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

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2013

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 2013.

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 (Chairman)
M C Hannan (appointed 21 November 2012)
S L Maier (appointed 30 January 2013)
M B Webb
J A Lyon
A N Gianotti
S W Houghton (appointed 28 February 2013)
R G Scott (ceased 28 February 2013)

Corporate Governance

Lumley General Insurance (N.Z.) Limited ("**LGNZ**") is a wholly owned subsidiary of the Lumley Insurance Group Limited, which is ultimately owned by Wesfarmers Limited ("Wesfarmers"). The LGNZ Board has adopted a corporate governance structure, governance practices and policies, consistent with best practice and aligned to regulatory requirements. The LGNZ Executive Team and the Board continually assess its adherence to and performance against these standards.

Role of the Board of Directors

The Board is primarily governed by the Board Charter, the Wesfarmers Insurance Board Renewal Policy and the Wesfarmers Code of Conduct. The Board Charter records the Board's roles and responsibilities, the Board Renewal Policy describes how the Board assesses its performance and how board members are appointed and the Code of Conduct ensures decision-making is in accordance with LGNZ's values.

The responsibilities of the Board include:

- ensuring that the directors and senior management of LGNZ have the full range of skills needed for the effective and prudent operation of LGNZ;
- reviewing and ratifying systems of risk management and internal compliance and control, codes of conduct and legal compliance;
- monitoring and reviewing the capital, solvency and rating position of LGNZ;
- ensuring that LGNZ's responsible persons are "fit and proper" and that LGNZ complies with its Fit and Proper Policy;
- appointing, re-appointing or removing LGNZ's auditors (both internal and external) and actuaries;
- where LGNZ is subject to Wesfarmers Group policies or utilises Wesfarmers Group functions, ensuring that those policies and functions give appropriate regard to LGNZ's business and specific requirements.

Relationship between the Board and Management

The Board regularly reviews the separation of functions and responsibilities between Management and the Board to ensure that they are appropriate to meet LGNZ's needs and to meet developing best practice standards, including those required to meet any applicable New Zealand or Australian Prudential Standards including both those of the Reserve Bank of New Zealand ("**RBNZ**") and of the Australian Prudential Regulation Authority ("**APRA**").

Board composition

At 30 June 2013, the Board included six non-executive directors and the Chief Executive Officer. All Directors are ordinarily residents in either New Zealand or Australia with four of the Directors ordinarily residing in New Zealand.

Directors' report (continued)

Board members

- **John Cameron (non-executive independent chairman - 1992 to present) - Board Chairman**

Directorships in several listed companies, government state-owned enterprises and government agencies. John has held senior roles in the Heavy Transport and Civil Construction industries both in New Zealand and overseas. John is a Companion of the Queen's Service Order and past president and life member of the Road Transport Forum. John is a former fellow of the Chartered Institute of Transport and Logistics with over 40 years of experience in commercial governance.

- **Michael Hannan (non-executive, independent - 2012 to present)**

Certificate in International Management, Senior Associate of ANZIIF. Michael has over 40 years of insurance experience in New Zealand, the United Kingdom, Hong Kong and Singapore. Michael is a former Chief Executive Officer of New Zealand Insurance and was previously a director of Crombie Lockwood.

- **Samford Lee Maier (non-executive, independent - 2013 to present)**

Doctor of Jurisprudence (J.D.), Harvard Law School - B.A. (Magna cum laude with honours), Yale University. Samford has extensive international financial services experience, is a former Chief Executive Officer of Citibank New Zealand and Jamaica, and has previously held directorships at Bank of New Zealand, Mighty River Power and Citibank Australia.

- **Mark Webb (non-executive, independent - 2009 to present) - Board Risk and Audit Committee Chairman**

Bachelor of Economics majoring in Accounting from Macquarie University, Sydney, and an Associate Member of Certified Public Accountant Australia. Mark has international experience as an insurance executive, working in Europe, North America and Australia. Mark's career has been spent in regulated industries which are complex and technical with significant public policy dimensions.

- **John Lyon (executive, non-independent - 2008 to present) - Chief Executive Officer, LGNZ**

Bachelor of Arts, Open University (United Kingdom), Senior Associate of ANZIIF, past president of the Insurance Council of New Zealand. John has 35 years general insurance experience in New Zealand, Ireland and the United Kingdom and has extensive experience across all aspects of general insurance. John has previously been a director of Vero New Zealand and related companies.

- **Anthony Gianotti (non-executive, non-independent - 2009 to present) - Managing Director, Wesfarmers Insurance**

Bachelor of Commerce with a double major in Finance & Economics and Accounting from Curtin University and has completed a Graduate Diploma of Applied Finance and Investment with Finsia. Anthony is a Certified Public Accountant and is an Authorised Person of the Securities and Futures Authority of the United Kingdom. Prior to joining Wesfarmers, Anthony held senior Lead Advisory roles within the Investment Banking industry with Hambros Bank and Société Générale working in Sydney, London and Melbourne.

- **Susan Houghton (non-executive, non-independent - 2013 to present) - Acting Finance Director, Wesfarmers Insurance**

Bachelor of Arts, University of Reading. Member of the Institute of Chartered Accountants, England and Wales. Susan has extensive experience in the financial services sector across operations, finance and strategy. Susan has over 13 years in the insurance industry and spent 12 years in the professional services firm KPMG.

Director independence

The Board Charter requires that at least half of the Board are independent directors. The Board regularly assesses the independence of each director based on the interests disclosed by them. For this purpose directors are required to immediately advise the Board of any new or changed relationships so the Board can make this assessment.

Examples of relationships that remove independence are relationships with a material LGNZ customer, supplier, professional advisor or substantial shareholder. As at 30 June 2013, the Board considered that four of the directors were independent. The Chairman is an independent director.

In accordance with LGNZ's Constitution, directors with an actual or potential conflict of interest on particular issues are required to disclose the conflict and may still attend meetings but will abstain from voting on that issue.

Directors' report (continued)

Board committees

The Board has one committee, the Board Risk and Audit Committee.

The committee is governed by a Charter, which details its specific functions and responsibilities. The Charter is reviewed annually.

The Board Risk and Audit Committee make recommendations to the Board. They have no decision-making ability except where expressly provided by the Board. The Board is required to confirm the Membership and Chair on an annual basis.

Board Risk and Audit Committee

LGNZ has a structure to independently verify and safeguard the integrity of its financial reporting. The principal components of this are the Board Risk and Audit Committee, the External and Internal Auditors, and the certifications provided to the Board by the Executive Management Team.

The Board Risk and Audit Committee must comprise of:

(a) no more than one Executive Director;
(b) at least three members;
(c) a majority of Independent Directors;
(d) members who have an understanding of financial statements and general accounting principles; and
(e) at least one member who has financial expertise

LGNZ Risk Management Strategy

LGNZ faces a range of risks that are inherent to the business activities undertaken. LGNZ stakeholders, including shareholders, clients, staff and suppliers require assurance that LGNZ will manage its exposure to risk.

LGNZ's approach to risk and compliance is recorded in the LGNZ Risk Management Strategy. This sets out LGNZ's commitment to managing risk and compliance, and provides an overview of the core components of the framework including roles, responsibilities and requirements that must be met. LGNZ applies the "Three Lines of Defence" model to its risk management monitoring. The first level of monitoring is performed by the business operations, the second level by the Risk and Compliance teams and the third level by Internal & External Audit, Executives and the Board.

Internal audit

Wesfarmers contracts an independent chartered accounting firm to carry out the internal audit function reporting to the Chair of the Board Risk and Audit Committee and with full access to other committee members and the Board.

The Internal Auditors help the Board and the Group exercise good corporate governance and meet their regulatory obligations by providing them with independent assurance of the adequacy and effectiveness of internal control systems and processes within LGNZ. The internal auditors have unrestricted access to LGNZ information and staff, and are completely independent of the activities and operations they audit.

External audit

The LGNZ Board is fully committed to ensuring the quality and independence of the external audit process. As part of this process LGNZ encourages full and frank disclosure and discussions between the Board, LGNZ's internal auditors, management and the external auditor, Ernst & Young.

Ernst & Young is also required to provide the Board Risk and Audit Committee with an annual certification of its continued independence, and in particular confirm that it has not carried out any engagements during the year which would impair its professional independence.

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

Directors' report (continued)

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 Group's "Total Comprehensive Income" for the year was $32,363,000 (2012: loss $105,869,000).

Significant changes in the state of affairs

There have been no significant changes in the state of affairs of the Parent or Group during the year.

In the prior year Lumley Life (N.Z.) Limited, a subsidiary of Lumley General Insurance (N.Z.) Limited, was amalgamated with the parent company on the 12th of January 2012.

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 2013.

For and on behalf of the Board of Directors

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J A LYON
Director

....

F J CAMERON
Director

21st of August 2013

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

Statement of Comprehensive Income
For the year ended 30 June 2013

	Notes	*Consolidated*		*Parent*	
		2013	*2012*	*2013*	*2012*
		$'000	*$'000*	*$'000*	*$'000*
Gross earned premium revenue	5	434,920	383,307	434,920	383,307
Outward reinsurance premium expense	5	(64,514)	(69,093)	(64,514)	(69,093)
Net premium revenue	5	370,406	314,214	370,406	314,214
Claims expense	6	(232,906)	(466,484)	(232,906)	(466,484)
Reinsurance and other recoveries revenue	6	16,474	95,218	16,474	95,218
Net claims incurred	6	(216,432)	(371,266)	(216,432)	(371,266)
Net movement in unexpired risk liability	7	2,781	4,724	2,781	4,724
Acquisition costs	8	(110,100)	(94,971)	(110,100)	(94,971)
Other underwriting expenses excluding claims management expenses	8	(17,489)	(11,370)	(17,489)	(11,370)
Underwriting expenses		(127,589)	(106,341)	(127,589)	(106,341)
Underwriting result		29,166	(158,668)	29,166	(158,668)
Investment income	5	14,225	8,280	15,897	9,926
Dividend income	5	-	-	1,600	1,000
Other income	5	2,371	2,102	2,013	1,752
Income from premium funding activities	5	11,024	9,954	-	-
Other operating expenses	8	(11,099)	(8,687)	(3,903)	(2,307)
		16,521	11,649	15,607	10,370
Profit/(Loss) before income tax		45,687	(147,019)	44,773	(148,298)
Income tax benefit/(expense)	9	(13,443)	41,126	(12,714)	41,742
Movement in tax reserves	9	119	25	119	25
Profit/(Loss) for the year		32,363	(105,869)	32,178	(106,531)
Other comprehensive income		-	-	-	-
Total comprehensive income of the year, attributable to the owners of the parent		32,363	(105,869)	32,178	(106,531)

