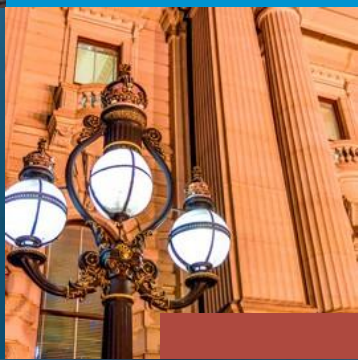
CARE

COMMUNITY

FAITH

EDUCATION



HERITAGE

Ansvar Insurance Limited

ABN 21 007 216 506

Annual Financial Report for the year ended 31 December 2016

CONTENTS OF THE ANNUAL FINANCIAL REPORT

CORPORATE INFORMATION

ABN 21 007 216 506

Directors
Nicholas Barnett, Chairman
Warren Hutcheon, Chief Executive Officer
Trevor Lloyd
Ian Campbell
Jacinta Whyte
Patricia Kelly
Michael Grantham (appointed 4 March 2016)
Bruce Harris (retired 31 March 2016)
Jennifer George (retired 31 March 2016)

Company Secretary
Simon Munday

Registered Office & Principal Place of Business
Level 5
1 Southbank Boulevard
Southbank
Melbourne
VIC 3006
Phone: +61 (3) 8630 3100

Auditors
Deloitte Touche Tohmatsu
550 Bourke Street
Melbourne
VIC 3000

DIRECTORS' REPORT

The directors of Ansvar Insurance Limited ("Ansvar") submit their report for the year ended 31 December 2016.

The names and details of the Company'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.

Nicholas Barnett
B.Ec, CA, FAICD
Chairman &
Independent Non-Executive Director

Nicholas joined the Board in July 2010 and was appointed Chairman in July 2011. He has over 30 years of experience as a Chartered Accountant and business consultant. Nicholas is currently Chief Executive Officer of Insync, benchmarked stakeholder survey, research and consulting specialists, a former partner of KPMG and a former Chief Executive Officer of Ambit Group, IT recruitment specialists. Nicholas is a non-executive Director of Mission Australia Limited and was formerly a Director then Chairman of First Samuel Limited. He is also a published author; his latest book being titled, 7 Business Habits That Drive High Performance. Nicholas is a member of the Nominations & Remuneration Committee, Audit Committee and Risk & Compliance Committee.

Warren Hutcheon
MBA, GAICD, Fellow ANZIIF (CIP)
Executive Director

Warren joined Ansvar as the CEO in May 2014. Immediately prior to joining Ansvar he was the CEO of the Victorian Managed Insurance Authority, the risk and insurance advisor to the Victorian Government, where he was responsible for a successful and high profile cultural and performance turnaround. With over 30 years' experience in risk and insurance, Warren has held senior positions in underwriting, claims, operational management, strategy and organisational change. Warren has been active in supporting the Australian insurance industry for many years, and is currently Chair of the ANZIIF General Insurance Faculty Advisory Board. He is also on the Board of the Victorian Building Authority and Chair of its Audit and Risk Committee. Warren is actively involved in the community as a Board member of Bayside Church Inc, Bayside Community Care and other associated entities.

Patricia Kelly
Independent Non-Executive Director

Patricia was appointed to the Board in May 2014. Patricia has extensive experience in the Financial Services Industry. Most recently she worked for Suncorp / AAMI where her roles included Executive General Manager Strategy and Business Development Personal Insurance and General Manager AAMI New South Wales. Prior to that she was a Director and Executive General Manager Life & Superannuation of Norwich Union Life Australia. Patricia is a Past President and Honorary Life Member of the Insurance Institute of Victoria and a former Director of the Australian and New Zealand Institute of Insurance and Finance. Patricia is also a non-executive Director of the Royal Automobile Club of Victoria (RACV) and a non-executive Director of the Legal Practitioners Liability Committee. Patricia is the Chairperson of the Risk & Compliance Committee and is a member of the Audit Committee and Nominations and Remuneration Committee.

Trevor Lloyd
BA, LLB, FAICD
Independent Non-Executive Director

Trevor joined the Board in February 2012. Trevor has over 30 years of experience as a corporate and commercial lawyer and has extensive experience as a senior manager in both legal practice and in a corporate context. Past directorships have included appointments in the AXA Group, Members Equity and the Victorian Managed Insurance Authority. Trevor currently advises independently as a lawyer, negotiator and management consultant. Trevor is the Chairman of the Nominations & Remuneration Committee and is a member of the Audit Committee and Risk & Compliance Committee.

Michael Grantham
MBA, FAICD
Independent Non-Executive Director

Michael was appointed to the Board in March 2016. He has over 30 years' experience as an information and communications technology professional and currently works as a Business Development Manager specialising in next generation transformation for British Telecom Australasia. He is a former director of CGU Australia Limited, CGU Insurance Limited and Insurance Network Services. He has also held a number of CIO positions including at CGU Insurance, Australian Customs and Border Protection and Tenix. Michael holds an MBA and is a Fellow of the Australian Institute of Company Directors. Michael is a member of the Nominations & Remuneration Committee, Audit Committee and Risk & Compliance Committee.

DIRECTORS' REPORT

Ian Campbell BSc (Econ) Hons, ACA Non-Executive Director	Ian was appointed to the Board in August 2013. He is Group Chief Financial Officer for Ecclesiastical Insurance Group. Ian is a Chartered Accountant with more than 25 years of experience in financial services. Ian started his career at KPMG in its Insurance and Consulting Practice covering a wide range of projects for Lloyd's of London market and life insurance companies. Since then, Ian has held senior finance roles at Cox Insurance, Aspen Insurance and Torus Insurance focusing on property and casualty reinsurance and insurance acquisitions, finance, investment and tax management, Solvency II, capital management, capital raising, actuarial and reinsurance. Ian is a member of the Nominations & Remuneration Committee.
Jacinta Whyte MC Inst. M, ACII, Chartered Insurer Non-Executive Director	Jacinta was appointed to the Board in August 2013. She is Deputy Group Chief Executive of Ecclesiastical Insurance Group. Jacinta joined Ecclesiastical in 2003 as General Manager and Chief Agent of the Group's Canadian business, where she turned around the performance of the Canadian operation, building a high performing team and a successful specialist insurance business. Jacinta is responsible for the Group's general insurance operations worldwide, covering the United Kingdom, Ireland and Australia. She commenced her career as an underwriter in 1974 with the Sun Alliance in Dublin and moved with them to Canada in 1988. Over her Royal Sun Alliance career, she held a number of senior executive positions in Ireland and Canada. Jacinta is a member of the Nominations & Remuneration Committee.

