
VIRGINIA SURETY COMPANY INC – NEW ZEALAND BRANCH
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
31 DECEMBER 2012

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DIRECTORS' REPORT

The Directors present their annual report together with the audited Financial Statements for the year ended 31 December 2012.

No disclosure has been made pursuant to Section 211(1) (a) and (e) to (j) of the Companies Act 1993 following a unanimous decision by the shareholders in accordance with Section 211 (3) of the Act.

RESULT

The profit for the year after income tax was \$171,421 (2011 loss: \$20,267).

DIVIDEND

The Directors recommend that no dividend be paid.

AUDITORS

In terms of the *Companies Act 1993*, Ernst & Young are to continue in office as the Branch's auditors.

APPROPRIATIONS

Gain after tax for the year	\$
	171,421
Less: net repatriations	-
Net (loss)/gain on available-for-sale investments	(14,746)
Accumulated surplus brought forward	<u>1,693,936</u>
	<u>1,850,611</u>

ACTIVITIES

The principal activities during the year were those of insurance underwriting and investment.

DIRECTORS INTERESTS IN TRANSACTIONS

Directors have no interests to declare in the transactions of the year ended 31 December 2012.

REVIEW OF OPERATIONS

The gain for the financial year reflects the maturity of its existing earnings profile and claim experience.

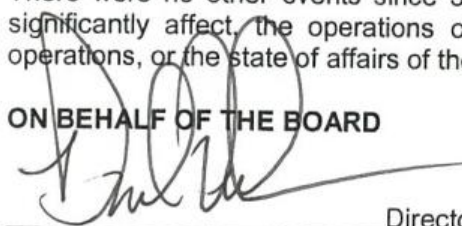
On 20th February 2012, the New Zealand branch of Virginia Surety Company Inc was granted a provisional license to operate as an Insurer under the Insurance (Prudential Supervision) Act 2010 by the Reserve Bank of New Zealand. On 26th September 2012 the New Zealand branch of Virginia Surety Company Inc applied for a full license, the process of which must be fully completed by 7th September 2013.

SUBSEQUENT EVENTS

Subsequent to year end a large data file was received from one of our clients containing policies not previously advised to the Branch, totalling net premium of \$655,003 which has been included in the 2012 results (2011: \$441,218). The impact to net income after tax was \$69,428 (2011 \$5,380).

There were no other events since 31st December 2012 which has significantly affected, or may significantly affect, the operations of the branch in future financial years, the results of those operations, or the state of affairs of the company in future financial years.

ON BEHALF OF THE BOARD



23rd April 2013 Director



23rd April 2013 Director

Independent Auditor's Report

To the Shareholders of Virginia Surety Company, Inc.

Report on the Financial Statements

We have audited the financial statements of the New Zealand branch of Virginia Surety Company, Inc., which comprise the statement of financial position of the New Zealand branch of Virginia Surety Company Inc. as at 31 December 2012, and the statement of comprehensive income, and statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the company's shareholders, as a body, in accordance with Section 19(3) of the Financial Reporting Act 1993. Our audit has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the New Zealand branch of the company and the company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Directors' Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected, depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we have considered the internal control relevant to the New Zealand branch of the company'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 New Zealand branch of the company'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.

Other than in our capacity as auditor we have no relationship with, or interest in the New Zealand branch of the company.

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

Opinion

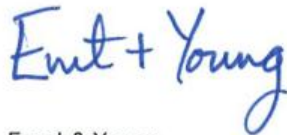
In our opinion, the financial statements:

- ▶ comply with generally accepted accounting practice in New Zealand; and
- ▶ give a true and fair view of the financial position of the New Zealand branch of the company as at 31 December 2012 and its financial performance 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 the New Zealand branch of Virginia Surety Company, Inc. as far as appears from our examination of those records.

A handwritten signature in blue ink that reads 'Ernst + Young'.

