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LUMLEY GENERAL INSURANCE (N.Z.) LIMITED
AND CONTROLLED ENTITIES

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2010

LUMLEY GENERAL INSURANCE (N.Z.) LIMITED AND CONTROLLED ENTITIES

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LUMLEY GENERAL INSURANCE (N.Z.) LIMITED AND CONTROLLED ENTITIES

Directors' report

Your directors submit their annual financial report for the year ended 30 June 2010.

Directors

The names of the Parent's directors in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

F J Cameron QSO
A N Gianotti
J A Lyon
R G Scott
D G Thom
M B Webb (Appointed 13 October 2009)

Dividends	**$000's**
Dividends paid in the year:	
On ordinary shares (5.26 cents per share)	5,000
Supplementary dividend	-
	5,000

No final dividends have been proposed.

Nature of operations and principal activities

The Parent and Group's principal activities are general insurance underwriting and related investment and finance activities.

Operating and financial review

The net profit from ordinary activities after income tax for the year was $14,401,000 (2009: $10,569,020).

Significant changes in the state of affairs

There has been no significant change in the state of affairs of the Parent or Group during the year.

Disclosures

Pursuant to Section 211 (3) of the Companies Act 1993, the shareholders have agreed that the annual report of the Parent and Group need not comply with Sections 211 (1) (e), (f), (g), (h) and (j) of the Companies Act 1993.

Auditor

Ernst & Young was appointed to undertake the audit of the financial statements for the year ended 30 June 2010.

For and on behalf of the Board of Directors

J A LYON
Director

R G SCOTT
Director

LUMLEY GENERAL INSURANCE (N.Z.) LIMITED AND CONTROLLED ENTITIES

Statement of Comprehensive Income
For the year ended 30 June 2010

	Notes	*Consolidated*		*Parent*	
		2010	*2009*	*2010*	*2009*
		$'000	*$'000*	*$'000*	*$'000*
Gross earned premium revenue	4	329,033	322,171	327,380	320,610
Outward reinsurance premium expense	4	(53,657)	(67,416)	(53,657)	(67,416)
Net premium revenue	4	275,376	254,755	273,723	253,194
Claims expense	5	(190,802)	(191,264)	(190,718)	(191,161)
Reinsurance and other recoveries revenue	5	34,345	32,497	34,345	32,497
Net claims incurred	5	(156,457)	(158,767)	(156,373)	(158,664)
Net movement in unexpired risk liability	6	-	4,670	-	4,670
Acquisition costs	7	(81,647)	(79,132)	(80,262)	(77,634)
Other underwriting expenses including claims management expenses	7	(25,088)	(20,482)	(24,899)	(20,284)
Underwriting expenses		(106,735)	(99,614)	(105,161)	(97,918)
Underwriting result		12,184	1,044	12,189	1,282
Investment income	4	7,135	10,104	9,406	12,316
Dividend income	4	-	-	1,548	1,465
Other income	4	1,879	2,426	1,457	1,909
Income from premium funding activities	4	9,063	8,691	-	-
Other operating expenses	7	(10,386)	(9,831)	(5,137)	(5,210)
		7,691	11,390	7,274	10,480
Profit before income tax		19,875	12,434	19,463	11,762
Income tax expense	8	(5,447)	(1,923)	(5,275)	(1,663)
Movement in tax reserves	8	(27)	58	-	-
Profit for the year		14,401	10,569	14,188	10,099
Other comprehensive income		-	-	-	-
Total comprehensive income of the year, attributable to the owners of the parent		14,401	10,569	14,188	10,099

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

LUMLEY GENERAL INSURANCE (N.Z.) LIMITED AND CONTROLLED ENTITIES

Statement of Financial Position
As at 30 June 2010

	Notes	*Consolidated*		*Parent*	
		2010	*2009*	*2010*	*2009*
		$'000	*$'000*	*$'000*	*$'000*
ASSETS					
Current assets					
Cash and cash equivalents		12,335	14,209	9,152	11,024
Trade and other receivables	10	84,072	92,888	113,815	131,102
Financial assets – loans and receivables	11	51,626	46,054	-	-
Financial assets – funds held with related party	11	171,558	148,417	171,558	148,417
Financial assets at fair value through profit or loss	11	-	497	-	-
Reinsurance and other recoveries receivable	12	22,756	31,338	22,756	31,338
Prepaid reinsurance premiums	13	13,993	16,635	13,993	16,635
Deferred acquisition costs	14	24,880	23,231	24,990	23,413
		381,220	373,269	356,264	361,929
Non-current assets					
Financial assets at fair value through profit or loss	11	643	108	112	109
Investment in Subsidiaries	15	-	-	1,050	1,050
Deferred tax assets	8	2,523	5,062	2,485	5,018
Reinsurance and other recoveries receivable	12	22,441	20,892	22,441	20,892
Property, plant and equipment	16	5,292	5,697	5,222	5,692
Deferred acquisition costs	14	459	807	459	807
Intangible assets	17	10,537	6,038	10,260	5,858
Goodwill	18	2,000	-	2,000	-
		43,895	38,604	44,029	39,426
Total assets		425,115	411,873	400,293	401,355
LIABILITIES					
Current liabilities					
Trade and other payables	19	52,012	43,779	28,005	34,470
Unearned premium liabilities	21	125,438	121,417	125,438	121,417
Unearned exchange commission	22	2,713	3,125	2,713	3,125
Outstanding claims liabilities	23	78,712	83,883	78,712	83,883
Taxation payable		1,159	1,049	659	-
Provisions	24	156	140	149	133
		260,190	253,393	235,676	243,028
Non-current liabilities					
Unearned premium liabilities	21	2,302	4,187	2,302	4,187
Policy liability - life	35	508	587	-	-
Outstanding claims liabilities	23	56,578	58,291	56,578	58,291
Financial guarantee contracts	25	2,129	2,189	2,129	2,189
Deferred tax liabilities	8	7,036	6,255	7,088	6,328
Provisions	24	44	44	43	43
		68,597	71,553	68,140	71,038
Total liabilities		328,787	324,946	303,816	314,066
Net assets		96,328	86,927	96,477	87,289
Capital and reserves attributable to the owners of the parent					
Contributed equity	26	70,009	70,009	70,009	70,009
Retained earnings		26,319	16,918	26,468	17,280
Total equity		96,328	86,927	96,477	87,289

For and on behalf of the Board, we authorise these financial statements for issue on 11 August 2010.

J LYON
Director

R G SCOTT
Director

The above statement of financial position should be read in conjunction with the accompanying notes.

LUMLEY GENERAL INSURANCE (N.Z.) LIMITED AND CONTROLLED ENTITIES

Statement of Changes in Equity for the year ended 30 June 2010

Consolidated	*Notes*	*Ordinary Shares*	*Retained Earnings*	*Total ordinary shareholders' equity*
		$'000	*$'000*	*$'000*
At 1 July 2008		29,009	11,356	40,365
Net profit as previously reported		-	10,569	10,569
Other comprehensive income		-	-	-
Total comprehensive income for the year attributable to the owners of the parent		-	10,569	10,569
Issue of ordinary shares	26	41,000	-	41,000
Dividends	9	-	(5,007)	(5,007)
At 30 June 2009		70,009	16,918	86,927
Net profit for the year		-	14,401	14,401
Other comprehensive income		-	-	-
Total comprehensive income for the year attributable to the owners of the parent		-	14,401	14,401
Dividends	9	-	(5,000)	(5,000)
At 30 June 2010		70,009	26,319	96,328

Parent				
At 1 July 2008		29,009	12,188	41,197
Net profit as previously reported		-	10,099	10,099
Other comprehensive income		-	-	-
Total comprehensive income for the year attributable to the owners of the parent		-	10,099	10,099
Issue of ordinary shares	26	41,000	-	41,000
Dividends	9	-	(5,007)	(5,007)
At 30 June 2009		70,009	17,280	87,289
Net profit for the year		-	14,188	14,188
Other comprehensive income		-	-	-
Total comprehensive income for the year attributable to the owners of the parent		-	14,188	14,188
Dividends	9	-	(5,000)	(5,000)
At 30 June 2010		70,009	26,468	96,477

The above statement of changes in equity should be read in conjunction with the accompanying notes.

LUMLEY GENERAL INSURANCE (N.Z.) LIMITED AND CONTROLLED ENTITIES

Notes to and forming part of the financial statements for the year ended 30 June 2010

1. Summary of significant accounting policies

a) Group and its operations

Lumley General Insurance (N.Z) Limited ("the Parent") is a limited liability company incorporated and domiciled in New Zealand.

The registered office of the Parent is Level 21, Lumley Centre, 88 Shortland Street, Auckland, New Zealand. The consolidated financial statements for the year ended 30 June 2010 were authorised for issue in accordance with a resolution of the directors on 11 August 2010.

The holding company of Lumley General Insurance (N.Z.) Limited is Lumley Insurance Group Limited and the ultimate controlling entity is Wesfarmers Limited. Both companies are incorporated in Western Australia.

The nature of the operations and prinicpal activity of the Group is general insurance.

b) Basis of preparation

This annual financial report covers both Lumley General Insurance (N.Z.) Limited as an individual entity and the consolidated group comprising Lumley General Insurance (N.Z.) Limited and its controlled entities ("the Group") and has been prepared in accordance with generally accepted accounting practice in New Zealand and with the requirements of the Companies Act 1993 and the Financial Reporting Act 1993. The Group's functional and presentation currency is NZD ($) and amounts are presented rounded to the nearest $'000 (apart from otherwise stated).

The Parent and the Group are non-exempt under the Financial Reporting Act 1993.

c) Statement of compliance

The financial statements have been prepared in accordance with NZ GAAP. They comply with Applicable Financial Reporting Standards, applying the Framework for Differential Reporting for entities adopting the New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS"), and its interpretations as appropriate to profit-oriented entities that qualify for and apply differential reporting concessions.

