SWANN INSURANCE (AUST) PTY LTD (NEW ZEALAND BRANCH)

ABN 80 000 886 680

FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2013

SWANN INSURANCE (AUST) PTY LTD (NEW ZEALAND BRANCH)

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SWANN INSURANCE (AUST) PTY LTD (NEW ZEALAND BRANCH)

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2013

	Notes	**2013** NZ$	2012 NZ$
Premium revenue	3	-	226
Claims expense (expense) / gain		-	50,606
Reinsurance and other recoveries revenue	3	-	(819)
Net claims incurred	8	-	49,787
Acquisition costs	9	-	(153)
Other underwriting expenses		-	2,302
Underwriting profit / (loss)		-	52,162
Other income	3	42,849	1,196
Other expense	4	(13,589)	(13,548)
Net investment income	3	11,607	96,210
Profit before taxation		40,867	136,020
Income tax (expense)/credit	5	18,795	(84,999)
Profit after taxation		59,662	51,021
Total comprehensive income / expense for the year, net of tax		59,662	51,021

This statement should be read in conjunction with the accompanying notes.

SWANN INSURANCE (AUST) PTY LTD (NEW ZEALAND BRANCH)

STATEMENT OF MOVEMENTS IN BALANCE DUE TO HEAD OFFICE

For the year ended 30 June 2013

	Notes	**2013**	2012
		NZ$	NZ$
Retained earnings			
Balance at the beginning of the financial year		4,832,956	4,781,935
Profit for the year		59,662	51,021
Balance at the end of the financial year		4,892,618	4,832,956
Amount receivable from Head Office			
Balance at the beginning of the financial year		(4,088,975)	(658,703)
Movement in amount receivable from head office		(250,391)	(3,430,272)
Balance at the end of the financial year	12	(4,339,366)	(4,088,975)
Total balance due to Head Office			
Balance at the beginning of the financial year		743,981	4,123,232
Profit for the year		59,662	51,021
Movement in amount due to head office		(250,391)	(3,430,272)
Balance at the end of the financial year		553,252	743,981

This statement should be read in conjunction with the accompanying notes.

SWANN INSURANCE (AUST) PTY LTD (NEW ZEALAND BRANCH)

BALANCE SHEET

As at 30 June 2013

	Notes	**2013 NZ$**	2012 NZ$
ASSETS			
Cash held for operational purposes		-	191,895
Investments	11	527,126	546,612
Current Tax Asset		19,897	-
Other receivable		6,229	6,230
Deferred acquisition costs	9	-	-
Total assets		553,252	744,737
LIABILITIES			
Payables		-	1
Unearned premium liability	10	-	-
Deferred tax liabilities	5	-	-
Current tax liabilities		-	755
Outstanding claims liability	8	-	-
Total liabilities		-	756
Net assets		553,252	743,981
BALANCE DUE TO HEAD OFFICE			
Retained earnings		4,892,618	4,832,956
Amount receivable from head office	12	(4,339,366)	(4,088,975)
		553,252	743,981

For and on behalf of the board, which authorises the issue of the financial statements on 20th August 2013.

Director

Director

This statement should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2013

NOTE 1. STATEMENT OF ACCOUNTING POLICIES

These financial statements have been prepared and presented in accordance with the Financial Reporting Act 1993. The financial statements are for the New Zealand branch (the Branch) of Swann Insurance (Aust) Pty Ltd, and need to be read in conjunction with the financial statements of Swann Insurance (Aust) Pty Ltd.

Swann Insurance (Aust) Pty Ltd (the Company) is a company limited by shares, incorporated and domiciled in Australia. Its registered office is Level 26, 388 George Street, Sydney, NSW 2000, Australia and the principal place of business is 181 William Street, Melbourne, VIC 3000. The principal continuing activity of the Company is the underwriting of general insurance and investing activities.

