares to the reported total Company net assets of AUD\$452,004,000 at 31 December 2011 (AUD\$526,614,000 at 31 December 2010).

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.

GORDIAN RUNOFF LIMITED

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NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2011

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

Categories of financial instruments

| | Note | As at 31 Dec 2011 \$ | As at 31 Dec 2010 \$ |
|--|------|----------------------------|----------------------------|
| Financial assets | | | |
| Fair value through the profit and loss: | | | |
| Financial assets at fair value through profit and loss | 8 | 558,527 | 540,647 |
| Cash & cash equivalents | | 2,015,263 | 2,025,078 |
| Other receivables | 9 | 1,345,779 | 77 |
| Financial Liabilities | | | |
| Trade creditors | 11 | 689,134 | 730,407 |

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

5. Operating surplus

| | Year ended 31 Dec 2011 \$ | Year ended 31 Dec 2010 \$ |
|--|---------------------------------|---------------------------------|
| (a) Operating revenue | | |
| Operating surplus has been arrived at after including: | | |
| Reinsurance and other recoveries revenue | 1,041 | 2,763 |
| Net investment income | 78,324 | 46,151 |
| Total operating revenue | 79,365 | 48,914 |
| Net Investment income | | |
| Interest income | 48,121 | 53,503 |
| Revaluation of investments | (5,943) | (4,202) |
| Investment income/(expense) | 36,146 | (3,150) |
| Net investment income | 78,324 | 46,151 |

GORDIAN RUNOFF LIMITED
NEW ZEALAND BRANCH
NOTES TO THE FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2011

5. Operating surplus (continued)

(b) Operating surplus before income tax

| | Year ended 31 Dec 2011 \$ | Year ended 31 Dec 2010 \$ |
|--|---------------------------------|---------------------------------|
| Gross claims benefit | 137,735 | 208,304 |
| Less: Reinsurance and other recoveries revenue | 1,041 | 2,763 |
| Net claims benefit (Note 7) | <u>138,776</u> | <u>211,067</u> |
| Underwriting result | 138,776 | 211,067 |
| Add: Net investment income | 78,324 | 46,151 |
| Less: Management expenses | 31,724 | 36,908 |
| Operating surplus before income tax | <u>185,376</u> | <u>220,310</u> |

6. Income tax

The entity is not liable to pay income tax in New Zealand as the entity was a non-resident throughout 2011 and 2010 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 2011 \$ | Year ended 31 Dec 2010 \$ |
|--|---------------------------------|---------------------------------|
| Operating surplus | 185,376 | 220,310 |
| Prima facie income tax on operating surplus at 30% | <u>55,613</u> | <u>66,093</u> |
| Other adjustments | - | - |
| Income tax expense | <u>55,613</u> | <u>66,093</u> |

GORDIAN RUNOFF LIMITED

NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2011

| 7. Net claims benefit | Year ended 31 Dec 2011 \$ | Year ended 31 Dec 2010 \$ |
|---|--|--|
| Current | | |
| Gross claims benefit – discounted | 137,735 | 208,304 |
| Reinsurance and other recoveries revenue – discounted | 1,041 | 2,763 |
| Net claims benefit – discounted | <u>138,776</u> | <u>211,067</u> |
| Net claims benefit | <u>138,776</u> | <u>211,067</u> |

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 2011 \$ | 31 Dec 2011 Prior Year \$ | 31 Dec 2011 Total \$ | Year ended 31 Dec 2010 \$ | 31 Dec 2010 Prior Year \$ | 31 Dec 2010 Total \$ |
|---|--|--|---|--|--|---|
| Gross claims incurred and related revenue – undiscounted | - | 84,382 | 84,382 | - | 239,763 | 239,763 |
| Reinsurance and other recoveries – undiscounted | - | 1,041 | 1,041 | - | 2,763 | 2,763 |
| Net claims incurred – undiscounted | - | 85,423 | 85,423 | - | 242,526 | 242,526 |
| Discount and Discount movement - gross claims incurred | - | 53,353 | 53,353 | - | (31,459) | (31,459) |
| Discount and Discount movement - reinsurance and other recoveries | - | - | - | - | - | - |
| Net discount movement | - | 53,353 | 53,353 | - | (31,459) | (31,459) |
| Net claims incurred | - | 138,776 | 138,776 | - | 211,067 | 211,067 |

GORDIAN RUNOFF LIMITED

NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2011

8. Financial assets at fair value through profit or loss

| | As at 31 Dec 2011 \$ | As at 31 Dec 2010 \$ |
|------------------------------------|----------------------------|----------------------------|
| Current | | |
| Government fixed interest security | - | 540,647 |
| | <u>-</u> | <u>540,647</u> |
| Non Current | | |
| Government fixed interest security | 558,527 | - |
| | <u>558,527</u> | <u>-</u> |

9. Other assets

| | As at 31 Dec 2011 \$ | As at 31 Dec 2010 \$ |
|---|----------------------------|----------------------------|
| Current | | |
| Other receivables | 18,561 | 77 |
| Other receivables-related party (See note 14) | 1,327,218 | - |
| | <u>1,345,779</u> | <u>77</u> |

GORDIAN RUNOFF LIMITED

NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2011

10. Outstanding claims

| | As at 31 Dec 2011 \$ | As at 31 Dec 2010 \$ |
|--|-------------------------------------|-------------------------------------|
| (a) Central estimate | 1,202,443 | 123,343 |
| Risk margin | 163,295 | 1,312 |
| Discount to present value | (68,676) | (15,323) |
| Liability for outstanding claims | <u>1,297,062</u> | <u>109,332</u> |
| Comprising: | | |
| Current | 259,704 | 21,680 |
| Non-current | <u>1,037,358</u> | <u>87,652</u> |
| | <u>1,297,062</u> | <u>109,332</u> |
| Reinsurance and other recoveries- on outstanding claims | | |
| Current | - | - |
| Non-current | <u>-</u> | <u>-</u> |
| | <u>-</u> | <u>-</u> |
| Net outstanding claims | <u>1,297,062</u> | <u>109,332</u> |
| Reinsurance and other recoveries | <u>16,953</u> | <u>3,188</u> |
| Comprising: | | |
| Reinsurance and other recoveries- on outstanding claims | | |
| Current | - | - |
| Non-current | <u>-</u> | <u>-</u> |
| | <u>-</u> | <u>-</u> |
| Reinsurance and other recoveries- on paid claims | | |
| Current | <u>16,953</u> | <u>3,188</u> |
| | <u>16,953</u> | <u>3,188</u> |
| (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 | 3.25 years | 3.07 years |
| Long tail outstanding claims | 3.54 years | 3.64 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 | 3.39% to 4.19% | 4.84% to 4.97% |
| Later than 1 year | | |
| - Discount rate | 3.11% to 4.20% | 4.99% to 5.75% |

GORDIAN RUNOFF LIMITED

NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2011

10. Outstanding claims (continued)

- (d) The 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. During the year the Branch completed the acquisition of an inwards reinsurance portfolio from Insurance Australia Ltd.
- (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

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 |

2010

| | Gross | Reinsurance | Net |
|--|----------------|-------------|----------------|
| Amount outstanding brought forward | 321,210 | - | 321,210 |
| Claim payments/ recoveries during the period | (3,564) | (2,762) | (802) |
| Effect of changes in assumptions | (208,314) | 2,762 | (211,076) |
| Effect of changes in exchange rates | - | - | - |
| Amount outstanding carried forward | 109,332 | - | 109,332 |

Claim payments/recoveries during the period include proceeds received for liabilities acquired via portfolio transfer at fair value. No profit was recognised on acquisition of liabilities.

As described in note 1, 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.

GORDIAN RUNOFF LIMITED

NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2011

10. Outstanding claims (continued)

| Estimate of cumulative claims | Net | Gross |
|--|------------------|------------------|
| 31 December 2004 | 14,155,830 | 20,145,957 |
| 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 |
| Estimate of cumulative claims at 31 December 2011 | 9,300,012 | 23,430,146 |
| Cumulative payments | 8,246,118 | 22,376,252 |
| Undiscounted central estimate | 1,053,894 | 1,053,894 |
| Effect of discounting | 53,672 | 53,672 |
| Discounted central estimate | 1,000,222 | 1,000,222 |
| Risk margin | | 163,295 |
| Claims administration expense provision | | 133,545 |
| Gross outstanding claims as per the statement of financial position | | 1,297,062 |

11. Trade creditors

| | As at 31 Dec 2011 \$ | As at 31 Dec 2010 \$ |
|---|----------------------------|----------------------------|
| Related party creditor due to tax residency status change | 689,134 | 633,521 |
| Other payables – related party creditors (See note 14) | - | 89,982 |
| Other reinsurance payables | - | 6,904 |
| | <u>689,134</u> | <u>730,407</u> |

12. Auditor's remuneration

Auditor's remuneration for the year ended 31 December 2011 and 31 December 2010 was paid on the Branch's behalf by the Company. For 2011 and 2010, the Auditor is Deloitte Touche Tohmatsu.

GORDIAN RUNOFF LIMITED

NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2011

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 2011 is AG Australia Holdings Limited. Enstar Group Limited 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.

A receivable of \$1,327,218 between the Company and the branch arose this year following the purchase of an insurance portfolio with cash received by the Company.

There is \$689,134 (2010: \$633,521) payable to the Company due to tax residency status change. In 2010 a payable of \$89,982 arose from transactions with Church Bay Limited another related party within the group.

15. Capital expenditure commitments

There are no capital expenditure commitments at balance date (2010: \$nil).

