GORDIAN RUNOFF LIMITED
ABN 11 052 179 647

DIRECTORS' REPORT
AND FINANCIAL REPORT
31 DECEMBER 2016

Contents:

Gordian RunOff Limited

Directors' Report

The directors present their report on Gordian RunOff Limited (the Company) for the year ended 31 December 2016.

DIRECTORS

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

David Atkins	Appointed 17 November 2016
Bruce Bollom	
Nick Packer	Resigned 17 November 2016
Gary Potts	
Jann Skinner	
Mark Smith	

Details relating to directors can be found in Notes 17 and 20.

PRINCIPAL ACTIVITIES

The Company formed part of Enstar Group Limited at 31 December 2016. The principal activities of the Company during the financial year 2016 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 two insurance portfolios, pursuant to the Insurance Act 1973, Part III, Division 3A.

The operations of the Company 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 $971,000 (2015: $14,359,000) after an income tax expense of $415,000 (2015: $6,154,000).

DIVIDENDS

A dividend of $23,700,000 was paid during for the financial year ended 31 December 2016 (2015: nil).

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

LIKELY DEVELOPMENTS

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.

EVENTS OCCURRING AFTER THE REPORTING DATE

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

(i) the 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 director in which it agrees to indemnify, to the extent permitted by law, the director against any liability arising out of:

(i) the conduct of the business of the Company; and
(ii) the discharge of the director's duties as a director of the Company.

The directors and officers of the Company are insured under the Enstar Group policy against certain liabilities as permitted by the *Corporations Act 2001*.

The directors have not included details of the nature of the liabilities covered or the amount of the premiums paid in respect of the insurance contracts, as such disclosure is confidential under the terms of the contracts.

ROUNDING

The Company is an entity of the kind referred to in the ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and, in accordance with that order, amounts in this Directors' Report have been rounded off to the nearest thousand dollars, unless stated to be otherwise.

AUDITOR'S INDEPENDENCE

We have obtained an independence declaration from our auditor, KPMG, a copy of which is attached to this report and forms part of the Directors' Report for the year ended 31 December 2016.

Gordian RunOff Limited

Directors' Report (Continued)

Signed in accordance with a resolution of the Directors.

Director

Director

Signed at Sydney this 23rd day of March 2017

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

To: the directors of Gordian RunOff Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 December 2016 there have been:

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

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

KPMG

KPMG

Ian Moyser

Partner

Sydney

23 March 2017

Statement of Comprehensive Income
For the year ended 31 December 2016

	Note	2016 $'000	2015 $'000
Inwards reinsurance premium expense		(501)	(88)
Net premium expense		**(501)**	**(88)**
Direct claims expense		(4,371)	(4,064)
Inwards reinsurance claims benefit		4,706	10,216
Reinsurance and other recoveries benefit		1,219	417
Net claims incurred	**6**	**1,554**	**6,569**
Other underwriting revenue/(expense)	7	125	(281)
Underwriting revenue/(expense)		**125**	**(281)**
Underwriting profit		**1,178**	**6,200**
Net investment revenue	8	3,504	17,225
Other income		-	51
General administration expense	7	(3,296)	(2,963)
Net profit before tax		**1,386**	**20,513**
Income tax expense attributable to operating profit	9	(415)	(6,154)
Profit for the year		**971**	**14,359**
Other comprehensive income for the year		-	-
Total comprehensive income for the year attributable to members of Gordian RunOff Limited		**971**	**14,359**

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 2016

	Note	2016 $'000	2015 $'000
Current assets			
Cash and cash equivalents	21	17,372	51,012
Receivables	10	2,906	4,040
Reinsurance and other recoveries receivable	11	2,551	4,723
Other financial assets	12	466,492	408,295
Tax funding asset		398	-
Total current assets		**489,719**	**468,070**
Non-current assets			
Reinsurance and other recoveries receivable	11	3,283	2,743
Other financial assets	12	35,707	102,934
Total non-current assets		**38,990**	**105,677**
Total assets		**528,709**	**573,747**
Current liabilities			
Outstanding claims	13	24,198	28,103
Payables	14	4,154	3,268
Tax funding liability	9	-	4,181
Total current liabilities		**28,352**	**35,552**
Non-current liabilities			
Outstanding claims	13	50,282	64,443
Deferred tax liability	9	336	1,284
Total non-current liabilities		**50,618**	**65,727**
Total liabilities		**78,970**	**101,279**
Net assets		**449,739**	**472,468**
Equity			
Issued capital	15	1,463,100	1,463,100
Accumulated losses	16	(1,013,361)	(990,632)
Total equity		**449,739**	**472,468**