The ultimate parent entity is Insurance Australia Group Limited (IAG), an entity incorporated in Australia, which together with its subsidiaries forms the IAG Group. As part of the IAG Group, the branch complies with a variety of policies and procedures developed by IAG for application by all entities in the IAG Group where applicable. For this reason there are references to IAG Group policies in this financial report.

Specific Accounting Policies

The following particular accounting policies which significantly affect the measurement of financial performance and financial position have been applied:

A. Statement of Compliance

The financial statements have been prepared in accordance with NZ GAAP. They comply with NZ Equivalents to International Financial Reporting Standards (NZ IFRSs), including IAS 12-Income Taxes, and other applicable financial reporting Standards, as appropriate for profit – oriented entities that qualify for and apply differential reporting concessions.

The Branch qualifies for Differential Reporting exemptions as it has no public accountability and there is no separation between its owners and the governing body. All available reporting exemptions allowed under the framework for Differential Reporting have been adopted with the exception of taxation.

B. Basis of Preparation

The significant accounting policies adopted in the preparation of this financial report are set out below. The Branch is operating under a provisional license granted by the Reserve Bank of New Zealand under the Insurance (Prudential Supervision) Act 2010 which expires on the 7 September 2013. After this date it is planned that the Branch will apply for deregistration from the New Zealand Companies Register. As such, the Branch is not considered to be operating under a going concern basis however, the accounting policies adopted in the preparation of this financial report have been consistently applied by the Branch and are the same as those of the previous year unless otherwise noted. These financial statements have been prepared on the basis of historical cost principles, as modified by certain exceptions noted in the financial report, with the principal exceptions being the measurement of all investments and derivatives at fair value and the measurement of the outstanding claims liability and related reinsurance and other recoveries at present value.

The presentation currency used for the preparation of this financial report is New Zealand dollars.

The balance sheet is prepared using the liquidity format in which the assets and liabilities are presented broadly in order of liquidity. The assets and liabilities comprise both current amounts (expected to be recovered or settled within twelve months after the reporting date) and non-current amounts (expected to be recovered or settled more than twelve months after the reporting date). For those assets and liabilities that comprise both current and non-current amounts, information regarding the amount of the item that is expected to be outstanding longer than twelve months is included within the relevant note to the financial statements.

I. Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous period unless otherwise mentioned. There have been no changes in accounting policies which have a material financial impact during the current financial year reporting period.

II. Reclassification of comparatives

No items have been reclassed from the Company's prior year financial report to conform to the current period's presentation.

C. Foreign Currency Translation

Items included in the financial records are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

D. Premiums

The earned portion of premiums received / receivable, including unclosed business, is recognised as revenue. Premium is brought to account from the date of attachment of risk.

Unearned premiums are determined by apportioning premiums over the effective periods of risk underwritten. They are calculated principally on the daily pro-rata basis.

E. Claims

The outstanding claims liability is measured as the central estimate of the present value of expected future payments relating to claims incurred at the reporting date with an additional risk margin to allow for the inherent uncertainty in the central estimate. The liability is measured based on the advice of / valuations performed by, or under the direction of, the Approved Actuary. The expected future payments include those in relation to claims reported but not yet paid or not yet paid in full, claims incurred but not enough reported (IBNER), claims incurred but not reported (IBNR) and the anticipated direct and indirect claims handling costs. The liability is discounted to present value using a risk free rate.

Claims expense represents claims payments adjusted for the movement in the outstanding claims liability.

The estimation of the outstanding claims liability involves a number of key assumptions and is the most critical accounting estimate. All reasonable steps are taken to ensure that the information used regarding claims exposures is appropriate. However, given the uncertainty in establishing the liability, it is likely that the final outcome will be different from the original liability established. Changes in claims estimates are recognised in profit or loss in the year in which the estimates are changed.