The Parent and Group are qualifying entities within the Framework for Differential Reporting. The Parent and Group qualify on the basis that they are not publicly accountable and all owners are represented on the Board of Directors. The Parent and Group has taken advantage of all differential reporting concessions available to it with the exception of the following:

(i) NZ IAS 1 - Presentation of Financial Statements, paragraph 52
(ii) NZ IAS 12 - Income Taxes, paragraphs 81(g) and 82, NZ IAS 1 paragraph 68(n)
(iii) NZ IAS 16 - Property, Plant and Equipment, paragraphs 51, 61, 73(e) and 74(b)
(iv) NZ IAS 18 - Revenue, paragraph 35(b)
(v) NZ IAS 38 - Intangible Assets, paragraph 118(e).

This financial report is prepared on the historic cost basis of accounting with certain exceptions as described in accounting policies (j), (k), (o) and (w) below.

d) New accounting standards and interpretations

The Group has adopted the following new and amended New Zealand equivalents to International Financial Reporting
(i) NZ IAS 1 - Presentation of Financial Statements (revised 2007) effective 1 January 2009
(ii) Amendments to NZ IFRS 2 - Share Based Payment: Vesting Conditions and Cancellations effective 1 January 2009
(iii) Improvements to NZ IFRSs June 2008 effective 1 January 2009

1. Summary of significant accounting policies

d) New accounting standards and interpretations (continued)

NZ IAS 1 Presentation of Financial Statements (Revised)
The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity represented in a reconciliation of each component of equity and included in the new statement of comprehensive income. The statement of comprehensive income presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present one statement.

Improvements to NZ IFRS
In 2008 and 2009 various amendments to NZ IFRS were issued as part of the Annual Improvements Project, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions and application dates for each amendment. The adoption of amendments resulting from the Annual Improvements Project to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

(i) NZ IAS 1 - Presentation of Financial Statements, paragraph 52
(ii) NZ IAS 8 - Accounting Policies , Change in Accounting Estimates and Error
(iii) NZ IAS 10 - Events after the Reporting Period
(iv) NZ IAS 16 - Property, Plant and Equipment
(v) NZ IAS 17 - Leases
(vi) NZ IAS 18 - Revenue
(vii) NZ IAS 19 - Employee Benefits
(viii) NZ IAS 36 - Impairments of Assets
(ix) NZ IAS 38 - Intangible Assets
(x) NZ IFRS 2 - Share based Payment

e) Basis of consolidation

The consolidated financial statements comprise the financial statements of Lumley General Insurance (N.Z) Limited and its controlled entities as at 30 June each year (see note 31).

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible when assessing whether a group controls another entity.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent company, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date in which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Investments in subsidiaries held by the Parent are accounted for at cost in the separate financial statements of the Parent entity less any impairment charges. Dividends received from the subsidiaries are recorded as a component of other revenues in the statement of comprehensive income of the Parent entity, and do not impact the recorded cost of the investment. Upon receipt of dividend payments from the subsidiaries , the Parent will assess whether any indicators of impairment of the carrying value of the investment in the subsidiary exist. Where such indicators exist, to the extent that the carrying value of investment exceeds its recoverable amount , an impairment loss is recognised.

f) Revenue

Premium revenue comprises amounts charged to policyholders, excluding taxes and levies collected on behalf of third parties. The earned portion of premium received and receivable, including unclosed business, is recognised as revenue. Premium on unclosed business is brought to account using estimates based on the prior years' actual unclosed business with due allowance made for any changes in the pattern of new business and renewals.

Interest revenue is recognised as interest accrues using the effective interest rate method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

g) Borrowing costs

Borrowing costs are recognised as expenses in the period in which they are incurred.

h) Unearned premium

Unearned premium is calculated based on the term of the risk which closely approximates the pattern of risks underwritten.

At each balance date, the adequacy of the unearned premium liability is assessed on a net of reinsurance basis against the present value of the expected future cash flows relating to potential future claims in respect of the relevant insurance contracts, plus an additional risk margin to reflect the inherent uncertainty of the central estimate. If the unearned premium liability, less related intangible assets and deferred acquisition costs, is deficient, then the resulting deficiency is recognised in the income statement of the Group and Parent.

i) Reinsurance and other recoveries

Reinsurance is an agreement between insurance companies under which one company accepts all or part of a loss or risk of the other company.

The Parent cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Parent may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Parent will receive from the reinsurer. The impairment loss is recorded in the statement of comprehensive income.

The Parent also assumes reinsurance risk in the normal course of business for non-life insurance contracts where applicable. Premiums and claims are recognised as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

Reinsurance and other recoveries on paid claims, reported claims not yet paid, IBNR and IBNER are recognised as revenue.

Amounts recoverable are assessed in a manner similar to the assessment of outstanding claims. Recoveries are initially measured as the present value of the expected future receipts, calculated on the same basis as the provision for outstanding claims, and subsequently measured at amortised cost.

1. Summary of significant accounting policies

j) Outstanding claims liability

The liability for outstanding claims is measured as the central estimate of the present value of expected future claims payments plus a risk margin. 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 estimated claims handling costs.

The expected future payments are discounted to present value using a risk free rate.

A risk margin is applied to the central estimate, net of reinsurance and other recoveries, to reflect the inherent uncertainty in the central estimate. This risk margin increases the probability that the net liability is adequate to a minimum of 85 per cent.

k) Deferred acquisition costs

Those direct and indirect costs incurred during the financial period arising from the writing or renewing of insurance contracts are deferred to the extent that these costs are recoverable out of future premiums. All other acquistion costs are recognised as an expense when incurred.

Deferred acquisition costs are amortised over the period in which the related revenues are earned. The reinsurers' share of deferred acqusition costs is amortised in the same manner as the underlying asset amortisation is recorded in the statement of comprehensive income.

An impairment review is performed at each reporting date of more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value an impariment loss is recognised in the statement of comprehensive income. Deferred acquisition costs are considered in the liability adequacy test for each reporting period.

l) Income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the statement of financial position date.

Deferred income tax is provided on all temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or

- when the taxable temporary difference is associated with investments in subsidiaries and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or

1. Summary of significant accounting policies

l) Income tax (continued)

- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

m) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

n) Trade and other receivables

Amounts due from policyholders and intermediaries are initially recognised at fair value, being the amounts due. They are subsequently measured at amortised cost which is approximated by taking the initially recognised amount and reducing it for impairment as appropriate.

A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of the estimated future cash flows. The impairment charge is recognised in the statement of comprehensive income.

o) Assets backing general insurance liabilities

As part of its investment strategy the Group and Parent 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 Group has determined that all cash and short term deposits are held to back against general insurance liabilities therefore these assets have been valued at fair value through the statement of comprehensive income.

1. Summary of significant accounting policies

o) Assets backing general insurance liabilities (continued)

Financial assets
Initial recognition is at cost in the statement of financial position and subsequent measurement is at fair value with any resultant fair value gains or losses recognised in the statement of comprehensive income.

p) Financial assets

Financial assets in the scope of NZ IAS 39 Financial Instruments: Recognition and Measurement are categorised as either financial assets at fair value through profit and loss, loans and receivables, held to maturity investments, or available-for-sale financial assets. The classification depends on the purpose for which the assets are acquired or originated. Designation is re-evaluated at each reporting date, but there are restrictions on reclassifying to other categories. When financial assets are recognised initially, they are measured at fair value, plus, in the case of assets not at fair value through the profit and loss, directly attributable transaction costs.

Recognition and derecognition

All regular way purchases and sales of financial assets are recognised on the trade date i.e., the date that the group commit to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the market place. Financial assets are derecognised when the right to receive cash flows from the financial assets has expired or when the entity transfers substantially all the risks and rewards of the financial assets. If the entity neither retains nor transfers substantially all the risks and rewards, it derecognises the asset if it has transferred control of the assets.

Subsequent measurement
(i) Financial assets at fair value through profit and loss
Financial assets classified as held for trading are included in the category "financial assets at fair value through the statement of comprehensive income. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term with the intention of making a profit. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains and losses on financial assets held for trading are recognised in the statement of comprehensive income.

(ii) Loans and receivables
Loans and receivables including loan notes and loans to key management personnel are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in the statement of comprehensive income when the loans and receivable are derecognised or impaired. These are included in current assets, except for those with maturities greater than 12 months after balance date, which are classified as non-current.

q) Commission expense

Commissions paid in respect of premium funding activities are amortised over the expected life of the loan using the effective interest rate method.

Commissions paid in respect of general insurance activities are capitalised as deferred acquisition costs and are amortised systematically in accordance with the expected pattern of the incidence of risk under the general insurance contracts to which they relate.

1. Summary of significant accounting policies

r) Impairment of assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised as the amount by which the asset's carrying amount exceeds its recoverable amount. An impairment loss is recognised as the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped in cash generating units which are the lowest levels for which there are separately identifiable cash flows.

s) Trade and other payables

Trade and other payables are carried at amortised cost and due to their short-term nature they are not discounted. The represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

t) Provisions

Provisions are recognised when the Group and Parent has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group and Parent expect some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability.

When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

u) Employee entitlements

The employee benefit costs associated with services rendered during the reporting period are recognised in the income statement. An associated liability is recognised to the extent that any amount of employee benefit remains unpaid at the statement of financial position date.

(i) Wages, salaries and annual leave

Liabilities for wages, salaries and annual leave expected to be settled within 12 months of the reporting date are recognised and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value to be made in respect of services provided by employees up to the reporting date. Consideration is given to salary levels and periods of service.

v) Property, Plant and Equipment

Property, plant and equipment is stated at cost less any accumulated depreciation and accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred.

1. Summary of significant accounting policies

v) Property, Plant and Equipment (continued)

Depreciation is calculated on a straight-line basis at rates estimated to reduce the assets to their residual value by the end of their useful lives as follows:

Office Equipment	5 -10 years
EDP Hardware	3 years
Motor Vehicles	4 years

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

The carrying values of plant and equipment are reviewed for impairment at each financial year end, with recoverable amount being estimated when events or changes in circumstances indicate that carrying value may be impaired. Impairment losses are recognised in the statement of comprehensive income.