16. Contingent liabilities

There are no contingent liabilities at balance date (2010: \$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 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 rated BBB by Standard & Poors.

GORDIAN RUNOFF LIMITED

NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2011

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 2011 | As at 31 Dec 2010 |
|--|----------------------|----------------------|
| | \$ | \$ |
| Opening balance | 1,729,251 | 1,583,240 |
| Operating profit after tax | 129,763 | 154,217 |
| Intercompany transactions for the year | 91,312 | (8,206) |
| Closing balance | <u>1,950,326</u> | <u>1,729,251</u> |

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, shareholders and ratings agencies, without any specific regard to New Zealand capital levels. 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 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.

| | 2011 \$'000 |
|--|----------------|
| Tier 1 Capital | |
| Paid-up ordinary shares | 1,463,100 |
| General reserves | - |
| Accumulated losses | (1,022,386) |
| Current year earnings | 11,290 |
| Excess technical provisions (net of tax) | - |
| Less: deductions | <u>343,170</u> |
| Net Tier 1 Capital | <u>108,834</u> |
| Net Tier 2 Capital | <u>-</u> |
| Total Capital Base | <u>108,834</u> |
| Minimum Capital Requirement | <u>28,003</u> |
| Capital Adequacy Multiple | 3.89 |

GORDIAN RUNOFF LIMITED

NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2011

21. Events occurring after the reporting date.

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.

With the exception of the matter discussed above 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 members 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, which comprise the statement of financial position as at 31 December 2011, the statement of comprehensive income and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information of Gordian RunOff Limited – New Zealand Branch during the financial year as set out on pages 2 to 24.

Directors' Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial 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 entity'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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

Our firm carries out other assurance engagements for Gordian RunOff Limited – New Zealand Branch. The firm has no other relationship with or interests in Gordian RunOff Limited – New Zealand Branch.

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

Opinion

In our opinion, the financial statements of Gordian RunOff Limited – New Zealand Branch:

- a. give a true and fair view of Gordian RunOff Limited – New Zealand Branch's financial position as at 31 December 2011 and of its performance for the year ended on that date; and
- b. comply with generally accepted accounting practice in New Zealand.

Emphasis of Matter

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. Our opinion is not qualified in respect of this matter.

Basis of Accounting


Without modifying our opinion, we draw attention to Note 1 to the financial statements, which describes the basis of accounting. The financial statements have been prepared for the purpose of fulfilling the directors' financial reporting responsibilities under New Zealand law. As a result, the financial statements may not be suitable for another purpose.

Report on Other Legal and Regulatory Requirements

We also report in accordance with section 16 of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 31 December 2011:

- 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.


DELOITTE TOUCHE TOHMATSU


S Alexander
Partner
Chartered Accountants
Sydney, 12 April 2012

GORDIAN RUNOFF LIMITED
ABN 11 052 179 647

**DIRECTORS' REPORT
AND FINANCIAL REPORT
31 DECEMBER 2011**

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Gordian RunOff Limited

Directors' Report

The Directors present their report on Gordian RunOff Limited (the Company) for the year ended 31 December 2011.

DIRECTORS

The names of the directors of the Company in office during the financial year and until the date of this report are:

| | |
|----------------|-------------------------|
| Bruce Bollom | |
| Richard Harris | Appointed 9 August 2011 |
| Paul O'Shea | Resigned 9 August 2011 |
| Nick Packer | |
| Gary Potts | |
| Jann Skinner | |

Details relating to directors can be found in Notes 16 and 19.

PRINCIPAL ACTIVITIES

Gordian RunOff Limited formed part of Enstar Group Limited at 31 December 2011. The principal activities of Gordian RunOff Limited during the financial year 2011 were running off reinsurance and direct insurance portfolios. There have been no significant changes in the nature of those activities during the year. The company also completed the acquisition of an inwards reinsurance portfolio from Insurance Australia Ltd.

The operations have been outsourced to Enstar Australia Limited. The Company is limited by shares and is incorporated and domiciled in Australia. The registered office and the principal place of business is Level 9, 220 George Street, Sydney, NSW.

REVIEW OF OPERATIONS AND RESULTS

Net profit for the year was \$11,290,000 (2010: \$10,469,000) after an income tax expense of \$4,149,000 (2010: \$52,802,000).

On 9 February 2011, the Australian Prudential Regulation Authority (APRA) approved a capital release of \$36,000,000. On 13 July 2011 it approved another capital release of \$15,100,000 and on 8 November 2011 an additional \$34,800,000 capital release was approved by APRA (2010 \$160,000,000). The capital reductions were facilitated via dividend payments.

DIVIDENDS

Dividend payments of \$85,900,000 were made for the financial year ended 31 December 2011 (2010: \$91,031,000).

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There have been no significant changes in the state of affairs during the financial year.

LIKELY DEVELOPMENTS

The Company proposes to acquire a number of insurance portfolios in 2012, including a material related party portfolio, via portfolio transfers pursuant to the Insurance Act 1973, Part III, Division 3A. Further information about likely developments in the operations of the Company and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Company.

Gordian RunOff Limited

Directors' Report (Continued)

EVENTS OCCURRING AFTER THE REPORTING DATE

Other than the matter referred to above in Likely Developments, no other matter or circumstance has arisen since the end of the financial year that has significantly affected or may significantly affect:

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

ENVIRONMENTAL

The Company's operations are not subject to any particular and significant environmental regulation under a law of the Commonwealth or State or Territory.

DIRECTORS' BENEFITS

No director has, since the end of the previous financial year, received or become entitled to receive, a benefit (other than a benefit included in the total amount of emoluments received or due and receivable by directors shown in the notes to the accounts) by reason of a contract made by the Company, a controlled entity or a related body corporate with the director or with a firm of which the director is a member or with an entity in which the director has a substantial financial interest.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The Company has entered into a deed with each current director in which it agrees to indemnify, to the extent permitted by law, the director against any liability arising out of:

- The conduct of the business of the Company; and
- The discharge of the director's duties as a director of the Company

The current directors and officers of the Company are insured under the Enstar Group policy against certain liabilities as permitted by the Corporations Act.

ROUNDING

The Company is an entity of the kind referred to in ASIC Class Order 98/0100 (as amended) and, in accordance with that order, amounts in this Directors' Report have been rounded to the nearest thousand, unless specifically stated otherwise.

AUDITOR'S INDEPENDENCE

We have obtained an independence declaration from our auditor, Deloitte Touche Tohmatsu, a copy of which is attached to this report and forms part of the Directors' Report for the year ended 31 December 2011.

Gordian RunOff Limited

Directors' Report (Continued)

Signed in accordance with a resolution of the Directors.



Director

Signed at Sydney this12th.....day of April 2012



Director

Signed at Sydney this12th.....day of April 2012

The Board of Directors
Gordian RunOff Limited
220 George Street
SYDNEY NSW 2000

12 April 2012

Dear Directors

Gordian RunOff Limited

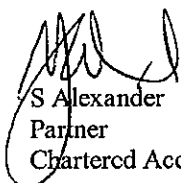
In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Gordian RunOff Limited.

As lead audit partner for the audit of the financial statements of Gordian RunOff Limited for the financial year ended 31 December 2011, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely


DELOITTE TOUCHE TOHMATSU


S Alexander
Partner
Chartered Accountants

Gordian RunOff Limited

Statement of Comprehensive Income For the year ended 31 December 2011

| | Note | 2011 \$'000 | 2010 \$'000 |
|--|----------|----------------|-----------------|
| Inwards reinsurance premium expense | | 169 | 314 |
| Net premium expense | 5 | 169 | 314 |
| Direct claims benefit | | (4,061) | (20,607) |
| Inwards reinsurance claims benefit | | (4,181) | (9,494) |
| Reinsurance & other recoveries (expense)/revenue | | (6,270) | 4,862 |
| Net claims incurred | 6 | (1,972) | (34,963) |
| Acquisition benefit | 7 | - | (199) |
| Other underwriting expenses | 7 | 34 | 1 |
| Underwriting expense/(benefit) | | 34 | (198) |
| Underwriting profit | | 1,769 | 34,847 |
| Net investment revenue | 8 | 14,124 | 25,860 |
| Other income | | 2 | 69 |
| General administration expense/(revenue) | 7 | 456 | (2,495) |
| Net profit before tax | | 15,439 | 63,271 |
| Income tax expense attributable to operating profit | 9 | 4,149 | 52,802 |
| Profit for the year | | 11,290 | 10,469 |
| Other comprehensive income for the year | | - | - |
| Total comprehensive income for the year attributable to members of Gordian RunOff Limited | | 11,290 | 10,469 |

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Gordian RunOff Limited

Statement of Financial Position As at 31 December 2011

| | Note | 2011 \$'000 | 2010 \$'000 |
|---|------|----------------|----------------|
| Current assets | | | |
| Cash and cash equivalents | 20 | 59,592 | 77,264 |
| Receivables | 10 | 1,558 | 7,102 |
| Reinsurance and other recoveries receivable | 11 | 3,228 | 7,875 |
| Other financial assets | 12 | 397,667 | 444,001 |
| Total current assets | | 462,045 | 536,242 |
| Non-current assets | | | |
| Receivables | 10 | - | 402 |
| Reinsurance and other recoveries receivable | 11 | 1,293 | 2,642 |
| Other financial assets | 12 | 106,322 | 146,602 |
| Total non-current assets | | 107,615 | 149,646 |
| Total assets | | 569,660 | 685,888 |
| Current liabilities | | | |
| Outstanding claims liability | 13 | 23,776 | 38,044 |
| Payables | 14 | 2,676 | 1,356 |
| Current tax liability/tax funding liability | 9 | 3,192 | 20,982 |
| Total current liabilities | | 29,644 | 60,382 |
| Non-current liabilities | | | |
| Outstanding claims liability | 13 | 87,398 | 89,170 |
| Deferred tax liability | 9 | 614 | 9,722 |
| Total non-current liabilities | | 88,012 | 98,892 |
| Total liabilities | | 117,656 | 159,274 |
| Net assets | | 452,004 | 526,614 |
| Shareholders' equity | | | |
| Issued capital | 15 | 1,463,100 | 1,463,100 |
| Accumulated losses | | (1,011,096) | (936,486) |
| Total shareholders' equity | | 452,004 | 526,614 |