F. Acquisition Costs

Costs associated with obtaining and recording general insurance contracts are referred to as acquisition costs. These costs include advertising expenses, commissions or brokerage paid to agents or brokers, premium collection costs, risk assessment costs and other administrative costs. Such costs are capitalised where they relate to the acquisition of new business, are presented as deferred acquisition costs, and are amortised on the same basis as the earning pattern of the premium over the period of the related insurance contracts. The balance of the deferred acquisition costs at the reporting date represents the capitalised acquisition costs relating to unearned premium.

G. Liability Adequacy Test

The liability adequacy test is an assessment of the carrying amount of the unearned premium liability and is conducted at each reporting date. If current estimates of the present value of the expected future cash flows relating to future claims arising from the rights and obligations under current general insurance contracts, plus an additional risk margin to reflect the inherent uncertainty in the central estimate, exceed the unearned premium liability less related intangible assets and related deferred acquisition costs, then the unearned premium liability is deemed to be deficient. The test is performed at the level of a portfolio of contracts that are subject to broadly similar risks and that are managed together as a single portfolio. Any deficiency arising from the test is recognised in profit or loss with the corresponding impact on the balance sheet recognised first through the write down of any related deferred acquisition costs, with any remaining balance being recognised on the balance sheet as an unexpired risk liability.

H. Investments

All investments are initially recorded at fair value (being the cost of acquisition excluding transaction costs) and are subsequently remeasured to fair value at each reporting date. Changes in the fair value from the previous reporting date (or cost of acquisition excluding transaction costs if acquired during the financial period) are recognised as realised or unrealised investment gains or losses in profit or loss. Purchases and sales of investments are recognised on a trade date basis, being the date on which a commitment is made to purchase or sell the asset. Transaction costs for purchases of investments are expensed as incurred and presented in the income statement as investment expenses on assets backing insurance liabilities and corporate, administration and other expenses for investments that represent equity holders' funds. Investments are derecognised when the rights to receive future cash flows from the assets have expired, or have been transferred, and substantially all the risks and rewards of ownership have transferred. Interest revenue is recognised as it accrues.

I. Taxation

Income tax on the result for the year comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax expense is the expected tax payable on the taxable income for the year and any adjustment to tax payable in respect of previous financial periods. Deferred tax expense is the change in deferred tax assets and liabilities between the reporting periods.

Deferred tax assets and liabilities are recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except for particular circumstances when no deferred tax asset or liability is recognised.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at reporting date. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

J. Trade and other receivables
Trade and other receivables are stated at the amounts to be received in the future and are presented net of any provision for impairment. The recoverability of debts is assessed on an ongoing basis and provision for impairment is made based on objective evidence and having regard to past default experience. The impairment charge is recognised in profit or loss. Debts which are known to be uncollectible are written off.

NOTE 2. FINANCIAL RISK MANAGEMENT

The Company is exposed to a variety of financial risks in the normal course of business; market risk (including currency risk, fair value, interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Board and senior management of the IAG Group have developed, implemented and maintain a Risk Management Strategy (RMS) across the Group, including the Company. The Company complies with the risk management policies of the IAG Group. The policies form the Company's procedures, processes and controls that comprise its risk management and control systems. These systems address all material risks, financial and non-financial, likely to be faced by the Company.

A. MARKET RISK
Market risk is the risk of adverse financial impact due to changes in fair values or future cash flows of financial instruments from fluctuations in foreign currency exchange rates, interest rates, and equity prices.

I. Currency risk
a. NATURE OF THE RISKS AND HOW MANAGED
Currency risk is the risk of loss arising from an unfavourable movement in market exchange rates. The Company is exposed to insignificant currency risk.

The Company is exposed to currency risk on its investments, receivables and payables denominated in a currency other than New Zealand dollars. The currency giving rise to risk is primarily Australian dollars.

II. Interest rate risk
a. NATURE OF THE RISK AND HOW MANAGED
Interest rate risk is the risk of loss arising from an unfavourable movement in market interest rates. Fixed interest rate assets and liabilities create exposure to fair value interest rate risk which is a market risk. Financial assets and liabilities with floating interest rates create exposure to cash flow interest rate risk.