As at the date of this report, the directors held no interests in the shares and options of Ansvar Insurance Limited.

Company Secretary

Simon Munday BSc, CA Company Secretary	Simon is the Chief Financial Officer and Company Secretary of Ansvar. He is a Chartered Accountant with wide international experience in the general insurance industry. Prior to joining Ansvar in March 2013, he worked for Ernst & Young in Melbourne where he was the team leader of the Financial Services team. Prior to this, Simon was in Ernst & Young's Financial Services Transaction Team in London where he managed a variety of acquisitions, disposals and capital market transactions.

DIRECTORS' REPORT

Principal activities

Ansvar is a company limited by shares that is incorporated and domiciled in Australia. Ansvar Insurance Limited and its dormant subsidiary, Ansvar Insurance Services Pty Limited, form the consolidated Group ("the Group"). The Group's principal activities in the financial year consisted of the provision of general insurance products to its customers in its core segments of faith, care, property owners (including heritage), education and community service organisations. It also continued to provide claims run-off services to ACS (NZ) Limited ("ACS"), its former subsidiary domiciled in New Zealand, under a management services agreement.

Ansvar continues to be ultimately owned by a charity and provided further grants of $250k during the year through its Community Education Programme.

Review of operations

In 2016, Ansvar generated profit before tax of $2,006k and continued to make significant progress in the execution of its business strategy despite the competitive conditions in the Australian general insurance market. Profit before tax was lower than the prior year mainly due to reductions in reinsurance commission income and other operating income.

Ansvar continues to be in a strong financial position. At 31 December 2016, its Prescribed Capital Amount was 2.83 times the APRA minimum which was significantly above the industry average. In March 2016, its financial strength rating from its rating agency, A.M. Best, was reaffirmed as "Excellent" / A-.

The key initiatives in Ansvar's Corporate Plan include a Business Enablement Programme and continued enhancements to the value proposition for its customers and distribution partners. The objective of the Business Enablement Programme is to make it easier for customers and distribution partners to do business with Ansvar, streamline processes and improve service levels to enable Ansvar to consolidate its position as the most trusted insurer in its core sectors of faith, care, property owners (including heritage), education and community service organisations.

Changes in state of affairs

During the financial year there was no significant change in the state of affairs of the Group other than that referred to above.

Subsequent events

Dividends

On 3 March 2017, the directors of Ansvar Insurance Limited declared a dividend on ordinary shares in respect of the 2016 financial year. The total amount of the dividend is $1,200,000 (2015 financial year: $2,552,538) which represents a fully franked dividend of 16.4 cents (2015 financial year: 34.9 cents) per share. The dividend has not been provided for in the 31 December 2016 financial statements.

There has not been any matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may significantly affect, the Group's and the Company's operations in future financial years, the results of those operations or the Group's and the Company's state of affairs in future financial years.

Future developments

Disclosure of information regarding likely developments in the operations of the Group in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the Group. Accordingly, this information has not been disclosed in this report.

DIRECTORS' REPORT

Directors' meetings

The following table sets out the number of Board and Board Committee meetings during the financial year and the number of meetings attended by each Director (while they were a Director or Committee member). During the financial year, six Board meetings, four Audit Committee meetings, four Risk & Compliance Committee meetings, and four Nominations & Remuneration Committee meetings were held.

Directors	Board		Risk & Compliance Committee		Audit Committee		Nominations & Remuneration Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
N Barnett	6	6	4	4	4	4	4	4
T Lloyd	6	5	4	4	4	4	4	4
P Kelly	6	6	4	4	4	4	4	4
M Grantham	6	6	3	3	3	3	3	3
I Campbell	6	6	n/a	n/a	n/a	n/a	4	4
J Whyte	6	5	n/a	n/a	n/a	n/a	4	4
W Hutcheon	6	6	n/a	n/a	n/a	n/a	n/a	n/a
B Harris*	1	1	1	1	1	1	1	1
J George*	1	1	1	1	1	1	1	1

** Director retired on 31 March 2016.*

The Company's Constitution (Section 11) provides an indemnity to every person that is or has been a director, alternate director, executive officer or officer of the Company or related body corporate. During the financial year, the Company paid a premium in respect of a contract insuring the directors of the Company (as named above), the Company Secretary and all executive officers of the Company and of any related body corporate against a liability incurred as such a director, secretary or executive officer to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Company has not otherwise, during or since the financial year, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as such officer or auditor.

Environmental regulations

The operations of the Company are not subject to any particular or significant environmental regulation under a law of the Commonwealth or of a State or Territory. There have been no known breaches of any environmental requirements applicable to the Company.

Auditor's Independence Declaration

The auditor's independence declaration is included on page 7 of the financial report.

Rounding Off of Amounts

The Company is a company of the kind referred to in ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with the Corporations Instrument, amounts in the directors' report and the financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

The directors' report is signed in accordance with a resolution of the directors made pursuant to s298(2) of the *Corporations Act 2001*.

On behalf of the Directors

....	....
N S Barnett	**P M Kelly**
Chairman	Director

Melbourne
3 March 2017

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

550 Bourke Street
Melbourne VIC 3000
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Melbourne VIC 3001 Australia

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Fax: +61 3 9671 7001
www.deloitte.com.au

3 March 2017

The Board of Directors
Ansvar Insurance Limited
Level 5, 1 Southbank Boulevard
Southbank VIC 3006

Dear Directors,

Independence Declaration – Ansvar Insurance Limited

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Ansvar Insurance Limited.

As lead audit partner for the audit of the financial statements of Ansvar Insurance Limited for the financial year ended 31 December 2016, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Neil Brown
Partner
Chartered Accountants

Deloitte.

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Independent Auditor's Report to the Members of Ansvar Insurance Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Ansvar Insurance Limited (the "Entity") which comprises the statement of financial position as at 31 December 2016, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the declaration by the Directors as set out on pages 11 to 65.

In our opinion, the accompanying financial report of the Entity is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Ansvar Insurance Limited's financial position as at 31 December 2016 and of their financial performance for the year then ended; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Entity in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Entity, would be in the same terms if given to the Directors as at the time of this auditor's report.