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Gordian RunOff Limited

Statement of Changes in Equity For the year ended 31 December 2011

| | Note | Issued Capital \$'000 | Accumulated Losses \$'000 | Total \$'000 |
|---------------------------------------|-----------|--------------------------|---------------------------------|-----------------|
| Balance as at 1 January 2011 | | 1,463,100 | (936,486) | 526,614 |
| Dividends paid | | - | (85,900) | (85,900) |
| Profit for the year | | - | 11,290 | 11,290 |
| Balance as at 31 December 2011 | 15 | 1,463,100 | (1,011,096) | 452,004 |
| Balance as at 1 January 2010 | | 1,463,100 | (855,924) | 607,176 |
| Dividends paid | | - | (91,031) | (91,031) |
| Profit for the year | | - | 10,469 | 10,469 |
| Balance as at 31 December 2010 | 15 | 1,463,100 | (936,486) | 526,614 |

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Gordian RunOff Limited

Statement of Cash Flows For the year ended 31 December 2011

| | Note | 2011 \$'000 | 2010 \$'000 |
|---|----------------|-----------------|-----------------|
| Cash flows used in operating activities | | | |
| Premiums received | | 1,670 | 825 |
| Reinsurance and other recoveries (expense)/revenue | | (273) | 19,118 |
| Interest received | | 10,294 | 17,823 |
| Other sundry receipts/(expense) | | 22 | (3) |
| Refunds of outward reinsurance | | 1,462 | 5 |
| Claims receipts/(paid) | | 2,903 | (49,145) |
| Other underwriting (costs)/benefits | | (44) | 125 |
| Payments to suppliers | | (10,278) | (13,821) |
| Income taxes paid | | (31,048) | (33,622) |
| Cash flows used in operating activities | 20 (ii) | (25,292) | (58,695) |
| Cash flows from investing activities | | | |
| Proceeds from sale of investments | | 165,111 | 529,359 |
| Payments for investments | | (107,474) | (400,052) |
| Loans provided to related parties | | - | (502,669) |
| Repayment of loans | | 34,123 | 433,700 |
| Cash flows from investing activities | | 91,760 | 60,388 |
| Cash flows used in financing activities | | | |
| Dividends payment | | (85,900) | (91,031) |
| Cash flows used in financing activities | | (85,900) | (91,031) |
| Net decrease in cash held | | (19,432) | (89,388) |
| Balance at the beginning of the year | | 77,264 | 172,980 |
| Effects of exchange rate changes | | 1,760 | (6,328) |
| Balance at the end of the year | 20 (i) | 59,592 | 77,264 |

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

Gordian RunOff Limited

Notes to the financial statements for the year ended 31 December 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The Financial Report is a General Purpose Financial Report prepared in accordance with the requirements of the Corporations Act 2001 which includes applicable Accounting Standards. Other authoritative pronouncements of the Australian Accounting Standards Board have also been complied with. Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that this Financial Report, comprising the financial statements and the notes thereto, complies with International Financial Reporting Standards.

Where necessary, comparative information has been reclassified to be consistent with current period disclosures.

The Financial Report has been prepared in accordance with the historical cost convention except for investments, which have been measured at fair value.

Accounting judgements and estimates

In the course of its operations Gordian RunOff Limited (the Company) applies judgements and makes estimates that affect the amounts recognised in the financial report. Estimates are based on a combination of historical experience and expectations of future events that are believed to be reasonable at the time.

Australian Accounting Standards issued but not yet effective

Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the reporting period ending 31 December 2011.

When applied in future periods, all recently issued or amended standards are not expected to have a material impact on the Company's results or financial position; however they may impact Financial Report disclosures.

(b) Operating revenue

Operating revenue comprises reinsurance and general insurance earned premiums, recoveries, interest income and investment income. Investment income is brought to account on an accrual basis. Other underwriting income comprises sundry receipts.

(c) Premium revenue

Premium revenue comprises premiums from direct business and from reinsurance business.

Premium revenue includes amounts charged to the policyholders or other insurers, including fire service levies but excluding stamp duties, GST and other amounts collected on behalf of third parties.

Premium revenue, including that on unclosed business, is recognised in the statement of comprehensive income when it has been earned. Premium revenue is recognised in the statement of comprehensive income from the attachment date over the period of the contract for direct business and over the period of indemnity for reinsurance business. Where time does not approximate the pattern of risk, previous claims experience is used to derive the incidence of risk.

Gordian RunOff Limited

Notes to the financial statements for the year ended 31 December 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Premium revenue (Continued)

The proportion of premium received or receivable not earned in the statement of comprehensive income at the reporting date is recognised in the statement of financial position as an unearned premium liability.

Premiums on unclosed business are calculated as the difference between an estimate of the ultimate and booked premiums. Actuarial techniques are used to estimate the ultimate premium and are based on historical premium booking patterns.

(d) 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 Company, with an additional risk margin to allow for the inherent uncertainty in the best estimate.

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

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

The liability for direct insurance 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 a 75% confidence level.

Gordian RunOff Limited

Notes to the financial statements for the year ended 31 December 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) 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 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 Company 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.

(f) Investment income

Dividend and interest income is recognised in the statement of comprehensive income on an accrual basis when the entity obtains control of the right to receive the revenue.

Realised gains and losses represent the change in value between the previously reported value and the amount received on sale of the asset. Unrealised gains and losses represent changes in the fair value of financial assets recognised in the period.

(g) Assets backing general insurance liabilities

As part of its investment strategy, the Company actively manages its investment portfolio to ensure that investments mature in accordance with the expected pattern of future cash flows arising from general insurance liabilities.

The Company has determined that all assets with the exception of related party loans are held to back general insurance liabilities on the basis that all assets are available for the settlement of claims if required.

The following policies apply to assets held to back general insurance liabilities.

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.

Cash flows include intercompany funding transactions.

Cash trusts

The fair value of units in a listed cash trust reflects the quoted bid price at balance date. There is no reduction for realisation costs in the value of units in a cash trust. Unlisted unit trusts are recorded at fund manager valuations.

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. 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.

Gordian RunOff Limited

Notes to the financial statements for the year ended 31 December 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Assets backing general insurance liabilities (Continued)

Equity securities

Equity securities are initially recognised at fair value, representing the purchase cost of the asset exclusive of any transaction costs. Equity 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. The fair value of a quoted equity security reflects the quoted bid price at balance date. Equity securities not traded in an organised financial market and private equity investments are valued at estimated fair value based on market information available from time to time.

(h) Taxes

Income tax

Income tax expense is the tax payable on taxable income for the current period based on the income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to:

- (i) temporary differences between the tax bases of assets and liabilities and their statement of financial position carrying amounts, and
- (ii) unused tax losses.

Deferred tax

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction.

The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax is not discounted to present value.

Tax consolidation

Enstar Australia Holdings Pty Ltd and all of its wholly owned controlled entities including Gordian RunOff Ltd, formed a tax consolidated group of which Enstar Australia Holdings Pty Ltd is the head entity. The implementation date for the Enstar Australia Holdings Pty Ltd tax consolidated group is 9 September 2010, with the Australian Taxation Office formally advised of the decision and implementation date on the 28 June 2011.

Gordian RunOff Limited

Notes to the financial statements for the year ended 31 December 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Taxes (Continued)

Under tax consolidation, the head entity recognises:

- a) Current tax balances at the implementation date of the entities in the tax consolidated group reflecting the tax values applying under tax consolidation.
- b) Current tax balances arising from external transactions by entities in the tax consolidated group occurring after the implementation date.

A tax funding agreement has been entered into by the head entity Enstar Australia Holdings Pty Ltd and the controlled entities in the tax consolidated group. The agreement is based on the premise that the head entity is not adversely financially impacted by the formation of the tax consolidated group. Controlled entities in the tax consolidated group will continue to be responsible, by the operation of the tax funding agreement, for funding tax payments required to be made by the head entity arising from underlying transactions of the controlled entities. Controlled entities will make (receive) contributions to (from) the head entity for the balances recognised by the head entity described in either a) and b) above. The contributions will be calculated in accordance with the tax funding agreement with each controlled entity's contribution being calculated as if the entity were a stand-alone tax payer.

A tax funding agreement requires wholly owned controlled entities to make contributions to the head entity for the balances recognised by the head entity. The contributions are calculated in accordance with the agreement with each wholly owned controlled entity's contribution being calculated on a 'stand-alone basis'. The contributions are payable as set out in the agreement and reflect the timing of Enstar Australia Holdings Pty Ltd's obligations to make payments to the relevant tax authorities. The assets and liabilities arising under the tax funding agreement are recognised by the head entity as inter-company assets and liabilities with a consequential adjustment to income tax expense (credit).