An item of plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the statement of comprehensive income in the year the asset is derecognised.

w) Goodwill and Intangibles

Goodwill

Goodwill acquired in a business combination is initially measured at cost of the business combination being the excess of the consideration transferred over the fair value of the Group's net identifiable assets acquired and liabilities assumed. If this consideration transferred is lower than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised in the statement of comprehensive income.

After initial recognition, goodwill is measured at the amount recognised at acquisition date less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date allocated to each of the Group's cash-generating units or groups of cash generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for the internal management purposes.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash generating units), to which the goodwill relates. The Group performs its impairment testing whenever there is an indicator that the asset identified may be impaired.

When the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Impairment losses recognised for goodwill are not subsequently reversed.

Intangibles

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding development costs, are not capitalised.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category with the function of the intangible asset.

1. Summary of significant accounting policies

w) Goodwill and Intangibles (continued)

Intangibles (continued)
Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for as a change in accounting estimate and thus accounted for on a prospective basis.

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an internal project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development. Following initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure so capitalised is amortised over the period of expected benefits from the related project.

The carrying value of an intangible asset arising from development expenditure is tested for impairment annually when the asset is not yet available for use, or more frequently when an indication of impairment arises during the reporting period.

Gains or losses arising from the derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in statement of comprehensive income when the asset is derecognised.

x) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight line basis over the period of the lease.

y) Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

z) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

aa) Life Insurance

Refer to Note 35 for Life Insurance specific accounting policies.

ab) Financial guarantee liabilities

Financial guarantees issued by the Group are those contracts that require payment to be made to reimburse the holder for a loss it incurs because the specific debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially at fair value, adjusted for transaction costs that are directly attributable to the issue of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the statement of financial position and the amount initially recognised.

2. Actuarial assumptions and methods

a) Methods

Significant estimates and judgements are made by the Parent to arrive at certain key liability amounts disclosed in the financial statements. These estimates are determined by qualified and experienced practitioners with reference to historical data and reasoned expectations of future events. The key areas in which critical estimates and judgements are applied are described below.

The actuarial reports for the current period were prepared by Neil Christie, principal in the firm of Melville Jessup Weaver, Consulting Actuaries. Neil Christie is a Fellow of the New Zealand Society of Actuaries. The Actuary has stated that Policy Liabilities have been calculated in accordance with New Zealand Society of Actuaries Professional Standard No 4: Insurance Contracts. After making appropriate checks, the Actuary was satisfied as to the accuracy of the data from which the amount of the policy liabilities has been determined.

Central estimate outstanding claims liabilities

The estimation of outstanding claims liabilities is based largely on the assumption that past developments are an appropriate predictor of the future and involves a variety of actuarial techniques that analyse experience, trends and other relevant factors. The process commences with the actuarial projection of the future claim payments for claims incurred up to the reporting date. Each class of business is examined separately and some or all of the following will be considered for each class in projecting future claim payments:

i) Historical trends in the incidence and development of the number of claims reported, claim payments and reported incurred costs.
ii) Exposure details, including earned premiums and policy limits.
iii) Claim frequencies and average claim sizes.
iv) The legislative framework, legal and court environments and social and economic factors that may impact upon each class of business.
v) Historical and likely future trends in standard inflationary pressures relating to commodity prices and wages.
vi) Historical and likely future trends on inflationary pressures in addition to price or wage inflation, termed superimposed inflation.
vii) Historical and likely future trends of expenses associated with managing claims to finalisation.
viii) Reinsurance recoveries available under contracts entered into by the insurer.
ix) Historical and likely future trends of recoveries from sources such as subrogation and third party actions.
x) Insurer specific, relevant industry data and more general economic data utilised in the estimation process.

Projected future claim payments and associated claim handling costs are discounted to a present value as required using appropriate risk free discount rates. A projection of future claims payments, both gross and net of reinsurance and other recoveries is undertaken.

This projection is typically made without bias toward over or under estimate. As such, the resulting estimate is considered to be a net central estimate of outstanding claims liabilities that has an approximately equal chance of proving adequate as not.

In selecting valuation methodologies, multiple actuarial methods were applied to project future claim payments. This assists in providing a greater understanding of the trends inherent in the past data. The projections obtained from various methods also assist in setting the range of possible outcomes. The most appropriate method, or even a blend of methods, is selected taking into account the characteristics of the class of business and the extent of the development of each past accident period.

2. Actuarial assumptions and methods (continued)

Risk margins

As an estimate of future outcomes, the net central estimate of outstanding claims liability is subject to uncertainty. Uncertainty is examined for each class of business and expressed as the volatility of the net central estimate. The volatility for each class of business was derived after consideration of stochastic modelling and benchmarking to industry analysis.

The degree of volatility of the net central estimate is a function of both the size of the porfolio and the class of business. Fewer claims leads to greater relative volatility all else being equal. The long tail Liability class tends to have inherently higher volatility, partly because the longer average time to settle provides a greater opportunity for sources of uncertainty to emerge. Short tail classes such as Motor, Home and Contents and Property have lower levels of volatility all else being equal. As the volatility for each class of business is partially correlated with other classes, when combined across the entire company, the overall volatility will be less than the sum of the individual classes. With an estimate of the overall volatility for general insurance business, a range of risk margins associated with a probability of the total net provision for outstanding claims liabilities proving adequate may be produced.

b) Assumptions

The following assumptions have been made in determining net outstanding claims liabilities:

	2010	*2009*
Discount rate (average weighted by term)	3.68%	4.00%
Weighted average term to settlement (years)	1.34	0.92
Discounted mean term (years)	1.25	0.87
Assumed net loss ratio	20% to 300% (varies by class and loss period)	15% to 300% (varies by class and loss period)
Risk margin (overall diversified)	17.10%	8.60%
Claim handling expense ratio	6.00%	4.01%

Processes used to determine assumptions

The valuations included in the reported results are calculated using assumptions including:

i) Discount rate

Outstanding claims liabilities for long tail claims were discounted to present value using a risk free rate based on gross yields to mautiry of NZ Government Securities of appropriate terms at 30 June 2010.

ii) Future settlement patterns and weighted average term to settlement

The weighted average term to settlement is an aggregate figure for all classes of business based on expected claims development patterns which are in turn derived from an analysis of historical claims patterns.

iii) Inflation

Insurance costs are subject to inflationary pressures over time. For the motor and property classes, claim costs are generally related to the inflationary pressures of the materials and goods insured as well as labour costs to effect repairs. It is therefore expected that these costs will increase at a level between appropriate Consumer Price Index (CPI) indices and wage inflation. The motor and property classes use an actuarial method in which the inflation assumption is implicit and incorporated in the historical level of claim development.

The liability classes in New Zealand do not cover weekly and permanent impairment benefits (that are typically indexed). Payments are related to losses suffered by claimants, although legal costs are subject to increases in the wages and disbursements of professionals in that field. The liability class uses an actuarial method in which the inflation assumption is implicit and incorporated in the historical level of claim development.

2. Actuarial assumptions and methods (continued)

iv) Assumed loss ratios
Assumed loss ratios were determined from a consideration of observed loss ratios for historical loss quarters, discussions with the Parent portfolio managers and recent loss ratios in the Insurance Council of New Zealand quarterly report for the relevant classes.

v) Risk margin
The overall risk margin is determined allowing for diversification between classes of business. The assumptions regarding uncertainty for each class are applied to the net central estimates and the results are aggregated, allowing for diversification, in order to arrive at an overall net provision that is intended to provide a probability of adequacy of 85 per cent.

vi) Expense allowance
An estimate of outstanding claims liabilities will typically incorporate an allowance for the future cost of administering the claims. This allowance was based on a company analysis of claim related expenses.

c) Sensitivity
The table below sets out the impact on the value of the net of reinsurance, net of non-reinsurance outstanding claims liabilities of variation in key assumptions. This illustrates exposure to the risk of changes in the underlying assumptions and experience.

Variable Recognised amounts per the financial statements	Movement in Variable	Net outstanding claims liabilities Increase/ (decrease) $ 000's
Discount rate	+2%	(1,636)
Discount rate	+1%	(829)
Discount rate	-1%	853
Discount rate	-2%	1,730
Assumed net loss ratio	+10 percentage points	2,424
Assumed net loss ratio	-10 percentage points	(2,424)
Claims handling expense ratio	+1%	732
Claims handling expense ratio	-1%	(732)

d) Ultimate loss ratio
This is the ratio of incurred losses to earned premium (both net of reinsurance) inherent in the actual experience to date plus outstanding payments. The overall ultimate loss ratios for the most recent years (to 30 June in each case) are :

2010	57.13%
2009	62.67%
2008	73.50%
2007	61.60%
2006	60.90%

3. Insurance contracts - risk management policies and procedures

The financial condition and operation of the Group and Parent are affected by a number of key risks including insurance risk, interest rate risk, currency risk, credit risk, market risk, liquidity risk, financial risk, compliance risk, fiscal risk and operational risk. The Group and Parent's policies and procedures in respect of managing these risks are set out in this note.

a) Objectives in managing risks arising from insurance contracts and policies for mitigating those risks.

The Group has an objective to control insurance risk thus reducing the volatility of operating profits. In addition to the inherent uncertainty of insurance risk, which can lead to significant variability in the loss experience, profits from insurance business are affected by market factors, particularly competition and movements in asset values. Short term variability is, to some extent, a feature of insurance business.

In accordance with Prudential Standards GPS 220 *Risk Management for General Insurers* and GPS 230 *Reinsurance Arrangements for General Insurers* issued by the Australian Prudential Regulation Authority (APRA), the Board and senior management of the Group have developed, implemented and maintain a sound and prudent Risk Management Strategy (RMS) and a Reinsurance Management Strategy (REMS), although there is no legislative necessity for the Group to adopt those standards.

The RMS and REMS identify the Group'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 Group.