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 2013

	Notes	*Consolidated* 2013 $'000	*Consolidated* 2012 $'000	*Parent* 2013 $'000	*Parent* 2012 $'000
ASSETS					
Current assets					
Cash and cash equivalents	4	37,490	10,665	36,234	8,870
Trade and other receivables	11	136,560	139,798	165,250	165,378
Taxation receivable	9	4,567	25,008	5,327	25,462
Financial assets – loans and receivables	12	63,999	59,323	-	-
Financial assets – funds held with related party	12	387,616	317,539	387,616	317,539
Financial assets at fair value through profit or loss	12	-	519	-	519
Reinsurance and other recoveries receivable	13	165,571	408,605	165,571	408,605
Prepaid reinsurance premiums	14	6,986	8,217	6,986	8,217
Deferred acquisition costs	15	35,622	29,630	35,609	29,655
		838,411	999,304	802,593	964,245
Non-current assets					
Financial assets at fair value through profit or loss	12	120	114	120	114
Investment in subsidiaries	16	-	-	500	500
Deferred tax assets	9	1,559	24,070	1,545	24,056
Reinsurance and other recoveries receivable	13	80,727	71,457	80,727	71,457
Property, plant and equipment	17	4,888	4,955	4,885	4,954
Deferred acquisition costs	15	-	5	-	5
Intangible assets	18	15,129	17,246	15,045	17,045
Goodwill	19	2,000	2,000	2,000	2,000
		104,423	119,847	104,822	120,131
Total assets		942,834	1,119,151	907,415	1,084,376
LIABILITIES					
Current liabilities					
Trade and other payables	20	74,417	70,818	39,647	36,518
Unearned premium liabilities	21	164,744	158,631	164,744	158,631
Unearned exchange commission	22	381	1,050	381	1,050
Outstanding claims liabilities	23	329,944	491,243	329,944	491,243
Provisions	24	180	197	172	189
		569,666	721,939	534,888	687,631
Non-current liabilities					
Unearned premium liabilities	21	-	23	-	23
Policy liability - life	36	350	493	350	493
Outstanding claims liabilities	23	220,961	279,046	220,961	279,046
Financial guarantee contracts	25	707	574	707	574
Deferred tax liabilities	9	10,588	8,876	10,615	8,892
Provisions	24	46	47	42	43
		232,652	289,059	232,675	289,071
Total liabilities		802,318	1,010,998	767,563	976,702
Net assets		140,516	108,153	139,852	107,674
Capital and reserves attributable to the owners of the parent					
Contributed equity	26	199,439	199,439	199,439	199,439
Retained earnings		(58,923)	(91,286)	(59,587)	(91,765)
Total equity		140,516	108,153	139,852	107,674

For and on behalf of the Board, we authorise these financial statements for issue on the 21st of August 2013.

J A LYON
Director

F J CAMERON
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 2013

Consolidated	*Notes*	*Ordinary Shares*	*Retained Earnings*	*Total ordinary shareholders' equity*
		$'000	*$'000*	*$'000*
At 1 July 2011		83,638	14,583	98,221
Net Profit/(Loss) as previously reported		-	(105,869)	(105,869)
Other comprehensive income		-	-	-
Total comprehensive income for the year attributable to the owners of the parent		-	(105,869)	(105,869)
Issue of ordinary shares	26	115,801	-	115,801
At 30 June 2012		199,439	(91,286)	108,153
Net Profit/(Loss) for the year		-	32,363	32,363
Other comprehensive income		-	-	-
Total comprehensive income for the year attributable to the owners of the parent		-	32,363	32,363
Issue of ordinary shares	26	-	-	-
At 30 June 2013		199,439	(58,923)	140,516

Parent	*Notes*	*Ordinary Shares*	*Retained Earnings*	*Total ordinary shareholders' equity*
At 1 July 2011		83,638	13,514	97,152
Net Profit/(Loss) as previously reported		-	(106,531)	(106,531)
Other comprehensive income		-	-	-
Total comprehensive income for the year attributable to the owners of the parent		-	(106,531)	(106,531)
Issue of ordinary shares	26	115,801	-	115,801
Amalgamation of Lumley Life (NZ) Limited	16	-	1,252	1,252
At 30 June 2012		199,439	(91,765)	107,674
Net Profit/(Loss) for the year		-	32,178	32,178
Other comprehensive income		-	-	-
Total comprehensive income for the year attributable to the owners of the parent		-	32,178	32,178
Issue of ordinary shares	26	-	-	-
At 30 June 2013		199,439	(59,587)	139,852

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

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

Statement of Cash Flows
For the year ended 30 June 2013

	Note	*Consolidated* *2013* *$'000*	*2012* *$'000*	*Parent* *2013* *$'000*	*2012* *$'000*
Cash flows from operating activities					
Premiums received (exclusive of GST)		435,520	394,609	435,520	394,481
Interest received		25,446	18,379	15,919	9,907
Dividends received		-	-	1,600	1,000
Other revenue received		2,186	6,310	1,826	5,945
Reinsurance and other recoveries received		263,223	169,679	263,223	169,679
Reinsurance premiums paid		(70,764)	(62,426)	(70,764)	(62,426)
Commissions paid (exclusive of GST)		(74,866)	(65,895)	(69,573)	(64,109)
Claims paid		(459,468)	(374,974)	(459,468)	(374,974)
Receipts/(payments) for amounts owing from subsidiary		-	-	(3,109)	1,576
Payments to suppliers and employees (inclusive of GST)		(46,980)	(54,387)	(45,489)	(52,717)
Income tax (paid)/received		31,414	4,107	31,850	4,501
Net Cash Inflow/(Outflow) from Operating Activities	28	105,711	35,402	101,535	32,863
Cash flows from investing activities					
Net receipts/(payments) for property, plant, and equipment and software		(4,645)	(7,225)	(4,607)	(7,280)
Receipts/(payments) for investments in subsidiaries		-	-	-	1,960
Net receipts/(payments) for financial assets		(74,241)	(141,091)	(69,564)	(139,505)
Net Cash Inflow/(Outflow) from Investing Activities		(78,886)	(148,316)	(74,171)	(144,825)
Cash flows from financing activities					
Proceeds from issue of share capital		-	115,801	-	115,801
Net Cash Inflow/(Outflow) from Financing Activities		-	115,801	-	115,801
Net increase/(decrease) in cash and cash equivalents		26,825	2,887	27,364	3,839
Cash and cash equivalents at beginning of year		10,665	7,778	8,870	5,031
Cash and cash equivalents at end of year		37,490	10,665	36,234	8,870

The above statement of cash flows should be read in conjunction with the accompanying notes.

Notes to and forming part of the financial statements for the year ended 30 June 2013

1. Summary of significant accounting policies

a) Group and its operations

Lumley General Insurance (N.Z) Limited ("the Parent" or "the Company") is a limited liability company incorporated and domiciled in New Zealand, registered under the Companies Act 1993, and a licenced insurer under the Insurance (Prudential Supervision) Act 2010. From 1 July 2012 the Parent is an issuer under the Financial Reporting Act 1993.

The registered office of the Parent is Level 21, Lumley Centre, 88 Shortland Street, Auckland, New Zealand. 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 principal activity of the Group are general insurance underwriting, and related financing activities.

The consolidated financial statements for the year ended 30 June 2013 were authorised for issue in accordance with a resolution of the directors on the 21st of August 2013.

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 the requirements of the Companies Act 1993 and the Financial Reporting Act 1993. The Group's functional and presentation currency is NZD ($) and amounts are rounded to the nearest thousand dollars ($'000) unless otherwise stated.

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

c) Statement of compliance

The financial statements of the Parent and Group have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable financial reporting standards, as appropriate for profit-oriented entities. The financial statements comply with International Financial Reporting Standards (IFRS).

In prior years the Parent and Group qualified for, and applied, the differential reporting concessions available under the Framework for Differential Reporting for entities adopting NZ IFRS. However from 1 July 2012 the Parent became an issuer under the Financial Reporting Act 1993 as a result of it being a licenced insurer under the Insurance (Prudential Supervision) Act 2010. Therefore from this date the Parent and Group no longer qualify for, nor apply, any differential reporting concessions. The Parent and Group did not apply any differential reporting concessions relating to recognition and measurement in previous annual financial statements, therefore there were no changes in accounting policies when the Parent and Group moved to full NZ IFRS reporting from 1 July 2012.

This financial report is prepared on the historical cost basis of accounting with certain exceptions as described in accounting policies (j),(k),(o),(t)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 Standards and interpretations as of 1 July 2012.

(i) Amendments to NZ IAS 12 *Income Taxes* - Deferred Tax: Recovery of Underlying Assets effective 1 January 2012. The standard requires that deferred tax on non-depreciable assets, measured using the revaluation model in NZ IAS 16, should always be measured on a sale basis.

(ii) Amendments to NZ IAS 1 *Presentation of Financial Statements* - Presentation of Other Comprehensive Income effective 1 July 2012. This Standard requires entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss in subsequent periods (reclassification adjustments).

The adoption of the above amendments did not have any material impact on the accounting policies, financial position or performance of the Parent and the Group.

1. Summary of significant accounting policies (continued)

d) New accounting standards and interpretations (continued)

The following standards, amendments and interpretations to existing standards are not yet effective and have not been early-adopted by the Group. They will become mandatory for the Group's future accounting periods from the effective date of these new or amended standards.

(i) Amendments to NZ IAS 19 *Employee Benefits* effective 1 January 2013. The ammendments revise the distinction between short term and other long term employee benefits.

(ii) Amendments to NZ IFRS 9 (2009) and (2010) *Financial Instruments* effective 1 January 2015. The standard partly replaces NZ IAS 39 and introduces requirements for classifying and measuring financial assets and liabilities.

(iii) Amendments to NZ IFRS 10 *Consolidated Financial Statements* effective 1 January 2013. The standard requires a parent to present consolidated financial statements as those of a single economic entity, replacing the requirements previously contained in NZ IAS 27 *Consolidated and Separate Financial Statements.*

(iv) Amendments to NZ IFRS 12 *Disclosure of Interests in Other Entities* effective 1 January 2013. The standard requires extensive disclosure of information that enables users of the financial statements to evaluate the nature of, and risks associated with, interests in other entities.

(v) Amendments to NZ IFRS 13 *Fair Value Measurement* effective 1 January 2013. The standard replaces the guidance on fair value measurement in existing IFRS literature with a single standard.

(vi) Amendments to NZ IFRSs arising from the Annual Improvements Project (2009-2011) effective 1 January 2013.

(vii) Amendments to NZ IFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* effective 1 January 2013. These amendments introduce disclosures, which provide users with information that is useful in evaluating the effect or potential effect of netting arrangements on an entity's financial position.