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

Statement of Changes in Equity
For the year ended 31 December 2016

	Note	Issued capital $'000	Accumulated losses $'000	Total $'000
Balance as at 1 January 2016		1,463,100	(990,632)	472,468
Dividend paid		-	(23,700)	(23,700)
Profit for the year		-	971	971
Other comprehensive income		-	-	-
Balance as at 31 December 2016		**1,463,100**	**(1,013,361)**	**449,739**
Balance as at 1 January 2015		1,463,100	(1,004,991)	458,109
Dividend paid		-	-	-
Profit for the year		-	14,359	14,359
Other comprehensive income		-	-	-
Balance as at 31 December 2015		**1,463,100**	**(990,632)**	**472,468**

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 2016

	Note	2016 $'000	2015 $'000
Cash flows used in operating activities			
Premiums received		626	646
Reinsurance and other recoveries revenue		2,939	1,044
Distributions received		3,114	12,845
Interest received		4,180	6,545
Claim payments		(15,640)	(15,940)
Other underwriting benefits/(costs)		14	(281)
Payments to suppliers		(4,482)	(4,636)
Income taxes paid		(5,942)	(4,239)
Cash flows used in operating activities	**21(b)**	**(15,191)**	**(4,016)**
Cash flows from investing activities			
Proceeds from sale of investments		63,927	107,792
Payments for investments		(57,952)	(79,716)
Cash flows from investing activities		**5,975**	**28,076**
Cash flows used in financing activities			
Dividend paid		(23,700)	-
Cash flows used in financing activities		**(23,700)**	**-**
Net (decrease)/increase in cash held		**(32,916)**	**24,060**
Balance at the beginning of the year		51,012	25,194
Effect of exchange rate changes		(724)	1,758
Balance at the end of the year	**21(a)**	**17,372**	**51,012**

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

Notes to the financial statements for the year ended 31 December 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Gordian RunOff Limited (the Company) is a company domiciled in Australia. The address of the Company's registered office is Level 9, 220 George Street, Sydney, NSW. The Company is a for-profit entity and the principal activities of the Company during the financial year were running off reinsurance and direct insurance portfolios and acquisition of portfolios pursuant to the Insurance Act 1973, Part III, Division 3A.

(a) Basis of preparation

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

The financial statements were authorised for issue by the Board of Directors on the 23rd March 2017.

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 financial assets and liabilities as detailed in these notes, which have been measured at fair value.

Accounting judgements and estimates
In the course of its operations 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.

Changes in accounting policies
The Company has consistently applied the accounting policies set out below to all periods presented in these financial statements. The Company has adopted all the new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2016. The adoption of these new standards did not result in changes to the accounting policies or disclosures in these financial statements.

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 2016. The Company has not yet determined the potential effect of the standards on the Company's financial statements.

(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.

As the Company has been in runoff since 1999, all premiums have been fully earned. The Company still processes adjustments to premiums as well as reinstatement premiums however these all relate to prior year policies and so are fully earned or expensed on receipt/payment.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 or acquired 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 and costs that can only be indirectly associated with individual claims, such as claims administration costs.

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

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

(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, distribution 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 year.

Notes to the financial statements for the year ended 31 December 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 and tax assets 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, including short-dated negotiable certificates of deposit ("NCDs").

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

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 latest market information available at balance date.

(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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Taxes (Continued)

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 the Company, formed a tax consolidated group of which Enstar Australia Holdings Pty Ltd is the head entity.

Under tax consolidation, the head entity recognises:
(i) Current tax balances at the implementation date of the entities in the tax consolidated group reflecting the tax values applying under tax consolidation.
(ii) 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 (i) and (ii) 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Taxes (Continued)

The entity has disclosed in the attached financial statements its current tax asset or liability and deferred tax balances under the headings of Tax Funding Asset or Tax Funding Liability, Deferred Tax Asset or Deferred Tax Liability.

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.

(i) Foreign currency transactions and translation

Functional and presentation currency
Items included in the financial statements of the Company 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 Company, 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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) 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 Company 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.

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.

(n) Rounding

The Company is an entity of the kind referred to in the ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, dated 24 March 2016 and, in accordance with that order, amounts in this financial report have been rounded off to the nearest thousand dollars, unless stated to be otherwise.

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 classes of business will typically display greater variations between initial estimates and final outcomes because there is a greater degree of difficulty in estimating IBNR reserves. For the short tail classes, claims are typically reported soon after the claim event, and hence tend to display lower levels of volatility. In calculating the estimated cost of unpaid claims the Company uses a variety of estimation techniques, generally based upon 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.