The RMS and REMS have been approved by the Board. Key aspects of the processes established in the RMS to mitigate risks include:

i) The maintenance and use of sophisticated management information systems, which provide up to date, reliable data on the risks to which the business is exposed at any point in time.
ii) The use of actuarial models based on historical data to calculate premiums and monitor claims patterns.
iii) The setting and adherence to underwriting guidelines that determine policies and procedures for acceptance of risk.
iv) The monitoring of natural disasters such as earthquakes, floods, storms and other catastrophes. Exposure to such risks is monitored using catastrophe models.
v) The use of reinsurance to limit the Group's exposure to large single claims and accumulation of claims that arise from the same event.
vi) The monitoring of a reinsurers' credit risk policy to control exposure to reinsurance counterparty default.
vii) The management of assets and liabilities is closely monitored to attempt to match the expected pattern of claims payments with the maturity dates of assets.
viii) The reduction in variability in loss experience through diversification over classes of insurance business and geographical segments.

b) Terms and conditions of insurance business

The terms and conditions attaching to insurance contracts affect the level of insurance risk accepted by the Group. The majority of direct insurance contracts written are entered into on a standard form. There are no special terms and conditions in any non standard contracts that have a material impact on the financial statements.

3. Insurance contracts - risk management policies and procedures (continued)

c) Concentration of insurance risk

The Group's exposure is diversified across classes of business with risk spread across New Zealand. Specific processes for monitoring identified concentrations are set below:

Risk	Source of concentration	Risk management measures
An accumulation of risks arising from a natural peril	Insured property concentrations	Accumulation risk modelling, reinsurance protection
A large property loss	Fire or collapse affecting one building or a group of adjacent buildings	Maximum acceptance limits, property risk grading, reinsurance protection
Inclusion of multiple classes of casualty business in the one event	Response by a multitude of the Group's policies to the one event, for example a construction liability and professional indemnity policy	Purchase of reinsurance clash cover

d) Financial Risk

i. Interest rate risk
The Group is exposed to interest rate risk arising on interest bearing assets. The Group manages some of its exposure to this risk by holding the majority of such assets on short term maturities.

ii. Credit risk
The credit risk on financial assets of the Group is generally the carrying amount, net of any provisions for doubtful debts. Credit risk exposures are calculated regularly and compared to authorised credit limits before further transactions are undertaken with each counterparty. The Group does not expect any counterparties to fail to meet their obligations. In some instances collateral is required to support credit risk exposures.

iii. Market risk
The Group is exposed to market risk including fair value, interest risk and price risk. Market risks arise from open positions in interest rate products which are exposed to general and specific market movements. The market risks that the Group primarily faces are interest rate risk, due to the nature of its investments and liabilities.

iv. Liquidity risk
The Group is exposed to daily calls on its available cash resources from policy claims. Liquidity risk is the risk that payment of obligations may not be met in a timely manner at a reasonable cost. The Group manages this risk by holding its investment portfolio in short term, interest bearing securities, which can be liquidated at short notice.

3. Insurance contracts - risk management policies and procedures (continued)

e) Reinsurance Counterparty Risk

The Parent reinsures a portion of risks underwritten to control exposure to insurance losses, reduce volatility and protect capital. The Parent's strategy in respect of the selection, approval and monitoring of reinsurance arrangements is addressed by the following protocols:

Treaty or facultative reinsurance is placed in accordance with the requirements of the Parent's reinsurance management strategy.

Reinsurance arrangements are regularly reassessed to determine their effectiveness based on current exposures, historical losses and potential future losses based on the Parent's Maximum Event Retention (MER).

Exposure to reinsurance counterparties and the credit quality of those counterparties is actively monitored.

Strict controls are maintained over reinsurance counterparty exposures. Reinsurance is placed with counterparties that have a strong credit rating. Credit risk exposures are calculated regularly and ratings are reviewed by management on a regular basis.

4. Revenue

	Consolidated		Parent	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Life Insurance Activities				
Gross written premium				
Direct	1,574	1,549	-	-
Unearned premium movement	78	12	-	-
Gross earned premium revenue	1,652	1,561	-	-
Outward reinsurance premium expense	-	-	-	-
Net earned premium revenue	1,652	1,561	-	-
General Insurance Activities				
Gross written premium				
Direct	330,699	318,802	330,698	318,802
Unearned premium movement	(3,317)	1,808	(3,318)	1,808
Gross earned premium revenue	327,382	320,610	327,380	320,610
Outward reinsurance premium expense	(53,657)	(67,416)	(53,657)	(67,416)
Net earned premium revenue	273,725	253,194	273,723	253,194
Total gross earned premium revenue	329,033	322,171	327,380	320,610
Total outward reinsurance premium expense	(53,657)	(67,416)	(53,657)	(67,416)
Total net premium revenue	275,376	254,755	273,723	253,194
Gross earned premium revenue	327,382	320,610	327,380	320,610
Investment income	7,135	10,104	9,406	12,316
Dividend income	-	-	1,548	1,465
Other income	1,879	2,426	1,457	1,909
Income from premium funding activities	9,063	8,691	-	-
Total gross revenue	345,459	341,831	339,791	336,300

LUMLEY GENERAL INSURANCE (N.Z.) LIMITED AND CONTROLLED ENTITIES

Notes to and forming part of the financial statements for the year ended 30 June 2010

5. Net claims incurred

Consolidated	*2010 Current Year $000's*	*2010 Prior Year $000's*	*2010 Total $000's*	*2009 Current Year $000's*	*2009 Prior Year $000's*	*2009 Total $000's*
Gross claims expense						
Direct	165,015	28,340	193,355	177,332	12,866	190,198
Inwards reinsurance	-	-	-	-	-	-
Gross claims incurred – undiscounted	165,015	28,340	193,355	177,332	12,866	190,198
Discount movement	(2,553)	-	(2,553)	1,066	-	1,066
	162,462	28,340	190,802	178,398	12,866	191,264
Reinsurance and other recoveries revenue	(29,092)	(5,253)	(34,345)	(32,009)	(488)	(32,497)
Net claims incurred	133,370	23,087	156,457	146,389	12,378	158,767

Parent	*2010 Current Year $000's*	*2010 Prior Year $000's*	*2010 Total $000's*	*2009 Current Year $000's*	*2009 Prior Year $000's*	*2009 Total $000's*
Gross claims expense						
Direct	164,931	28,340	193,271	177,229	12,866	190,095
Inwards reinsurance	-	-	-	-	-	-
Gross claims incurred – undiscounted	164,931	28,340	193,271	177,229	12,866	190,095
Discount movement	(2,553)	-	(2,553)	1,066	-	1,066
	162,378	28,340	190,718	178,295	12,866	191,161
Reinsurance and other recoveries revenue - undiscounted	(29,092)	(5,253)	(34,345)	(32,009)	(488)	(32,497)
Net claims incurred	133,286	23,087	156,373	146,286	12,378	158,664

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

Consolidated figures include the above parent figures and life policy gross claims expense of $83,952 (2009: $103,267). All life policy claims expense are current year and there are no reinsurance recoveries.

6. Unexpired risk liability

The Liability Adequacy Test ("LAT") has resulted in no movement to Deferred Acquistion Costs during the year. Due to the portfolio being in surplus, a write back to Deferred Acquistion Costs occurred in 2009: $4,669,683.

The basis of estimation for the unexpired risk liability has not changed from the previous year. The liabilities have been grouped together to assess the unexpired risk liability.

The process of determining the overall risk margin, including the way in which diversification of risk has been allowed for, is discussed in Note 3. The overall risk margin is intended to achieve a 75% probability of adequacy.

7. Underwriting and other operating expenses

	Consolidated		*Parent*	
	2010	*2009*	*2010*	*2009*
	$'000	*$'000*	*$'000*	*$'000*
Expenses by function				
Acquisition costs	81,647	79,132	80,262	77,634
Other underwriting expenses including claims management expenses	25,088	20,482	24,899	20,284
Other operating expenses	10,386	9,831	5,137	5,210
Total expenses	117,121	109,445	110,298	103,128
Expenses by nature				
Depreciation & amortisation	3,467	3,071	3,451	3,063
Impairment losses	-	-	-	-
Wages, salaries & other employee entitlements	36,927	33,437	36,088	32,792
Kiwisaver and superannuation	1,663	2,325	1,621	2,272
Bad and doubtful debts	(685)	3,619	(685)	3,619
Operating lease and rentals	4,631	5,128	4,459	4,969
Net commission	54,909	44,822	49,959	41,200
Advertising costs	1,670	1,073	1,658	1,059
Share based payments	902	966	902	966
Other expenses	13,637	15,004	12,845	13,188
Total expenses	117,121	109,445	110,298	103,128

8. Income tax

The major components of income tax expense are:

	Consolidated		*Parent*	
	2010	*2009*	*2010*	*2009*
	$'000	*$'000*	*$'000*	*$'000*
Income Statement				
Current income tax				
Current income tax charge	(4,619)	(5,299)	(4,466)	(4,901)
Adjustments in respect of current income tax of previous years	47	-	41	-
Deferred income tax				
Relating to origination and reversal of temporary differences	(875)	3,376	(850)	3,238
Income tax expense reported in the statement of comprehensive income	(5,447)	(1,923)	(5,275)	(1,663)
Movement in tax reserves reported in the statement of comprehensive income.	(27)	58	-	-

The movement in tax reserves reported in the statement of financial performance relates to the Life Insurance portfolio.