The head entity in conjunction with its wholly owned controlled entities in the tax consolidated group has also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities in the tax consolidated group should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as the payment of any amounts under the tax sharing agreement is considered remote.

The entity has continued to disclose in the attached financial statements its current tax liability and deferred tax balances under the headings of Income Tax Payable/Tax Funding Liability, Deferred Tax Assets or Deferred Tax Liabilities.

Goods and Services Tax (GST)

All revenues, expenses and assets are recognised net of any GST paid, except where they relate to products and services which are input taxed for GST purposes or the GST incurred is not recoverable from the relevant tax authorities. In such circumstances, the GST paid is recognised as part of the cost of acquisition of the assets or as part of the particular expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from or payable to the tax authorities is included as a receivable or payable in the statement of financial position.

Cash flows are reported on a gross basis reflecting any GST paid or collected. The GST component of cash flows arising from investing or financing activities which are recoverable from, or payable to, local tax authorities are classified as operating cash flows.

Gordian RunOff Limited

Notes to the financial statements for the year ended 31 December 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Foreign currency transactions and translation

Functional and presentation currency

Items included in the financial statements in each of the Gordian group entities are measured using the currency of the primary economic environment in which that entity operates (the functional currency). The presentation currency of this financial report, and the functional currency of the parent entity, is Australian dollars.

Transactions and balances

Income and expense items denominated in a currency other than the functional currency are translated at the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at statement of financial position date, with exchange gains and losses recognised in the statement of comprehensive income. The corresponding foreign currency translations of foreign currency denominated outstanding claims liabilities and receivables are reported as a component of claims expense and premium revenue, respectively. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(j) 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 Company 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.

(k) Payables

Trade creditors and accruals are recognised as liabilities for amounts to be paid in the future for goods and services received, whether or not billed to the entity.

(l) Amounts due to or from related parties

Amounts are carried at cost plus accrued interest being nominal amounts due and payable. Interest is taken up as income on an accrual basis. A provision for impairment is recognised when there is objective evidence that the related party will not be able to pay its debts.

(m) Rounding

The Company is an entity of the kind referred to in ASIC Class Order 98/0100 (as amended) and, in accordance with that order, amounts in this financial report have been rounded to the nearest thousand, unless specifically stated otherwise.

Notes to the financial statements for the year ended 31 December 2011

2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The Company makes estimates and assumptions in respect of certain key assets and liabilities. Estimates and judgements 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 judgements 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 Company.

The estimated cost of claims includes direct expenses to be incurred in settling claims gross of the expected value of salvage and other recoveries. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims 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 IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about the claim event is generally available. IBNR claims may often not be reported to the insurer until many years after the events giving rise to the claims. 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 Company 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 Company 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 Company 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.

Notes to the financial statements for the year ended 31 December 2011

2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

(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 Company may not receive amounts due to it and these amounts can be reliably measured.

3. ACTUARIAL METHODS AND ASSUMPTIONS

The entity ceased writing new business and renewals in late 1999 for both its direct insurance and inwards reinsurance business and has run an orderly runoff since. The process for determining the value of outstanding claims liabilities is generally consistent between these two portfolios. This process 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 an ultimate loss ratio for each year that reflects both the long term expected level, as well as incorporating 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 statement of financial position 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 **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 in note 13.

Gordian RunOff Limited

Notes to the financial statements for the year ended 31 December 2010

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 tail 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 | 2011 | 2010 |
|----------------------|------|------|
| | % | % |
| Direct insurance | 13.4 | 16.6 |
| Inwards reinsurance | 35.3 | 20.3 |

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 Company are sensitive to movements in a number of key variables as described below.

| Variable | Description of variable |
|-------------------------------------|---|
| <i>Direct and reinsurance</i> | |
| 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. |
| <i>Direct only</i> | |
| Reinsurance percentage | The direct class assumes money will be recoverable from reinsurers on future claims paid. |

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.

Gordian RunOff Limited

Notes to the financial statements for the year ended 31 December 2011

3. ACTUARIAL METHODS AND ASSUMPTIONS (Continued)

2011

| Direct Insurance | | Assumption at 12/11 | | Profit/(Loss) (after tax) | |
|--|------------------------|---------------------|------------|--------------------------------|------------------------------|
| Variable | Change in variable | Gross | Net | Gross of Reinsurance \$'000 | Net of Reinsurance \$'000 |
| Average weighted term to settlement | +0.5 year -0.5 year | 4.1 years | 4.1 years | 314 (321) | 290 (296) |
| Reinsurance percentage (as % of gross IBNR) | +1% -1% | n/a | 10.0% | - - | (11) (41) |
| Discount Rate ¹ | +1% -1% | 3.9% | 3.9% | 660 (656) | 587 (623) |
| Expense Rate | +1% -1% | 32.0% | n/a | (128) 128 | (128) 128 |
| Ultimate to incurred claims ratio ² | +1% -1% | 101.0% | 101.0% | (3,453) 1,528 | (3,069) 1,204 |
| Inwards Reinsurance | | Assumption at 12/11 | | Profit/(Loss) (after tax) | |
| Variable | Change in variable | Gross | Net | Gross of Reinsurance \$'000 | Net of Reinsurance \$'000 |
| Average weighted term to settlement | +0.5 year -0.5 year | 10.5 years | 10.5 years | 505 (680) | 333 (842) |
| Reinsurance percentage (as % of gross IBNR) | +1% -1% | n/a | n/a | - - | - - |
| Discount Rate ¹ | +1% -1% | 2.0% | 2.0% | 5,783 (6,650) | 5,563 (6,758) |
| Expense Rate | +1% -1% | 13.0% | n/a | (535) 535 | (538) 538 |
| Ultimate to incurred claims ratio ² | +1% -1% | 101.0% | 101.0% | (9,598) 1,903 | (9,598) 1,903 |

1. This sensitivity reflects the liability movements only. As assets are invested to match the term of liabilities there is little overall profit impact from a change to interest rates.

2. This ratio has only been adjusted for years that are not considered to be fully developed.

Gordian RunOff Limited

Notes to the financial statements for the year ended 31 December 2011

3. ACTUARIAL METHODS AND ASSUMPTIONS (Continued)

2010

| Direct Insurance | | Assumption at 12/10 | | Profit/(Loss) (after tax) | |
|--|------------------------|---------------------|-----------|-----------------------------|---------------------------|
| Variable | Change in variable | Gross | Net | Gross of Reinsurance \$'000 | Net of Reinsurance \$'000 |
| Average weighted term to settlement | +0.5 year -0.5 year | 3.9 years | 3.9 years | 602 (625) | 543 (558) |
| Reinsurance percentage (as % of gross IBNR) | +1% -1% | n/a | 16.0% | - - | 54 (14) |
| Discount Rate ¹ | +1% -1% | 5.5% | 5.5% | 778 (827) | 703 (740) |
| Expense Rate | +1% -1% | 34.0% | n/a | (175) 175 | (175) 175 |
| Ultimate to incurred claims ratio ² | +1% -1% | 101.0% | 101.0% | (4,077) 2,059 | (2,965) 1,581 |
| Inwards Reinsurance | | Assumption at 12/10 | | Profit/(Loss) (after tax) | |
| Variable | Change in variable | Gross | Net | Gross of Reinsurance \$'000 | Net of Reinsurance \$'000 |
| Average weighted term to settlement | +0.5 year -0.5 year | 8.2 years | 8.2 years | 802 (1,039) | 596 (1,226) |
| Reinsurance percentage (as % of gross IBNR) | +1% -1% | n/a | n/a | - - | - - |
| Discount Rate ¹ | +1% -1% | 2.9% | 2.9% | 4,826 (5,514) | 4,580 (5,656) |
| Expense Rate | +1% -1% | 19.0% | n/a | (541) 541 | (532) 532 |
| Ultimate to incurred claims ratio ² | +1% -1% | 101.0% | 101.0% | (9,210) 2,088 | (9,210) 2,088 |

1. This sensitivity reflects the liability movements only. As assets are invested to match the term of liabilities there is little overall profit impact from a change to interest rates.

2. This ratio has only been adjusted for years that are not considered to be fully developed.

Gordian RunOff Limited

Notes to the financial statements for the year ended 31 December 2011

4. RISK MANAGEMENT POLICIES AND PROCEDURES & FINANCIAL INSTRUMENTS

The Company's policies and procedures in respect of managing risks are set out in this note below.

There are a number of bodies and individuals associated with the Company that manage and monitor financial risk. These are:

The Board

The Board has ultimate responsibility for risk management and governance, including ensuring an appropriate risk framework is in place and is operating effectively. The Board is responsible for the approval of policy regarding shareholder capital investment strategy, policyholder asset and liability strategy and setting the financial risk appetite.

The Audit Committee

The Audit Committee is responsible for ensuring the existence of effective financial risk management policies and procedures.

The Appointed Actuary

The Appointed Actuary is responsible for reporting on solvency and capital adequacy. The Insurance Liability Valuation report (ILVR) must be provided to the Board and the Australian Prudential Regulatory Authority (APRA) at least annually, the ILVR must be peer reviewed annually by an external independent actuary. The Insurance Act also imposes obligations on the Appointed Actuary to bring to the attention of the Company or in certain circumstances APRA, any matter that the Appointed Actuary thinks requires action to be taken to avoid prejudice in the interests of the policy holders.

As part of the overall governance framework and in accordance with Prudential Standards GPS 220 Risk Management and GPS 230 Reinsurance Management issued APRA, the Board and senior management have developed, implemented and maintained a sound and prudent Risk Management Strategy (RMS) and a Reinsurance Management Strategy (REMS).