Interest rate risk arises primarily from investments in interest bearing securities. For the current reporting period, the Company is exposed to this risk indirectly through its holdings of units in fixed interest trusts.

Exposure to interest rate risk is monitored through several measures that include Value At Risk analysis, position limits, scenario testing, stress testing, and asset and liability matching using measures such as duration. Derivatives are used to manage interest rate risk. The interest rate risk arising from money market securities is managed using interest rate swaps and futures. For information regarding the notional contract amounts associated with these derivative financial instruments together with a maturity profile and reporting date fair values refer to the derivatives note.

The underwriting of general insurance contracts creates exposure to the risk that interest rate movements may materially impact the value of the insurance liabilities. Movements in interest rates should have minimal impact on the insurance profit due to Company's policy of investing in assets backing insurance liabilities principally in fixed interest securities matched to the expected payment pattern of the insurance liabilities. Movements in investment income on assets backing insurance liabilities offset the impact of movements in discount rates on the insurance liabilities other than the changes in credit spreads on the fixed interest securities which are expected to reverse on maturity.

b. SENSITIVITY
The sensitivity analyses provided in the following table demonstrates the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. The sensitivities do not include interdependencies among variables, but rather show isolated interest rate movements.

The investments in interest bearing securities are recognised on the balance sheet at fair value noting that for the current reporting period the investment is held indirectly through unit trusts. Movements in market interest rates impact the price of the securities (and hence their fair value measurement) and so would impact profit. The impact from the measurement of the interest bearing securities held at reporting date of a change in interest rates at reporting date by +1% or -1% (e.g. a move from 4% to 5% or to 3%) on profit before tax, is shown in the table below. A sensitivity has been provided for the current reporting period estimating the impact to the redemption price of the trust units from changes in the interest rates on the underlying securities.

		2013	2012
		NZ$	NZ$
		Impact to profit	Impact to profit
Investments-interest bearing securities	+1%	(7,211)	(601)
	-1%	7,909	710

The majority of the interest bearing securities are expected to be held to maturity and so movements in the fair value are expected to reverse upon maturity of the instruments.

III. Price risk

a. NATURE OF THE RISK AND HOW MANAGED

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded on the market. The Company has no exposure to equity price risk.

b. SENSITIVITY

There is no impact from the measurement of the investments held at reporting date of a change in equity values at reporting date by +10% or -10% on profit before tax, net of related derivatives.

B. CREDIT RISK

I. Nature of the risk and how managed

Credit risk is the risk of loss from a counterparty failing to meet their financial obligations. The Company's credit risk arises predominantly from investment activities, reinsurance activities and dealings with intermediaries. The Company credit quality management roles, principles and processes are detailed in the IAG Group Credit Risk Management Policy document which is approved by the IAG Board. The policy outlines the framework and procedures in place to ensure an adequate and appropriate level of monitoring and management of credit quality throughout the IAG Group.

The IAG Group Treasury function is responsible for ensuring that the policies governing the management of credit quality risk are properly implemented. The IAG Group's credit risk appetite relies heavily on credit rating agency research and is predominantly weighted towards counterparties of high quality investment grade. All new, changed and continuing credit risk exposures must be approved in accordance with the IAG Group's approval authority framework.

Concentrations of credit risk exist if a number of counterparties have similar economic characteristics. At the reporting date, there are no material concentrations of credit risk as the Company transacts with a large number of counterparties in various regions without any individual counterparty having a material outstanding balance.

II. Credit risk exposure

a. RECEIVABLES

The maximum exposure to credit risk as at reporting date is the carrying amounts of the receivables on balance sheet. A portion of the trade and other receivables balance is owed by related parties, which are considered to be fully recoverable.