(viii) Amendments to NZ IAS 32 *Amendments to NZ IAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* effective 1 January 2014. These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the NZ IAS 32 offsetting criteria to settlement systems.

(ix) NZ IFRIC 21 *Levies*. The interpretation clarifies that an entity recognises a liability for a levy when the activity that triggers payment as identified by the relevant legislation, occurs.

The above amendments to accounting standards are not expected to have a material impact on the financial statements of the Parent or the Group.

The accounting policies are consistent with those of the previous financial year.

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 and for the year ended 30 June each year (see note 33).

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 are considered 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.

1. Summary of significant accounting policies (continued)

e) Basis of consolidation (continued)

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) 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.

h) 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.

1. Summary of significant accounting policies (continued)

h) Reinsurance and other recoveries (continued)

Reinsurance and other recoveries on paid claims, reported claims not yet paid, IBNR and IBNER are recognised as revenue, excluding taxes and levies paid on behalf of third parties.

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.

i) 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.

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

k) 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.

1. Summary of significant accounting policies (continued)

k) Income tax (continued)

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
- 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.

l) 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. GST payments are included in the "Payments to suppliers and employees" and is part of the operating cash flows in the Statement of Cash Flows.

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

m) Trade and other receivables

Amounts due from policyholders and intermediaries, which generally are 30-90 day terms, 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.

1. Summary of significant accounting policies (continued)

m) Trade and other receivables (continued)

Collectability of trade receivables is reviewed on an ongoing basis. Individual debts that are known to be uncollectible are written off when identified. 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. Financial difficulties of the debtor, default payments or debts more than 90 days overdue, are considered objective evidence of impairment. 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.

n) 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 general insurance liabilities therefore these assets have been valued at fair value through profit or loss.

Recognition

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.

o) 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 or 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 profit or 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 or sell 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 or loss
Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". 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.

1. Summary of significant accounting policies (continued)

o) Financial assets (continued)

Subsequent measurement (continued)

iii) Impairment of financial assets

The Group assess at each balance date whether a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the financial asset's current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is recognised in the statement of comprehensive income.

p) 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.

q) Borrowing costs

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

r) Impairment of non-financial assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Group conducts an annual internal review of asset values, which is used as a source of information to assess for any indicators of impairment. External factors, such as changes in expected future processes, technology and economic conditions, are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

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. They 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.

1. Summary of significant accounting policies (continued)

t) Provisions

Provisions are recognised when the Group or 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 or 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 comprehensive income 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 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.

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 balance date.

The carrying values of plant and equipment are reviewed for impairment at each balance date, 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.

1. Summary of significant accounting policies (continued)

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 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, at least annually.

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 the statement of comprehensive income.

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.

1. Summary of significant accounting policies (continued)

w) Goodwill and Intangibles (continued)

Intangibles (continued)

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 the statement of comprehensive income when the asset is derecognised.

x) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

(i) Group as a lessee

Leases in which a significant portion of the risks and benefits of ownership of the leased asset are retained by the lessor are classified as operating leases.

Operating lease payments are recognised as an operating expense in the statement of comprehensive income on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

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.

For the pupose of the statement of cash flows, cash and cash equivalents consist of cash at bank net of bank overdrafts. The Group has offsetting arrangements in place that allows any bank overdraft to be offset to the other bank accounts.

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 36 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 and the amount initially recognised.

1. Summary of significant accounting policies (continued)

ac) Change in presentation

Classification of claims management expenses

The approach for classifying claims management expenses has been revised in the current year. Claims management expenses are now included in claims expense within the statement of comprehensive, whereas in prior years these were included in underwriting and other operating expenses. The impact of this change is an increase in claims expense of $22,198,000 and a decrease in underwriting and other operating expense by the same amount. This reclassification has no impact on overall financial performance or financial position. Furthermore acquisition costs and other underwriting expenses within note 8 of the financial statements have been grossed up by $11,146,000 to bring them in line with the above reclassification.

Comparative information

Where necessary, prior year comparative figures have been reclassified and repositioned for consistency with the current year disclosure. The reclassifications have no impact on overall financial performance or financial position for the comparable year. With regards to the change in approach for classifying claims management expenses as described above, the prior year comparative figure for claims expense has been increased by $18,858,000 with a corresponding decrease in the prior year comparative figure for underwriting and other operating expenses by the same amount. Furthermore the prior year comparative figures for acquisition costs and other underwriting expenses within note 8 of the financial statements have been grossed up by $6,012,000 to bring them in line with the above reclassification.

2. Actuarial assumptions and methods

a) Methods

Significant estimates and judgments are made by the company 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 judgments are applied are described below.

The actuarial reports for the current year were prepared by Craig Lough, the appointed actuary of the Parent and a principal in the firm of Melville Jessup Weaver. Craig Lough is a Fellow of the New Zealand Society of Actuaries. The appointed actuary has stated that Outstanding Claims 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 outstanding claims has been determined.

The life insurance accounting policies and actuarial methodologies are disclosed in Note 36.

2. Actuarial assumptions and methods (continued)

a) Methods (continued)

Central estimate outstanding claims liabilities

The estimation of outstanding claim 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 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 estimation. As such, the resulting estimate is considered to be a 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 considered to project future claim payments. This assists in providing a greater understanding of the trends inherent in the past data. 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)

a) 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 was derived after consideration of stochastic modelling and benchmarking to industry analysis.

The degree of volatility of the central estimate is a function of both the size of the portfolio - fewer claims leads to greater relative volatility all else being equal - and the class of business. 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 only 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:

	2013	*2012*
Discount rate (average weighted by term)	2.82%	2.49%
Weighted average term to settlement (years)	0.90	0.93
Discounted mean term (years)	0.89	0.91
Assumed net loss ratio	18% to 112% (varies by class and loss period)	18.5% to 300% (varies by class and loss period)
Risk margin (overall diversified)	20.87%	28.70%
Claim handling expense ratio	7.48%	5.30%

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 maturity of New Zealand Government securities of appropriate terms as at 30 June 2013.

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)

b) Assumptions (continued)

Processes used to determine assumptions (continued)

iii) Inflation (continued)

In respect of insurance costs relating to the Canterbury earthquake events, demand surge inflation (over and above ordinary inflation) has been incorporated into the estimated outstanding claims liability. Demand surge inflation represents the additional pressure on wage costs and materials that develop from intensive construction periods.

iv) Assumed loss ratios

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

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 of variation in key assumptions on the value of the outstanding claims liabilities, net of reinsurance and other recoveries. This illustrates exposure to the risk of changes in the underlying assumptions and experience. Given the significance of the net outstanding claims for the 22 February 2011 Canterbury earthquake, specific sensitivities have been outlined below.

Variable	Movement in Variable	Net outstanding claims liabilities Increase/ (Decrease) $000 Excluding Canterbury Earthquake Claims	22 February 2011 Canterbury Earthquake Only
Discount rate	+1.75%	(1,604)	(2,549)
Discount rate	+1%	(926)	(1,470)
Discount rate	-1%	950	1,508
Discount rate	-1.75%	1,678	2,665
Assumed net loss ratio	+10 percentage points	2,888	n.a.
Assumed net loss ratio	-10 percentage points	(2,888)	n.a.
Claims handling expense ratio	+20%	1,586	n.a.
Claims handling expense ratio	-20%	(1,586)	n.a.
Inflation	+2.00%	n.a.	7,471
Inflation	-2.00%	n.a.	(8,852)
Settlement pattern	+0.5 year	n.a.	6,204
Settlement pattern	-0.5 year	n.a.	(5,972)
Outstanding claims handling expense	+10%	n.a.	1,669
Outstanding claims handling expense	-10%	n.a.	(1,669)

An increase/(decrease) in net outstanding claims liability will result in a corresponding decrease/(increase) of the same amount in the statement of comprehensive income.

2. Actuarial assumptions and methods (continued)

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:

2013	2012	2011	2010	2009
58.43%	112.16%	68.38%	57.13%	62.67%

e) Christchurch earthquakes

(i) Information developments

The valuation as at 30 June 2013 was over two years after the large 22 February 2011 event. The estimated ultimate incurred liability at that time had better information although there is still uncertainty in some information, for example:

• The apportionment of claims is relatively unknown with many claims yet to be agreed with Earthquake Commission ("EQC').
• Foundation costs. Although provision has been made for costs of the enhanced foundations that will be required, especially in the Hills areas, few properties have been rebuilt with the consequence that there is uncertainty around the actual costs.

(ii) Uncertainty

Estimation of outstanding claims and premium liabilities always contains an element of uncertainty. This is the nature of insurance and is to be expected. Usually, there is a reasonably stable and widespread portfolio of business and a body of claims history available so that estimates can be based on analyses of past experience.

However, there is no suitable body of claims experience available in relation to the development of claims arising from a severe earthquake affecting a modern city in New Zealand, such as the series of earthquakes affecting Canterbury in 2010 and 2011. There are many special circumstances applying that create an increased level of uncertainty in regard to the valuation of the gross and net cost of earthquake claims including:

• The interaction with EQC on the overall claims costs for domestic property claims.
• Special land-related issues, including foundation costs across all areas and treatment of the Red Zone.
• The building codes and other requirements to be complied with and the demands that will be placed on the construction industry's material and labour supplies.
• Claims cost escalation arising from litigation has been allowed for either explicitly in the valuation or implicitly through the risk margin.

In response to these special circumstances, considerable additional data was obtained and analysed, and the valuation methodologies and assumptions were adopted to mitigate, as far as possible, these additional sources of uncertainty.

Given the nature and number of uncertainties associated with the Christchurch earthquakes, the actual claims experience may deviate, from the gross outstanding claims liabilities recorded as at 30 June 2013. Any changes to estimates will be recorded in the accounting period when they become known.

3. 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 the requirements of the Insurance (Prudential Supervision) Act 2010, and 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 continue to maintain a sound and prudent Risk Management Strategy (RMS) and a Reinsurance Management Strategy (REMS).

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:

- 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.
- The use of actuarial models based on historical data to calculate premiums and monitor claims patterns.
- The setting and adherence to underwriting guidelines that determine policies and procedures for acceptance of risk.
- The monitoring of natural disasters such as earthquakes, floods, storms and other catastrophes. Exposure to such risks is monitored using catastrophe models.
- The use of reinsurance to limit the Group's exposure to large single claims and accumulation of claims that arise from the same event.
- The monitoring of a reinsurers' credit risk policy to control exposure to reinsurance counterparty default.
- 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.
- 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. Risk Management Policies and Procedures (continued)

c) Concentration of insurance risk

The Group's exposure is diversed 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.

The Group constantly analyses its interest rate exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative financing, alternative hedging positions and the mix of fixed and variable interest rates.