The RMS and REMS identify the Company's policies and procedures, processes and controls that comprise its risk management and control systems. These systems address all material risks, financial and non-financial, likely to be faced by the Company.

Key aspects of the processes established in the RMS to mitigate risks include:

- A formal regular process of risk identification and evaluation, supplemented by a documented control assessment process, is completed by management and communicated to the Board in line with the Board approved Risk Management Strategy.
- Actuarial models, using information from management information systems, to monitor claims patterns and other relevant statistics. Past experience and statistical methods are used as part of the process.
- The maintenance and use of various specialist information systems, which provide up to date and reliable data on claims liabilities.
- Documented procedures that are followed by claims staff that are experienced in the various classes of business previously written.
- Reinsurance has been used, particularly in the early period of the run-off to limit the Company's exposure to large single claims. The REMS provides that exposures continue to be monitored and where feasible reinsurance be purchased as means of limiting risk.
- The mix of investment assets is driven by the nature and term of the insurance liabilities. The management of assets and liabilities is monitored in an attempt to match cashflows and currencies of claim payments.

Gordian RunOff Limited

Notes to the financial statements for the year ended 31 December 2011

4. RISK MANAGEMENT POLICIES AND PROCEDURES & FINANCIAL INSTRUMENTS (Continued)

Risk and Mitigation

The Company's activities expose it to a variety of risks. The major risks associated with insurance contracts include:

- a) Development of claims
There is a possibility that changes may occur in the estimate of our obligations at the end of a contract period. The tables in note 13 show the estimates of total ultimate claims at successive year-ends.
- b) Terms and conditions of direct and inwards reinsurance business
There is limited scope to improve the existing terms and conditions. The Company has been in orderly run off since 1999, and no new contracts have been entered into since that time.
- c) 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.

Financial risks include:

Market risk

- a) 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 Company. 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 or loss account.

The Company 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.

Interest rate sensitivity analysis

The following table demonstrates the impact of a 100 basis point change in Australian interest rates, with all other variables held constant, on the Company'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 11 | 31 Dec 10 |
|--------------------|-------------------------------|-------------------------------|
| | Impact on Profit after tax | Impact on Profit after tax |
| | \$'000 | \$'000 |
| +100 basis points | 494 | 760 |
| - 100 basis points | (494) | (760) |

Gordian RunOff Limited

Notes to the financial statements for the year ended 31 December 2011

4. RISK MANAGEMENT POLICIES AND PROCEDURES & FINANCIAL INSTRUMENTS (Continued)

b) Foreign Currency risk analysis

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in exchange rates.

The Company's financial assets are primarily denominated in the same currencies as its insurance contract liabilities, being United States Dollar (USD), Great Britain Pounds (GBP) and the European Union Currency (EURO). Where insurance contract liabilities are payable in a foreign currency other than the three mentioned above, the assets backing these liabilities are held in one of the three currencies (or Australian dollars) which best resembles an appropriate proxy. Other exposures to foreign currency are immaterial.

The Company also holds surplus funds in cash, term deposits and other fixed interest securities in USD.

The following table demonstrates the impact of a 10% increase or decrease in the relevant proxy currencies if the underlying liability currency moved 10%. It is assumed that the relevant change occurs at reporting date.

| Change in Variable | 31 Dec 11 Impact on Profit after tax \$'000 | 31 Dec 10 Impact on Profit after tax \$'000 |
|--------------------|--|--|
| +10% | (419) | (472) |
| - 10% | 419 | 472 |

The impact to the USD cash, term deposits and fixed interest securities should the foreign exchange rate increase or decrease by 10% is outlined in the table below. It is assumed that the relevant change occurs at reporting date.

| Change in Variable | 31 Dec 11 Impact on Profit after tax \$'000 | 31 Dec 10 Impact on Profit after tax \$'000 |
|--------------------|--|--|
| +10% | (4,249) | (5,279) |
| - 10% | 5,193 | 6,451 |

c) 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. As required by APRA Prudential Standard GPS 220, the Company has developed and implemented a RMS which is described earlier in this note to control this risk.

Gordian RunOff Limited

Notes to the financial statements for the year ended 31 December 2011

4. RISK MANAGEMENT POLICIES AND PROCEDURES & FINANCIAL INSTRUMENTS (Continued)

c) Liquidity risk (Continued)

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

31 Dec 11

| | Up to 1 year \$'000 | 2 to 3 years \$'000 | 4 to 5 years \$'000 | Over 5 years \$'000 | Total \$'000 |
|------------------------|---------------------------|---------------------------|---------------------------|---------------------------|-----------------|
| Financial liabilities: | | | | | |
| Outstanding claims | 27,962 | 32,985 | 21,301 | 47,225 | 129,473 |
| Payables | 2,676 | - | - | - | 2,676 |
| Income tax payable | 3,192 | - | - | - | 3,192 |
| Total | 33,830 | 32,985 | 21,301 | 47,225 | 135,341 |

31 Dec 10

| | Up to 1 year \$'000 | 2 to 3 years \$'000 | 4 to 5 years \$'000 | Over 5 years \$'000 | Total \$'000 |
|------------------------|---------------------------|---------------------------|---------------------------|---------------------------|-----------------|
| Financial liabilities: | | | | | |
| Outstanding claims | 39,560 | 41,259 | 25,901 | 47,635 | 154,355 |
| Payables | 1,356 | - | - | - | 1,356 |
| Income tax payable | 20,982 | - | - | - | 20,982 |
| Total | 61,898 | 41,259 | 25,901 | 47,635 | 176,693 |

d) Credit risk

Credit risk is the risk of loss that arises from a counterparty failing to meet their contractual commitments in full and on time, or from losses arising from the change in value of traded financial instruments as a result of changes in credit risk on that instrument.

Credit risk in trade receivables is managed by analysing the credit ratings of the underlying debts.

Other than loans to related parties, there are no significant concentrations of credit risk.

Credit exposure by credit rating

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

| | 31 Dec 11 | | 31 Dec 10 | |
|--------------|---|--|---|--|
| | Reinsurance and Other Recoveries \$'000 | Other Financial Instruments \$'000 | Reinsurance and Other Recoveries \$'000 | Other Financial Instruments \$'000 |
| AAA | - | 84,507 | - | 134,282 |
| AA | 1,364 | 95,783 | 1,827 | 115,963 |
| A | 274 | 27,545 | 2,531 | 29,857 |
| BBB | 3 | 733 | (10) | 7,138 |
| Below BBB | 117 | - | - | - |
| Not rated | 2,763 | 355,013 | 6,169 | 380,627 |
| Total | 4,521 | 563,581 | 10,517 | 667,867 |

Gordian RunOff Limited

Notes to the financial statements for the year ended 31 December 2011

4. RISK MANAGEMENT POLICIES AND PROCEDURES & FINANCIAL INSTRUMENTS (Continued)

d) Credit risk (Continued)

The following table provides an aged analysis of financial assets neither past due or impaired, past due and not impaired and impaired assets. Impairment is calculated in accordance with note 1.

| 31 Dec 11 | Neither past due nor impaired \$'000 | Past due but not impaired Under 90 days \$'000 | More than 91 days \$'000 | Impaired \$'000 | Total \$'000 |
|-------------------------------------|---|---|--------------------------------|--------------------|-----------------|
| Receivables | 29 | (173) | 1,750 | (48) | 1,558 |
| Reinsurance and other recoveries | 1,347 | - | 799 | 2,375 | 4,521 |
| 31 Dec 10 | Neither past due nor impaired \$'000 | Past due but not impaired Under 90 days \$'000 | More than 91 days \$'000 | Impaired \$'000 | Total \$'000 |
| Receivables | 4,384 | (333) | 3,163 | 290 | 7,504 |
| Reinsurance and other recoveries | 999 | 620 | 787 | 8,111 | 10,517 |

Credit balances may arise due to unallocated cash.

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 in Note 1.

Categories of financial instruments

| | Note | 2011 \$'000 | 2010 \$'000 |
|---|------|----------------|----------------|
| Reinsurance and other recoveries | 11 | 4,521 | 10,517 |
| Financial assets | | | |
| Fair value through the profit and loss: | | | |
| Cash and cash equivalents | 20 | 59,592 | 77,264 |
| Receivables | 10 | 1,558 | 7,504 |
| Loans to related parties | 12 | - | 29,445 |
| Other financial assets | 12 | 161,320 | 218,489 |
| At cost/amortised cost: | | | |
| Loans to related parties | 12 | 342,669 | 342,669 |
| Financial Liabilities | | | |
| Outstanding claims | 13 | 111,174 | 127,214 |
| Payables | 14 | 2,676 | 1,356 |
| Income tax payable | 9 | 3,192 | 20,982 |

Gordian RunOff Limited

Notes to the financial statements for the year ended 31 December 2011

4. RISK MANAGEMENT POLICIES AND PROCEDURES & FINANCIAL INSTRUMENTS (Continued)

d) Credit risk (Continued)

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

- cash deposits
- loans to related parties, except for an interest-free loan of \$342,669,000 (2010: \$342,669,000) to Enstar Australia Holdings Pty Limited
- receivables
- payables.