Ernst & Young

23 April 2013

Melbourne

VIRGINIA SURETY COMPANY INC - NEW ZEALAND BRANCH

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 \$	2011 \$
REVENUE			
Premium revenue		3,242,691	3,392,276
Decrease/(increase) in unearned premium reserve		484,453	(373,154)
Investment income	7	112,983	132,634
TOTAL REVENUE		<u>3,840,127</u>	<u>3,151,756</u>
EXPENSES			
Gross claims incurred	4	1,534,762	1,726,106
Acquisition costs	16	1,187,429	968,300
Other operating and administration expenses	6	878,437	498,405
TOTAL EXPENSES		<u>3,600,628</u>	<u>3,192,811</u>
PROFIT/(LOSS) BEFORE INCOME TAX		<u>239,499</u>	<u>(41,055)</u>
Income tax (expense) / benefit	8	(68,078)	20,788
PROFIT / (LOSS) AFTER INCOME TAX		<u>171,421</u>	<u>(20,267)</u>
Other comprehensive income			
Net (loss)/gain on available-for-sale investments		<u>(14,746)</u>	<u>(3,770)</u>
TOTAL COMPREHENSIVE INCOME/(LOSS)		<u>156,675</u>	<u>(24,037)</u>

The attached notes on pages 8 to 20 form part of and should be read in conjunction with these financial statements, together with the Auditors' Report on page 3 and 4.

VIRGINIA SURETY COMPANY INC - NEW ZEALAND BRANCH

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2012

	Notes	2012 \$	2011 \$
ASSETS			
Current assets			
Cash and cash equivalents	9	3,147,271	3,700,135
Trade and other receivables	10	2,700,493	2,081,595
Deferred acquisition costs	16	2,394,367	2,525,431
Current tax asset	8	58,895	110,999
Investments	11	1,500,000	1,500,000
Total current assets		<u>9,801,026</u>	<u>9,918,160</u>
Non-current assets			
Investments	11	538,308	546,938
Total non-current assets		<u>538,308</u>	<u>546,938</u>
TOTAL ASSETS		<u>10,339,334</u>	<u>10,465,098</u>
LIABILITIES			
Current liabilities			
Trade and other payables	12	439,766	339,251
Outstanding claims	15	306,922	276,678
Unearned premiums		7,545,116	8,029,570
Total current liabilities		<u>8,291,804</u>	<u>8,645,499</u>
Non-current liabilities			
Deferred tax liabilities	8	196,919	125,663
Total non-current liabilities		<u>196,919</u>	<u>125,663</u>
TOTAL LIABILITIES		<u>8,488,723</u>	<u>8,771,162</u>
NET ASSETS		<u>1,850,611</u>	<u>1,693,936</u>
TOTAL EQUITY		<u>1,850,611</u>	<u>1,693,936</u>

For and on behalf of the board of directors, who authorised the issue of this financial report on the date of signing.

Director

23rd April 2013

Director

23rd April 2013

The attached notes on pages 8 to 20 form part of and should be read in conjunction with these financial statements, together with the Auditors' Report on page 3 and 4.

VIRGINIA SURETY COMPANY INC - NEW ZEALAND BRANCH

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2012

	2012 \$	2011 \$
Total Equity as at 1 January	<u>1,693,936</u>	<u>1,717,973</u>
Profit /(loss) for the year	171,421	(20,267)
Other comprehensive income	-	-
Total comprehensive income/(loss)	<u>171,421</u>	<u>(20,267)</u>
Total recognised revenues and expenses	<u>1,865,357</u>	<u>1,697,706</u>
	<u> </u>	<u> </u>
Reserves		
Other comprehensive income – net gain/loss on available for sale investments	<u>(14,746)</u>	<u>(3,770)</u>
Total Equity as at 31 December	<u>1,850,611</u>	<u>1,693,936</u>

The attached notes on pages 8 to 20 form part of and should be read in conjunction with these financial statements, together with the Auditors' Report on page 3 and 4.

VIRGINIA SURETY COMPANY INC - NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

1. CORPORATE INFORMATION

These financial statements have been prepared for the New Zealand branch of the Virginia Surety Company Inc., which is incorporated in the United States of America.

Corporate Information

Virginia Surety Company Inc, incorporated in the United States of America, is the Branch's immediate parent company.

The registered office of Virginia Surety Company Inc New Zealand branch (the Branch) is
359 Lincoln Road,
Christchurch,
New Zealand, 8024

Onex Corporation, incorporated in Canada, is the Branch's ultimate holding company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Insurance Contract

All of the insurance products offered or utilised by the Branch meet the definition of insurance contracts under the New Zealand equivalents to International Financial Reporting Standards, and are accounted for and reported in accordance with these standards.