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

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Entity's Directors Report for the year ended 31 December 2016, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The Directors of the Entity are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the ability of the Entity to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

Deloitte.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

DELOITTE TOUCHE TOHMATSU

Neil Brown
Partner
Chartered Accountants

Melbourne, 3 March 2017

ANSVAR INSURANCE LIMITED

DIRECTORS' DECLARATION

In the opinion of the Directors of Ansvar Insurance Limited:

a. The financial statements and notes of Ansvar Insurance Limited for the financial year ended 31 December 2016 are in accordance with the *Corporations Act 2001*, including:

   i. Giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the year ended on that date; and

   ii. Complying with Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

b. The financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 2; and

c. There are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors made pursuant to Section 295(5) of the *Corporations Act 2001*:

N S Barnett
Chairman

P M Kelly
Director

Melbourne
3 March 2017

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

		Company & Consolidated	
		2016	2015
	Note	$'000	$'000
Continuing Operations			
Direct premium revenue	6(a)	74,009	74,146
Outwards reinsurance premium expense		(41,333)	(41,725)
Net premium revenue		**32,676**	**32,421**
Gross claims incurred	19	(64,794)	(68,604)
Reinsurance and other recoveries	6(a)	47,801	51,821
Net claims incurred	19	**(16,993)**	**(16,783)**
Acquisition costs		(15,476)	(16,155)
Fire service levy expenses		(2,851)	(2,494)
Underwriting expenses		**(18,327)**	**(18,649)**
Commission revenue	6(a)	7,488	9,799
Underwriting result		**4,844**	**6,788**
Interest revenue	6(a)	6,640	7,769
Changes in fair value			
- Realised gains/(losses) on investments	6(a)	641	2,379
- Unrealised gains/(losses) on investments	6(a)	(1,966)	(5,062)
Other operating income	6(a)	1,248	2,784
Finance costs		(146)	(198)
General and administration expenses		(9,255)	(10,388)
		(2,838)	**(2,716)**
Profit for the year before income tax from continuing operations		**2,006**	**4,072**
Income tax (expense)/benefit relating to ordinary activities	7	(617)	(1,236)
Profit for the year from continuing operations		**1,389**	**2,836**
Other comprehensive income for the year		-	-
Total comprehensive income for the year		**1,389**	**2,836**

The above Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the notes to the financial statements.

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

	Note	Company & Consolidated 2016 $'000	2015 $'000
Assets			
Cash and cash equivalents	30(a)	17,720	28,168
Investments	12	143,715	147,642
Trade and other receivables	10	49,234	45,392
Current tax assets	7	1,052	-
Deferred expenses	11	30,696	29,884
Reinsurers' share of outstanding claims liabilities	13	63,326	65,950
Deferred tax assets	7	4,341	3,936
Property, plant and equipment	14	374	382
Intangible assets	15	0	2
Total Assets		**310,458**	**321,356**
Liabilities			
Trade and other payables	16	24,473	27,472
Current tax liabilities	7	-	2,007
Unearned premium reserve	21	43,759	41,356
Deferred revenue	17	4,325	4,396
Provisions	18	1,638	2,044
Deferred tax liabilities	7	629	546
Outstanding claims liabilities	20	158,156	164,893
Total Liabilities		**232,980**	**242,714**
Net Assets		**77,478**	**78,642**
Equity			
Issued capital	25(a)	7,308	7,308
Retained earnings		70,170	71,334
Total Equity		**77,478**	**78,642**

The above Statements of Financial Position should be read in conjunction with the notes to the financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

		Company & Consolidated		
	Note	Fully paid ordinary shares $'000	Retained earnings $'000	Total $'000
Balance at 1 January 2015		**7,308**	**75,035**	**82,343**
Profit for the year		-	2,836	2,836
Other comprehensive income		-	-	-
Total comprehensive income		**-**	**2,836**	**2,836**
Dividends		**-**	(6,537)	(6,537)
Balance at 31 December 2015		**7,308**	**71,334**	**78,642**
Profit for the year		-	1,389	1,389
Other comprehensive income		-	-	-
Total comprehensive income		**-**	**1,389**	**1,389**
Dividends	25(b)	-	(2,553)	(2,553)
Balance at 31 December 2016		**7,308**	**70,170**	**77,478**

The above Statement of Changes in Equity should be read in conjunction with the notes to the financial statements.

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	Note	Company & Consolidated 2016 $'000	2015 $'000
Cash flows from operating activities			
Premiums received		75,095	73,988
Reinsurance and other recoveries received		43,705	49,253
Interest and dividends received		7,100	8,144
Other revenue		738	1,130
Outwards reinsurance paid		(41,093)	(39,905)
Claims expense paid		(71,531)	(74,831)
Acquisition costs and other costs paid		(20,213)	(19,105)
Interest and other costs of finance paid		(147)	(198)
Income tax paid		(3,997)	(1,043)
Net cash generated by/(used in) operating activities	**30(b)**	**(10,343)**	**(2,567)**
Cash flows from investing activities			
Proceeds from/(payments for) investments		2,602	15,975
Proceeds from/(payments for) property, plant and equipment		(154)	(212)
Net cash generated by/(used in) investing activities		**2,448**	**15,763**
Cash flows from financing activities			
Dividends paid		(2,553)	(6,537)
Net cash generated by/(used in) financing activities		**(2,553)**	**(6,537)**
Net increase/(decrease) in cash and cash equivalents		(10,448)	6,659
Cash and cash equivalents at the beginning of the financial year		**28,168**	**21,509**
Cash and cash equivalents at the end of the financial year	**30(a)**	**17,720**	**28,168**

The above Statement of Cash Flows should be read in conjunction with the notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

1. Corporate information

The consolidated financial statements of Ansvar Insurance Limited for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the directors on 3 March 2017.

Ansvar Insurance Limited is a company limited by shares that is incorporated and domiciled in Australia. Ansvar Insurance's immediate parent is Ecclesiastical Insurance Office plc which owns 100% of the ordinary shares. Ecclesiastical Insurance Office plc is a wholly owned subsidiary of Allchurches Trust Limited, which is the ultimate parent. The nature of the operations and principal activities of the Group are described in the Directors' Report.

2. Significant accounting policies

Basis of preparation

The consolidated financial report is a general purpose financial report which has been prepared in accordance with the *Corporations Act 2001*, Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The consolidated financial report also complies with Australian equivalents to International Financial Reporting Standards (A-IFRS) as issued by the International Accounting Standards Board. Compliance with the Australian Accounting standards ensures that the financial statements and notes of the Group and the Company comply with IFRS.