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)

| | 2011 | | | |
|--------------------------------------|----------|----------------|---------------|----------------|
| | Level 1 | Level 2 | Level 3 | Total |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Government and semi-government bonds | - | 84,647 | - | 84,647 |
| Corporate bonds | - | 64,472 | - | 64,472 |
| Floating rate notes | - | 20 | - | 20 |
| Shares in other corporations | - | - | 596 | 596 |
| Private equity – related party | - | - | 11,517 | 11,517 |
| Shares in associated entities | - | - | 68 | 68 |
| Total investments at FVTPL | - | 149,139 | 12,181 | 161,320 |
| Expected to be realised | | | | |
| - within 12 months | - | 54,998 | - | 54,998 |
| - in more than 12 months | - | 94,141 | 12,181 | 106,322 |
| Total investments at FVTPL | - | 149,139 | 12,181 | 161,320 |

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

Gordian RunOff Limited

Notes to the financial statements for the year ended 31 December 2011

4. RISK MANAGEMENT POLICIES AND PROCEDURES & FINANCIAL INSTRUMENTS (Continued)

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

| | 2010 | | | |
|--------------------------------------|-------------------|-------------------|-------------------|-----------------|
| | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 | Total \$'000 |
| Government and semi-government bonds | - | 119,866 | - | 119,866 |
| Corporate bonds | - | 84,103 | - | 84,103 |
| Floating rate notes | - | 6,157 | - | 6,157 |
| Shares in other corporations | - | - | 603 | 603 |
| Private equity – related party | - | - | 7,692 | 7,692 |
| Shares in associated entities | - | - | 68 | 68 |
| Total investments at FVTPL | - | 210,126 | 8,363 | 218,489 |
| Expected to be realised | | | | |
| - within 12 months | - | 71,887 | - | 71,887 |
| - in more than 12 months | - | 138,239 | 8,363 | 146,602 |
| Total investments at FVTPL | - | 210,126 | 8,363 | 218,489 |

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

Reconciliation of movements - assets measured at fair value based on Level 3

The following table provides a reconciliation between the opening and closing balances of Level 3 financial assets which are recorded at FVTPL.

| | 2011 \$'000 | 2010 \$'000 |
|------------------------------|----------------|----------------|
| Opening balance | 8,363 | 3,204 |
| Total gains or losses in P&L | (71) | 717 |
| Purchases/Contributions | 3,896 | 4,447 |
| Sales/Redemptions | (7) | (5) |
| Transfers out of level 3 | - | - |
| Closing balance | 12,181 | 8,363 |

Capital Management

The Company is subject to externally imposed capital management requirements. The Company must comply with capital requirements as specified under APRA General Insurance Prudential Standards.

The primary capital management objective is to ensure the Company will be able to continue as a going concern while minimising excess capital through capital initiatives, where appropriate.

The Company's capital position is monitored by the Company's Board. There have been no changes in the capital management objectives, policies and processes from the previous period.

The Company has at all times during the current and prior financial year complied with the externally imposed capital requirements imposed by Prudential Standard GPS110 and the requirements set out in its insurance license.

Gordian RunOff Limited

Notes to the financial statements for the year ended 31 December 2011

4. RISK MANAGEMENT POLICIES AND PROCEDURES & FINANCIAL INSTRUMENTS (Continued)

The Minimum Capital Requirement (MCR) as a ratio of the Company's capital base is shown in the table below.

| Tier 1 Capital | 2011 \$'000 | 2010 \$'000 |
|--|------------------------|------------------------|
| Paid-up ordinary shares | 1,463,100 | 1,463,100 |
| General reserves | - | - |
| Accumulated losses | (1,022,386) | (946,955) |
| Current year earnings | 11,290 | 10,469 |
| Excess technical provisions (net of tax) | - | - |
| Less: deductions | 343,170 | 344,668 |
| Net Tier 1 Capital | 108,834 | 181,946 |
| Net Tier 2 Capital | - | - |
| Total Capital Base | 108,834 | 181,946 |
| Minimum Capital Requirement | 28,003 | 35,164 |
| Capital Adequacy Multiple | 3.89 | 5.17 |

The deductions include a \$342,669,000 (2010: \$342,669,000) loan from Gordian RunOff Limited to a related party that has been treated as a capital deduction for APRA solvency purposes.

The entity complies with Prudential Standard GPS110 and the requirements set out in its insurance license.

| 5. NET PREMIUM EXPENSE | 2011 \$'000 | 2010 \$'000 |
|---|------------------------|------------------------|
| Gross written premium expense - inwards | 169 | 314 |
| Premium expense | 169 | 314 |

Gordian RunOff Limited

Notes to the financial statements for the year ended 31 December 2011

| 6. NET CLAIMS INCURRED | Current year \$'000 | Prior years \$'000 | Total \$'000 |
|---|------------------------|-----------------------|-----------------|
| 2011 | | | |
| Gross claims (benefit)/expense | | | |
| Direct | - | (7,147) | (7,147) |
| Inwards reinsurance | - | (10,078) | (10,078) |
| Gross claims incurred- undiscounted | - | (17,225) | (17,225) |
| Discount movement | - | 8,983 | 8,983 |
| Total gross claims expense | - | (8,242) | (8,242) |
| Reinsurance and other recoveries revenue | | | |
| Reinsurance and other recoveries - undiscounted | - | 6,811 | 6,811 |
| Discount movement | - | (541) | (541) |
| Total reinsurance and other recoveries revenue | - | 6,270 | 6,270 |
| Net claims incurred | - | (1,972) | (1,972) |
| 2010 | | | |
| Gross claims (benefit)/expense | | | |
| Direct | - | (30,993) | (30,993) |
| Inwards reinsurance | - | (21,133) | (21,133) |
| Gross claims incurred- undiscounted | - | (52,126) | (52,126) |
| Discount movement | - | 22,025 | 22,025 |
| Total gross claims expense | - | (30,101) | (30,101) |
| Reinsurance and other recoveries revenue | | | |
| Reinsurance and other recoveries - undiscounted | - | (2,383) | (2,383) |
| Discount movement | - | (2,479) | (2,479) |
| Total reinsurance and other recoveries revenue | - | (4,862) | (4,862) |
| Net claims incurred | - | (34,963) | (34,963) |

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

As the Company stopped writing new business in late 1999, all claims development relates to prior years.

Gordian RunOff Limited

Notes to the financial statements for the year ended 31 December 2011

7. OPERATING EXPENSES

| | 2011 | 2010 |
|--|--------------|--------------|
| Expenses by nature | \$'000 | \$'000 |
| Commission expense/(revenue) | 34 | (198) |
| Impairment expense/(write back)- premium receivables | 393 | (1,602) |
| Impairment write back of reinsurance receivables | (4,177) | (5,346) |
| Investment management fees | 333 | 432 |
| Other management fees | 8,739 | 9,009 |
| External consultant costs | 989 | 1,096 |
| Other expenses | 508 | 597 |
| Total expenses | 6,819 | 3,988 |

Represented by:

| | | |
|---|--------------|--------------|
| General administration expenses included in net claims incurred | 6,329 | 6,681 |
| Acquisition benefit | - | (199) |
| Other underwriting expenses | 34 | 1 |
| General administration expense/(revenue) | 456 | (2,495) |
| Total expenses | 6,819 | 3,988 |

8. NET INVESTMENT REVENUE

| | 2011 | 2010 |
|---------------------------------------|---------------|---------------|
| | \$'000 | \$'000 |
| Investment income | | |
| Interest | 10,278 | 17,767 |
| Interest from related parties: | | |
| - other related parties | 1,199 | 20,585 |
| Dividend | 6 | - |
| Net gain/(loss) on foreign currency | 1,760 | (14,747) |
| Changes in fair value of investments: | | |
| Realised gain | 915 | 11,720 |
| Unrealised loss | (34) | (9,465) |
| Total net investment revenue | 14,124 | 25,860 |

Gordian RunOff Limited

Notes to the financial statements for the year ended 31 December 2011

9. INCOME TAX

| | 2011 \$'000 | 2010 \$'000 |
|--|----------------|----------------|
| a) Analysis of income tax expense | | |
| Current tax | 7,853 | 26,151 |
| Change in deferred tax | (3,268) | 27,238 |
| Over provided in previous years | (436) | (587) |
| Income tax expense | 4,149 | 52,802 |

b) Relationship between income tax expense and accounting profit

The table below provides a reconciliation of differences between prima facie tax calculated as 30% of the profit before income tax for the period and the actual income tax expense recognised in the statement of comprehensive income for the period.

| | 2011 \$'000 | 2010 \$'000 |
|---|----------------|----------------|
| Operating profit before income tax | 15,439 | 63,271 |
| Prima facie income tax at the rate of 30% (2010: 30%) | 4,632 | 18,981 |
| Tax effect of differences between amounts of income and expenses recognised for accounting and the amounts deductible/assessable in calculating taxable income: | | |
| Other | (47) | 21 |
| Impact of tax consolidation | - | 34,387 |
| Under provided in prior years | (436) | (587) |
| Income tax expense per statement of comprehensive income | 4,149 | 52,802 |

| | 2011 \$'000 | 2010 \$'000 |
|--|----------------|----------------|
| c) Analysis of deferred tax liability | | |
| Amounts recognised in income: | | |
| - Provision for doubtful debts | (3,906) | (5,041) |
| - Accruals | (138) | (228) |
| - Indirect claims costs adjustments | (4,473) | (6,671) |
| - Unrealised gains | 9,130 | 20,618 |
| - Other | 1 | 1,044 |
| Total deferred tax liability | 614 | 9,722 |