These products do not contain embedded derivatives or deposits that are required to be unbundled.

Basis of Preparation

The financial report has been prepared in accordance with New Zealand Generally Accepted Accounting Principles (NZ GAAP). It complies with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards as appropriate for profit oriented entities that qualify for and apply differential reporting concessions. The Branch is a profit oriented entity

The Branch qualifies for differential reporting exemptions as described in the Framework for Differential Reporting issued by the Institute of Chartered Accountants New Zealand because the Branch is not publicly accountable and there is no separation between the shareholders and the governing body. The Branch has elected to apply all available exemptions except those available under IAS 12 Income Taxes and IAS 18 Revenue which allows revenue and expenses to be recognised inclusive of goods and services tax.

The financial statements have been prepared in accordance with NZ GAAP and the requirements of the *Companies Act 1993* and the *Financial Reporting Act 1993* on a historical cost basis.

The financial report has been prepared on an accrual basis of accounting including the historical cost convention and the going concern assumption. Notwithstanding the deficiency in net assets and the current liability deficiency, the directors have concluded the company can continue as a going concern as the creditor, being the parent company, has agreed not to call upon amounts owed for a period of 12 months. Also, notwithstanding the deficiency in the net current liability position in the consolidated Group, the directors have concluded the company can continue as a going concern as the consolidated future operating cash flows will be sufficient to cover the shortfall over the next twelve months.

The financial statements have been prepared on a going concern basis.

VIRGINIA SURETY COMPANY INC - NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The financial statements are presented in New Zealand dollars.

The following particular accounting policies have been applied:

a) Premium Revenue

Premium revenue for insurance comprises amounts charged to policyholders. The earned portion of premium received and receivable, including unclosed business, is recognised as revenue. The pattern of recognition of income over the policy or indemnity periods is based on time, which closely approximates the pattern of risks underwritten. Unearned premium is determined by apportioning the premiums written over the period of risk from the date of attachment of risk.

b) Unearned Premium

Provisions in respect of the proportion of premiums relating to risk in future periods of account are calculated on the straight-line basis over the period of risk.

c) Deferred Acquisition Expenses

Acquisition expenses, principally comprising commissions and fees incurred on insurance contracts, are deferred and expensed over the period in which the related premiums are earned. Deferred acquisition costs are measured at the lower of cost and recoverable amount.

d) Outstanding Claims

The Outstanding Claims provision comprises the estimated costs of claims incurred including indirect claims settlement costs, whether reported or not, and claims not settled at balance date. Reported claims have been assessed in the light of the information available at balance date and after taking account of present value of the expected future payments. The provision for claims incurred but not reported has been assessed having regard for the Branch's claim performance. The expected future payments include claims handling costs which are to be incurred in settling the insured claims.

e) Taxation

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Branch expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

VIRGINIA SURETY COMPANY INC - NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Taxation (continued)

Current and deferred tax is recognised as an expense or income in the statement of comprehensive income, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity.

f) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

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

g) Investments

Available-for-sale securities:

Available-for-sale investments are those non-derivative financial assets principally equity securities, that are designated as available-for-sale or are not classified as any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses recognised in other comprehensive income (reserves) until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in reserves is reclassified to profit or loss.

h) Investment Income

Interest is accounted for on an accrual basis.

i) Foreign Currency Translation

(i) Functional and presentation currency

Both the functional and presentation currency of Virginia Surety Company Inc – New Zealand Branch is New Zealand dollars (\$).

(ii) Transactions & balances

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

VIRGINIA SURETY COMPANY INC - NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Claims

Reported claims have been assessed in the light of the information available at balance date and after taking account of expected trends in future settlements.

k) Trade and other receivables

Trade receivables, which generally have 30 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment.

Collectability of trade receivables is reviewed on an ongoing basis at an operating unit level. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts more than 30 days overdue are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows discounted at the original effective interest rate.

l) 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 Branch prior to the end of the financial year that are unpaid and arise when the Branch 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.

m) Cash and cash equivalents

Cash and cash equivalents 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 that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

n) Impairment of assets

At each reporting date, the Branch reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Branch estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

VIRGINIA SURETY COMPANY INC - NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Impairment of assets (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

o) Significant Accounting Judgements, Estimates & Assumption

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources.

p) New Accounting Standards and Interpretations

Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The branch has adopted the following new and amended New Zealand Equivalents to International Financial Reporting Standards and interpretations as of 1 January 2012.