The financial statements comprise the consolidated financial statements of the Group. For the purposes of preparing the consolidated financial statements, the Group and Company are for-profit entities.

The financial report has been prepared on a historical cost basis, except for investments which have been measured at fair value and outstanding claims liabilities and associated reinsurance and other recoveries which have been measured as described in Note 3a.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported. The Statement of Financial Position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity. For assets and liabilities that comprise both current and non-current amounts, information regarding the non-current amount is included in the relevant note of the financial statements

All amounts are presented in Australian dollars. The Company is a company of the kind referred to in ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with the Corporations Instrument, amounts in the directors' report and the financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Principles of general insurance business

An insurance contract is defined as a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

(b) Revenue

Premium revenue

Direct premium revenue comprises amounts charged to the policyholder including fire service levies, but excluding stamp duties collected on behalf of third parties. The earned portion of premiums received and receivable, including unclosed business, is recognised as revenue. Premium is earned from the date of attachment of risk. Premiums on unclosed business are brought to account by reference to the previous year's premium processing delays with due allowance for any changes in the pattern of new business and renewals.

The pattern of recognition of income over the policy period is based on time, which closely approximates the pattern of risks underwritten. Premium written which has not been earned at the balance date is included in the unearned premium reserve in the Statement of Financial Position.

2. Significant accounting policies (Cont'd)

(b) Revenue (cont'd)

Fee Revenue

Fee income and commission income are recognised when it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made.

(c) Investment income

Interest revenue is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

(d) Claims

Claims expense and a liability for outstanding claims are recognised in respect of all business written. The liability covers claims reported but not yet paid, incurred but not reported claims ('IBNR') and the anticipated direct and indirect costs of settling those claims. Claims outstanding are assessed by reviewing individual claim files and estimating changes in the ultimate cost of settling claims with IBNRs and settlement costs using statistics based on past experience and trends.

No discounting has been applied to outstanding claims for short-tail classes as the impact is not considered significant. The liability for outstanding claims for long-tail classes is measured as the present value of the expected future payments. These payments are estimated on the basis of the ultimate cost of settling claims, which is affected by factors arising during the period to settlement such as normal and superimposed inflation. The expected future payments are discounted to present value at the balance date using risk free rates.

(e) Outwards reinsurance

Premium ceded to reinsurers is recognised as an expense in accordance with the pattern of reinsurance service received. Accordingly, a portion of outwards reinsurance premium is treated as a prepayment and presented as deferred reinsurance expense at the balance date.

(f) Reinsurance and other recoveries receivable

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid and IBNRs are recognised as revenue. Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims.

(g) Acquisition costs

Acquisition costs incurred in obtaining insurance contracts are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to revenue that will be recognised in the Statement of Profit and Loss and Other Comprehensive Income in subsequent reporting periods. Deferred acquisition costs are measured at the lower of cost and recoverable amount. Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the general insurance contracts to which they relate. This pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue.

(h) Fire brigade and other charges

A liability for fire brigade and other charges is recognised on business written to the balance date. Levies and charges payable by the Group are expensed on the same basis as the recognition of premium revenue, with the portion relating to unearned premium being recorded as deferred fire services levies.

2. Significant accounting policies (Cont'd)

(i) Unearned premium reserve

The unearned premium reserve is determined by apportioning the premium written over the period from date of attachment of risk to the expiry of the policy term. Premium written which has not been earned at the balance date is included in the unearned premium reserve.

Liability adequacy testing is performed at each reporting date in order to recognise any deficiencies in the adequacy of unearned premium liabilities arising from the carrying amount of the unearned premium reserve less any related deferred acquisition costs and intangible assets not meeting the estimated future claims under current insurance contracts.

The estimated future claims under current insurance contracts are measured using the present value of the expected cash flows relating to future claims and associated expenses (discounted using a risk free discount rate) plus an additional fair value risk margin to reflect the inherent uncertainty of those estimated cash flows.

Liability adequacy testing is performed at the level of a portfolio of contracts that are subject to broadly similar risks and are managed together as a single portfolio. Any deficiency arising from the test is recognised in the profit and loss statement through the write-down of any related intangible assets and related deferred acquisition costs. If an additional liability is required, it is recognised as an unexpired risk liability in the Statement of Financial Position.

(j) Financial assets

In accordance with AASB 1023 *General Insurance Contracts*, the Group is required to measure financial assets held to fund insurance provisions at fair value through profit or loss.

AASB 139 *Financial Instruments: Recognition and Measurement* has an option to measure all financial assets at fair value through profit or loss. Investments constitute a group of financial assets which are managed, and their performance evaluated, on a fair value basis in accordance with the Group's documented investment policy. The Group has elected to measure all financial assets that do not fund insurance provisions at fair value through profit or loss upon initial recognition.

Fair value is determined by reference to the closing bid price of the instrument at the balance date.

<u>Loans and receivables</u>

Loans and receivables are measured at amortised cost using the effective interest method less impairment.

(k) Financial instruments issued by the Group

<u>Debt and equity instruments</u>

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

<u>Transaction costs on the issue of equity instruments</u>

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

<u>Interest and dividends</u>

Interest and dividends are classified as expenses or as distributions of profit consistent with the Statement of Financial Position classification of the related debt or equity instruments.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

2. Significant accounting policies (Cont'd)

(l) Property, plant and equipment

Plant and equipment is recognised at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on property, plant and equipment. Depreciation is calculated on a straight line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period.

The following estimated useful lives are used in the calculation of depreciation:

• Leasehold improvements	Length of lease
• Office furniture and fittings	3 - 5 years
• Computer hardware	3 - 10 years

(m) Employee benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave and sick leave when it is probable that settlement will be required and the amounts can be reliably measured.

Provisions made in respect of employee benefits expected to be settled within 12 months, are measured as the amount unpaid at the reporting date at current pay rates in respect of employees' services up to that date.

Provisions made in respect of employee benefits that are not expected to be settled within 12 months and are measured at the present value of the expected future cash outflows to be made by the Group in respect of services provided by employees up to the reporting date. Consideration is given to the expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using interest rates on national government guaranteed securities with terms to maturity that match, as closely as possible, the estimated future cash outflows.

<u>Defined contribution plans</u>

Contributions to defined contribution superannuation plans are expensed when incurred.