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. Since 1999, the Company has also acquired other runoff portfolios. The process for determining the value of outstanding claims liabilities is generally consistent between these 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 IBNR to Case Estimate ratios based on industry experience and judgement that also incorporates recent experience. The analysis is performed by either underwriting year or accident year dependent on the class of business.

Claims are first estimated on an undiscounted basis and are then discounted to allow for the time value of money. The valuation methods adopted include an implicit allowance for future inflation but do not identify the explicit rate (with the exception of the newly acquired workers compensation portfolio where explicit inflation assumptions were adopted). 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 classes 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 reconciliation of movement in discounted outstanding claims in note 13.

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 at least a 75% probability of adequacy.

	2016	**2015**
Risk margins applied	**%**	**%**
Direct insurance	21.2	28.7
Inwards reinsurance	13.0	14.0

Sensitivity analysis – general insurance contracts

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

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

Variable	Description of variable
Direct and reinsurance	
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.
Direct only	
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.

3. ACTUARIAL METHODS AND ASSUMPTIONS (Continued)

2016

Direct insurance		Assumption at 12/16		Profit/(loss) after tax	
Variable	Change in variable	Gross	Net	Gross $'000	Net $'000
Average weighted term to settlement	+0.5 year	9.8 years	9.5 years	267	236
	-0.5 year			(287)	(256)
Reinsurance percentage (as % of gross IBNR)	+ 1%	n/a	13.0%	-	216
	- 1%			-	(62)
Discount rate [1]	+ 1%	2.3%	2.3%	1,717	1,358
	- 1%			(1,671)	(1,608)
Expense rate	+ 1%	11%	n/a	(203)	(203)
	- 1%			203	203
Ultimate to incurred claims ratio [2]	+ 1%	101.0%	102.0%	(10,519)	(10,521)
	- 1%			1,793	1,793

Inwards reinsurance		Assumption at 12/16		Profit/(loss) after tax	
Variable	Change in variable	Gross	Net	Gross $'000	Net $'000
Average weighted term to settlement	+0.5 year	2.4 years	2.4 years	282	282
	-0.5 year			(271)	(271)
Reinsurance percentage (as % of gross IBNR)	+ 1%	n/a	n/a	-	-
	- 1%			-	-
Discount rate [1]	+ 1%	2.0%	2.0%	661	661
	- 1%			(669)	(669)
Expense rate	+ 1%	7.0%	n/a	(267)	(264)
	- 1%			267	264
Ultimate to incurred claims ratio [2]	+ 1%	100.0%	100.0%	(11,430)	(11,430)
	- 1%			600	600

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.

3. ACTUARIAL METHODS AND ASSUMPTIONS (Continued)

2015

Direct insurance		**Assumption at 12/15**		**Profit/(loss) after tax**	
Variable	**Change in variable**	**Gross**	**Net**	**Gross $'000**	**Net $'000**
Average weighted term to settlement	+0.5 year	9.3 years	9.0 years	299	263
	-0.5 year			(297)	(266)
Reinsurance percentage (as % of gross IBNR)	+ 1%	n/a	14.0%	-	136
	- 1%			-	(144)
Discount rate [1]	+ 1%	2.8%	2.8%	1,599	1,392
	- 1%			(1,873)	(1,639)
Expense rate	+ 1%	11%	n/a	(213)	(213)
	- 1%			213	213
Ultimate to incurred claims ratio [2]	+ 1%	101.0%	102.0%	(9,675)	(7,865)
	- 1%			2,519	2,323

Inwards reinsurance		**Assumption at 12/15**		**Profit/(loss) after tax**	
Variable	**Change in variable**	**Gross**	**Net**	**Gross $'000**	**Net $'000**
Average weighted term to settlement	+0.5 year	2.6 years	2.6 years	344	344
	-0.5 year			(332)	(332)
Reinsurance percentage (as % of gross IBNR)	+ 1%	n/a	n/a	-	-
	- 1%			-	-
Discount rate [1]	+ 1%	1.8%	1.8%	952	952
	- 1%			(971)	(971)
Expense rate	+ 1%	7.0%	n/a	(348)	(345)
	- 1%			348	345
Ultimate to incurred claims ratio [2]	+ 1%	100.0%	100.0%	(11,270)	(11,270)
	- 1%			1,099	1,099

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.

4. RISK MANAGEMENT POLICIES AND PROCEDURES AND 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 of Directors

The Board has ultimate responsibility for risk management, governance and compliance, and ensuring that an appropriate and effective risk framework is in place and operating effectively. The Board is assisted in fulfilling its obligations by the following delegated Board Committees:

The Board Audit and Risk Committee

The Board Audit and Risk Committee is responsible for ensuring the existence of an effective financial and risk management framework.