Gordian RunOff Limited

Notes to the financial statements for the year ended 31 December 2011

9. INCOME TAX (continued)

| | 2011 \$'000 | 2010 \$'000 |
|---|--------------------|--------------------|
| d) Analysis of current tax liability/tax funding liability | | |
| Current tax liability/(asset) | 117 | (3,477) |
| Tax funding liability | 3,075 | 24,459 |
| Total current tax liability/tax funding liability | 3,192 | 20,982 |
| (e) Franking Credits | 2011 \$'000 | 2010 \$'000 |
| Opening balance | - | 17,013 |
| Credits/debits during the year | - | 28,521 |
| Total amount of franking credits transferred to the head entity | - | (45,534) |
| Closing balance | - | - |

The Company formed part of the Enstar Australia Holdings Pty Ltd tax consolidation group. As part of a tax consolidated group the franking account balance transferred to the head entity, Enstar Australia Holdings Pty Ltd as at the date of consolidation 9 September 2010. The entity has entered tax consolidation for group capital management purposes.

| | 2011 \$'000 | 2010 \$'000 |
|--|----------------|----------------|
| 10. RECEIVABLES | | |
| Current | | |
| Premiums receivable - inwards reinsurance | 3,171 | 4,608 |
| less: provision for impairment of premium receivable | (1,652) | (1,259) |
| | <u>1,519</u> | <u>3,349</u> |
| Other receivables | 36 | 41 |
| Other receivables from related parties | | |
| - other related parties | 1 | 207 |
| Interest receivable | 2 | 26 |
| Interest receivable from related parties | | |
| - other related parties | - | 3,479 |
| Total current receivables | 1,558 | 7,102 |
| Non-current | | |
| Premiums receivable - inwards reinsurance | - | 402 |
| Total non-current receivables | - | 402 |

Gordian RunOff Limited

Notes to the financial statements for the year ended 31 December 2011

| | 2011 \$'000 | 2010 \$'000 |
|--|---------------------|----------------------|
| 11. REINSURANCE AND OTHER RECOVERIES | | |
| Expected future reinsurance recoveries undiscounted | | |
| - on claims paid | 12,956 | 21,283 |
| - on outstanding claims | 3,265 | 5,652 |
| | <u>16,221</u> | <u>26,935</u> |
| Discount to present value | (333) | (875) |
| less: provision for impairment of reinsurance assets | (11,367) | (15,543) |
| Reinsurance and other recoveries receivable | <u>4,521</u> | <u>10,517</u> |
| Current | | |
| Reinsurance and other recoveries receivable | 14,231 | 23,149 |
| less: provision for impairment of reinsurance assets | (11,003) | (15,274) |
| | <u>3,228</u> | <u>7,875</u> |
| Non-current | | |
| Reinsurance and other recoveries receivable | 1,657 | 2,911 |
| less: provision for impairment of reinsurance assets | (364) | (269) |
| | <u>1,293</u> | <u>2,642</u> |

Refer to note 13 for a reconciliation of the movement in reinsurance and other recoveries on incurred claims over the year.

Gordian RunOff Limited

Notes to the financial statements for the year ended 31 December 2011

| 12. OTHER FINANCIAL ASSETS | 2011 | 2010 |
|---|----------------|----------------|
| | \$'000 | \$'000 |
| Current | | |
| Investments – at fair value | | |
| Government and semi-government bonds | 17,508 | 36,905 |
| Corporate bonds | 37,470 | 34,982 |
| Floating rate notes | 20 | - |
| Investments – at cost | | |
| Loan to related party in the wholly owned group | 342,669 | 372,114 |
| Total current financial assets | 397,667 | 444,001 |
| Non-Current | | |
| Investments – at fair value | | |
| Government and semi-government bonds | 67,139 | 82,962 |
| Corporate bonds | 27,002 | 49,121 |
| Floating rate notes | - | 6,156 |
| Shares in other corporations | 596 | 603 |
| Private equity – related party | 11,517 | 7,692 |
| Shares in associated entities | 68 | 68 |
| Total non-current financial assets | 106,322 | 146,602 |
| Total financial assets | 503,989 | 590,603 |

Gordian RunOff Limited

Notes to the financial statements for the year ended 31 December 2011

| 13. OUTSTANDING CLAIMS | 2011 | 2010 |
|---|-----------------------|-----------------------|
| | \$'000 | \$'000 |
| Central estimate | 104,210 | 134,421 |
| Risk margin | 25,263 | 19,934 |
| | <u>129,473</u> | <u>154,355</u> |
| Discount to present value | (18,299) | (27,141) |
| Gross outstanding claims liability | <u>111,174</u> | <u>127,214</u> |
| | | |
| Current | 23,776 | 38,044 |
| Non-current | 87,398 | 89,170 |
| Total outstanding claims | <u>111,174</u> | <u>127,214</u> |

Investment assets in the form of debt securities and cash and cash equivalents are held to back the liability for outstanding claims and are realised on a regular basis to meet claims. The amount of claims likely to be settled within 12 months of the reporting date is classified as current.

The Company has been closed to new business since 1999 and there have been no new direct or inwards reinsurance contracts issued in the five years prior to and including the date of this report.

As described in note 1, 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 tables in the following pages show the estimates of total ultimate claims at successive year ends.

Reconciliation of movement in discounted outstanding claims liability

| 2011 | Gross | Reinsurance | Net |
|--|-----------------------|----------------------|-----------------------|
| | \$'000 | \$'000 | \$'000 |
| Amount outstanding brought forward | 127,214 | 10,517 | 116,697 |
| Claim payments/ recoveries during the period | 2,903 | 273 | 2,630 |
| Effect of changes in discounting | 8,626 | 201 | 8,425 |
| Effect of changes in assumptions | (27,569) | (6,470) | (21,099) |
| Amount outstanding carried forward | <u>111,174</u> | <u>4,521</u> | <u>106,653</u> |
| | | | |
| 2010 | Gross | Reinsurance | Net |
| | \$'000 | \$'000 | \$'000 |
| Amount outstanding brought forward | 214,211 | 20,306 | 193,905 |
| Claim payments/ recoveries during the period | (44,913) | (19,118) | (25,795) |
| Effect of changes in discounting | 2,979 | 380 | 2,599 |
| Effect of changes in assumptions | (45,063) | 8,949 | (54,012) |
| Amount outstanding carried forward | <u>127,214</u> | <u>10,517</u> | <u>116,697</u> |

Claim payments/recoveries during the period include proceeds received for liabilities acquired via portfolio transfer at fair value. No profit was recognised on acquisition of liabilities.

Gordian RunOff Limited

Notes to the financial statements for the year ended 31 December 2011

13. OUTSTANDING CLAIMS (Continued)

Claims development table

| | Inwards Reinsurance | | Direct Insurance | | Total | |
|--|---------------------|---------------|------------------|---------------|---------------|----------------|
| | Net | Gross | Net | Gross | Net | Gross |
| Estimate of cumulative claims | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| 31 December 2004 | 4,244,634 | 4,561,413 | 1,432,295 | 1,882,078 | 5,676,929 | 6,443,491 |
| 31 December 2005 | 4,223,949 | 4,531,638 | 1,491,990 | 1,933,978 | 5,715,939 | 6,465,616 |
| 31 December 2006 | 4,205,811 | 4,511,101 | 1,463,731 | 1,901,401 | 5,669,542 | 6,412,502 |
| 31 December 2007 | 4,190,043 | 4,494,507 | 1,393,892 | 1,822,020 | 5,583,935 | 6,316,527 |
| 31 December 2008 | 4,150,354 | 4,456,493 | 1,346,752 | 1,788,730 | 5,497,106 | 6,245,223 |
| 31 December 2009 | 4,133,425 | 4,444,397 | 1,291,424 | 1,749,514 | 5,424,849 | 6,193,911 |
| 31 December 2010 | 4,126,721 | 4,437,783 | 1,268,448 | 1,722,267 | 5,395,169 | 6,160,050 |
| 31 December 2011 | 4,113,048 | 4,419,576 | 1,270,744 | 1,717,371 | 5,383,792 | 6,136,947 |
| Estimate of cumulative claims at | | | | | | |
| 31 December 2011 | 4,113,048 | 4,419,576 | 1,270,744 | 1,717,371 | 5,383,792 | 6,136,947 |
| Cumulative payments | 4,045,561 | 4,351,172 | 1,253,731 | 1,698,121 | 5,299,292 | 6,049,293 |
| Undiscounted central estimate | 67,487 | 68,404 | 17,013 | 19,250 | 84,500 | 87,654 |
| Effect of discounting | 13,466 | 13,481 | 2,854 | 3,172 | 16,319 | 16,653 |
| Discounted central estimate | 54,021 | 54,923 | 14,159 | 16,078 | 68,181 | 71,001 |
| Risk margin | | | | | | 25,263 |
| Claims handling provision | | | | | | 14,910 |
| Gross outstanding claims as per the Statement of Financial Position | | | | | | 111,174 |

14. PAYABLES

| | 2011 | 2010 |
|---------------------------------------|--------------|--------------|
| | \$'000 | \$'000 |
| Current | | |
| Trade & other creditors | 534 | 834 |
| Other borrowings from related parties | | |
| - other related parties | 331 | 173 |
| Reinsurance balance payable | 1,811 | 349 |
| Total current payables | 2,676 | 1,356 |

Gordian RunOff Limited

Notes to the financial statements for the year ended 31 December 2011

| 15. ISSUED CAPITAL | 2011 \$'000 | 2010 \$'000 |
|---|------------------|------------------|
| Paid up capital | | |
| 1,840,000,005 fully paid ordinary shares at \$0.80 per share (2010: 1,840,000,005 at \$0.80 per share) | 1,463,100 | 1,463,100 |
| Total paid up capital | 1,463,100 | 1,463,100 |

| | | |
|---|------------------|------------------|
| Movement in ordinary share capital | | |
| Balance at beginning of the year | 1,463,100 | 1,463,100 |
| Balance at the end of the year | 1,463,100 | 1,463,100 |

Rights attaching to ordinary shares

Ordinary shares attract the following rights:

- (a) to receive notice of and to attend and vote at all general meetings of the Company;
- (b) to receive dividends; and
- (c) in a winding up, to participate equally in the distribution of the assets of the Company (both capital and surplus), subject only to any amounts unpaid on the Share.