(n) Foreign currency

<u>Foreign currency transactions</u>

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at reporting date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

2. Significant accounting policies (Cont'd)

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the Statement of Financial Position.

Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment purposes; these are money market instruments with short maturities (three months or less from the date of acquisition) which are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

(p) Goods and services tax

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

a. 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

b. 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.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

(q) Impairment of assets

At each reporting date, the Group 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 Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

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 (or 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.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or 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 (or 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.

2. Significant accounting policies (Cont'd)

(r) Income tax

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or taxable 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

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.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit.

Deferred tax assets and liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, branches, associates and joint ventures except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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 Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the Statement of Profit and Loss and Other 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, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

(s) Intangible assets

Other intangible assets are non-monetary assets other than goodwill with no physical substance, which are separately identifiable, controlled by the Group and have future economic benefits.

Where the intangible asset is deemed to have indefinite life, it is not amortised but tested for impairment at least on an annual basis. If it is deemed to have finite useful life, it is to be amortised over its useful life and tested for impairment whenever there is an indication that the asset may be impaired.

2. Significant accounting policies (Cont'd)

(t) Leased assets

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(u) Trade and other receivables

Trade and other receivables are stated at the amounts to be received in the future, less any impairment losses. The amounts are discounted where the effect of the time value of money is material. 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.

Receivables are non-interest bearing and are normally settled between 30 days and 12 months. The balance has not been discounted, as the effect of the time value of money is not material. The net carrying amount of receivables is a reasonable approximation of the fair value of the assets due to the short term nature of the assets.

(v) Trade and other payables

Trade and other payables are stated at cost, which is the fair value of future payments for the purchase of goods and services. Payables are recognised when the Group becomes obliged to make these payments. The amounts are discounted where the effect of the time value of money is material.

(w) Principles of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) referred to as "the Group" in these financial statements. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The consolidated financial statements include the information and results of each controlled entity from the date on which the Company obtains control and until such time as the Company ceases to control such entity.

Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

In preparing the consolidated financial statements, all intercompany balances and transactions and unrealised profits arising within the economic entity are eliminated in full.

In the Statement of Profit and Loss and Other Comprehensive Income, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit after taxes, even when the Group retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the Statement of Profit and Loss and Other Comprehensive Income.

2. Significant accounting policies (Cont'd)

(x) Adoption of new and revised Accounting Standards

The accounting policies adopted are consistent with those of the previous financial report except for the following Australian Accounting Standard adopted as of 1 January 2016:

Reference	Title	Application date of standard	Note	Application date for Group
AASB 2015-3	*Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality* The Standard completes the AASB's project to remove Australian guidance on materiality from Australian Accounting Standards.	1 July 2015	B	1 January 2016
AASB 2015-4	*Amendments to Australian Accounting Standards – Financial Reporting Requirements for Australian Groups with a Foreign Parent.* The amendment aligns the relief available in AASB 10 Consolidated Financial Statements and AASB 128 Investments in Associates and Joint Ventures in respect of the financial reporting requirements for Australian groups with a foreign parent.	1 July 2015	B	1 January 2016
AASB 1057	*Application of Australian Accounting Standards* This Standard lists the application paragraphs for each other Standard (and Interpretation), grouped where they are the same. Accordingly, paragraphs 5 and 22 respectively specify the application paragraphs for Standards and Interpretations in general. Differing application paragraphs are set out for individual Standards and Interpretations or grouped where possible. The application paragraphs do not affect requirements in other Standards that specify that certain paragraphs apply only to certain types of entities.	1 January 2016	B	1 January 2016
AASB 2015-2	*Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101* The Standard makes amendments to AASB 101 Presentation of Financial Statements arising from the IASB's Disclosure Initiative project. The amendments are designed to further encourage companies to apply professional judgment in determining what information to disclose in the financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. The amendments also clarify that companies should use professional judgment in determining where and in what order information is presented in the financial disclosures.	1 January 2016	B	1 January 2016

Australian accounting standards issued but not yet effective

As at the date of this report, there are a number of new and revised accounting standards which have been issued by the Australian Accounting Standards Board for which the mandatory application dates fall after the end of this reporting year. None of these standards have been early adopted and applied in the current reporting year.

Title	Summary	Application date of standard	Note	Application date for Group
AASB 9	*Financial Instruments* AASB 9 (December 2014) is a new standard which replaces AASB 139. This new version supersedes AASB 9 issued in December 2009 (as amended) and AASB 9 (issued in December 2010) and includes a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. AASB 9 is effective for annual periods beginning on or after 1 January 2018. However, the Standard is available for early adoption. The own credit changes can be early adopted in isolation without otherwise changing the accounting for financial instruments. **Classification and measurement** AASB 9 includes requirements for a simpler approach for classification and measurement of financial assets compared with the requirements of AASB 139. There are also some changes made in relation to financial liabilities. The main changes are described below. **Financial assets** Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. a) Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument. b) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases. **Financial liabilities** Changes introduced by AASB 9 in respect of financial liabilities are limited to the measurement of liabilities designated at fair value through profit or loss (FVPL) using the fair value option. Where the fair value option is used for financial liabilities, the change in fair value is to be accounted for as follows: • The change attributable to changes in credit risk are presented in other comprehensive income (OCI) • The remaining change is presented in profit or loss AASB 9 also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains or losses	1 January 2018	A	1 January 2018

2. Significant accounting policies (Cont'd)

(x) Adoption of new and revised Accounting Standards (cont'd)
Australian accounting standards issued but not yet effective (cont'd)

Title	Summary	Application date of standard	Note	Application date for Group
AASB 9 (cont.)	attributable to changes in the entity's own credit risk would be recognised in OCI. These amounts recognised in OCI are not recycled to profit or loss if the liability is ever repurchased at a discount. **Impairment** The final version of AASB 9 introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis. **Hedge accounting** Amendments to AASB 9 (December 2009 & 2010 editions and AASB 2013-9) issued in December 2013 included the new hedge accounting requirements, including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures. Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7, AASB 2010-10 and AASB 2014-1 – Part E. AASB 2014-7 incorporates the consequential amendments arising from the issuance of AASB 9 in Dec 2014. AASB 2014-8 limits the application of the existing versions of AASB 9 (AASB 9 (December 2009) and AASB 9 (December 2010)) from 1 February 2015 and applies to annual reporting periods beginning on after 1 January 2015.	1 January 2018	A	1 January 2018
AASB 15	*Revenue from Contracts with Customers* AASB 15 Revenue from Contracts with Customers replaces the existing revenue recognition standards AASB 111 Construction Contracts, AASB 118 Revenue and related Interpretations (Interpretation 13 Customer Loyalty Programmes, Interpretation 15 Agreements for the Construction of Real Estate, Interpretation 18 Transfers of Assets from Customers, Interpretation 131 Revenue—Barter Transactions Involving Advertising Services and Interpretation 1042 Subscriber Acquisition Costs in the Telecommunications Industry). AASB 15 incorporates the requirements of IFRS 15 Revenue from Contracts with Customers issued by the International Accounting Standards Board (IASB) and developed jointly with the US Financial Accounting Standards Board (FASB).	1 January 2018	A	1 January 2018