- *Amendments to NZ IFRS 1 - First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards effective 1 January 2012*
- *Amendments to NZ IFRS 7 – Financial Instruments: Disclosures to NZ IFRS 7 enhance the transparency of disclosure requirements for the transfer of financial assets effective 1 January 2012*
- *Amendments to NZ IFRSs to harmonise with IFRS and Australian Accounting Standards: [NZ NZ FRS 44, NZ IAS 1, 7, 12, 16 and 40] effective 1 January 2012*
- *Amendments to NZ IFRIC 12 Income Taxes – Deferred Tax: recovery of Underlying Assets*

The adoption of the standards and interpretations detailed above are not deemed to have an impact on the financial statements or performance of the branch. The branch has not elected to early adopt any new standards or interpretations that are issued but not yet effective.

New Zealand Accounting standards and interpretations that have been recently issued or amended but are not yet effective have not been adopted by the Branch for the annual reporting period ending 31 December 2012. These are outlined in the table below

- *Amendments to NZ IAS 1 – Presentation of Financial Statements – Presentation of Other Comprehensive Income effective 1 January 2013*
- *Amendments to NZ IAS 19 – Employee Benefits effective 1 January 2013*
- *Amendments to NZ IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Liabilities effective 1 January 2013*
- *Amendments to NZ IFRS 13 – Fair Value Measurement effective 1 January 2013*

VIRGINIA SURETY COMPANY INC - NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

3. RELATED PARTY TRANSACTIONS

The following table provides the total amount of transactions that were entered into with related parties for the relevant financial year (for information regarding outstanding balances on related party trade receivables and payables at year-end, refer to notes 10 and 12 respectively):

		Sales to Related Parties	Purchases from Related Parties	Expenses Charged by Related Parties
		\$	\$	\$
<i>Fellow subsidiaries :</i>				
The Warranty Group				
Australasia Pty Ltd	2012	-	-	(914,634)
- expenses paid for on behalf of fellow subsidiary	2011	-	-	(409,998)
The Warranty Group				
Australasia Pty Ltd	2012	-	-	(539,653)
- marketing & administration fees	2011	-	-	(667,972)

During the year, The Warranty Group Australasia Pty Ltd, paid expenses of \$914,634 (2011: \$409,998) on behalf of the New Zealand Branch of Virginia Surety Company Inc. These expenses were recharged to the branch at year end.

During the year, the Australia branch of Virginia Surety Company Inc paid claims of \$8,569 (2011: \$75,535) on behalf of the New Zealand branch. These claim paid were recharged to the New Zealand branch.

Unless otherwise stated, related parties are fellow subsidiaries of the ultimate parent company.

Terms and conditions of transactions with related parties

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

Outstanding balances at year-end are unsecured, interest free and settlement occurs in cash.

4. CLAIMS INCURRED

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

	2012 \$	2011 \$
Current year	1,430,523	1,577,135
Prior years	104,239	148,971
Total incurred claims	<u>1,534,762</u>	<u>1,726,106</u>

VIRGINIA SURETY COMPANY INC - NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

5. AUDITORS' REMUNERATION

The auditor of the Branch is Ernst & Young.

Auditors' fees payable for the audit of the financial report of the company as at 31st December 2012 amounted to \$26,000 (2011: \$24,000).

Auditors' fees charged for the year comprises:

	2012 \$	2011 \$
Auditor Remuneration:		
Audit fee	26,426	25,255
Tax compliance	28,375	30,805
	<u>54,801</u>	<u>56,060</u>

6. OTHER OPERATING AND ADMINISTRATION EXPENSES

Other Operating and administration expenses comprises:

	2012 \$	2011 \$
Salaries & benefits	219,348	244,280
Other operating and administrative expenses recharged to the branch	489,500	-
Office & communication	73,957	76,156
Travel & entertainment	83,974	104,832
Bank charges	4,279	1,015
Bad debts	(88,140)	993
Legal fees	33,243	7,375
Auditors & consultants fees	62,276	60,047
Other expenses	-	3,707
	<u>878,437</u>	<u>498,405</u>