16. KEY MANAGEMENT PERSONNEL COMPENSATION

The following table provides aggregate details of the compensation of key management personnel of Gordian RunOff Limited. Amounts disclosed below reflect total compensation provided by other related group companies to key management personnel of Gordian RunOff Limited.

| Year | Short-term employee benefits \$ | Post- employment benefits \$ | Other long- term benefits \$ | Termination benefits \$ | Share- based payments \$ | Total \$ |
|------|--|---------------------------------------|--|-------------------------------|-----------------------------------|-------------|
| 2011 | 6,558,876 | 239,875 | 72,034 | - | 214,827 | 7,085,612 |
| 2010 | 5,390,258 | 211,367 | 292,041 | - | 1,085,956 | 6,979,622 |

| 17. AUDITOR'S REMUNERATION | 2011 \$ | 2010 \$ |
|--|----------------|----------------|
| Audit or review of financial statements and regulatory returns | 372,607 | 276,752 |
| Other services | 300,585 | 363,204 |
| Total | 673,192 | 639,956 |

The Appointed Auditor is Deloitte Touche Tohmatsu.

Gordian RunOff Limited

Notes to the financial statements for the year ended 31 December 2011

18. CONTINGENT LIABILITIES AND COMMITMENTS

Legal disputes

The nature of the insurance and reinsurance business is that from time to time it gives rise to disputes. Several claims have been denied or recoveries disputed, giving rise to legal actions over coverage issues. Any resulting litigation/arbitration will be vigorously defended or pursued. In assessing claim liabilities or reinsurance recoveries, management has reserved based on its best estimate of the likely outcomes. The nature of these disputes is such that the quantum and timing of the outcomes are uncertain.

Uncalled commitments

US\$33,000,000 (A\$32,189,000) commitment (2010: US\$33,000,000) has been made to a related party private equity fund. US\$11,517,000 has been contributed to date (2010: US\$6,026,000).

19. RELATED PARTIES

Controlling Entity

The immediate parent entity at 31 December 2011 is AG Australia Holdings Limited. Enstar Group Limited at 31 December 2011 is the ultimate parent entity.

Directors

The directors of the Company during the financial year, and the dates of appointments and resignations during the year are:

| | |
|----------------|-------------------------|
| Bruce Bollom | |
| Richard Harris | Appointed 9 August 2011 |
| Paul O'Shea | Resigned 9 August 2011 |
| Nick Packer | |
| Gary Potts | |
| Jann Skinner | |

Other transactions

Transactions have been entered into between the company and director related entities. Certain directors and their director related entities may receive normal dividends on their ordinary share holdings in Enstar Group Limited.

These transactions do not have the potential to adversely affect the decisions about the allocation of scarce resources made by users of the entity's financial statements, or discharge to accountability of the directors. The transactions are considered to be trivial or domestic in nature.

During 2011, the following insurance transactions were conducted with related party entities:

| | 2011 | 2010 |
|-------------------------------|---------|------------|
| | \$ | \$ |
| Internal commutation payments | 322,782 | 1,297,703 |
| Novation payments | - | 21,140,035 |
| Claim payments | 14,179 | 8,233 |
| Division 3A Scheme receipt | - | 4,231,960 |
| Reinsurance collections | - | 117,362 |

Gordian RunOff Limited

Notes to the financial statements for the year ended 31 December 2011

19. RELATED PARTIES (Continued)

Enstar Australia Limited provided operational and administrative (including employee related) services to the Company. The services provided were in the normal course of the business and were on normal commercial terms and conditions.

Transactions within the wholly owned group

Transactions between the Company and other related parties for the financial year consisted of:

- Payment of management fees for services provided;
- Repayment of intercompany loan;
- Interest on intercompany loan;
- Payments of dividends;
- Provision for tax payments under tax funding agreement;
- Payments and commutations of claims.

The aggregate amounts brought to account in respect of the following types of transactions and each class of related party involved were:

| | 2011 | 2010 |
|---|-------------|-------------|
| | \$ | \$ |
| Amounts attributable to transactions with related parties | | |
| Operating profit before income tax includes aggregate amounts attributable to transactions in respect of: | | |
| Dividend paid - other related parties | 85,900,000 | 91,031,158 |
| Interest revenue - other related parties | 1,199,022 | 20,585,253 |
| Other expenses - other related parties | 39,104 | 77,249 |
| Management expenses - other related parties | 8,739,000 | 8,932,000 |
| | | |
| | 2011 | 2010 |
| | \$ | \$ |
| Amounts receivable from and payable to related parties | | |
| Aggregate amounts receivable at balance date from: | | |
| Interest receivable - other related parties | - | 3,478,682 |
| Intercompany receivables - other related parties | 1,332 | 207,061 |
| Loans - other related parties | 342,668,842 | 372,113,831 |
| Reinsurance balances receivable | 780,245 | 924,966 |
| | | |
| Aggregate amounts payable at balance date to: | | |
| Payables - other related parties | 330,695 | 172,765 |
| Tax funding liability | 3,075,325 | 24,459,393 |
| | | |
| Investments in related parties | | |
| Private equity fund | 11,517,238 | 7,691,984 |

An interest free loan exists between the Company and Enstar Australia Holdings Pty Ltd. During the year Cumberland Holdings repaid the remaining accrued and capitalised interest to the Company.

Gordian RunOff Limited

Notes to the financial statements for the year ended 31 December 2011

| 20. CASH FLOW RECONCILIATIONS | 2011 | 2010 |
|--------------------------------------|---------------|---------------|
| | \$'000 | \$'000 |
| (i) Reconciliation of cash | | |
| Cash balance comprises: | | |
| Cash on hand | 6,438 | 9,249 |
| Short term money market deposits | 53,154 | 68,015 |
| | 59,592 | 77,264 |

*The Company has given security over a term deposit against letters of credit of \$3,600,000 (31 December 2010: \$3,570,000).

| (ii) Reconciliation of net cash flows used in operating activities to net profit after income tax | 2011 | 2010 |
|--|-----------------|-----------------|
| | \$'000 | \$'000 |
| Net profit after income tax | 11,290 | 10,469 |
| Changes in net market value of investments | 34 | 9,465 |
| Net gain on sale of investments | (915) | (11,720) |
| Net loss on foreign currency transactions | (1,347) | 13,614 |
| Interest income on loans | (4,678) | (21,159) |
| Changes in assets and liabilities | | |
| - Decrease in accrued interest | 3,503 | 635 |
| - Decrease in receivables | 2,443 | 13 |
| - Decrease in reinsurance and other recoveries receivable | 5,996 | 9,789 |
| - Decrease in outstanding claims | (16,040) | (86,997) |
| - Increase/(decrease) in accounts payable & borrowings | 1,320 | (1,984) |
| - Decrease in income taxes payable | (17,790) | (8,058) |
| - (Decrease)/increase in deferred taxes payable, net of deferred tax asset | (9,108) | 27,238 |
| Net cash flows used in operating activities | (25,292) | (58,695) |

21. FINANCIAL SUPPORT

The Company has the benefit of the support of the immediate parent AG Australia Holdings Limited, by virtue of a guarantee dated 16 June 1992 whereby the parent has guaranteed payments under policies of insurance issued by the Company. This applies to claims made and arising prior to the date of revocation of this guarantee being 30 June 2002.

22. EVENTS OCCURRING AFTER THE REPORTING DATE

The Company proposes to acquire a number of insurance portfolios in 2012, including a material related party portfolio, via portfolio transfers pursuant to the Insurance Act 1973, Part III, Division 3A. Further information about likely developments in the operations of the Company and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Company.

Other than the matter referred to above in Likely Developments, no other matter or circumstance has arisen since the end of the financial year that has significantly affected or may significantly affect:

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

Gordian RunOff Limited

Directors' Declaration

For the year ended 31 December 2011

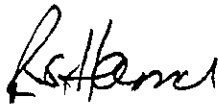
In the directors' opinion:

- (a) the financial statements and notes set out on pages 5 to 39 are in accordance with the Corporations Act 2001, including:
 - (i) complying with accounting standards, the Corporations Regulations 2001 and other mandatory reporting requirements; and
 - (ii) giving a true and fair view of the company's financial position as at 31 December 2011 and of its performance, as represented by the Statements of Comprehensive Income, Financial Position, Changes in Equity, and Cash Flows, for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

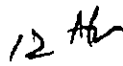
This declaration is made in accordance with a resolution of the directors made pursuant to s295(5) of the Corporations Act 2001.

On behalf of the Directors



Director

Sydney,

12 

April 2012



Director

Sydney,

12

April 2012

Independent Auditor's Report to the members of Gordian RunOff Limited

We have audited the accompanying financial report of Gordian RunOff Limited, which comprises the statement of financial position as at 31 December 2011, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration as set out on pages 5 to 40.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

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

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

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

Deloitte

Auditor's Independence Declaration


In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Gordian RunOff Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

- (a) the financial report of Gordian RunOff Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's financial position as at 31 December 2011 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.


DELOITTE TOUCHE TOHMATSU


S. Alexander
Partner
Chartered Accountants
12 April 2012