2. Significant accounting policies (Cont'd)

(x) Adoption of new and revised Accounting Standards (cont'd)
Australian accounting standards issued but not yet effective (cont'd)

Title	Summary	Application date of standard	Note	Application date for Group
AASB 15 (cont.)	AASB 15 specifies the accounting treatment for revenue arising from contracts with customers (except for contracts within the scope of other accounting standards such as leases or financial instruments). The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps: a) Step 1: Identify the contract(s) with a customer b) Step 2: Identify the performance obligations in the contract c) Step 3: Determine the transaction price d) Step 4: Allocate the transaction price to the performance obligations in the contract e) Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation AASB 2015-8 amended the AASB 15 effective date so it is now effective for annual reporting periods commencing on or after 1 January 2018. Early application is permitted. AASB 2014-5 incorporates the consequential amendments to a number Australian Accounting Standards (including Interpretations) arising from the issuance of AASB 15. AASB 2016-3 Amendments to Australian Accounting Standards – Clarifications to AASB 15 amends AASB 15 to clarify the requirements on identifying performance obligations, principal versus agent considerations and the timing of recognising revenue from granting a licence and provides further practical expedients on transition to AASB 15.	1 January 2018	A	1 January 2018
AASB 16	*Leases* The key features of AASB 16 are as follows: **Lessee accounting** a) Lessees are required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. b) A lessee measures right-of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities. c) Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. d) AASB 16 contains disclosure requirements for lessees.	1 January 2019	B	1 January 2019

2. Significant accounting policies (Cont'd)

(x) Adoption of new and revised Accounting Standards (cont'd)
Australian accounting standards issued but not yet effective (cont'd)

Title	Summary	Application date of standard	Note	Application date for Group
AASB 16 (cont.)	**Lessor accounting** a) AASB 16 substantially carries forward the lessor accounting requirements in AASB 117. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. b) AASB 16 also requires enhanced disclosures to be provided by lessors that will improve information disclosed about a lessor's risk exposure, particularly to residual value risk. AASB 16 supersedes: a) AASB 117 Leases; b) IFRIC 4 Determining whether an Arrangement contains a Lease; c) SIC-15 Operating Leases—Incentives; and d) SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The new standard will be effective for annual periods beginning on or after 1 January 2019. Early application is permitted, provided the new revenue standard, AASB 15 Revenue from Contracts with Customers, has been applied, or is applied at the same date as AASB 16.	1 January 2019	B	1 January 2019
2016-1	*Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses [AASB 112]* This Standard amends AASB 112 Income Taxes (July 2004) and AASB 112 Income Taxes (August 2015) to clarify the requirements on recognition of deferred tax assets for unrealised losses on debt instruments measured at fair value.	1 January 2017	B	1 January 2017
2016-2	*Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107* This Standard amends AASB 107 Statement of Cash Flows (August 2015) to require entities preparing financial statements in accordance with Tier 1 reporting requirements to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.	1 January 2017	A	1 January 2017
AASB 2016-6	*Amendments to Australian Accounting Standards – Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts (AASB 4)* This Standard amends AASB 4 Insurance Contracts to permit issuers of insurance contracts to: a) Choose to apply the 'overlay approach' that involves applying AASB 9 Financial Instruments and also applying AASB 139 Financial Instruments: Recognition and Measurement to eligible financial assets to calculate a single line item adjustment to profit or loss so that the overall impact on profit or loss is the same as if AASB 139 had been applied; and b) Choose to temporarily exempt from AASB 9 when those issuer's activities are predominantly connected with insurance, provided they make additional disclosures to enable users to make comparisons with issuers applying AASB 9.	1 January 2018	A	1 January 2018

Table Note

A These changes will only impact disclosures when preparing the financial report.
B These changes are not expected to have a significant, if any, financial impact.

3. Critical accounting estimates and judgments

In the application of A-IFRS management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgments. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised.

Key sources of estimation uncertainty

Judgements made by management in the application of A-IFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

Significant estimates and judgments are made by the Group to arrive at certain key asset and liability amounts disclosed in the financial statements. These estimates and judgements are continually being evaluated and are based on historical experience, as well as enhancements to actuarial modelling techniques.

The key areas of significant estimates and judgements and the methodologies used to determine key assumptions are set out below.

(a) Uncertainty over estimate of ultimate liability arising from claims made under general insurance contracts

Provision is made at the year-end for the estimated cost of claims incurred but not settled at the balance date, including the cost of claims incurred but not reported to the Group.

The estimation of outstanding claims liabilities is based largely on the assumption that past developments are an appropriate predictor of the future and involves a variety of actuarial techniques that analyse experience, trends and other relevant factors. The process commences with the actuarial projection of the future claim payments and claims handling costs incurred 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 development and incidence of the number of claims reported, number of claims finalised, claim payments and reported incurred costs;

(ii) Exposure details, including policy counts, sums insured, 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 of 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; and

(x) Insurer specific, relevant industry data and more general economic data is utilised in the estimation process.

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

3. Critical accounting estimates and judgements (Cont'd)

(a) Uncertainty over estimate of ultimate liability arising from claims made under general insurance contracts (cont'd)

This projection of the net central estimate is typically made without bias toward over or under estimation. As such, the resulting estimate is considered to be a net central estimate of outstanding claims liabilities. Where possible and appropriate, multiple actuarial methods will be applied to project future claim payments. This assists in providing a greater understanding of the trends inherent in the past data. The projections obtained from various methods also assist in setting the range of possible outcomes.

The most appropriate method, or 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.

Large claims impacting each relevant business class are generally assessed separately, being measured on a case by case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims.