A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Parent's applicable tax rate is as follows:

	Consolidated		*Parent*	
	2010	*2009*	*2010*	*2009*
	$'000	*$'000*	*$'000*	*$'000*
Accounting profit before tax	19,875	12,434	19,463	11,762
Tax charge at the standard tax rate of 30% (2009: 30%)	(5,962)	(3,730)	(5,839)	(3,529)
Tax effect of non-deductible expenses	38	1,424	59	1,426
Adjustments in respect of Life Insurance portfolio	436	379	-	-
Adjustment for non taxable income	-	-	464	440
Adjustments in respect of current income tax of previous years	41	4	41	-
Income tax expense	(5,447)	(1,923)	(5,275)	(1,663)

8. Income tax (continued)
A reconciliation between the average effective tax rate and the applicable tax rate is as follows:

Deferred income tax

Deferred income tax at 30 June relates to the following:

Consolidated	***Balance Sheet***		***Income Statement***	
	2010	***2009***	***2010***	***2009***
	$'000	***$'000***	***$'000***	***$'000***
Deferred tax assets				
Employee benefits	2,466	1,491	975	866
Claims handling costs on outstanding claims	-	2,443	-	-
Provision for impairment and accruals	57	1,128	(1,071)	1,136
	2,523	5,062	(96)	2,002
Deferred tax liabilities				
Deferred acquisition costs	6,189	5,803	385	(1,345)
Temporary differences between depreciation for tax and accounting purposes	847	452	394	(29)
IBNR discount	-	-	-	-
	7,036	6,255	779	(1,374)
Net Deferred Tax Liability	(4,513)	(1,193)	(875)	3,376

Parent	***Balance Sheet***		***Income Statement***	
	2010	***2009***	***2010***	***2009***
	$'000	***$'000***	***$'000***	***$'000***
Deferred tax assets				
Employee benefits	2,428	1,491	937	855
Claims handling costs on outstanding claims	-	2,443	-	-
Accruals not currently deductible	57	1,084	(1,027)	1,085
	2,485	5,018	(90)	1,940
Deferred tax liabilities				
Deferred acquisition costs	6,240	5,876	365	(1,268)
IBNR discount	-	-	-	-
Temporary differences between depreciation for tax and accounting purposes	848	452	395	(30)
	7,088	6,328	760	(1,298)
Net Deferred Tax Liability	(4,603)	(1,310)	(850)	3,238

9. Dividends paid and proposed

	Consolidated		*Parent*	
	2010	*2009*	*2010*	*2009*
	$'000	*$'000*	*$'000*	*$'000*
a) Declared and paid during the year				
Dividends on ordinary shares	5,000	5,007	5,000	5,007
Supplementary dividends paid	-	853	-	853
Foreign investor tax credits received	-	(853)	-	(853)
Total imputed dividend	5,000	5,007	5,000	5,007
Cents per share	5.26	5.89	5.26	5.89

b) Imputation credit account (Parent only)

	2010	2009
Balance brought forward	-	-
Imputation credits attached to dividends received during the year	-	-
Imputation credits attached to dividends paid during the year	(2,143)	(1,263)
Income tax payments during the year	3,772	1,359
Refund of tax payments during the year	(4,506)	-
Transfers (to)/from Trans-Tasman Imputation Group	-	(96)
Balance carried forward	(2,877)	-

10. Trade and other receivables

	Consolidated		Parent	
	2010	*2009*	*2010*	*2009*
	$'000	*$'000*	*$'000*	*$'000*
General insurance				
Premium due from policyholders and intermediaries	75,828	76,807	75,828	76,807
Amounts due from reinsurers	5,615	8,309	5,615	8,309
	81,443	85,116	81,443	85,116
Other receivables				
Related party receivables	-	-	30,678	39,224
Accrued interest	9	30	2	14
Taxation recoverable	920	2,910	-	2,436
Other	1,700	4,832	1,692	4,312
	2,629	7,772	32,372	45,986
Total Current Trade and Other Receivables	84,072	92,888	113,815	131,102

Trade receivables are non-interest bearing and are generally on 30-90 day terms. An allowance for doubtful debts is made when there is evidence that a trade receivable is impaired.

11. Financial assets

	Consolidated		*Parent*	
	2010	*2009*	*2010*	*2009*
	$'000	*$'000*	*$'000*	*$'000*
a) Financial assets				
i) Financial assets - loans and receivables				
Debt securities	51,626	46,054	-	-
Total current financial assets – loans and receivables	51,626	46,054	-	-
ii) Financial assets - funds held with related party				
Cash deposits with related party	171,558	148,417	171,558	148,417
Total current financial assets – funds held with related party	171,558	148,417	171,558	148,417
iii) Financial assets - at fair value through profit or loss				
Government stock	643	605	112	109
Total financial assets – at fair value through profit or loss	643	605	112	109
Current	-	497	-	-
Non-current	643	108	112	109
Total	643	605	112	109

b) Interest rate risk

The Group and Parent's exposure to interest rate risk and the effective weighted average interest rate by maturity periods is set out in the following table:

Consolidated & Parent

	< 1 year	*Total*	*Weighted Average Interest Rate*
	$'000	*$'000*	*%*
2010			
Fixed rate			
Cash deposits with related party	171,558	171,558	3.9%
Weighted average effective interest rate	3.9%		
2009			
Fixed rate			
Cash deposits with related party	148,417	148,417	6.0%
Weighted average effective interest rate	6.0%		

12. Reinsurance and other recoveries

	Consolidated		*Parent*	
	2010	*2009*	*2010*	*2009*
	$'000	*$'000*	*$'000*	*$'000*
Other recoveries	11,047	13,979	11,047	13,979
Expected discounted outstanding reinsurance and other recoveries	34,150	38,251	34,150	38,251
Total outstanding reinsurance and other recoveries	45,197	52,230	45,197	52,230
Current	22,756	31,338	22,756	31,338
Non-current	22,441	20,892	22,441	20,892
Total outstanding reinsurance and other recoveries	45,197	52,230	45,197	52,230

13. Prepaid reinsurance premiums

	Consolidated		*Parent*	
	2010	*2009*	*2010*	*2009*
	$'000	*$'000*	*$'000*	*$'000*
Prepaid reinsurance premium asset as at 1 July	16,635	23,121	16,635	23,121
Deferral of reinsurance premiums on contracts entered into in the period	13,993	16,635	13,993	16,635
Earning of reinsurance premiums on contracts entered into in previous periods	(16,635)	(23,121)	(16,635)	(23,121)
Prepaid reinsurance premium asset as at 30 June	13,993	16,635	13,993	16,635

LUMLEY GENERAL INSURANCE (N.Z.) LIMITED AND CONTROLLED ENTITIES

Notes to and forming part of the financial statements for the year ended 30 June 2010

14. Deferred acquisition costs

	Consolidated		*Parent*	
	2010	*2009*	*2010*	*2009*
	$'000	*$'000*	*$'000*	*$'000*
Prepaid acquisitions costs as at 1 July	24,038	18,667	24,220	18,900
Acquisition costs deferred	25,339	19,368	25,449	19,550
Amortisation charged to income	(24,038)	(18,667)	(24,220)	(18,900)
Write back for premium deficiency (Note 6)	-	4,670	-	4,670
Deferred acquisitions costs as at 30 June	25,339	24,038	25,449	24,220
Current	24,880	23,231	24,990	23,413
Non-current	459	807	459	807
Total	25,339	24,038	25,449	24,220

15. Investments in subsidiaries

	Consolidated		*Parent*	
	2010	*2009*	*2010*	*2009*
	$'000	*$'000*	*$'000*	*$'000*
Investments in controlled entities (note 31) - at cost	-	-	1,050	1,050

Lumley General Insurance (N.Z.) Limited has elected to recognise its investments in its subsidiaries at cost.

16. Property, plant and equipment

Consolidated	*EDP Hardware* $'000	*Office Equipment* $'000	*Motor Vehicles* $'000	*Total* $'000
Year ended 30 June 2010				
At 1 July 2009 net of accumulated depreciation	692	4,642	363	5,697
Additions	647	82	923	1,652
Disposals	(19)	1	(439)	(457)
Reclassifications	-	-	-	-
Depreciation charge for the year	(486)	(980)	(134)	(1,600)
At 30 June 2010 net of accumulated depreciation	834	3,745	713	5,292
At 1 July 2009				
Cost	5,419	7,991	484	13,894
Accumulated depreciation	(4,727)	(3,349)	(121)	(8,197)
Net carrying amount	692	4,642	363	5,697
At 30 June 2010				
Cost	1,629	7,582	827	10,038
Accumulated depreciation	(795)	(3,837)	(114)	(4,746)
Net carrying amount	834	3,745	713	5,292
Year ended 30 June 2009				
At 1 July 2008 net of accumulated depreciation	782	5,373	404	6,559
Additions	553	152	561	1,266
Disposals	(7)	(5)	(612)	(624)
Reclassifications	-	-	-	-
Depreciation charge for the year	(636)	(878)	10	(1,504)
At 30 June 2009 net of accumulated depreciation	692	4,642	363	5,697
At 1 July 2008				
Cost	4,874	7,843	586	13,303
Accumulated depreciation	(4,092)	(2,470)	(182)	(6,744)
Net carrying amount	782	5,373	404	6,559
At 30 June 2009				
Cost	5,419	7,991	484	13,894
Accumulated depreciation	(4,727)	(3,349)	(121)	(8,197)
Net carrying amount	692	4,642	363	5,697

16. Property, plant and equipment (continued)

Parent	*EDP Hardware $'000*	*Office Equipment $'000*	*Motor Vehicles $'000*	*Total $'000*
Year ended 30 June 2010				
At 1 July 2009 net of accumulated depreciation	687	4,642	363	5,692
Additions	647	82	843	1,572
Disposals	(17)	1	(439)	(455)
Depreciation charge for the year	(483)	(980)	(124)	(1,587)
At 30 June 2010 net of accumulated depreciation	834	3,745	643	5,222
At 1 July 2009				
Cost	5,367	7,988	484	13,839
Accumulated depreciation	(4,680)	(3,346)	(121)	(8,147)
Net carrying amount	687	4,642	363	5,692
At 30 June 2010				
Cost	1,581	7,578	746	9,905
Accumulated depreciation	(747)	(3,833)	(103)	(4,683)
Net carrying amount	834	3,745	643	5,222
Year ended 30 June 2009				
At 1 July 2008 net of accumulated depreciation	776	5,372	403	6,551
Additions	551	153	560	1,264
Disposals	(7)	(5)	(612)	(624)
Reclassifications	-	-	-	-
Depreciation charge for the year	(633)	(878)	12	(1,499)
At 30 June 2009 net of accumulated depreciation	687	4,642	363	5,692
At 1 July 2008				
Cost	4,823	7,839	537	13,199
Accumulated depreciation	(4,047)	(2,467)	(134)	(6,648)
Net carrying amount	776	5,372	403	6,551
At 30 June 2009				
Cost	5,367	7,988	484	13,839
Accumulated depreciation	(4,680)	(3,346)	(121)	(8,147)
Net carrying amount	687	4,642	363	5,692

Property, plant and equipment have not been pledged as security over any liabilities of the Group and have not been designated as assets backing insurance liabilities.