An ageing analysis for certain receivables balances is provided here. The other receivables balances have either no overdue amounts or an insignificant portion of overdue amounts. The amounts are aged according to their original due date. Receivables for which repayment terms have been renegotiated represent an insignificant portion of the balances.

2013

	Not overdue NZ$	<30 days NZ$	30-120 days NZ$	Overdue >120 days NZ$	Total NZ$
		-	-	-	
Other receivable	6,229	-	-	-	6,229
	6,229	-	-	-	6,229

2012

	Not overdue NZ$	<30 days NZ$	30-120 days NZ$	Overdue >120 days NZ$	Total NZ$
Other receivable	6,230	-	-	-	6,230
	6,230	-	-	-	6,230

C. LIQUIDITY RISK

I. Nature of the risk and how managed

Liquidity risk is concerned with the risk of there being insufficient cash resources to meet payment obligations without affecting the daily operations or the financial condition of the Company. Liquidity facilitates the ability to meet expected and unexpected requirements for cash. The liquidity position is derived from operating cash flows, investment portfolios and access to outside sources of liquidity such as bank lines of credit, established debt funding programs, reinsurance arrangements and other sources. The liquidity management roles, principles and processes are detailed in the IAG Group Liquidity Risk Management Policy document which is approved by the IAG Board. The policy outlines the framework and procedures in place to ensure an adequate and appropriate level of monitoring and management of liquidity.

Underwriting insurance contracts expose the Company to liquidity risk through the obligation to make payments of unknown amount on unknown dates. The underlying securities held within the trust which invest the Company's assets held to back insurance liabilities consist predominantly of government securities (the most liquid of securities) and other very high quality securities which can generally be readily sold or exchange for cash. The assets within the trust are managed so as to effectively match the maturity profile of the assets with the expected pattern of the aggregated claims payments of all unitholders. The debt securities are restricted to investment grade securities with concentrations of investments managed by various criteria including issuer, industry, geography and credit rating.

	Notes	2013 NZ$	2012 NZ$
NOTE 3. REVENUE			
Net earned premium		-	226
Reinsurance and other recoveries		-	(819)
Other income		42,849	1,196
Investment revenue			
Interest		31,092	119,525
Realised gain/(loss) in fair value of investments		(19,485)	(21,423)
Unrealised gain/(loss) in fair value of investments		-	(1,892)
		11,607	96,210
		54,456	96,813

NOTE 4. OTHER EXPENSE

Fee based, corporate and other expenses	(13,589)	(13,548)
	(13,589)	(13,548)

NOTE 5. TAXATION

	2013 NZ$	2012 NZ$
A. INCOME TAX EXPENSE		
Current tax	11,443	38,129
Deferred tax	-	(46)
(Over)/under provided in prior years	(30,238)	46,916
Income tax expense/(credit)	(18,795)	84,999
Deferred income tax expense/(credit) included in income tax comprises:		
Increase/(decrease) in deferred tax liability	-	(46)
	-	(46)
B. INCOME TAX RECONCILIATION		
Profit before taxation	40,867	136,020
Prima facie income tax expense calculated at 28% on the surplus for the year (2012 - 28%)	11,443	38,086
Other	-	(3)
Adjustments Relating to Prior Years	(30,238)	46,916
Income tax expense	(18,795)	84,999

	Notes	**2013** NZ$	2012 NZ$
C. DEFERRED TAX LIABILITIES			
Composition			
a. Amount recognised in profit			
Other		-	-
		-	-
b. Amounts set off of deferred tax assets		-	-
		-	-
Balance at the beginning of the financial year		-	46
Credited/(charged) to profit or loss		-	(46)
Adjustments relating to prior year		-	-
Balance at the end of the financial year		-	-

NOTE 6. REMUNERATION OF AUDITORS

KPMG Australia is engaged to provide services relating to the audit of financial statements and statutory returns in accordance with regulatory requirements for Swann Insurance (Aust) Pty Ltd. Fees for auditing and other consultancy services are levied on the Company as a whole and not on a branch basis, and are therefore not separately disclosed in these financial statements. Details on the breakdown of fees paid to auditors can be found in the financial reports of Swann Insurance (Aust) Pty Ltd.