As an estimate of future outcomes, the net central estimate of outstanding claims liabilities is subject to uncertainty. This uncertainty may consist of one or more of the following components:

Modelling

The process of managing and finalising claims is a complex one. Actuarial models represent a simplification of this complex process giving rise to the possibility that the actual future outcomes may depart from the modelled outcome.

Assumption selection

Even with a perfect model, assumptions about future claim payment experience must be drawn from limited past data and are subject to sampling error.

Evolution of assumptions and future events

Some assumptions will be subject to changes over time due to external sources, such as changes to the legislative environment and the economic environment, or internal sources such as claim management practices.

Random variation

There is a certain amount of residual randomness that drives differences between actual and expected outcomes.

Uncertainty from the above sources is examined for each class of business and expressed as a volatility of the net central estimate. The volatility for each class is derived after consideration of stochastic modelling and benchmarking to industry analysis. The long tail liability classes have the highest volatilities of the insurance classes as the longer average time to settle provides a greater opportunity for sources of uncertainty to emerge. Short tail classes such as property and motor have lower levels of volatility.

As the volatility for each class of business is partially correlated with other classes, when combined across the entire Group, 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.

The assumptions regarding uncertainty for each class are applied to the gross and net central estimates and the results are aggregated, allowing for diversification, in order to arrive at an overall net provision that is intended to have an 80% probability of sufficiency (2015: 80% probability of sufficiency).

(b) Assets arising from reinsurance contracts

Assets arising from reinsurance contracts are also calculated using the above methods. In addition, the recoverability of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as counterparty and credit risk. Impairment is recognised where there is objective evidence that the Group may not receive amounts due to it and these amounts can be reliably measured. A breakdown of reinsurance recoveries is provided in Note 13.

3. Critical accounting estimates and judgements (Cont'd)

(c) Recoverability of future tax losses

At the balance date, Ansvar makes an assessment whether it is probable that it will have taxable profits against which any temporary differences or unused tax losses can be utilised before the unused tax losses or unused tax credits expire. In making this assessment, Ansvar considers the expected level of taxable profits in its future business plans against which the taxable losses can be utilised.

4. Actuarial assumptions and methods

(a) Assumptions

The following assumptions have been made, or are implied, in determining the outstanding claims liabilities:

Company & Consolidated	2016		2015	
	Short-tail	Long-tail	Short-tail	Long-tail
Weighted average term to settlement (years)	0.70	4.14	1.57	4.22
Inflation rate	0.00%	2.75%	0.00%	2.75%
Superimposed inflation rate	0.00%	4.50%	0.00%	4.50%
Discount rate	0.00%	2.13%	0.00%	2.04%
Discounted mean term (years)	0.70	3.80	1.57	3.92
Claim handling expense ratio as a % of Gross Outstanding Claims	2.51%	9.43%	2.31%	9.04%
Risk margin	17.46%	18.96%	17.38%	18.10%

(b) Processes used to determine assumptions

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

<u>Average weighted term to settlement</u>

The average weighted term to payment is calculated separately by class of business and is based on historic settlement patterns.

4. Actuarial assumptions and methods (Cont'd)

(b) Processes used to determine assumptions (cont'd)

Inflation

Insurance costs are subject to inflationary pressures over time.

For the liability classes, claim costs associated with personal injuries may be linked to the weekly earnings of the claimant. Medical and legal costs are subject to increases in the wages and disbursements of professionals in those fields. These standard inflationary pressures are collectively termed wage inflation for the purpose of this report.

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

Superimposed inflation rate

There is a tendency for claim costs, particularly for the liability classes, to increase at levels in excess of standard inflationary pressures. This can be due to a number of factors including court awards and precedents and social and environmental pressures. This is often termed superimposed inflation and is analysed and forecast separately from wage inflation.

Discount rate

The outstanding claims liabilities for liability classes are discounted at a rate equivalent to that inherent in a portfolio of risk free fixed interest securities with coupon and redemption cash flows exactly matching the projected inflated claim cash flows.

For motor and property classes the outstanding claims liabilities are not discounted due to their expected payment in the near term.

Expense allowance

An estimate of outstanding claims liabilities will incorporate an allowance for the future cost of administering the claims. This allowance is determined after analysing claim related expenses incurred by the classes of business.

Risk margin

The overall risk margin is determined allowing for diversification between classes of business and the relative uncertainty of the outstanding claims estimate for each class.

The assumptions regarding uncertainty for each class are applied to the gross and net central estimates and the results are aggregated, allowing for diversification, in order to arrive at an overall net provision that is intended to have an 80% probability of sufficiency (2015: 80% probability of sufficiency).

Ultimate loss ratio

This is the ratio of incurred losses to earned premium (both net of reinsurance) inherent in actual experience to date and includes an estimate of future payments.

4. Actuarial assumptions and methods (Cont'd)

(b) Processes used to determine assumptions (cont'd)

Effects of changes in actuarial assumptions from 31 December 2015 to 31 December 2016:

Assumption category	Assumption change	Effect on net outstanding claims liabilities Increase / (decrease) $'000
Short tail class assumptions:		
Change in model assumptions		174
Liability class assumptions:		
Changes in Claim Numbers		-
Changes in models assumptions – non-PSA claims		(295)
Changes in models assumptions – PSA claims		320
Change in Minimum Loss Ratio assumptions		(1,938)
Superimposed Inflation	No change	-
Wage Inflation	No change	-
Discount Factor	2.04% to 2.13%	(666)

(c) Sensitivity analysis

The Group conducts sensitivity analyses to quantify the exposure to the risk of changes in the underlying assumptions used in the financial statements.

The sensitivity of the Group's profit and equity to key valuation assumptions is tabulated below (the assumed tax rate is 30%):

	Net profit $'000	Equity $'000
Recognised amounts in the financial statements	1,389	77,478

Variable	Movement in variable	Movement in amount Profit/(Loss) $'000	
Average weighted term to settlement	+1 year	1,695	1,695
	- 1 year	(1,732)	(1,732)
Claims inflation rate	1.00%	(3,127)	(3,127)
	- 1.00%	2,958	2,958
Discount rate	1.00%	2,958	2,958
	- 1.00%	(3,127)	(3,127)
Minimum loss ratio	1.00%	(766)	(766)
	- 1.00%	766	766
Claims handling expenses ratio	1.00%	(793)	(793)
	- 1.00%	793	793

5. Risk Management

(a) Risk Management Framework

The Group acknowledges that risk management is an integral part of the governance framework and its decision making process. The Board has ultimate responsibility for:

i. Reviewing Group's risk management framework;
ii. Ensuring the effectiveness of the risk management framework and the internal control system; and
iii. Compliance with legislative and regulatory obligations, including capital and insolvency requirements.