The Board Remuneration Committee

The Board Remuneration Committee is responsible for ensuring the existence of an effective risk remuneration framework.

The Appointed Actuary

The Appointed Actuary is responsible for the claims liability valuation. A report based on this, the Insurance Liability Valuation report (ILVR), must be provided to the Board and the Australian Prudential Regulatory Authority (APRA) at least annually. 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 CPS 220 *Risk Management* and GPS 230 *Reinsurance Management* issued by 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. There is a documented strategy/policy of how risks will be managed based on the detailed Risk Appetite Statements approved by the Board. The Risk Appetite Statements takes into account both quantitative and qualitative measures and are regularly reviewed by management and the Board.

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 programs are monitored and the REMS provides that exposures continue to be monitored and where feasible reinsurance be purchased as means of limiting risk if necessary.

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

- The mix of investment assets is driven by the nature and term of the insurance liabilities. A Board approved investment policy determines the mix and structure of the investment portfolio. The management of assets and liabilities is monitored in an attempt to match cashflows and currencies of claim payments.
- Stress testing is applied to a number of scenarios to monitor the impact on capital.

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.

(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. Financial risks include:

(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. Interest rate risk is managed by considering the duration profiles of the investment assets and the outstanding claims liability and duration matching where deemed appropriate by management. The entity accepts interest rate risk on its unmatched position, with the investment portfolio held currently of a shorter duration.

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 statement of comprehensive income.

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	2016 Impact on profit after tax $'000	2015 Impact on profit after tax $'000
+100 basis points	238	618
- 100 basis points	(233)	(632)

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

(b) Foreign currency risk

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) and Great Britain Pounds (GBP). Financial assets are no longer held in the European Union Currency (EURO). Where insurance contract liabilities are payable in a foreign currency other than the two mentioned above, the assets backing these liabilities are held in one of the two currencies (or Australian dollars) which best resembles an appropriate proxy. New Zealand Dollars (NZD) are also maintained to fund the Company's NZ branch. Other exposures to foreign currency are immaterial.

The below table illustrates the net asset foreign currency exposure by major currency along with the impact on profit after tax from a 10% appreciation or depreciation of the exposure at reporting date.

2016

	AUD $'000	USD/CAD $'000	NZD $'000	EURO $'000	GBP $'000
Net statement of financial position exposure	430,954	15,154	2,278	(379)	1,732
Impact on profit after tax from 10% currency appreciation	-	1,061	159	(27)	121
Impact on profit after tax from 10% currency depreciation	-	(1,061)	(159)	27	(121)

2015

	AUD $'000	USD/CAD $'000	NZD $'000	EURO $'000	GBP $'000
Net statement of financial position exposure	431,438	38,751	2,099	(564)	744
Impact on profit after tax from 10% currency appreciation	-	2,713	147	(39)	52
Impact on profit after tax from 10% currency depreciation	-	(2,713)	(147)	39	(52)

(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 considering the matching of the maturity profiles of assets and liabilities. As required by APRA Prudential Standard CPS 220 Risk Management, the Company has developed and implemented a RMS which is described earlier in this note to control this risk.

4. RISK MANAGEMENT POLICIES AND PROCEDURES AND 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.

2016

	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	28,116	16,863	9,584	30,199	84,762
Payables	4,154	-	-	-	4,154
Total	**32,270**	**16,863**	**9,584**	**30,199**	**88,916**

2015

	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	31,765	21,888	12,602	37,770	104,025
Payables	3,268	-	-	-	3,268
Total	**35,033**	**21,888**	**12,602**	**37,770**	**107,293**

(d) Credit risk

Credit risk is the risk of loss that arises from a counterparty failing to meet its 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 counterparties:

	2016		2015	
	Reinsurance and other recoveries $'000	Other financial instruments $'000	Reinsurance and other recoveries $'000	Other financial instruments $'000
AAA	-	38,993	-	27,337
AA	3,340	57,310	2,831	89,047
A	312	22,709	469	44,459
BBB	177	5,393	17	5,440
Not rated	2,005	395,166	4,149	395,958
Total	**5,834**	**519,571**	**7,466**	**562,241**

4. RISK MANAGEMENT POLICIES AND PROCEDURES AND 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(m).

2016	Neither past due nor impaired	Past due but not impaired		Impaired net of impairments	Total
		Under 180 days	More than 180 days		
	$'000	$'000	$'000	$'000	$'000
Receivables	31	1	2,304	570	2,906
Reinsurance and other recoveries	3,059	26	1,453	1,296	5,834

2015	Neither past due nor impaired	Past due but not impaired		Impaired net of impairments	Total
		Under 180 days	More than 180 days		
	$'000	$'000	$'000	$'000	$'000
Receivables	30	1	3,357	652	4,040
Reinsurance and other recoveries	2,782	87	1,146	3,451	7,466

(e) 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, other investments are in note 1.