NOTE 7. INSURANCE CONTRACTS RISK MANAGEMENT

A key risk from operating in the general insurance industry is the exposure to insurance risk arising from underwriting general insurance contracts. The risk management activities can be broadly separated into underwriting, claims management, reserving, and investment management. These risk management activities are applied in accordance with IAG Group policy.

Reinsurance risk is managed as part of Swann Insurance (Aust) Pty Ltd. There are no terms and conditions attaching to insurance contracts affecting the level of insurance risk accepted having a significant impact on the financial report. The concentration of insurance risk is considered sufficiently diversified.

SWANN INSURANCE (AUST) PTY LTD (NEW ZEALAND BRANCH)

NOTE 8. CLAIMS

	2013 NZ$
A. Claims Expense, Net	
Net claims (expense) / income	-

	Current year NZ$	Prior years NZ$	2013 Total NZ$
B. Claims development			
I. Net claims expense / (income) recognised in the Statement of Comprehensive Income			
Direct business		-	-
Gross claims and related expenses – undiscounted		-	-
Discount	-		
Gross claims and related (expenses) / income - discounted	-	-	-
Reinsurance and other recoveries – undiscounted	-	-	-
Discount	-	-	-
Reinsurance and other recoveries – discounted	-	-	-
Net claims (expense) / income incurred	-	-	-

	2012 NZ$
A. Claims Expense, Net	
Net claims (expense) / income	49,787

	Current year NZ$	Prior years NZ$	2012 Total NZ$
B. Claims development			
I. Net claims expense / (income) recognised in the Statement of Comprehensive Income			
Direct business			
Gross claims and related expenses – undiscounted		50,683	50,683
Discount		(77)	(77)
Gross claims and related (expenses) / income - discounted	-	50,606	50,606
Reinsurance and other recoveries – undiscounted	-	(819)	(819)
Discount	-	-	-
Reinsurance and other recoveries – discounted	-	806	806
Net claims (expense) / income incurred	-	49,787	49,787

Current year claims relate to claim events that occurred in the current financial year. Prior year claims relate to an assessment of the claim events that occurred in all previous financial periods. A major component of the prior year movement is the release of risk margins in respect of claims payments during the year.

II. Net outstanding claims liability recognised on the balance sheet

The following table shows the development of the estimated net undiscounted outstanding claims liability relative to the current estimate of ultimate claims payments as estimated at each reporting date. The table also shows a reconciliation of the net discounted outstanding claims liability to the gross outstanding claims liability on the balance sheet.

	Accident Year							
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**TOTAL**
Net ultimate claims cost estimate	**NZ$ '000**	**NZ$ '000**	**NZ$ '000**	**NZ$ '000**	**NZ$ '000**	**NZ$ '000**	**NZ$ '000**	**NZ$ '000**
At end of accident year	2,459	661	75	4	-	-	-	
One year later	1,975	651	74	4	-	-		
Two years later	1,923	655	73	4	-			
Three years later	1,924	654	73					
Four years later	1,923	654						
Five years later	1,923							
Six years later								
Current estimate of net ultimate claims cost	1,923	654	73	4	-	-	-	
Cumulative payments	1,923	654	73	4	-	-	-	
Net undiscounted outstanding claims liability for the five most recent accident years	-	-	-	-	-	-	-	-
Discount to present value	-	-	-	-	-	-	-	-
Net discounted outstanding claims liability for the five most recent accident years	-	-	-	-	-	-	-	-
Net discounted outstanding claims for accident years 2002 and prior								
Claims handling expense (inclusive of risk margin)								-
Net outstanding claims liability								-
Gross outstanding claims liability on the balance sheet								-
Reinsurance and other recoveries on outstanding claims liabilities								-
Net outstanding claims liability								-

Short-tail claims are normally reported soon after the incident and are generally settled within months following the reported incident. Hence any development on short-tail claims is normally limited to the year the incident occurred and the following year. For long-tail classes of business it can be several years before a claim is reported and settled, hence the original estimation involves greater uncertainty and so inherently there is more likely to be greater disparity between the original and current estimates. It is for these long-tail classes of business that the development of the outstanding claims liability generally occurs over a number of years.