The following sensitivity analysis is based on the interest rate risk exposures in existence at balance date:

At 30 June 2013, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and other comprehensive income would have been affected as follows:

Judgements of reasonably possible movements:

	Post tax profit higher/ (lower)		***Other comprehensive income higher/ (lower)***	
	2013 $'000	***2012 $'000***	***2013 $'000***	***2012 $'000***
Consolidated				
+ 0.5% (50 basis points)	1,586	976	1,586	976
- 0.5% (50 basis points)	(1,586)	(976)	(1,586)	(976)
Parent				
+ 0.5% (50 basis points)	1,467	873	1,467	873
- 0.5% (50 basis points)	(1,467)	(873)	(1,467)	(873)

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3. Risk Management Policies and Procedures (continued)

d) Financial Risk (continued)

(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.

In addition, receivable balances are monitored on an ongoing basis with the result that the Group's experience of bad debts has not been significant.

Credit quality of financial assets based on Standard and Poor's rating scale:

	A- and above $'000	*BBB and below $'000*	*Not rated $'000*	*Total $'000*
Consolidated				
As at 30 June 2013				
Cash and cash equivalents	37,490	-	-	37,490
Loans and receivables	-	-	63,999	63,999
Funds held with related party	387,616	-	-	387,616
As at 30 June 2012				
Cash and cash equivalents	10,665	-	-	10,665
Loans and receivables	-	-	59,323	59,323
Funds held with related party	317,539	-	-	317,539

	A- and above $'000	*BBB and below $'000*	*Not rated $'000*	*Total $'000*
Parent				
As at 30 June 2013				
Cash and cash equivalents	36,234	-	-	36,234
Trade and other receivables	-	-	28,688	28,688
Funds held with related party	387,616	-	-	387,616
As at 30 June 2012				
Cash and cash equivalents	8,870	-	-	8,870
Trade and other receivables	-	-	25,580	25,580
Funds held with related party	317,539	-	-	317,539

(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.

3. Risk Management Policies and Procedures (continued)

d) Financial Risk (continued)

(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.

The table that follows summarises the maturity profile of the non-insurance financial liabilities of the Group based on remaining undiscounted contractual obligations, including interest payable and receivable.

	less than 3 months $'000	*between 3 to 6 months $'000*	*between 6 to 12 months $'000*	*Total $'000*
Consolidated				
Year ended 30 June 2013				
Trade and other payables	60,315	10,018	4,084	74,417
Parent				
Year ended 30 June 2013				
Trade and other payables	25,545	10,018	4,084	39,647

	less than 3 months $'000	*between 3 to 6 months $'000*	*between 6 to 12 months $'000*	*Total $'000*
Consolidated				
Year ended 30 June 2012				
Trade and other payables	52,190	11,448	7,180	70,818
Parent				
Year ended 30 June 2012				
Trade and other payables	17,890	11,448	7,180	36,518

(v) Fair value of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value of financial instruments traded in active markets is based on quoted market prices at balance date. The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. Valuation techniques used to value life investments contract liabilities are described in note 36. Refer below for details of valuation methods used for each remaining category of financial assets and liabilities.

The carrying amounts of all financial assets and liabilities reasonably approximate their fair values.

The following methods and assumptions were used by the Group in estimating the fair values of financial instruments.

Cash and cash equivalents

The carrying amount of cash and cash equivalents reasonably approximates its fair value.

Loans and receivables and other financial liabilities held at amortised cost

Carrying values of loans and receivables, adjusted for impairment values, and carrying values of other financial liabilities held at amortised cost reasonably approximate their fair values.

3. Risk Management Policies and Procedures (continued)

d) Financial Risk (continued)

(vi) Financial assets that are past due but not impaired

The Group considers that financial assets are past due if payments have not been received when contractually due. At balance date, the total of carrying value of past due but not impaired assets held by the Group is as follows:

	Past due but not impaired			
	less than 3 months	*between 3 to 6 months*	*between 6 to 12 months*	*Total*
	$'000	*$'000*	*$'000*	*$'000*
As at 30 June 2013				
Loans and receivable	481	7	5	493
As at 30 June 2012				
Loans and receivable	442	5	4	451

The parent company does not have past due financial assets as at 30 June 2013 (2012: nil).

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.

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

Notes to and forming part of the financial statements for the year ended 30 June 2013

4. Cash and cash equivalents

	Consolidated		*Parent*	
	2013	*2012*	*2013*	*2012*
	$'000	*$'000*	*$'000*	*$'000*
Cash at bank and in hand	43,867	10,667	42,611	8,872
Bank overdraft with off set arrangements	(6,377)	(2)	(6,377)	(2)
	37,490	10,665	36,234	8,870

5. Revenue

	Consolidated		*Parent*	
	2013	*2012*	*2013*	*2012*
	$'000	*$'000*	*$'000*	*$'000*
Life Insurance Activities				
Gross written premium				
Direct	51	940	51	940
Unearned premium movement	272	168	272	168
Gross earned premium revenue	323	1,108	323	1,108
Outward reinsurance premium expense	-	-	-	-
Net earned premium revenue	323	1,108	323	1,108
General Insurance Activities				
Gross written premium				
Direct	440,673	411,143	440,673	411,143
Unearned premium movement	(6,076)	(28,944)	(6,076)	(28,944)
Gross earned premium revenue	434,597	382,199	434,597	382,199
Outward reinsurance premium expense	(64,514)	(69,093)	(64,514)	(69,093)
Net earned premium revenue	370,083	313,106	370,083	313,106
Total gross earned premium revenue	434,920	383,307	434,920	383,307
Total outward reinsurance premium expense	(64,514)	(69,093)	(64,514)	(69,093)
Total net earned premium revenue	370,406	314,214	370,406	314,214
Gross earned premium revenue	434,920	383,307	434,920	383,307
Investment income	14,225	8,280	15,897	9,926
Dividend income	-	-	1,600	1,000
Other income	2,371	2,102	2,013	1,752
Income from premium funding activities	11,024	9,954	-	-
Total gross revenue	462,540	403,643	454,430	395,985

Notes to and forming part of the financial statements for the year ended 30 June 2013

6. Net claims incurred

Consolidated	*2013 Risk bourne Current Year $000's*	*2013 Risk bourne Prior Year $000's*	*2013 Risk bourne Total $000's*	*2012 Risk bourne Current Year $000's*	*2012 Risk bourne Prior Year $000's*	*2012 Risk bourne Total $000's*
Gross claims expense						
Gross claims incurred – undiscounted	231,833	(2,076)	229,757	221,738	224,552	446,290
Discount movement	(2,169)	5,318	3,149	(982)	21,176	20,194
	229,664	3,242	232,906	220,756	245,728	466,484
Reinsurance and other recoveries revenue	(9,964)	(6,510)	(16,474)	(10,603)	(84,616)	(95,218)
Net claims incurred	219,700	(3,268)	216,432	210,153	161,112	371,266

Parent	*2013 Risk bourne Current Year $000's*	*2013 Risk bourne Prior Year $000's*	*2013 Risk bourne Total $000's*	*2012 Risk bourne Current Year $000's*	*2012 Risk bourne Prior Year $000's*	*2012 Risk bourne Total $000's*
Gross claims expense						
Gross claims incurred – undiscounted	231,833	(2,076)	229,757	221,738	224,552	446,290
Discount movement	(2,169)	5,318	3,149	(982)	21,176	20,194
	229,664	3,242	232,906	220,756	245,728	466,484
Reinsurance and other recoveries revenue	(9,964)	(6,510)	(16,474)	(10,603)	(84,616)	(95,218)
Net claims incurred	219,700	(3,268)	216,432	210,153	161,112	371,266

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 and parent figures include life policy gross claims expense of $194,000 (2012: $100,000). All life policy claims expense are current year and there are no reinsurance recoveries.

7. Unexpired risk liability (Consolidated & Parent)

The Liability Adequacy Test ("LAT") has resulted in a reduction to the unexpired risk liability during the year of $2,781,000 (2012: $4,724,000). As at 30 June 2013, the LAT resulted to a surplus of $5,150,000 (2012: deficit $2,781,000).

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 2. The overall risk margin is intended to achieve a 75 per cent probability of adequacy.

7. Unexpired risk liability (continued)

The results of the LAT are as follows (Parent only):

	2013 *$'000*	*2012* *$'000*
Gross unearned premium liabilities	164,745	158,653
Unearned premium - reinsurers	(6,986)	(8,217)
Net unearned premium liabilities	157,759	150,436
Acquisition costs deferred	(35,609)	(32,431)
Unearned exchange commission	381	1,054
Total net unearned premium liabilities	122,531	119,059
Gross discounted premium liabilities	129,269	138,363
Discounted reinsurance recoveries	(5,573)	(6,782)
Discounted non-reinsurance recoveries	(6,315)	(9,741)
Total discounted premium liabilities	117,381	121,840
Surplus / (Deficiency)	5,150	(2,781)

8. Underwriting and other operating expenses

	Consolidated		*Parent*	
	2013 *$'000*	*2012* *$'000*	*2013* *$'000*	*2012* *$'000*
Expenses by function				
Acquisition costs	110,100	94,971	110,100	94,971
Other operating expenses	11,099	8,687	3,903	2,307
Other underwriting expenses including claims management expenses	50,833	36,240	50,833	36,240
Claims management expenses reallocated to Claims expense	(33,344)	(24,870)	(33,344)	(24,870)
Total other underwriting expenses excluding claims management expenses	17,489	11,370	17,489	11,370
Total expenses	138,688	115,028	131,492	108,648
Expenses by nature				
Depreciation & amortisation	7,258	6,035	7,105	5,881
Wages, salaries & other employee entitlements	61,858	48,485	60,956	47,561
Kiwisaver and superannuation	1,853	1,888	1,817	1,845
Bad and doubtful debts	(101)	(600)	(105)	(600)
Operating lease and rentals	4,817	5,938	4,749	5,802
Net commission	70,134	56,856	64,745	52,142
Advertising costs	1,309	1,531	1,306	1,517
Share based payments	1,862	988	1,862	988
Consulting and outsourced services	5,814	5,132	5,636	5,061
Repairs and maintenance	2,935	2,357	2,935	2,357
Postage	1,340	698	1,339	698
Foreign exchange losses	120	12	120	12
Other expenses	12,833	10,578	12,371	10,254
Claims management expenses reallocated to claims expense	(33,344)	(24,870)	(33,344)	(24,870)
Total expenses	138,688	115,028	131,492	108,648

Notes to and forming part of the financial statements for the year ended 30 June 2013