Assets within the Office Equipment and Furniture & Fittings asset categories consolidated for the year ended 30 June 2010.

Notes to and forming part of the financial statements for the year ended 30 June 2010

17. Intangible assets

	Consolidated			Parent		
	Software *$'000*	*Work In Progress* *$'000*	*Total* *$'000*	*Software* *$'000*	*Work in Progress* *$'000*	*Total* *$'000*
Year ended 30 June 2010						
Cost (gross carrying amount)						
At 1 July 2009 net of accumulated amortisation	4,354	1,684	**6,038**	4,350	1,508	**5,858**
Additions – internal development	743	5,623	**6,366**	743	5,523	**6,266**
Transfers from WIP	1,880	(1,880)	**0**	1,880	(1,880)	**0**
Amortisation charge for the year	(1,867)	-	**(1,867)**	(1,864)	-	**(1,864)**
At 30 June 2010 net of accumulated amortisation	5,110	5,427	**10,537**	5,109	5,151	**10,260**
At 1 July 2009						
Cost (gross carrying amount)	13,823	1,684	**15,507**	13,693	1,508	**15,201**
Accumulated amortisation	(9,469)	-	**(9,469)**	(9,343)	-	**(9,343)**
Net carrying amount	4,354	1,684	**6,038**	4,350	1,508	**5,858**
At 30 June 2010						
Cost (gross carrying amount)	8,972	5,482	**14,454**	8,897	5,151	**14,048**
Accumulated amortisation	(3,862)	(55)	**(3,917)**	(3,788)	-	**(3,788)**
Net carrying amount	5,110	5,427	**10,537**	5,109	5,151	**10,260**
Year ended 30 June 2009						
Cost (gross carrying amount)						
At 1 July 2008 net of accumulated amortisation	2,299	588	**2,887**	2,292	588	**2,880**
Additions – internal development	118	4,600	**4,718**	118	4,424	**4,542**
Transfers from WIP	3,504	(3,504)	**-**	3,504	(3,504)	**-**
Amortisation charge for the year	(1,567)	-	**(1,567)**	(1,564)	-	**(1,564)**
At 30 June 2009 net of accumulated amortisation	4,354	1,684	**6,038**	4,350	1,508	**5,858**
At 1 July 2008						
Cost (gross carrying amount)	10,201	588	**10,789**	10,070	588	**10,658**
Accumulated amortisation	(7,902)	-	**(7,902)**	(7,778)	-	**(7,778)**
Net carrying amount	2,299	588	**2,887**	2,292	588	**2,880**
At 30 June 2009						
Cost (gross carrying amount)	13,823	1,684	**15,507**	13,693	1,508	**15,201**
Accumulated amortisation	(9,469)	-	**(9,469)**	(9,343)	-	**(9,343)**
Net carrying amount	4,354	1,684	**6,038**	4,350	1,508	**5,858**

17. Intangible assets (continued)

(i) Software

Software is made up of internally generated software development from various development projects and third party license fees. Software development is amortised over its expected useful life which varies between 3 and 5 years.

Internally generated software included in this figure is listed below as follows:

	Consolidated and Parent	
	2010	2009
	$'000	***$'000***
Cost	6,349	9,632
Accummulated Depreciation	(1,935)	(5,988)
Net Book Value	4,414	3,644

(ii) Work in progress

Work in progress relates to internal generated software development. Once operational the software development will be amortised over its useful life of 5 years.

18. Goodwill

On 1 December 2009, Lumley General Insurance (N.Z.) Limited acquired the business of Australis Underwriting Agency Limited.("Australis"), an unlisted public company based in New Zealand.

At the date of acquisition Australis Underwriting Agency was the agent for the Marine business of Lumley General Insurance (N.Z.) Limited.

The total consideration comprises only goodwill.

18. Goodwill (continued)

After initial recognition , goodwill recognised through the acquistion of Australis is measured at cost less any accumulated impairment losses. Goodwill is not amortised but is subject to impairment testing whenever there is an indication of impairment. For the purpose of impairment goodwill is allocated to the Lumley General Insurance (N.Z.) Limited cash-generating-unit.

The Parent has recognised the fair values of the intangible asset as follows:

	Consolidated		*Parent*	
	2010	*2009*	*2010*	*2009*
	$'000	*$'000*	*$'000*	*$'000*
At 1 July	-	-	-	-
Cost - acqusition	2,000		2,000	
At 30 June	2,000	-	2,000	-
Accumulated impairment				
At 1 July	-	-	-	-
Impairment loss	-	-	-	-
at 30 June	-	-	-	-
Carrying amount at 30 June	2,000	-	2,000	-

19. Trade and other payables

		Consolidated		*Parent*	
		2010	*2009*	*2010*	*2009*
	Note	*$'000*	*$'000*	*$'000*	*$'000*
Trade creditors	(i)	28,275	12,534	7,753	6,262
Amounts due to reinsurers		5,470	12,721	5,470	12,720
Unearned interest income		2,487	2,186	-	-
Other payables		15,166	15,718	14,168	14,868
		51,398	43,159	27,391	33,850
Related party payables	(ii)	614	620	614	620
Total trade and other payables		52,012	43,779	28,005	34,470

Notes:

(i) Trade creditors are non-interest bearing and are normally settled on 30 day terms.

(ii) Sales to and purchases from related parties are made in arm's length transactions both at normal market prices and on normal commercial terms.

Notes to and forming part of the financial statements for the year ended 30 June 2010

20. Interest bearing loans and borrowings

At the reporting date, the following financing facilities had been negotiated and were available:

	Consolidated		*Parent*	
	2010	*2009*	*2010*	*2009*
	$'000	*$'000*	*$'000*	*$'000*
Total facilities:				
- bank overdrafts	-	100	-	100
	-	100	-	100
Facilities unused at reporting date				
- bank overdrafts	-	100	-	100
	-	100	-	100
Total facilities				
- facilities unused at reporting date	-	100	-	100
	-	100	-	100

21. Unearned premium liabilities

	Consolidated		*Parent*	
	2010	*2009*	*2010*	*2009*
	$'000	*$'000*	*$'000*	*$'000*
Unearned premium liabilities as at 1 July	125,604	127,827	125,604	127,827
Deferral of premium on contracts written during the year	123,553	121,417	123,553	121,417
Earning of premiums deferred in prior years	(121,417)	(123,640)	(121,417)	(123,640)
Unearned premium liabilities as at 30 June	127,740	125,604	127,740	125,604
Current	125,438	121,417	125,438	121,417
Non-current	2,302	4,187	2,302	4,187
Total	127,740	125,604	127,740	125,604

22. Unearned exchange commission

	Consolidated		*Parent*	
	2010	*2009*	*2010*	*2009*
	$'000	*$'000*	*$'000*	*$'000*
Unearned exchange commission as at 1 July	3,125	5,223	3,125	5,223
Deferral of exchange commission on contracts written during	2,713	3,125	2,713	3,125
Earning of exchange commission deferred in prior years	(3,125)	(5,223)	(3,125)	(5,223)
Unearned exchange commission as at 30 June	2,713	3,125	2,713	3,125

23. Outstanding claims liability

a) Gross outstanding claims liabilities

	Consolidated		*Parent*	
	2010	*2009*	*2010*	*2009*
	$'000	*$'000*	*$'000*	*$'000*
Gross central estimate of outstanding claims liabilities	124,521	135,359	124,521	135,359
Discount to present value	(6,121)	(3,568)	(6,121)	(3,568)
Claim handling expenses	4,406	3,194	4,406	3,194
Risk margin	12,484	7,189	12,484	7,189
Total current outstanding claims liabilities	135,290	142,174	135,290	142,174
Current	78,712	83,883	78,712	83,883
Non current	56,578	58,291	56,578	58,291
Total	135,290	142,174	135,290	142,174

b) Risk margin

The process used to determine the risk margin is explained in note 2 (a). The probability of adequacy at 30 June 2010 is approximately 85% (2009: 85%).

The risk margin included in net outstanding claims is 17.1% of the central estimate (2009: 9.0%).

c) Reconciliation of movement in discounted outstanding claims provision

		2010		*2009*
	Gross	*Reinsurance*	*Net*	*Net*
Consolidated	*$'000*	*$'000*	*$'000*	*$'000*
At 1 July	142,174	(52,230)	89,944	94,781
Increase in net claims incurred in current accident year	162,378	(29,092)	133,286	146,389
Movement in prior year claims provision	28,340	(5,253)	23,087	12,378
Incurred claims recognised in the income statement	190,718	(34,345)	156,373	158,767
Net claim payments	(197,602)	41,379	(156,223)	(163,604)
At 30 June	135,290	(45,196)	90,094	89,944

		2010		*2009*
	Gross	*Reinsurance*	*Net*	*Net*
Parent	*$'000*	*$'000*	*$'000*	*$'000*
At 1 July	142,174	(52,230)	89,944	94,760
Increase in net claims incurred in current accident year	162,378	(29,092)	133,286	146,286
Movement in prior year claims provision	28,340	(5,253)	23,087	12,378
Incurred claims recognised in the income statement	190,718	(34,345)	156,373	158,664
Net claim payments	(197,602)	41,379	(156,223)	(163,480)
At 30 June	135,290	(45,196)	90,094	89,944

LUMLEY GENERAL INSURANCE (N.Z.) LIMITED AND CONTROLLED ENTITIES

Notes to and forming part of the financial statements for the year ended 30 June 2010

23. Outstanding claims liability (continued)

d) Claims development table

The following table shows the development of net undiscounted outstanding claims relative to the current estimate of ultimate claims costs for the six most recent accident years for the Portfolio's claims.