C. Reconciliation of movements in outstanding claims liability

	2013 NZ$	2012 NZ$
Outstanding claims liability at the beginning of the financial year – gross, discounted	-	50,765
Reinsurance and other recoveries receivable on outstanding claims at the beginning of the financial year	-	-
Net outstanding claims liability at the beginning of the year	-	50,765
Risk margin at the beginning of the year	-	(7,689)
Net central estimate at the beginning of the year	-	43,076
Gross claims incurred in the current year		
Reinsurance and other recoveries in the current year		
Claims costs paid		
Reinsurance and other recoveries received		
Development on prior year net central estimate	-	(45,691)
Movement in discounting	-	77
Unwind of the discount	-	2,538
Net central estimate at the end of the year	-	-
Risk margin at the end of the year		
Net outstanding claims liability at the end of the year	-	-
Reinsurance and other recoveries receivable on outstanding claims at the end of the financial year	-	-
Outstanding claims liability at the end of the financial year – net, discounted	-	-

NOTE 9. DEFERRED ACQUISITION COSTS

Reconciliation of movements for the financial year	**2013 NZ$**	2012 NZ$
Deferred acquisition costs at the beginning of the financial year	-	153
Amortisation charged to profit for the year	-	(153)
Deferred acquisition costs at the end of the financial year	-	-

NOTE 10. UNEARNED PREMIUM LIABILITY

A. Reconciliation of movements

	2013 NZ$	2012 NZ$
Unearned premium liability at the beginning of the financial year	-	386
Earning of premiums written in previous years	-	(386)
Unearned premium liability at the end of the financial year	-	-

Liability Adequacy Test

The liability adequacy test has been conducted using the central estimate of the premium liabilities calculated for reporting to the Australian Prudential Regulation Authority, adjusted as appropriate, together with an appropriate margin for uncertainty for each portfolio of contracts. The test is based on prospective information and so is heavily dependent on assumptions and judgements.

The conduct of the liability adequacy test at reporting date resulted in a surplus for each portfolio of contracts (2012 - a surplus for all portfolios).

The risk margin used in testing individual portfolios is determined based on an assessment of the recent historical experience in relation to the volatility of the insurance margin for each portfolio of contracts.

The test has not been applied using the statistical concept of probability of adequacy. Hence the risk margin applied for the purposes of the liability adequacy test has been determined using a different methodology to that used for the determination of the risk margin for the outstanding claims liability. The probability of adequacy represented by the liability adequacy test also differs from the probability of adequacy represented by the outstanding claims liability. The reason for these differences is that the former is in effect an impairment test used only to test the sufficiency of net premium liabilities whereas the latter is a measurement accounting policy used in determining the carrying value of the outstanding claims liability carried on the balance sheet.

NOTE 11. INVESTMENTS

A. Composition

	2013	2012
	NZ$	NZ$
I. Interest bearing investments		
Cash and short term money held for investments		
New Zealand Government bonds	527,126	546,612
	527,126	546,612

B. Determination of fair value

The table below separates the total investments balance based on a hierarchy that reflects the significance of the inputs used in the determination of fair value. The fair value hierarchy has the following levels:

I. Level 1 quoted prices

Quoted prices (unadjusted) in active markets for identical assets and liabilities are used.

II. Level 2 other observable inputs

Inputs that are observable (other than Level 1 quoted prices) for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) are used.