9. Income tax

a) Income tax expenses

The major components of income tax expense are:	*Consolidated*		*Parent*	
	2013	*2012*	*2013*	*2012*
	$'000	*$'000*	*$'000*	*$'000*
Income Statement				
Current income tax				
Current income tax charge	(11,598)	22,543	(10,883)	23,484
Adjustments in respect of current income tax of previous years	(468)	(6)	(442)	(29)
Deferred income tax				
Relating to origination and reversal of temporary differences	(1,377)	18,589	(1,389)	18,287
Income tax benefit/(expense) reported in the statement of comprehensive income	(13,443)	41,126	(12,714)	41,742
Movement in tax reserves reported in the statement of comprehensive income.	119	25	119	25

The movement in tax reserves reported in the statement of comprehensive income relates to the Life Insurance portfolio.

b) 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*	
	2013	*2012*	*2013*	*2012*
	$'000	*$'000*	*$'000*	*$'000*
Accounting profit/(loss) before tax	45,687	(147,019)	44,773	(148,298)
Tax charge at the standard tax rate of 28% (2012: 28%)	(12,787)	41,165	(12,533)	41,523
Tax effect of non-deductible expenses	(22)	(54)	(21)	(54)
Adjustments in respect of Life Insurance portfolio	(132)	(5)	(132)	(5)
Adjustment for permanent differences	(34)	(16)	414	265
Adjustment for non taxable income	-	42	-	42
Adjustments in respect of current income tax of previous years	(468)	(6)	(442)	(29)
Income tax expense	(13,443)	41,126	(12,714)	41,742

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

Notes to and forming part of the financial statements for the year ended 30 June 2013

9. Income tax (continued)

Recognised deferred tax assets and liabilities

Consolidated

	2013		*2012*	
	Current income tax	*Deferred income tax*	*Current income tax*	*Deferred income tax*
	$'000	*$'000*	*$'000*	*$'000*
Opening balance	25,008	15,194	6,551	(3,389)
Charged to profit or loss	(12,067)	(1,259)	22,664	18,583
Transfers of tax losses	22,964	(22,964)	-	-
Taxation payments/(receipts)	(31,338)	-	(4,207)	-
Closing balance	4,567	(9,029)	25,008	15,194
Total charged to profit or loss		(13,069)		41,137
Other adjustments		(255)		14
Tax benefit in statement of comprehensive income		(13,324)		41,151
Amounts recognised in the statement of financial position:				
Deferred tax asset		1,559		24,070
Deferred tax liability		(10,588)		(8,876)
		(9,029)		15,194
Income tax receivable		5,284		25,419
Income tax payable		(717)		(411)
		4,567		25,008

Parent

	2013		*2012*	
	Current income tax	*Deferred income tax*	*Current income tax*	*Deferred income tax*
	$'000	*$'000*	*$'000*	*$'000*
Opening balance	25,462	15,164	6,495	(3,122)
Charged to profit or loss	(11,324)	(1,270)	23,567	18,286
Transfers of tax losses	22,964	(22,964)	-	-
Taxation payments/(receipts)	(31,775)	-	(4,600)	-
Closing balance	5,327	(9,070)	25,462	15,164
Total charged to profit or loss		(12,152)		41,776
Other adjustments		(443)		(9)
Tax benefit in statement of comprehensive income		(12,595)		41,767
Amounts recognised in the statement of financial position:				
Deferred tax asset		1,545		24,056
Deferred tax liability		(10,615)		(8,892)
		(9,070)		15,164
Income tax receivable		5,327		25,462
Income tax payable		-		-
		5,327		25,462

Notes to and forming part of the financial statements for the year ended 30 June 2013

9. Income tax (continued)

Recognised deferred tax assets and liabilities (continued)

$24,123,000 of the Group's current tax receivable and $5,400,000 of the Group's defered tax asset (2012: 4,840,000 in relation to 2011 tax losses) in relation to 2012 tax losses was recovered from Wesfarmers Group companies in 2013 through a group tax loss sharing arrangement.

Deferred income tax at 30 June relates to the following:

Consolidated

	2013	***2012***
	$'000	***$'000***
Deferred tax assets		
Employee benefits	1,090	841
Provision for impairment and accruals	469	265
Deferred tax asset on tax loss recognised	-	22,964
	1,559	24,070
Deferred tax liabilities		
Deferred acquisition costs	8,635	6,959
Life policy liability	192	311
Temporary differences between depreciation for tax and accounting purposes	1,761	1,606
	10,588	8,876
Net Deferred Tax Asset/(Liability)	(9,029)	15,194

Parent

	2013	***2012***
	$'000	***$'000***
Deferred tax assets		
Employee benefits	1,076	827
Provision for impairment and accruals	469	265
Deferred tax asset on tax loss recognised	-	22,964
	1,545	24,056
Deferred tax liabilities		
Deferred acquisition costs	8,663	6,998
Life policy liability	192	311
Temporary differences between depreciation for tax and accounting purposes	1,760	1,583
	10,615	8,892
Net Deferred Tax Asset/(Liability)	(9,070)	15,164

Notes to and forming part of the financial statements for the year ended 30 June 2013

10. Dividends paid and proposed

a) Declared and paid during the year

There were no dividends declared and paid during the year (2012: $Nil).

b) Imputation credit account (Parent only)

The company is a member of a Trans-Tasman Imputation Group with its parent and other related entities. The combined imputation credits of the Trans-Tasman Imputation Group are available to the shareholders of the Trans-Tasman Imputation Group. The company has no individual Imputation Credit Account balance (2012: nil)

11. Trade and other receivables

	Consolidated		*Parent*	
	2013	*2012*	*2013*	*2012*
	$'000	*$'000*	*$'000*	*$'000*
General insurance				
Premium due from policyholders and intermediaries	84,457	81,949	84,457	81,949
Amounts due from reinsurers	28,226	34,460	28,226	34,460
	112,683	116,409	112,683	116,409
Other receivables				
Related party receivables (refer to Note 33)	20,972	19,735	49,661	45,315
Accrued interest	-	18	-	18
Other	2,905	3,636	2,906	3,636
	23,877	23,389	52,567	48,969
Total Current Trade and Other Receivables	136,560	139,798	165,250	165,378

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.

12. Financial assets

	Consolidated		*Parent*	
	2013	*2012*	*2013*	*2012*
	$'000	*$'000*	*$'000*	*$'000*
Financial assets				
i) Financial assets - loans and receivables				
Loans	63,999	59,323	-	-
Total current financial assets – loans and receivables	63,999	59,323	-	-
ii) Financial assets - funds held with related party				
Cash deposits with related party (refer to Note 33)	387,616	317,539	387,616	317,539
Total current financial assets – funds held with related party	387,616	317,539	387,616	317,539
iii) Financial assets - at fair value through profit or loss				
Government stock	120	633	120	633
Total financial assets – at fair value through profit or loss	120	633	120	633
Current	-	519	-	519
Non-current	120	114	120	114
Total	120	633	120	633

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13. Reinsurance and other recoveries receivable

	Consolidated		*Parent*	
	2013 *$'000*	*2012* *$'000*	*2013* *$'000*	*2012* *$'000*
Other recoveries	13,223	12,569	13,223	12,569
Expected outstanding reinsurance	238,982	477,575	238,982	477,575
Discount to present value	(5,907)	(10,082)	(5,907)	(10,082)
Total outstanding reinsurance and other recoveries	246,298	480,062	246,298	480,062
Current	165,571	408,605	165,571	408,605
Non-current	80,727	71,457	80,727	71,457
Total outstanding reinsurance and other recoveries	246,298	480,062	246,298	480,062

14. Prepaid reinsurance premiums

	Consolidated		*Parent*	
	2013 *$'000*	*2012* *$'000*	*2013* *$'000*	*2012* *$'000*
Opening balance	8,217	12,656	8,217	12,656
Deferral of reinsurance premiums on contracts entered into in the period	6,986	8,217	6,986	8,217
Earning of reinsurance premiums on contracts entered into in previous periods	(8,217)	(12,656)	(8,217)	(12,656)
Closing balance	6,986	8,217	6,986	8,217

15. Deferred acquisition costs

	Consolidated		*Parent*	
	2013 *$'000*	*2012* *$'000*	*2013* *$'000*	*2012* *$'000*
Opening balance	29,635	18,690	29,660	18,729
Acquisition costs deferred	32,836	24,624	32,823	24,649
Amortisation charged to income	(29,630)	(18,403)	(29,655)	(18,442)
Net movement in unexpired risk liability (Note 7)	2,781	4,724	2,781	4,724
Closing balance	35,622	29,635	35,609	29,660
Current	35,622	29,630	35,609	29,655
Non-current	-	5	-	5
Total	35,622	29,635	35,609	29,660

16. Investments in subsidiaries

	Consolidated		*Parent*	
	2013	*2012*	*2013*	*2012*
	$'000	*$'000*	*$'000*	*$'000*
Investments in controlled entities (Note 33) - at cost	-	-	500	500

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

Amalgamation of controlled entities
On the 12th of January 2012, Lumley Life (N.Z.) Limited (LLNZ), which was a wholly owned and controlled entity of the Parent, was amalgamated with the Parent, with the Parent continuing as the amalgamated company. As a result of this amalgamation, the Parent's investment of $550,000 in LLNZ was eliminated. This amalgamation was accounted for using the pooling of interests method, and the net impact to the retained earnings of the Parent was $1,252,000.

17. Property, plant and equipment

Consolidated	*EDP Hardware $'000*	*Office Equipment $'000*	*Motor Vehicles $'000*	*Total $'000*
Year ended 30 June 2013				
At 1 July 2012 net of accumulated depreciation	1,418	2,917	620	4,955
Additions	778	778	701	2,257
Disposals	-	(5)	(575)	(580)
Depreciation charge for the year	(783)	(770)	(191)	(1,744)
At 30 June 2013 net of accumulated depreciation	1,413	2,920	555	4,888
At 30 June 2013				
Cost	4,183	8,735	643	13,561
Accumulated depreciation	(2,770)	(5,815)	(88)	(8,673)
Net carrying amount	1,413	2,920	555	4,888
Year ended 30 June 2012				
At 1 July 2011 net of accumulated depreciation	1,161	3,067	941	5,169
Additions	942	229	795	1,966
Disposals	-	-	(901)	(901)
Transfers from Work in Progress (Note 18)	-	319	-	319
Reclassifications	8	(17)	-	(9)
Depreciation charge for the year	(693)	(681)	(215)	(1,589)
At 30 June 2012 net of accumulated depreciation	1,418	2,917	620	4,955
At 30 June 2012				
Cost	3,407	7,960	705	12,072
Accumulated depreciation	(1,989)	(5,043)	(85)	(7,117)
Net carrying amount	1,418	2,917	620	4,955

17. Property, plant and equipment (continued)

Parent	*EDP Hardware $'000*	*Office Equipment $'000*	*Motor Vehicles $'000*	*Total $'000*
Year ended 30 June 2013				
At 1 July 2012 net of accumulated depreciation	1,415	2,918	621	4,954
Additions	777	776	701	2,254
Disposals	-	(5)	(575)	(580)
Depreciation charge for the year	(782)	(770)	(191)	(1,743)
At 30 June 2013 net of accumulated depreciation	1,410	2,919	556	4,885
At 30 June 2013				
Cost	4,132	8,729	643	13,504
Accumulated depreciation	(2,722)	(5,810)	(87)	(8,619)
Net carrying amount	1,410	2,919	556	4,885
Year ended 30 June 2012				
At 1 July 2011 net of accumulated depreciation	1,157	3,068	853	5,078
Additions	942	229	795	1,966
Disposals	-	-	(822)	(822)
Transfers from Work in Progress (Note 18)	-	319	-	319
Reclassifications	8	(17)	-	(9)
Depreciation charge for the year	(692)	(681)	(205)	(1,578)
At 30 June 2012 net of accumulated depreciation	1,415	2,918	621	4,954
At 30 June 2012				
Cost	3,354	7,958	706	12,018
Accumulated depreciation	(1,939)	(5,040)	(85)	(7,064)
Net carrying amount	1,415	2,918	621	4,954

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.