7. INVESTMENT INCOME

	2012 \$	2011 \$
Investment income comprises:		
Interest on government stock	35,117	29,894
Other interest	77,866	102,740
	<u>112,983</u>	<u>132,634</u>

VIRGINIA SURETY COMPANY INC - NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

8. CURRENT YEAR'S TAXATION

	2012	2011
	\$	\$
<u>Taxation expense comprises:</u>		
Profit/(loss) before taxation	239,499	(41,055)
Current tax (expense) / benefit @ 28%	<u>(67,060)</u>	<u>11,495</u>
Adjustments recognised in the current period in relation to the current tax of prior periods	(1,018)	9,293
Total tax (expense) / benefit	<u>(68,078)</u>	<u>20,788</u>
<u>Current tax assets and liabilities</u>		
Tax receivable	58,895	110,999
Tax payable	-	-
Current tax asset	<u>58,895</u>	<u>110,999</u>
<u>Deferred tax balances</u>		
Provision for doubtful debts	185	26,629
Deferred acquisition costs	(670,422)	(707,121)
Carry forward tax losses	459,153	552,583
Other	14,165	2,246
Net deferred tax (liability)/asset	<u>(196,919)</u>	<u>(125,663)</u>

9. CASH AND CASH EQUIVALENTS

	2012	2011
	\$	\$
Cash at bank and in hand	3,147,271	3,700,135

10. TRADE AND OTHER RECEIVABLES

	2012	2011
	\$	\$
Investment income receivable	6,429	14,418
Premium debtors	1,599,788	938,768
Provision for doubtful debts	(662)	(95,102)
Prepayments	7,000	16,058
Related party receivable	1,087,938	1,207,453
	<u>2,700,493</u>	<u>2,081,595</u>

Related party receivable:

All intercompany balances are with The Warranty Group Australasia Pty Ltd and are due and payable on demand. No interest rates apply to the outstanding amounts.

VIRGINIA SURETY COMPANY INC - NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

11. INVESTMENTS

	2012 \$	2011 \$
<u>Current</u>		
Short term deposit	<u>1,500,000</u>	<u>1,500,000</u>
<u>Non current</u>		
Government stock	<u>538,308</u>	<u>546,938</u>
Total investments	<u>2,038,308</u>	<u>2,046,938</u>

12. TRADE AND OTHER PAYABLES

	2012 \$	2011 \$
Trade payables and accruals	439,766	337,257
Other payables	-	1,994
Total liabilities at amortised cost	<u>439,766</u>	<u>339,251</u>

13. FINANCIAL ASSETS AND LIABILITIES

a. Categories of financial instruments

	2012 \$	2011 \$
Cash and cash equivalents	3,147,271	3,700,135
Investments	2,038,308	2,046,938
Loans and receivables	2,329,901	1,999,834
Liabilities at amortised cost	(366,214)	(273,548)

Financial assets carried at fair value through profit or loss have been designated as such upon initial recognition.

b. Foreign Exchange

The Branch does not undertake any transactions denominated in foreign currencies and so exposures in foreign currency do not arise. The foreign currency exposure at the year end was nil.

c. Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the branch.

The Branch does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The maximum exposure to credit risk is the amounts shown in the statement of financial condition and notes. The maximum credit risk to the Branch is the carrying value of the assets. The Branch does not have any concentration of credit exposure.

VIRGINIA SURETY COMPANY INC - NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

13. FINANCIAL ASSETS AND LIABILITIES (continued)

d. Liquidity Risk

Ultimate responsibility for liquidity risk management rests with the board of directors, who has built an appropriate liquidity risk management framework for the management of the Branch's short, medium and long term funding and liquidity management requirements. The Branch manages liquidity risk by maintaining adequate reserves and banking facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

e. Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Branch's exposure to the risk of changes in market interest rates relates primarily to the Branch's short term deposit with floating interest rates.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of deposits affected. With all other variables held constant, the branch's profit before tax is affected through the impact on floating rate deposit as follows:

	Increase/decrease in basis points	Effect on profit before tax
2012		\$
Short Term Deposits	+100	15,000
Short Term Deposits	+200	30,000
Short Term Deposits	-100	(15,000)
Short Term Deposits	-200	(30,000)
2011		
Short Term Deposits	+100	15,000
Short Term Deposits	+200	30,000
Short Term Deposits	-100	(15,000)
Short Term Deposits	-200	(30,000)

f. Fair Value of Financial Instruments

The carrying value of all financial assets and liabilities approximate to their fair value.