III. Level 3 unobservable inputs

Inputs for the asset or liability that are not based on observable market data (unobservable inputs) are used. The assets are effectively marked to model rather than marked to market. Reasonable changes in the judgement applied in conducting these valuations would not have a significant impact on the balance sheet.

Where the determination of fair value for an instrument involves inputs from more than one category, the level within which the instrument is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement.

2013

	Level 1	Level 2	Level 3	Total
	NZ$	NZ$	NZ$	NZ$
Interest bearing investments	527,126	-	-	527,126

2012

	Level 1	Level 2	Level 3	Total
	NZ$	NZ$	NZ$	NZ$
Interest bearing investments	546,612	-	-	546,612

NOTE 12. RELATED PARTY TRANSACTIONS

Transactions with related parties in the wholly-owned group are in the ordinary course of business and on normal terms and conditions. During the year the branch sub-leased office space from IAG New Zealand Limited (incorporated in New Zealand), the ultimate parent entity of which is Insurance Australia Group Limited.

Expenses:	**2013** **NZ$**	2012 NZ$
Investment management fees paid	-	13,548

The management fees paid to Swann Insurance (Aust) Pty Ltd include the employment cost recoveries charged by Insurance Australia Group Services Limited (IAG Services). IAG Services is the employer of all entities within Insurance Australia Group Limited including the New Zealand Branch of Swann Insurance (Aust) Pty Ltd. From 1 July 2005 the management service is provided by Swann Insurance (NZ) Ltd.

Aggregate amounts recoverable from / payable to, each class of other related party at balance date were as follows:

Current receivable from		
- Swann Insurance (Aust) Pty Ltd	4,339,366	4,088,975

NOTE 13. INSURER FINANCIAL STRENGTH RATING

The New Zealand branch's financial strength rating assigned by Standard & Poor's is not rated however, Swann Insurance (Aust) Pty Ltd credit rating is 'AA-',(2012 – 'AA-').

NOTE 14. SOLVENCY

This entity is a New Zealand registered branch of Swann Insurance (Aust) Pty Ltd, a company incorporated in Australia and regulated by Australian Prudential Regulation Authority (APRA). Swann Insurance (Aust) Pty Ltd will retain a level of share capital to enable it to maintain a solvency margin sufficient to retain a very strong claims paying ability and satisfy APRA requirements.

Independent Auditor's Report

To the Shareholders of Swann Insurance (Aust) Pty Ltd - the New Zealand Branch

Report on the Financial Statements

We have audited the accompanying financial statements of Swann Insurance (Aust) Pty Ltd - the New Zealand Branch ("the branch") on pages 1 to 17. The financial statements comprise the balance sheet as at 30 June 2013 and the statements of comprehensive income and movements in balance due to head office for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand 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 these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Other than in our capacity as auditors we have no relationship with, or interests in, the branch.

Opinion

In our opinion the financial statements of Swann Insurance (Aust) Pty Ltd - the New Zealand Branch on pages 1 to 17:

- comply with generally accepted accounting practice in New Zealand;

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

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- give a true and fair view of the financial position of the branch as at 30 June 2013 and of its financial performance and cash flows for the year ended on that date.

Emphasis of matter

We draw attention to Note 1B to the financial statements which describes that following the expiry of the provisional licence granted by the Reserve Bank of New Zealand under the Insurance (Prudential Supervision) Act 2010 on 7 September 2013, it is planned that the Branch will apply for deregistration from New Zealand Companies Register. As such, the Branch is not considered to be operating under a going concern basis. Our opinion is not qualified in respect of this matter.

Report on Other Legal and Regulatory Requirements

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

- we have obtained all the information and explanations we have required; and
- in our opinion proper accounting records have been kept by Swann Insurance (Aust) Pty Ltd - the New Zealand Branch as far as appears from our examination of those records.

KPMG

DM Scammell
Partner

Melbourne

20 August 2013