Notes to and forming part of the financial statements for the year ended 30 June 2013

18. Intangible assets

	Consolidated			*Parent*		
	Software $'000	*Work In Progress $'000*	*Total $'000*	*Software $'000*	*Work in Progress $'000*	*Total $'000*
Year ended 30 June 2013						
At 1 July 2012 net of accumulated amortisation	12,479	4,767	**17,246**	12,277	4,768	**17,045**
Additions – internal development	834	2,563	**3,397**	800	2,562	**3,362**
Transfers from Work in Progress	6,805	(6,805)	**-**	6,805	(6,805)	**-**
Amortisation charge for the year	(5,514)	-	**(5,514)**	(5,362)	-	**(5,362)**
At 30 June 2013 net of accumulated amortisation	14,604	525	**15,129**	14,520	525	**15,045**
At 30 June 2013						
Cost (gross carrying amount)	31,075	525	**31,600**	30,468	525	**30,993**
Accumulated amortisation	(16,471)	-	**(16,471)**	(15,948)	-	**(15,948)**
Net carrying amount	14,604	525	**15,129**	14,520	525	**15,045**
Year ended 30 June 2012						
At 1 July 2011 net of accumulated amortisation	13,628	2,213	**15,841**	13,627	1,891	**15,518**
Additions – internal development	282	5,888	**6,170**	260	5,889	**6,149**
Transfers from Work in Progress	3,015	(3,334)	**(319)**	2,693	(3,012)	**(319)**
Amortisation charge for the year	(4,446)	-	**(4,446)**	(4,303)	-	**(4,303)**
At 30 June 2012 net of accumulated amortisation	12,479	4,767	**17,246**	12,277	4,768	**17,045**
At 30 June 2012						
Cost (gross carrying amount)	23,439	4,767	**28,206**	22,866	4,768	**27,634**
Accumulated amortisation	(10,960)	-	**(10,960)**	(10,589)	-	**(10,589)**
Net carrying amount	12,479	4,767	**17,246**	12,277	4,768	**17,045**

Notes to and forming part of the financial statements for the year ended 30 June 2013

18. 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* 2013 $'000	2012 $'000
Cost	26,214	18,727
Accummulated amortisation	(12,470)	(7,993)
Net book value	13,744	10,734

(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 between 3 and 5 years.

19. 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.

After initial recognition, goodwill recognised through the acquisition 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.

Reconciliation of carrying amounts at the beginning and end of the period

	Consolidated		*Parent*	
	2013	*2012*	*2013*	*2012*
	$'000	*$'000*	*$'000*	*$'000*
Carrying amount at 1 July	2,000	2,000	2,000	2,000
Cost - acquisition	-	-	-	-
Accumulated impairment	-	-	-	-
Carrying amount at 30 June	2,000	2,000	2,000	2,000

There has been no impairment of Goodwill during the current year (2012: $Nil).

Notes to and forming part of the financial statements for the year ended 30 June 2013

20. Trade and other payables

		Consolidated		*Parent*	
		2013	*2012*	*2013*	*2012*
	Note	*$'000*	*$'000*	*$'000*	*$'000*
Trade creditors	(i)	44,148	41,704	13,188	10,870
Amounts due to reinsurers		7,238	11,192	7,238	11,192
Unearned interest income		3,161	2,985	-	-
Other payables		19,850	14,534	19,201	14,053
		74,397	70,415	39,627	36,115
Related party payables (refer to Note 33)		20	403	20	403
Total trade and other payables		74,417	70,818	39,647	36,518

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

21. Unearned premium liabilities

	Consolidated		*Parent*	
	2013	*2012*	*2013*	*2012*
	$'000	*$'000*	*$'000*	*$'000*
Unearned premium liabilities as at 1 July	158,654	129,697	158,654	129,697
Deferral of premium on contracts written during the year	164,721	156,982	164,721	156,982
Earning of premiums deferred in prior years	(158,631)	(128,025)	(158,631)	(128,025)
Unearned premium liabilities as at 30 June	164,744	158,654	164,744	158,654
Current	164,744	158,631	164,744	158,631
Non-current	-	23	-	23
Total	164,744	158,654	164,744	158,654

22. Unearned exchange commission

	Consolidated		*Parent*	
	2013	*2012*	*2013*	*2012*
	$'000	*$'000*	*$'000*	*$'000*
Unearned exchange commission as at 1 July	1,050	1,985	1,050	1,985
Deferral of exchange commission on contracts written during the year	381	1,050	381	1,050
Earning of exchange commission deferred in prior years	(1,050)	(1,985)	(1,050)	(1,985)
Unearned exchange commission as at 30 June	381	1,050	381	1,050

23. Outstanding claims liability

a) Gross outstanding claims liabilities

	Consolidated 2013 $'000	2012 $'000	*Parent* 2013 $'000	2012 $'000
Gross central estimate of outstanding claims liabilities	486,859	694,532	486,859	694,532
Discount to present value	(12,737)	(15,887)	(12,737)	(15,887)
Claim handling expenses	24,729	27,424	24,729	27,424
Risk margin	52,054	64,220	52,054	64,220
Total gross outstanding claims liabilities	550,905	770,289	550,905	770,289
Current	329,944	491,243	329,944	491,243
Non current	220,961	279,046	220,961	279,046
Total	550,905	770,289	550,905	770,289

b) Risk margin

The process used to determine the risk margin is explained in note 2 (a). The probability of adequacy at 30 June 2013 is approximately 85 per cent (2012: 85 per cent).

The risk margin included in net outstanding claims is 20.9 per cent of the central estimate (2012: 28.7 per cent).

c) Reconciliation of movement in discounted outstanding claims provision

Consolidated	2013 *Gross* $'000	2013 *Reinsurance* $'000	2013 *Net* $'000	2012 *Net* $'000
At 1 July	770,290	(480,062)	290,228	107,971
Increase in claims incurred in current accident year	229,664	(9,964)	219,700	248,511
Movement in prior year claims provision	3,242	(6,510)	(3,268)	103,898
Incurred claims recognised in the income statement	232,906	(16,474)	216,432	352,409
Net claim payments	(452,291)	250,238	(202,053)	(170,153)
At 30 June	550,905	(246,298)	304,607	290,227

Parent	2013 *Gross* $'000	2013 *Reinsurance* $'000	2013 *Net* $'000	2012 *Net* $'000
At 1 July	770,290	(480,062)	290,228	107,971
Increase in claims incurred in current accident year	229,664	(9,964)	219,700	248,511
Movement in prior year claims provision	3,242	(6,510)	(3,268)	103,898
Incurred claims recognised in the income statement	232,906	(16,474)	216,432	352,409
Net claim payments	(452,291)	250,238	(202,053)	(170,153)
At 30 June	550,905	(246,298)	304,607	290,227

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 all long tail portfolio's claims.

				Accident Year				
Ultimate claims cost estimate	*2007 & Prior*	*2008*	*2009*	*2010*	*2011*	*2012*	*2013*	*Total*
		$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
At end of loss year		21,452	17,362	15,266	43,874	24,300	20,619	142,873
One year later		19,118	17,907	10,083	165,783	22,421	-	235,312
Two years later		17,952	14,421	10,458	189,949	-	-	232,780
Three years later		16,060	15,545	9,746	-	-	-	41,351
Four years later		16,882	14,796	-	-	-	-	31,678
Five years later		13,678	-	-	-	-	-	13,678
Current estimate of ultimate claims cost		13,678	14,796	9,746	189,949	22,421	20,619	271,209
Payments to 30 June 2013		(12,609)	(12,879)	(7,345)	(35,330)	(10,420)	(2,536)	(81,119)
Net Central Estimate - Undiscounted (excluding CHE)	4,941	1,069	1,917	2,401	154,619	12,001	18,083	195,031
Discount to present value	(125)	(30)	(64)	(87)	(4,750)	(454)	(1,213)	(6,723)
Claims handling expenses	414	96	164	189	564	553	1,424	3,404
Discounted Central Estimate - (including CHE)	5,230	1,135	2,017	2,503	150,433	12,100	18,294	191,712
Diversified risk margin (85% PoA)	1,066	231	410	511	35,696	3,360	3,735	45,009
Net 85% Provision - Discounted (including CHE)	6,296	1,366	2,427	3,014	186,129	15,460	22,029	236,721
Reinsurance & other recoveries	1,084	332	480	385	221,678	2,071	3,439	229,469
Gross 85% Provision - Discounted (including CHE)	7,380	1,698	2,907	3,399	407,807	17,531	25,468	466,190

CHE - Claims Handling Expenses **PoA - Probability of Adequacy**

Notes to and forming part of the financial statements for the year ended 30 June 2013

24. Provisions

	Consolidated		*Parent*	
	2013	*2012*	*2013*	*2012*
	$'000	*$'000*	*$'000*	*$'000*
Long service leave				
At 1 July	244	228	232	216
Additional provisions made	43	34	43	34
Amounts used	(61)	(18)	(61)	(18)
Unused amounts reversed	-	-	-	-
At 30 June	226	244	214	232
Current	180	197	172	189
Non-current	46	47	42	43
	226	244	214	232

Long service leave is accrued as earned by staff that obtain 15 years continual service. It is accrued and used as and when requested by staff.

25. Financial Guarantee Contracts

	Consolidated		*Parent*	
	2013	*2012*	*2013*	*2012*
	$'000	*$'000*	*$'000*	*$'000*
Home Bonds	707	574	707	574
Balance at end of year	707	574	707	574

Following a review of our financial guarantees the liability for guarantees provided under the Home Bonds scheme has been fair valued. The liability under the guarantee carries a reinsurance component. There is an asset of $353,000 (2012: $280,000) pertaining to Home Bonds receivable included in reinsurance and other recoveries for the reinsurance component of the liability noted above.