	Accident Year						
Ultimate claims cost estimate	*2005 & Prior $'000*	*2006 $'000*	*2007 $'000*	*2008 $'000*	*2009 $'000*	*2010 $'000*	*Total $'000*
At end of loss year	n.a.	n.a.	n.a.	21,452	17,362	15,266	15,266
One year later	n.a.	n.a.	17,707	19,118	17,907	-	17,907
Two years later	n.a.	11,020	17,369	17,952	-	-	17,952
Three years later	n.a.	13,559	16,708	-	-	-	16,708
Four years later	n.a.	13,091	-	-	-	-	13,091
Current estimate of ultimate claims cost	n.a.	13,091	16,708	17,952	17,907	15,266	80,924
Payments to 30 June 2010		(8,620)	(9,784)	(8,187)	(7,716)	(1,712)	(36,019)
Net Central Estimate -2005 and Prior	3,194						3,194
Net Central Estimate - Undiscounted (excluding CHE)	3,194	4,471	6,924	9,765	10,191	13,554	48,099
Discount to present value	(60)	(169)	(349)	(616)	(818)	(1,208)	(3,220)
Claims handling expenses	122	171	265	373	390	518	1,839
Discounted Central Estimate -(including CHE)	3,256	4,473	6,840	9,522	9,763	12,864	46,718
Diversified risk margin (85% POA)	588	807	1,234	1,718	1,761	2,321	8,429
Net 85% Provision - Discounted (including CHE)	3,844	5,280	8,074	11,240	11,524	15,185	55,147

As a result of the changes in valuation methodologies driven by the move towards compliance with *Professional Standard 300 Valuation of General Insurance Claims* of the Institute of Actuaries of Australia, the table above now incorporates the experience of all product lines in the Liability group. The comparable table in the notes to last year's accounts was based on only part of the Liability group. Further, the shift to the new valuation methodologies means that historical comparative figures are no longer available - hence the "n.a." entries shown above.

24. Provisions

	Consolidated		*Parent*	
	2010	*2009*	*2010*	*2009*
	$'000	*$'000*	*$'000*	*$'000*
Long service leave				
Current	156	140	149	133
Non-current	44	44	43	43
	200	184	192	176

25. Financial Guarantee Contracts

	Consolidated		*Parent*	
	2010	*2009*	*2010*	*2009*
	$'000	*$'000*	*$'000*	*$'000*
Home bonds	2,129	2,189	2,129	2,189
Balance at end of year	2,129	2,189	2,129	2,189

Following a review of our financial guarantees the liability for guarantees provided under the home bond scheme has been fair valued. The liability under the guarantee carries a reinsurance component. There is an asset of $1,011,202 (2009: $1,011,202) pertaining to Home Bonds receivable included in trade and other receivables for the reinsurance component of the liability noted above.

Notes to and forming part of the financial statements for the year ended 30 June 2010

26. Contributed equity

	Consolidated		*Parent*	
	2010	***2009***	***2010***	***2009***
	$'000	***$'000***	***$'000***	***$'000***
Issued and fully paid shares	70,009	70,009	70,009	70,009
Share movement reconciliation				
Movement in Ordinary Shares on issue				
At 1 July	70,009	29,009	70,009	29,009
31,000,000 Ordinary Shares-issued and fully paid 26 August 2008	-	31,000	-	31,000
10,000,000 Ordinary Shares-issued and fully paid 25 June 2009	-	10,000	-	10,000
At 30 June	70,009	70,009	70,009	70,009

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Group, and rank equally with regard to the Group's residual assets.

27. Credit rating

Ratings agency Standard and Poor's (Australia) Pty Limited reaffirmed the parent company a credit rating of A- on 7 November 2009. Wesfarmers Insurance Division has ring fenced the credit rating of its insurance underwriting operations in order to maintain an A- rating.

28. Auditor remuneration

The Group and Parent auditor is Ernst & Young.

	Consolidated		*Parent*	
	2010	***2009***	***2010***	***2009***
	$'000	***$'000***	***$'000***	***$'000***
Amounts received or due and receivable by Ernst & Young for:				
i Audit of the financial statements	148	138	126	95
ii Other services :				
Assurance related to regulatory requirements	3	8	3	8
	151	146	129	103

29. Events after balance sheet date

There have been no events subsequent to balance date.

30. Commitments and contingencies

Operating lease commitments – Group as lessee

The Group and Parent has entered into operating leases of commercial premises. These leases have a life of between 1 and 6 years with no renewal options included in the contracts.

There are no restrictions placed on the lessee by entering into these leases. There are no contingent rents payable.

Future minimum rentals payable under non-cancellable operating leases as at 30 June are as follows:

	Consolidated		*Parent*	
	2010 *$'000*	*2009* *$'000*	*2010* *$'000*	*2009* *$'000*
Within one year	5,150	5,025	5,140	4,969
After one year but not more than five years	14,444	16,035	14,444	16,025
More than five years	95	1,071	95	1,071
	19,689	22,131	19,679	22,065

Capital Commitments

At 30 June 2010, the Parent has commitments of $Nil (2009: $Nil)

Guarantees

The Group and Parent have no guarantees in place (2009: $Nil).

Contingent Liabilities

There are no contingent liabilities at 30 June 2010 (2009: $Nil).

LUMLEY GENERAL INSURANCE (N.Z.) LIMITED AND CONTROLLED ENTITIES

Notes to and forming part of the financial statements for the year ended 30 June 2010

31. Related parties

(a) The consolidated financial statements include the financial statements of Lumley General Insurance (N.Z.) Limited and the following subsidiaries:

Name	*Country of Incorporation*	*Equity Interest %* 2010	2009	*Investment $'000* 2010	2009
Lumley Finance (N.Z.) Limited	New Zealand	100	100	250	250
Lumley Services (N.Z.) Limited	New Zealand	100	100	250	250
Lumley Life (N.Z.) Limited	New Zealand	100	100	550	550

(c) Related party transactions and balances during the year were:

	2010 $'000	*2009 $'000*
Consolidated		
Revenue from Services Rendered and Financing Activities:		
- Ultimate Parent Company	-	-
- Other Related Parties	6,301	9,692
Expenses from Services Rendered and Financing Activities:		
- Ultimate Parent Company	-	(334)
- Other Related Parties	(4,904)	(4,328)
Amounts owing from/(to):		
- Ultimate Parent Company	(315)	(335)
- Other Related Parties	178,846	155,522
Parent		
Revenue from Services Rendered and Financing Activities:		
- Ultimate Parent Company	-	-
- Subsidiaries of Lumley General Insurance (N.Z.) Limited	3,918	3,824
- Other Related Parties	6,301	9,692
Expenses from Services Rendered and Financing Activities:		
- Ultimate Parent Company	-	(334)
- Subsidiaries of Lumley General Insurance (N.Z.) Limited	-	-
- Other Related Parties	(4,904)	(4,321)
Amounts owing from/(to):		
- Ultimate Parent Company	(315)	(335)
- Subsidiaries of Lumley General Insurance (N.Z.) Limited	30,677	39,224
- Other Related Parties	178,846	155,453

NZ Finance Holdings Pty Ltd invests the Parent's surplus operational funds on behalf of the Parent in accordance with a service agreement that came into effect on the 26 August 2004.

Loans to Lumley Finance (N.Z.) Limited are payable on call and carry 6% interest monthly. No provision for doubtful debts was made at year end.

All related party transactions were made on terms equivalent to those that prevail in arm's length transactions and are made only if such terms can be substantiated.

31. Related parties (continued)

(b) Insurance of directors and officers

During or since the end of the financial year, the parent of the Group (Wesfarmers Limited) has paid or agreed to pay a premium in respect of a contract insuring all the directors and officers of the Group against a liability incurred in that capacity.

Disclosure of the nature of the liability covered by the insurance and premium paid is subject to confidentiality requirements under the contract of insurance.

32. Average interest bearing financial assets and liabilities and related interest

The average balances of interest bearing financial assets and liabilities during the financial year are as

Consolidated	*Average Balance* *$'000*	*Interest income / (expense)* *$'000*	*Average interest rate* *%*
2010			
Interest-bearing assets			
Cash assets	158,230	6,301	4.0%
Loans and receivables	39,892	2,370	5.9%
2009			
Interest-bearing assets			
Cash assets	112,923	6,806	6.0%
Loans and receivables	38,893	2,362	6.2%

Parent	*Average Balance* *$'000*	*Interest income / (expense)* *$'000*	*Average interest rate* *%*
2010			
Interest-bearing assets			
Cash assets	158,230	6,301	4.0%
2009			
Interest-bearing assets			
Cash assets	112,923	6,806	6.0%

33. Maturity analysis of selected financial assets

The following table details the maturity distribution of related party cash deposits.

Consolidated	*At Call* *$'000*	*3 months or less* *$'000*	*3 months to 12 months* *$'000*	*No Maturity Specified* *$'000*	*Total* *$'000*
2010					
Assets					
Cash deposits with related parties	55,000	116,558	-	-	171,558
2009					
Assets					
Cash deposits with related parties	55,000	93,417	-	-	148,417

Parent	*At Call* *$'000*	*3 months or less* *$'000*	*3 months to 12 months* *$'000*	*No Maturity Specified* *$'000*	*Total* *$'000*
2010					
Assets					
Cash deposits with related parties	55,000	116,558	-	-	171,558
2009					
Assets					
Cash deposits with related parties	55,000	93,417	-	-	148,417

34. Impaired financial assets - loans and receivables

Financial assets – loans and receivables include no impaired assets (2009: Nil).