Categories of financial instruments

	Note	2016 $'000	2015 $'000
Financial assets			
Fair value through the profit and loss:			
Cash and cash equivalents	21	17,372	51,012
Receivables	10	2,906	4,040
Reinsurance and other recoveries receivable	11	5,834	7,466
Other financial assets	12	126,750	135,780
At cost/amortised cost:			
Loans to related parties	12	375,449	375,449
Tax funding asset	9	398	-
Financial liabilities			
Fair value through the profit and loss:			
Outstanding claims	13	74,480	92,546
Payables	14	4,154	3,268
Tax funding liability	9	-	4,181

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

(e) Fair value (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 $375,449,000 (2015: $375,449,000) 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)

	2016			
	Level 1 $'000	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Government and semi-government bonds	-	50,935	-	50,935
Corporate bonds	-	35,530	-	35,530
Floating rate notes	-	15,670	-	15,670
Negotiable certificate of deposits	-	4,965	-	4,965
Private equity	-	-	19,582	19,582
Shares in associated entities	-	-	68	68
Total investments at FVTPL	**-**	**107,100**	**19,650**	**126,750**
Expected to be realised				
- within 12 months	-	90,975	68	91,043
- in more than 12 months	-	16,125	19,582	35,707
Total investments at FVTPL	**-**	**107,100**	**19,650**	**126,750**

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

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

(e) Fair value (Continued)

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

	2015			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Government and semi-government bonds	-	55,823	-	55,823
Corporate bonds	-	56,738	-	56,738
Floating rate notes	-	2,796	-	2,796
Private equity	-	-	20,355	20,355
Shares in associated entities	-	-	68	68
Total investments at FVTPL	-	**115,357**	**20,423**	**135,780**
Expected to be realised				
- within 12 months	-	32,778	68	32,846
- in more than 12 months	-	82,579	20,355	102,934
Total investments at FVTPL	-	**115,357**	**20,423**	**135,780**

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.

	2016 $'000	2015 $'000
Opening balance	20,423	24,042
Total gains or losses in Statement of Comprehensive Income	771	7,628
Purchases/contributions	1,570	836
Sales/redemptions	(3,114)	(12,083)
Closing balance	**19,650**	**20,423**

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

(f) 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 *Capital Adequacy* and the requirements set out in its insurance license.

The Prescribed Capital Amount as a ratio of the Company's capital base is shown in the table below.

Tier 1 Capital	**2016 $'000**	**2015 $'000**
Paid-up ordinary shares	1,463,100	1,463,100
Accumulated losses	(1,014,332)	(1,004,991)
Current year earnings	971	14,359
Excess technical provisions (net of tax)	-	1,548
Less: deductions	375,449	375,449
Common Equity Tier 1 Capital	74,290	98,567
Additional Tier 1 Capital	-	-
Tier 1 Capital	74,290	98,567
Tier 2 Capital	-	-
Total Capital Base	74,290	98,567
Prescribed Capital Amount		
Insurance risk charge	10,635	13,143
Asset risk charge	11,388	13,459
Asset concentration risk charge	1,009	-
Operational risk charge	1,450	1,774
Aggregation benefit	(4,957)	(5,995)
Prescribed Capital Amount	19,525	22,381
Prescribed Capital Amount Coverage	3.80	4.40

The deductions comprise a $375,449,000 (2015: $375,449,000) loan from the Company to a related party that has been treated as a capital deduction for APRA solvency purposes.

5. REVENUE

Revenue by nature	2016 $'000	2015 $'000
Net premium expense	(501)	(88)
Reinsurance and other recoveries revenue	1,219	417
Net investment revenue	3,504	17,225
Other income	-	51
Total revenue	**4,222**	**17,605**

6. NET CLAIMS INCURRED

2016	Current year $'000	Prior years $'000	Total $'000
Gross claims benefit/(expense)			
Direct	-	(3,744)	(3,744)
Inwards reinsurance	-	5,277	5,277
Gross claims incurred - undiscounted	-	1,533	1,533
Discount movement	-	(1,198)	(1,198)
Total gross claims benefit	-	335	335
Reinsurance and other recoveries revenue			
Reinsurance and other recoveries - undiscounted	-	962	962
Discount movement	-	257	257
Total reinsurance and other recoveries revenue	-	1,219	1,219
Net claims incurred	-	**1,554**	**1,554**

2015	Current year $'000	Prior years $'000	Total $'000
Gross claims benefit/(expense)			
Direct	-	(3,594)	(3,594)
Inwards reinsurance	-	11,090	11,090
Gross claims incurred - undiscounted	-	7,496	7,496
Discount movement	-	(1,344)	(1,344)
Total gross claims benefit	-	6,152	6,152
Reinsurance and other recoveries revenue			
Reinsurance and other recoveries - undiscounted	-	283	283
Discount movement	-	134	134
Total reinsurance and other recoveries revenue	-	417	417
Net claims incurred	-	**6,569**	**6,569**

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.