26. Contributed equity

	Consolidated		*Parent*	
	2013	*2012*	*2013*	*2012*
	$'000	*$'000*	*$'000*	*$'000*
Issued and fully paid shares	199,439	199,439	199,439	199,439
Share movement reconciliation				
Movement in Ordinary Shares on issue				
At 1 July	199,439	83,638	199,439	83,638
Ordinary Shares-issued and fully paid	-	115,801	-	115,801
At 30 June	199,439	199,439	199,439	199,439

The following share issues occurred during the prior year:

- 12,817,850 Ordinary Shares-issued and fully paid on 11 July 2011
- 12,982,780 Ordinary Shares-issued and fully paid on 24 January 2012
- 90,000,000 Ordinary Shares-issued and fully paid on 29 June 2012

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.

The shares do not have a par value.

Notes to and forming part of the financial statements for the year ended 30 June 2013

27. Credit rating

On 26 June 2013, Standard & Poor's Rating Services affirmed its 'A-' insurer financial strength rating and issuer credit rating on Lumley General Insurance (N.Z.) Limited.

As at 30 June 2013 the Parent's level of retained equity was $139,852,000 (2012: $107,674,000) and was sufficient to support an A- rating from Standard & Poor's (Australia) Pty Limited.

28. Note to the consolidated statement of cash flows

	Consolidated		*Parent*	
	2013	*2012*	*2013*	*2012*
	$'000	*$'000*	*$'000*	*$'000*
Reconciliation of profit/(loss) for the year to net cash flows from operating activities				
Net profit/(loss) after tax	32,363	(105,869)	32,178	(106,531)
Add/(less) non-cash items				
Depreciation of property, plant and equipment	1,744	1,589	1,743	1,578
Amortisation of intangible assets	5,514	4,446	5,362	4,303
Change in insurance liabilities net of reinsurance and other recoveries	19,791	209,083	19,791	209,625
Change in deferred acquisition costs	(5,987)	(10,944)	(5,949)	(10,931)
Change in provisions	(18)	16	(18)	16
Change in deferred tax assets	22,511	(22,166)	22,511	(22,201)
Change in deferred tax liabilities	1,712	3,583	1,723	3,915
Loss on disposal of property, plant and equipment	2	-	2	-
	45,269	185,607	45,165	186,305
Add/(less) movements in working capital				
Decrease/(increase) in receivables	4,040	(34,966)	931	(34,115)
(Decrease)/increase in payables	3,598	9,087	3,126	6,171
Decrease/(increase) in current taxation	20,441	(18,457)	20,135	(18,967)
	28,079	(44,336)	24,192	(46,911)
Net cash inflows/(outflows) from operating activities	105,711	35,402	101,535	32,863

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

Notes to and forming part of the financial statements for the year ended 30 June 2013

29. Capital Management

The Group's objective when managing capital is to maintain an efficient level of capital that protects the interests of owners and stakeholders, and creates shareholder value whilst meeting regulatory requirements. The Group sources its capital from equity attributable to the owners of the Group.

The Parent measures its capital adequacy against published capital standards. The Parent applies the Solvency Standard for Non-life Insurance Business and the Solvency Standard for Life Insurance Business ("the solvency standards") issued by the Reserve Bank of New Zealand ("RBNZ").

From 22 February 2012 to 7 March 2013 the Parent was required to retain a minimum amount of fixed capital of $3 million in accordance with the solvency standards; this minimum fixed capital requirement increased to $5 million from 7 March 2013.

Under the solvency standards regulatory capital is made up of two components, Actual Solvency Capital and Minimum Solvency Capital. The Solvency Margin is defined as the excess of Actual Solvency Capital over Minimum Solvency Capital.

From 30 June 2013 the Parent is required to maintain a solvency margin as determined under the solvency standards of at least $0 for the Parent's non-life insurance business and at least $0 for the Parent's life insurance business.

During the year ended 30 June 2013 the Parent complied with all externally imposed capital requirements.

The Parent has a capital management plan which is overseen by the Board Risk and Audit Committee and forms part of the Parent's wider risk management strategy. Embedded in its capital management plan are the necessary procedures to ensure continuous and full compliance with the solvency standards.

Before 7 September 2013 Lumley General Insurance (N.Z.) Limited must have a full license to operate in the New Zealand market. The Board expect a full license to be issued prior to this date.

a) Solvency margin of the Parent's non-life insurance business

The Minimum Solvency Capital required to be maintained for the Parent's non-life insurance business is shown below. The Actual Solvency Capital exceeds the minimum requirements by $29,518,000.

	Parent 2013 $'000
Actual Solvency Capital	118,811
Minimum Solvency Capital	89,293
Solvency Margin	29,518

The methodology and bases for determining the Solvency Margin are in accordance with the new requirements of the Solvency Standard for Non-life Insurance Business issued by the RBNZ and effective as at balance date. The requirement to disclose the Solvency Margin for non-life insurance business in the annual financial statements become effective this year.

b) Solvency margin of the Parent's life insurance business

Separate to policy liabilities recognised in the balance sheet, the Parent maintains sufficient capital for its life insurance business to meet solvency requirements. This is shown in Note 36(h).

Notes to and forming part of the financial statements for the year ended 30 June 2013

30. Auditor remuneration

The Group and Parent auditor is Ernst & Young.

		Consolidated		*Parent*	
		2013	*2012*	*2013*	*2012*
		$'000	*$'000*	*$'000*	*$'000*
Amounts received or due and receivable by Ernst & Young for:					
i	Audit of the financial statements	140	153	105	118
ii	Other services:				
	Assurance related to regulatory requirements	35	33	35	33
		175	186	140	151

Wesfarmers Group paid $41,000 (2012: $47,000) for tax compliance and advisory services to Ernst & Young on behalf of the parent.

31. Events after balance date

Lumley Finance (N.Z.) Limited has a contract with AON New Zealand for the provision of premium funding services for loans under $100,000. This contract is due for renewal on 31 October 2013.

Subsequent to year end, Management has been advised that AON has decided not to renew their premium funding contract with Lumley Finance. This will result in an estimated potential reduction of $498,000 in net profit after tax for the year ending 30 June 2014.

On 21 July 2013, a 6.5 magnitude earthquake hit close to Wellington, this was followed by a 6.6 magnitude earthquake on 16 August 2013. The claims related to these events are still developing, with approximately $7,000,000 of incurred claims to date.

32. Commitments and contingencies

Operating lease commitments – Group as lessee

The Group and Parent has entered into operating leases of commercial premises and motor vehicles. 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

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

	Consolidated		*Parent*	
	2013	*2012*	*2013*	*2012*
	$'000	*$'000*	*$'000*	*$'000*
Within one year	5,363	5,257	5,320	5,203
After one year but not more than five years	3,327	7,433	3,303	7,354
More than five years	-	-	-	-
	8,690	12,690	8,623	12,557

Capital Commitments

As at 30 June 2013, the Parent and Group have no capital commitments in place (2012: $Nil).

Guarantees

As at 30 June 2013, the Parent and Group have not provided any except for the financial guarantee contracts disclosed in note 25 (2012: $Nil).

Contingent Liabilities

As at 30 June 2013, the Parent and Group have no contingent liabilities in place (2012: $Nil)

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33. Related parties

(a) Subsidiaries

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 %*		*Investment $'000*	
		2013	*2012*	*2013*	*2012*
Lumley Finance (N.Z.) Limited	New Zealand	100	100	500	500

On the 12th of January 2012 Lumley Life (N.Z.) Limited was amalgamated with Lumley General Insurance (N.Z.) Limited.

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

	2013 $'000	*2012 $'000*
Consolidated		
Revenue from Services Rendered and Financing Activities:		
- Ultimate Parent Company	-	-
- Other Related Parties	12,180	8,178
Expenses for Services Rendered and Financing Activities:		
- Ultimate Parent Company	(244)	(445)
- Other Related Parties	(20,712)	(19,502)
Amounts owing from/(to):		
- Ultimate Parent Company	-	-
- Other Related Parties	413,896	360,453
Parent		
Revenue from Services Rendered and Financing Activities:		
- Ultimate Parent Company	-	-
- Subsidiaries of Lumley General Insurance (N.Z.) Limited	3,284	2,653
- Other Related Parties	12,180	8,178
Expenses for Services Rendered, Reinsurance and Financing Activities:		
- Ultimate Parent Company	(244)	(445)
- Subsidiaries of Lumley General Insurance (N.Z.) Limited	-	-
- Other Related Parties	(20,712)	(19,502)
Amounts owing from/(to):		
- Ultimate Parent Company	-	-
- Subsidiaries of Lumley General Insurance (N.Z.) Limited	28,688	25,580
- Other Related Parties	413,896	360,453

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, and was updated on 21 May 2010. Loans to Lumley Finance (N.Z.) Limited are payable on call. No provision for doubtful debts was made at year end (2012: $Nil). These assets are fully supported by bank guarantees.

All related party transactions were made on terms equivalent to those that prevail in arm's length transactions, both at normal market prices and on normal commercial terms, and are made only if such terms can be substantiated.

Notes to and forming part of the financial statements for the year ended 30 June 2013

33. Related parties (continued)

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

The Amounts owing from Other Related Parties above includes $5,326,000 of tax losses (Parent and Consolidated) that will be recovered from Wesfarmers Group companies through a group tax loss sharing arrangement (2012: $23,179,000).

(c) 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.