Notes to and forming part of the financial statements for the year ended 30 June 2010

35. Life Insurance disclosures

	Consolidated		*Parent*	
	2010	*2009*	*2010*	*2009*
	$'000	*$'000*	*$'000*	*$'000*
a) Life insurance premium and related revenue				
Gross earned premium revenue	1,653	1,561	-	-
Investment revenue	94	147	-	-
Total Gross earned premium and related revenue	1,747	1,708	-	-
b) Life insurance operating expenses				
Claims expense	(84)	(103)	-	-
Commissions paid	(1,263)	(1,223)	-	-
Actuarial fees	(8)	(7)	-	-
Other	(181)	(192)	-	-
Total operating expenses	(1,536)	(1,525)	-	-
c) Analysis of life insurance results after tax				
Planned margins of revenue over expenses	471	591	-	-
Difference between actual and assumed	48	(21)	-	-
Changes to underlying assumptions/methods	-	(18)	-	-
Investment earnings on assets in excess of policy	40	65	-	-
Net surplus for the year	559	617	-	-

35. Life Insurance - specific accounting policies

(a) Life Premium Revenue

All premiums are recognised as revenues in the statement of comprehensive income. There is no deposit component.

(b) Investment Revenue

Investment and other income are recognised in the statement of comprehensive income on an accruals basis. Investment income includes realised and unrealised changes in the net market value of investments.

(c) Claims Expense and Liabilities

Provision has been made for estimated liabilities in respect of claims notified but not admitted and settled at balance date. No allowance has been made for incurred but not reported claims. All claims are recognised as expenses in the statement of comprehensive income. There is no deposit component.

35. Life Insurance - specific accounting policies (continued)

(d) Investments

Investments integral to the life insurance's activities are measured at market values as at the balance date and changes in the market values are recognised in the statement of comprehensive income.

(e) Taxation

Life insurance business is subject to the special tax regime that applies to life insurers. Two tax bases are maintained; the life office base which is subject to tax on investment income less expenses plus underwriting income, and the policyholder base which seeks to tax benefits as they accrue to policyholders under the policies.

(f) Actuarial Policies and Methods

The actuarial reports for the current period were prepared by Linda Caradus, principal in the firm of Melville Jessup Weaver, Consulting Actuaries. Linda Caradus is a Fellow of the New Zealand Society of Actuaries. The Actuary has stated that Policy Liabilities have been calculated in accordance with New Zealand Society of Actuaries Professional Standard No 3: Determination of Life Insurance Policy Liabilities. After making appropriate checks, the Actuary was satisfied as to the accuracy of the data from which the amount of the policy liabilities has been determined.

The key assumptions used were as follows:

(i) Policy Type

All business relates to the death risk covering loan indebtedness. There is no Unit Linked or Participating Business. The profit carrier for all of the life insurance's business is payment of claims.

(ii) Interest/ Discount Rate

2.75%, being the current return on risk-free assets of the appropriate mean term (being 2-year government bonds), net of tax at 30%. (2009: 2.75%).

(iii) Mortality

72.6% of the NZ population table NZLT 2000-2002, being a basic mortality rate of 66% of NZLT 00-02 plus 10% as a loading for dual/ triple life policies. The 10% loading was derived from a review of the data for business written in the first 3 months of 2005.

(iv) Cancellations

An annual rate of 25% was assumed.

(v) Expenses

Based on $1.25 per policy per month in the 12 months following the valuation, increasing by 5% in each subsequent year. (2009: $1.09)

(vi) Taxation

The current regime for the taxation of Life Insurance business will continue to apply to policies currently in force. The future tax rate of 30% (2009: 30%) has been assumed for the purposes of the valuation. The provisions of the new life insurance tax regime which comes into force on the 1 July 2010 allow single premium business in force at that date to be grandfathered so that the current regime will continue to apply, provided the policy is not changed and any policy that is cancelled is reinstated within a certain time.

35. Life Insurance - specific accounting policies (continued)

(g) Measurement of Policy Liabilities

Policy liabilities in the statement of financial position have been calculated using the Margin on Services (MoS) methodology.

MoS is designed to recognise profits on life insurance as services are provided to policyholders. Profits are recognised over the life of policies, whereas losses are recognised as they arise. Policy liabilities are determined as the present value of all expected future claims, expenses, taxes and profit margins reduced by the present value of future income.

MoS profit comprises the following components:

(i) Planned margins of revenues over expenses

At the time of writing a policy and at each balance date, best estimate assumptions are used to determine all future payments and income. Where actual experience replicates best estimate assumptions, the expected profit margin will be released to profit over the life of the policy.

(ii) The difference between actual and assumed experience

Experience profits or losses arise when actual experience differs from the best estimate assumptions. Instances giving rise to such profits or losses include variances in claims, expenses, cancellations and investment returns.

(iii) Changes to underlying assumptions

Assumptions for measuring the policy liabilities are reviewed each year. Where the review leads to a change in assumptions, the change is deemed to have occurred from the end of the year. The financial effect of a change in discount rates is in certain circumstances recognised in the year that the change is made. Otherwise the effect is recognised over future reporting periods during which services are provided to policyholders.

(iv) Loss recognition on groups of related products

If based on best estimate assumptions, business for a group of related products is expected to make a loss, the total expected loss for that product group is recognised in the statement of comprehensive income immediately. When loss-making business becomes profitable, previously recognised losses are reversed.

(v) Investment earnings on assets in excess of Policy Liabilities

Profits are generated from investment assets which are in excess of those required to meet Policy Liabilities. Investment earnings are directly influenced by market conditions and as such this component of profit will vary from year to year.

35. Life Insurance - specific accounting policies (continued)

The Policy Liabilities contain the following components:

	2010		2009	
	Total	Excluding Tax	Total	Excluding Tax
	$'000	*$'000*	*$'000*	*$'000*
Present value of benefits	552	519	463	534
Present value of expenses	(24)	(44)	(19)	(36)
Present value of margins	480	33	511	89
Total	1,008	508	955	587

(h) Solvency Reserves

The Actuary has advised the Directors that $2,468,000 (2009: $3,579,000) is required to cover Prudential Reserves in accordance with the New Zealand Society of Actuaries Professional Standard No. 5 "Life Insurance Company Prudential Reserving", compared with actual assets of $2,515,000 (2009: $3,095,000). The solvency shortfall in the prior year was addressed on 23 July 2009 by the diversification of bank deposits as recommended by the Actuary.

36. Share Based Payment Plans

(a) Wesfarmers Employee Share Acquisition Plan New Zealand

On 15 September 2009 the Wesfarmers Board approved the October 2009 Wesfarmers Employee Share Acquisition Plan New Zealand (WESAP NZ) Award offers. The plan allows an eligible employee to receive Wesfarmers Limited ordinary shares up to $NZ 1,000, tax free to participants, with an employee payment of $NZ 1.00.

The following are the key terms and conditions of the WESAP NZ:

- Shares are restricted from being traded for three years from the date of issue or until the employee terminates by reason of death, accident, sickness, redundancy or retirement (whichever is earliest); and
- If the employee terminates (other than for reasons above) before the end of the restricting period, the shares will be sold at market price and the proceeds are paid to the employee, subject to PAYE tax.

Eligible employees meet all the following conditions at 1 October 2009:

- Employment contract provides for permanent conditions of employment;
- Three months continuous employment with Wesfarmers or its subsidiaries;
- 18 years or older (at 20/11/2009);
- New Zealand resident for tax purposes and;
- Are not a director of a company in the Wesfarmers Limited Group.

The plan allocation date was on the 20th of November 2009; the cost of the WESAP NZ was expensed in the year (refer note 7). 387 employees sought to participate in the WESAP NZ. Shares were issued at a share market price of $AUD 28.75 per share.

36. Share Based Payment Plans (continued)

(b) Wesfarmers Employee Share Acquisition Plan - Senior Employees New Zealand

On 15 September 2009 the Wesfarmers Board approved the October 2009 Wesfarmers Employee Share Acquisition Plan - Senior Employees New Zealand (WESAPS NZ) Award offers. The Plan allows the award of Wesfarmers Limited ordinary shares, subject to PAYE tax, the net amount is used to purchase shares.

The following are the key terms and conditions of the WESAPS NZ:

- Gross award share value determined on executive seniority and company achieving performance hurdle
- Shares are restricted from being traded for three years from the date of issue or until the employee terminates by reason of death, accident, sickness, redundancy or retirement (whichever is earliest); and
- Shares are subject to forfeiture if the employee acts fraudulently or dishonestly or employment is terminated due to misconduct.

Eligible employees meet all the following conditions at 1 October 2009:

- Employment contract provides for permanent conditions of employment;
- Three months continuous employment with Wesfarmers or its subsidiaries;
- 18 years or older (at 20/11/2009);
- New Zealand resident for tax purposes and;
- Meets the definition of a senior employee

The plan allocation date was on the 20th of November 2009; the cost of the WESAPS NZ was expensed in the year (refer note 7). 37 employees sought to participate in the WESAPS NZ. Shares were issued at a share market price of $AUD 28.75 per share.

ERNST & YOUNG

Chartered Accountants

Independent Auditor's Report

To the Shareholders of Lumley General Insurance (N.Z.) Limited

Report on the Financial Statements

We have audited the financial statements of Lumley General Insurance (N.Z.) Limited (the "company") and its controlled entities (together the "group") on pages 4 to 50, which comprise the statement of financial position of Lumley General Insurance (N.Z.) Limited and the group as at 30 June 2010, and the statement of comprehensive income and statement of changes in equity for the year then ended of the company and group, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the company's shareholders, as a body, in accordance with section 205(1) of the Companies Act 1993. Our audit has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Directors' Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected, depend on our 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, we have considered the 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, as well as evaluating the overall presentation of the financial statements.

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

Ernst and Young provides taxation advice and other assurance related services to the company and group.

Partners and employees of our firm may deal with the company and group on normal terms within the ordinary course of trading activities of the business of the company and group.

Opinion

In our opinion, the financial statements on pages 4 to 50:

- comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of the financial position of Lumley General Insurance (N.Z.) Limited and the group as at 30 June 2010 and the financial performance of the company and group for the year then ended.

Report on Other Legal and Regulatory Requirements

We have obtained all the information and explanations we have required.

In our opinion proper accounting records have been kept by Lumley General Insurance (N.Z.) Limited as far as appears from our examination of those records.

Ernst & Young

11 August 2010
Auckland