Notes to the financial statements for the year ended 31 December 2016

7. OPERATING EXPENSES

Expenses by nature	**2016 $'000**	**2015 $'000**
Other underwriting (revenue)/expense	(12)	281
Impairment expense - premiums receivable	7	237
Impairment write back of reinsurance receivable	(121)	(56)
Investment management fees	297	307
Other management fees - other related parties	4,129	3,908
External consultant costs	318	471
Other expenses	644	465
Total expenses	**5,262**	**5,613**

Represented by:		
General administration expenses included in net claims incurred	2,091	2,369
Other underwriting (revenue)/expense	(125)	281
General administration expense	3,296	2,963
Total expenses	**5,262**	**5,613**

8. NET INVESTMENT REVENUE

	2016 $'000	**2015 $'000**
Interest	4,169	6,494
Private equity fund distribution	3,114	12,845
Net (loss)/gain on foreign currency	(57)	9,119
Changes in fair value of investments:		
Realised (loss)	(388)	(1,174)
Unrealised (loss)	(3,334)	(10,059)
Total net investment revenue	**3,504**	**17,225**

9. INCOME TAX

(a) Analysis of income tax expense

	2016 $'000	2015 $'000
Current tax	(1,363)	(7,165)
Change in deferred tax	948	1,011
Income tax expense	**(415)**	**(6,154)**

(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.

	2016 $'000	2015 $'000
Operating profit before income tax	**1,386**	**20,513**
Prima facie income tax at the rate of 30% (2015: 30%)	(415)	(6,154)
Income tax expense per statement of comprehensive income	**(415)**	**(6,154)**

(c) Analysis of deferred tax liability

	2016 $'000	2015 $'000
Amounts recognised in income:		
Provision for doubtful debts	(3,274)	(3,670)
Accruals	(88)	(173)
Indirect claims costs adjustments	(1,594)	(1,870)
Unrealised gains	5,292	6,997
Total deferred tax liability	**336**	**1,284**

(d) Analysis of tax funding asset/(liability)

	2016 $'000	2015 $'000
Tax funding asset/(liability)	398	(4,181)
Total tax funding asset/(liability)	**398**	**(4,181)**

9. INCOME TAX (Continued)

(e) Franking credits

The Company is part of the Enstar Australia Holdings Pty Ltd tax consolidated 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.

10. RECEIVABLES

	2016 $'000	2015 $'000
Current		
Premiums receivable - inwards reinsurance	3,735	4,862
less: provision for impairment of premiums receivable	(860)	(853)
	2,875	4,009
Other receivables	11	11
Other receivables from related parties		
- other related parties	15	4
Interest receivable	5	16
Total current receivables	**2,906**	**4,040**

11. REINSURANCE AND OTHER RECOVERIES RECEIVABLE

	2016 $'000	2015 $'000
Expected future reinsurance recoveries undiscounted		
- on claims paid	11,839	15,217
- on outstanding claims	5,129	4,968
	16,968	20,185
Discount to present value	(1,080)	(1,337)
less: provision for impairment of reinsurance assets	(10,054)	(11,382)
Reinsurance and other recoveries receivable	**5,834**	**7,466**
Current		
Reinsurance and other recoveries receivable	12,599	15,866
less: provision for impairment of reinsurance assets	(10,048)	(11,143)
	2,551	**4,723**
Non-current		
Reinsurance and other recoveries receivable	3,289	2,982
less: provision for impairment of reinsurance assets	(6)	(239)
	3,283	**2,743**

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

12. OTHER FINANCIAL ASSETS

	2016 $'000	2015 $'000
Current		
Investments – at fair value		
Government and semi-government bonds	44,533	4,237
Corporate bonds	31,412	28,541
Floating rate notes	10,065	-
Negotiable certificate of deposits	4,965	-
Shares in associated entities	68	68
Investments – at cost		
Loan to related party in the wholly owned group	375,449	375,449
Total current financial assets	**466,492**	**408,295**
Non-current		
Investments – at fair value		
Government and semi-government bonds	6,401	51,586
Corporate bonds	4,118	28,197
Floating rate notes	5,606	2,796
Private equity	19,582	20,355
Total non-current financial assets	**35,707**	**102,934**
Total financial assets	**502,199**	**511,229**

13. OUTSTANDING CLAIMS

	2016 $'000	2015 $'000
Central estimate	74,973	89,803
Risk margin	9,787	14,222
	84,760	104,025
Discount to present value	(10,280)	(11,479)
Gross outstanding claims liability	**74,480**	**92,546**

	2016 $'000	2015 $'000
Current	24,198	28,103
Non-current	50,282	64,443
Total outstanding claims	**74,480**	**92,546**

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.