(d) Remuneration of key management personel

The remuneration of key management personnel during the year was as follows:

	Consolidated		*Parent*	
	2013	*2012*	*2013*	*2012*
	$'000	*$'000*	*$'000*	*$'000*
Salaries and other short term benefits	3,259	3,331	3,259	3,331
Post-employment benefits	-	-	-	-
Other long term benefits	-	-	-	-
Termination benefits	-	-	-	-
Share-based payments	509	420	509	420
	3,768	3,751	3,768	3,751

34. 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 follows:

Consolidated	*Average Balance*	*Interest income / (expense)*	*Average interest rate*
	$'000	*$'000*	*%*
2013			
Interest-bearing assets			
Cash and cash equivalents	91,533	2,037	2.2%
Loans and receivables	63,589	11,023	17.3%
Funds held with related party	285,462	12,181	4.3%
Financial assets at fair value through profit or loss	509	8	1.6%

34. Average interest bearing financial assets and liabilities and related interest (continued)

Parent	*Average Balance $'000*	*Interest income / (expense) $'000*	*Average interest rate %*
2013			
Interest-bearing assets			
Cash and cash equivalents	91,136	2,024	2.2%
Loans and receivables	30,397	1,684	5.5%
Funds held with related party	285,462	12,181	4.3%
Financial assets at fair value through profit or loss	509	8	1.6%

Consolidated	*Average Balance $'000*	*Interest income / (expense) $'000*	*Average interest rate %*
2012			
Interest-bearing assets			
Cash and cash equivalents	25,831	86	0.3%
Loans and receivables	56,687	9,954	17.6%
Funds held with related party	188,769	8,178	4.3%
Financial assets at fair value through profit or loss	337	13	4.0%

Parent	*Average Balance $'000*	*Interest income / (expense) $'000*	*Average interest rate %*
2012			
Interest-bearing assets			
Cash and cash equivalents	24,565	82	0.3%
Loans and receivables	28,915	1,653	5.7%
Funds held with related party	188,769	8,178	4.3%
Financial assets at fair value through profit or loss	337	13	4.0%

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35. 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*
2013					
Assets					
Cash deposits with related parties	332,141	55,475	-	-	387,616
2012					
Assets					
Cash deposits with related parties	262,539	55,000	-	-	317,539

Parent	*At Call* *$'000*	*3 months or less* *$'000*	*3 months to 12 months* *$'000*	*No Maturity Specified* *$'000*	*Total* *$'000*
2013					
Assets					
Cash deposits with related parties	360,829	55,475	-	-	416,304
2012					
Assets					
Cash deposits with related parties	288,119	55,000	-	-	343,119

Notes to and forming part of the financial statements for the year ended 30 June 2013

36. Life Insurance disclosures

	Consolidated		*Parent*	
	2013	*2012*	*2013*	*2012*
	$'000	*$'000*	*$'000*	*$'000*
a) Life insurance premium and related revenue				
Gross earned premium revenue	323	1,108	323	1,108
Investment revenue	48	67	48	67
Total Gross earned premium and related revenue	371	1,175	371	1,175
b) Life insurance operating expenses				
Claims expense	(194)	(100)	(194)	(100)
Commissions paid	(40)	(690)	(40)	(690)
Actuarial fees	-	(12)	-	(12)
Other	(1)	(67)	(1)	(67)
Total operating expenses	(235)	(869)	(235)	(869)
c) Analysis of life insurance results after tax				
Planned margins of revenue over expenses	73	178	73	178
Difference between actual and assumed	145	255	145	255
Transfer in of liabilities	(217)	-	(217)	-
Changes to underlying assumptions/methods	-	(4)	-	(4)
Investment earnings on assets in excess of policy	28	33	28	33
Net surplus for the year	29	462	29	462

36. 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.

(d) Investments

Investments integral to the life insurance 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.

36. Life Insurance - specific accounting policies (continued)

(e) Taxation

The Lumley Life database now includes a marker to show whether each policy falls under the pre-1 July 2010 ("old") life insurance tax regime or the new regime. The provisions of the new regime allow a life insurance policy already in force on 30 June 2010 to be grandfathered so that the old regime will continue to apply, provided the policy satisfies the ongoing grandfathering requirements including the reinstatement of lapsed policies within the 90 days as provided under the Income Tax Act 2007.

For policies under the old regime, Lumley General Insurance (N.Z.) Limited have assumed as in previous years' valuations that the Company's taxable income will be investment income minus expenses/commissions plus Life Underwriting Profit. Although the form of calculating the taxable income under the new tax rules is different from those under the old rules, the net outcome is to make the same calculation as before in respect of the grandfathered business.

For policies under the new regime, Lumley General Insurance (N.Z.) Limited have assumed that the Company's taxable income will be all policy cash flows (premiums, claims, commissions, rebates and expenses) plus changes in reserves (defined as a Reserve Adjustment in the Income Tax Act 2007). The reserving method makes no difference to the total amount of tax paid in total, although the timing may differ.

(f) Actuarial Policies and Methods

The actuarial policies and methods described here relate only to policy liabilities arising from death risks underwritten by Lumley Life. Policy liabilities arising from disability/illness risks transferred into Lumley Life as at 30 June 2013 have been calculated under general insurance reserving standards and are covered by Note 2.

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 arising from death risks 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
1.70%, being the current return on risk-free assets of the appropriate mean term, net of tax at 28%. (2012: 1.70%).

(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 (2012: 25%).

(v) Expenses
Based on $1.53 per policy per month in the 12 months following the valuation, increasing by 5% in each subsequent year. (2012: $1.45)

36. Life Insurance - specific accounting policies (continued)

(f) Actuarial Policies and Methods (continued)

(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 28% (2012: 28%) has been assumed for the purposes of the valuation. The provisions of the new life insurance tax regime which came 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.

(g) Measurement of Policy Liabilities

Policy liabilities in the statement of financial position have been calculated using the Margin on Services (MoS) methodology, except for policy liabilities arising from disability/illness risks which have been calculated under the general insurance reserving standards (Note 2).

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.

36. Life Insurance - specific accounting policies (continued)

(g) Measurement of Policy Liabilities (continued)

(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.

The Policy Liabilities contain the following components:

	2013		*2012*	
	Total	*Excluding Tax*	*Total*	*Excluding Tax*
	$'000	*$'000*	*$'000*	*$'000*
Present value of benefits	218	216	347	352
Present value of expenses	254	79	364	51
Present value of margins	70	55	93	90
Total	542	350	804	493

(h) Solvency Margin of the life insurance business

The methodology and bases for determining the Solvency Margin are in accordance with the requirements of the Solvency Standard for Life Insurance Business issued by the RBNZ. For the purposes of the solvency calculation the Parent maintains a single Life Fund comprising all the assets and liabilities of its life insurance business. The Minimum Solvency Capital required to be maintained for the Life Fund is shown below. The Actual Solvency Capital exceeds the minimum requirements by $1,811,000 (2012: $1,492,000).

	Parent	
	2013	*2012*
	$'000	*$'000*
Actual Solvency Capital	1,950	1,993
Minimum Solvency Capital	139	501
Solvency Margin	1,811	1,492

37. Share Based Payment Plans

(a) Wesfarmers Employee Share Acquisition Plan New Zealand

On the 10th of September 2012 the Wesfarmers Board approved the October 2012 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 $NZ750, with an employee payment of $NZ1.00.

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
- Should an employee terminate before the three year restriction period has ended for reasons other than the above, compensation, if any is dependent on the term associated with the year of allocation.

37. Share Based Payment Plans (continued)

(a) Wesfarmers Employee Share Acquisition Plan New Zealand (continued)

Eligible employees meet all the following conditions at 1 October 2012:

- Employment contract provides for permanent conditions of employment;
- Three months continuous employment with Wesfarmers or its subsidiaries;
- 18 years or older (at 28/11/2012);
- 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 28th of November 2012; the cost of the WESAP NZ was expensed in the year (refer note 7). 456 employees sought to participate in the WESAP NZ. Shares were issued at a share market price of $AUD34.54 per share.

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

On the 10th of September 2012 the Wesfarmers Board approved the 1st of October 2012 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 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 hurdles
- 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.
- Vestment and forfeiture of these shares are subject to the terms associated with the year of allocation.

Eligible employees meet all the following conditions at 1 October 2012:

- Employment contract provides for permanent conditions of employment;
- Three months continuous employment with Wesfarmers or its subsidiaries;
- 18 years or older (at 28/11/2012);
- New Zealand resident for tax purposes and;
- Meets the definition of a senior employee

The plan allocation date was on the 28th of November 2012; the cost of the WESAPS NZ was expensed in the year (refer note 7). 77 employees sought to participate in the WESAPS NZ. Shares were issued at a share market price of $AUD 34.54 per share.

Chartered Accountants

Independent Auditor's Report

To the Shareholder 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 and its subsidiaries on pages 7 to 60, which comprise the statement of financial position of Lumley General Insurance (N.Z.) Limited and the group as at 30 June 2013, and the statement of comprehensive income, statement of changes in equity and statement of cash flows 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 shareholder, 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 shareholder 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 shareholder 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. We have no other relationship, or interest in 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 7 to 60:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- give a true and fair view of the financial position of Lumley General Insurance (N.Z.) Limited and the group as at 30 June 2013 and the financial performance and cash flows of the company and group for the year then ended.

Report on Other Legal and Regulatory Requirements

In accordance with the Financial Reporting Act 1993, we report that:

- We have obtained all the information and explanations that 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

21 August 2013
Auckland

26 August 2013

Mr A Smith
Chief Operating Officer
Lumley General Insurance (N.Z.) Limited
PO Box 2426
AUCKLAND

Dear Alistair

Formal Statements - Section 78 Report

Section 78 of the Insurance (Prudential Supervision) Act 2010 ("Act") requires that the Appointed Actuary make the following statements:

a) This report has been completed by Craig Lough FNZSA, Appointed Actuary to Lumley General Insurance (N.Z.) Limited ('LGNZ').

b) Melville Jessup Weaver has provided to the Board of LGNZ, insurance liability valuation reports for the non-life and life business as at 30 June 2013. In those reports we provided assessments of the technical provisions required by LGNZ.

LGNZ have provided me with their financial statements as at 30 June 2013 (dated 21 August 2013) and supporting information, including their solvency calculations as at 30 June 2013.

The solvency calculations have been reviewed against the Reserve Bank of New Zealand's, Solvency Standard for Non-Life Insurance Business (May 2012) and the Solvency Standard for Life Insurance Business (August 2011).

c) There were no restrictions or limitations placed on my work or on my report.

d) I have no relationship with LGNZ other than being its Appointed Actuary. I hold no interests in LGNZ.

e) I obtained all of the information I required.

f) In my opinion and from an actuarial perspective:

   a) the actuarial information included in the LGNZ financial statements as at 30 June 2013 was appropriately included in those financial statements, and

   b) the actuarial information used in the preparation of the LGNZ financial statements as at 30 June 2013 was used appropriately.

g) The solvency margin that applies to LGNZ under a condition imposed under section 21(2)(b) of the Insurance (Prudential Supervision) Act 2010 as at 30 June 2013 was the margin set out in the Solvency Standard for Non-Life Insurance Business issued by the Reserve Bank of New Zealand in May 2012. In my opinion and from an actuarial perspective, LGNZ is maintaining that solvency margin as at 30 June 2013.

h) The solvency margin that applies to LGNZ under a condition imposed under section 21(2)(c) of the Insurance (Prudential Supervision) Act 2010 as at 30 June 2013 was the margin set out in the Solvency Standard for Life Insurance Business issued by the Reserve Bank of New Zealand in August 2011. In my opinion and from an actuarial perspective, LGNZ is maintaining that solvency margin as at 30 June 2013.

Yours sincerely

Craig Lough FNZSA
Appointed Actuary