14. CAPITAL COMMITMENTS

As at 31 December 2012, there were no capital commitments (2011: \$Nil).

VIRGINIA SURETY COMPANY INC - NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

15. CLAIMS PROVISIONS

	2012 \$	2011 \$
Central estimate of expected future payments for claims Reported including:		
Indirect claims settlement costs	306,922	276,678
Gross provision	<u>306,922</u>	<u>276,678</u>

The percentage risk margin adopted in determining the outstanding claims liability is nil.

Claims provisions are expected to be settled within one year. The amount of expected future payments does not differ materially from the present value; therefore the claims provision has not been discounted.

CLAIMS RESERVE

	2012 \$	2011 \$
At beginning of year	276,678	248,119
Claims incurred	1,534,762	1,726,106
Claims settled	<u>(1,504,518)</u>	<u>(1,697,547)</u>
At end of year	<u>306,922</u>	<u>276,678</u>

16. DEFERRED ACQUISITION COSTS

	2012 \$	2011 \$
At beginning of year	2,525,431	2,390,289
Costs incurred	1,056,365	1,103,442
Recognised in statement of comprehensive income	<u>(1,187,429)</u>	<u>(968,300)</u>
At end of year	<u>2,394,367</u>	<u>2,525,431</u>

17. ASSETS BACKING GENERAL INSURANCE LIABILITIES

In determining which assets back general insurance liabilities, a comparison between the asset values and the amount needed to meet claims liabilities and solvency requirements was carried out.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

18. LIABILITY ADEQUACY TEST

The liability adequacy test carried out on the insurance portfolio in the current year in accordance with NZ IFRS 4 identified a surplus of \$948,119 (2011: \$678,367).

	2012 \$	2011 \$
<u>Insurance Portfolio</u>		
Gross unearned premium reserve	7,545,116	8,029,570
Reinsurance	-	-
Net unearned premium	7,545,116	8,029,570
Ultimate net loss ratio	55.7%	60.1%
Risk claims (0% discount) central estimate	(4,202,630)	(4,825,772)
Claims handling costs	-	-
Risk margin	-	-
Expected future claims	(4,202,630)	(4,825,772)
Deferred acquisition costs		
Commission expense	(1,274,267)	(1,358,837)
Administration	(1,120,100)	(1,168,594)
Total deferred acquisition costs	(2,394,367)	(2,525,431)
Level of surplus / (deficiency)	<u>948,119</u>	<u>678,367</u>

The liability adequacy test carried out on the insurance portfolio in the current year, as well as the liability adequacy test carried out in the prior year, identified surpluses, therefore there was no write down of any asset balances.

19. INSURER FINANCIAL STRENGTH RATING

Virginia Surety Company Inc has a financial strength rating of A- issued by A M Best (2011: A-)

20. EQUITY RETAINED FOR THE PURPOSES OF FINANCIAL SOUNDNESS

The branch retains a level of equity and retained reserves which enable it to maintain an adequate solvency margin for ongoing ability to pay clients. These financial statements relate to a branch of an overseas company. Its assets are available to support the liabilities of the company outside of New Zealand.

21. CONTINGENT LIABILITIES

As at 31st December 2012, there were no contingent liabilities existing at balance date (2011: \$Nil) not otherwise provided for in these financial statements.

VIRGINIA SURETY COMPANY INC - NEW ZEALAND BRANCH

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

22. SUBSEQUENT EVENTS

Subsequent to year end a large data file was received from one of our clients containing policies not previously advised to the Branch, totalling net premium of \$655,003 which has been included in the 2012 results (2011: \$441,218). The impact to net income after tax was \$69,428 (2011 \$5,380).

There were no other events since 31st December 2012 which has significantly affected, or may significantly affect, the operations of the branch in future financial years, the results of those operations, or the state of affairs of the company in future financial years.

23. OPERATING LEASE OBLIGATIONS

As at 31st December 2012, the Branch had no obligations payable after balance date on non-cancellable operating leases.

24. FINANCE LEASE LIABILITY

As at 31st December 2012, the Branch had no obligations payable after balance date on finance leases.