As described in note 1(d), 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

2016	Gross $'000	Reinsurance $'000	Net $'000
Amount outstanding brought forward	92,546	7,466	85,080
Claim payments/recoveries during the period	(15,640)	(2,939)	(12,701)
Effect of changes in discounting	2,243	159	2,084
Effect of changes in assumptions	(4,669)	1,148	(5,817)
Amount outstanding carried forward	**74,480**	**5,834**	**68,646**

2015	Gross $'000	Reinsurance $'000	Net $'000
Amount outstanding brought forward	116,815	8,519	108,296
Claim payments/recoveries during the period	(15,940)	(1,044)	(14,896)
Effect of changes in discounting	2,624	153	2,471
Effect of changes in assumptions	(10,953)	(162)	(10,791)
Amount outstanding carried forward	**92,546**	**7,466**	**85,080**

Notes to the financial statements for the year ended 31 December 2016

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 2007	5,580,488	5,960,952	1,393,892	1,822,020	6,974,380	7,782,972
31 December 2008	5,531,249	5,913,873	1,346,752	1,788,730	6,878,001	7,702,603
31 December 2009	5,511,673	5,901,140	1,291,424	1,749,514	6,803,098	7,650,654
31 December 2010	5,498,652	5,888,423	1,268,448	1,722,266	6,767,100	7,610,690
31 December 2011	5,477,068	5,869,955	1,270,744	1,717,371	6,747,812	7,587,326
31 December 2012	5,486,995	5,879,864	1,639,172	2,533,206	7,126,168	7,413,069
31 December 2013	5,486,930	5,879,768	1,659,091	2,558,301	7,126,021	8,438,069
31 December 2014	5,485,273	5,878,081	1,657,604	2,556,656	7,142,876	8,434,737
31 December 2015	5,475,104	5,867,817	1,659,770	2,558,867	7,134,874	8,426,683
31 December 2016	5,470,047	5,862,810	1,665,111	2,565,300	7,135,158	8,428,110
Estimate of cumulative claims at 31 December 2016	5,470,047	5,862,810	1,665,111	2,565,300	7,135,158	8,428,110
Cumulative payments	5,433,447	5,825,843	1,637,382	2,532,930	7,070,829	8,358,773
Undiscounted central estimate	**36,600**	**36,967**	**27,729**	**32,370**	**64,329**	**69,337**
Effect of discounting	1,510	1,523	7,368	8,435	8,878	9,958
Discounted central estimate	**35,090**	**35,444**	**20,361**	**23,935**	**55,451**	**59,379**
Risk margin						9,787
Claims handling provision						5,314
Gross outstanding claims as per the Statement of Financial Position						**74,480**

Acquired portfolios are added to the development table from acquisition year onwards. The claims development table is restated at current closing exchange rates.

14. PAYABLES

	2016	2015
	$'000	$'000
Current		
Trade and other creditors	327	585
Other borrowings from related parties		
- other related parties	1,378	203
Reinsurance balance payable	2,449	2,480
Total current payables	**4,154**	**3,268**

Notes to the financial statements for the year ended 31 December 2016

15. ISSUED CAPITAL

	2016 $'000	2015 $'000
Paid up capital		
1,840,000,005 fully paid ordinary shares (2015: 1,840,000,005)	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. ACCUMULATED LOSSES

	2016 $'000	2015 $'000
Accumulated losses		
Balance at the beginning of the year	(990,632)	(1,004,991)
Profit for the year	971	14,359
Dividend paid	(23,700)	-
Balance at the end of the year	**(1,013,361)**	**(990,632)**

	2016 $'000	2015 $'000
Dividend paid on ordinary shares		
Dividend paid	23,700	-
Dividend paid during the year	**23,700**	**-**

Note: $0.01 dividends per share (2015: nil per share)

Notes to the financial statements for the year ended 31 December 2016

17. KEY MANAGEMENT PERSONNEL COMPENSATION

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

Year	Short-term employee benefits	Post-employment benefits	Other long-term benefits	Termination benefits	Share-based payments	Total
	$	$	$	$	$	$
2016	3,100,020	2,690,903	290,577	-	652,594	6,734,094
2015	3,251,518	4,227,372	407,329	-	2,011,780	9,897,999

Performance Bonus payments or Short term incentive awards in the 2016 disclosure, include amounts awarded in 2016 only but relating to 2015 year.

18. AUDITOR'S REMUNERATION

	2016	2015
	$	$
Amounts paid or payable to auditor of the Company for:		
- Audit services	150,489	279,783
- Other services	-	36,760
Total auditor's remuneration	**150,489**	**316,543**

The Company's auditor is KPMG.

19. 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.

20. RELATED PARTIES

Controlling entity

As at 31 December 2016, the immediate parent entity is AG Australia Holdings Limited. Enstar Australia Holdings Pty Limited is the ultimate Australian parent entity. Enstar Group Limited, incorporated in Bermuda, is the ultimate parent entity.

Directors

The Directors of the Company during the financial year are:

David Atkins	Appointed 17 November 2016
Bruce Bollom	
Nick Packer	Resigned 17 November 2016
Gary Potts	
Jann Skinner	
Mark Smith	

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 of accountability by the Directors. The transactions are considered to be trivial or domestic in nature.

During 2016, the following insurance transactions were conducted with related party entities:

	2016	2015
	$	$
Claim payments	13,996	35,415
Reinsurance collections	79,439	28,039

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
- Provision for tax payments under tax funding agreement
- Payment of claims

20. RELATED PARTIES (Continued)

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

	2016	2015
Amounts attributable to transactions with related parties	$	$
Net profit before income tax includes aggregate amounts attributable to transactions in respect of:		
Other expenses - other related parties	230,426	14,947
Management expenses - other related parties	4,129,463	3,908,361
Dividend paid - other related parties	23,700,000	-

	2016	2015
Amounts receivable from and payable to related parties	$	$
Aggregate amounts receivable at balance date from:		
Intercompany receivables - other related parties	14,663	2,196
Loans - other related parties	375,448,842	375,448,842
Tax funding asset	398,460	-
Reinsurance balances receivable	250,661	209,038
Aggregate amounts payable at balance date to:		
Payables - other related parties	1,377,832	202,559
Tax funding liability	-	4,181,203

An interest free loan exists between the Company and Enstar Australia Holdings Pty Ltd.

21. CASH FLOW RECONCILIATIONS

(a) Cash and cash equivalents

	2016 $'000	2015 $'000
Cash balance comprises:		
Cash on hand	3,210	2,921
Short term money market deposits*	7,124	48,091
Negotiable certificate of deposits	7,038	-
	17,372	51,012

*The Company has given security over a term deposit against letters of credit of $2,824,000 (2015: $2,791,000).

(b) Reconciliation of cash flows used in operating activities to profit for the year

	2016 $'000	2015 $'000
Profit for the year	971	14,359
Changes in net market value of investments	3,334	10,059
Net loss on sale of investments	388	1,174
Net loss/(gain) on foreign currency transactions	57	(9,119)
Changes in assets and liabilities		
Increase in accrued interest	11	7
Decrease in receivables	1,123	613
Decrease in reinsurance and other recoveries receivable	1,632	1,053
Decrease in outstanding claims	(18,066)	(24,269)
Increase in payables	886	192
(Decrease)/increase in income taxes payable	(4,579)	2,926
(Decrease) in deferred taxes payable, net of deferred tax asset	(948)	(1,011)
Cash flows used in operating activities	**(15,191)**	**(4,016)**

22. 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.

23. EVENTS OCCURRING AFTER THE REPORTING DATE

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

(i) the 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 2016

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 2016 and of its performance, 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

Director

Sydney, 23rd March 2017

Independent Auditor's Report

To the members of Gordian RunOff Limited

Report on the audit of the Financial Report

Opinion

We have audited the ***Financial Report*** of Gordian RunOff Limited (the Company).

In our opinion, the accompanying Financial Report of Gordian RunOff Limited is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Company's financial position as at 31 December 2016 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Statement of financial position as at 31 December 2016
- Statement of comprehensive income, Statement of changes in equity, and Statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Company in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code). We have fulfilled our other ethical responsibilities in accordance with the Code.

Other Information

Other Information is financial and non-financial information in Gordian RunOff Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

The Other Information we obtained prior to the date of this Auditor's Report was the Director's report.
Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not

express any form of assurance conclusion thereon.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001;*
- implementing necessary internal control 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; and
- assessing the Company's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

A further description of our responsibilities for the Audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_files/ar3.pdf. This description forms part of our Auditor's Report.

KPMG

Ian Moyser

Partner

Sydney

23 March 2017