The Group has a Risk & Compliance function, led by its Chief Risk Officer, that is responsible for the development of its risk management framework, policies and standards. The application of the risk management framework across the Group provides reasonable assurance that key risks are adequately managed. The risk management framework is regularly reviewed so it remains appropriate and effective. The Group has outsourced its internal audit function which reviews aspects of the risk management framework across the Group's business units.

The risk management framework is outlined in the Risk Management Strategy (RMS). The RMS addresses the Group's approach to managing its risks. The RMS includes a statement of intent, risk objectives, description of material risks, clearly defined Board and management roles and responsibilities and the key processes to identify, assess, monitor, report on and mitigate material risks.

The RMS is reviewed and updated annually so it remains appropriate and effective and is approved by the Board and any material changes are also submitted to Australian Prudential Regulatory Authority (APRA).

In addition to the RMS, the Group's risk management framework includes the following key documents:

- **Risk Management Policy (RMP):** The objective of the RMP is to define the risk management principles that support the effective implementation of the risk management framework.
- **Reinsurance Management Strategy (REMS):** The REMS is part of the Group's risk management strategy and details the Reinsurance Management Framework, including the selection, implementation, monitoring, review, control and documentation of reinsurance arrangements.
- **Risk Appetite Statement (RAS):** The RAS is a set of principles, guidance, boundaries and limits set by the Board as part of the authorization given to the Chief Executive Officer to execute the Corporate Plan. It also sets out the process for risk appetite breach approval and reporting.
- **Internal Capital Adequacy Assessment Process (ICAAP) Summary Statement:** The purpose of the ICAAP Summary Statement is to provide a summary of the capital assessment and management processes of the Group. It serves as a roadmap to the ICAAP and allows the Board and APRA to understand the Group's capital management process.

(b) The Group's Material Risks

As noted in the RMS, the Group has identified the following risks as being its material risks. This forms the Group's risk universe and is subject to formal risk assessment and management.

Material Risks	Represented by the Group's failure to:
Strategic	Develop and implement effective business strategy and execution.
Insurance	• Adhere to insurance limits and sound underwriting. • Provide an adequate margin and reserves on insurance underwriting. • Prevent unauthorised claims, payments or leakage. • Establish an appropriate reinsurance program.
Financial	Provide integrity of management, prudential and financial reporting.
Market and Liquidity	Adequately manage assets and liabilities, exposures and investments.
Compliance	Adhere to legislative and regulatory requirements or other licence conditions.
Operational	Properly manage the Group's processes, people and IT systems.
Credit	Avoid default by reinsurers, premium counterparties and/or investment counterparties.

5. Risk Management (Cont'd)

(c) Material Risk Categories and mitigation strategies

(i) Strategic Risk

The Group has identified its strategic risk as the risk of it failing to develop and successfully execute an effective business strategy.

To mitigate strategic risk, the Chief Executive Officer is responsible for designing and presenting a Corporate Plan to the Board on an annual basis. The Corporate Plan includes consideration of key risks as part of the strategic and business planning processes to ensure they are aligned with the Board's risk appetite.

Monitoring against key strategic objectives is performed on a regular basis through the submission of reporting to the Board and Ansvar's parent company. This reporting assesses Ansvar's performance against pre-defined and approved strategic and financial metrics and organisational Key Performance Indicators.

(ii) Insurance Risk

Insurance risk is defined as the risk of loss arising from the inherent uncertainties about the occurrence, timing and amount of insurance claims. Insurance risk includes a variety of risks arising from current and prospective underwriting and the development of prior year reserves.

The Group has a number of policies and procedures to mitigate insurance risk. The key policies that are used in the mitigation of insurance risk are the ICAAP, RMS, REMS, Insurance Risk Policy and the Actuarial Data Integrity Policy.

The Underwriting and Claims departments have their own policies and procedures which assist in enabling compliance with pre-defined risk appetite limits. This includes a combination of internal and external reviews, claims and underwriting approval authorities and limits and regular reporting to the Executive Leadership Team and Board (or its committees).

(iii) Financial Risk

Financial risk focuses on the movement of financial markets and the potential adverse impacts on the Group's financial performance. Financial risk is actively monitored by the Group to mitigate any material risks to its balance sheet.

In accordance with the Group's Financial and Investment Overarching Policy, financial risks include:

- **Market risk** which is the risk of loss or an adverse change in a financial situation resulting, directly or indirectly, from fluctuations in the level and volatility of market prices of assets and liabilities and financial instruments.
- **Liquidity risk** means the Group is unable to liquidate investments to settle its financial obligations when they fall due (refer to Note 26(e) for a detailed explanation of how the Group manages its liquidity risk).
- **Credit risk** is the risk that relates to reinsurers, brokers and other debtors, whose financial situation may result in their inability to deliver a financial commitment to the Group. This is manifested in the form of counterparty default risk, spread risk or market risk concentrations.
- **Currency risk** arises from the change in price of one currency against the other. This will occur when assets or operations take place in foreign denominations.

The Group has established and implemented a number of policies and procedures to mitigate its financial risks. These include:

- **Balance Sheet and Market Risk Policy** identifies the main sources of market risk applicable to the Group and details how these are measured, monitored and controlled.
- **Credit Risk Policy** details the parties with whom credit will be granted and the controls and processes in place for maximizing cash flows and dealing with defaults.
- **Investment Policy** describes the risk appetite profile and gives delegated authority to minimize risks.
- **Outsourcing Policy** sets out the standards required by all companies to whom the Group outsources any of its material functions.
- **Internal Capital Adequacy Assessment Process (ICAAP) Summary Statement**.

5. Risk Management (Cont'd)

(c) Material Risk Categories and mitigation strategies (cont'd)

(iv) Market Risk and Liquidity Risk (incorporating Currency Risk, Interest Rate Risk and Price Risk)

In accordance with the Balance Sheet and Market Risk Policy, the Group has identified the sources of its key market risks as being:

- Movements in interest rates and inflation and widening of credit spreads which impact on the values of fixed interest securities;
- Reduced levels of investment income;
- Contraction in market liquidity;
- Adverse changes in the value of foreign current assets; and
- Inadequate processes for valuing assets.

The Group has determined the nature and extent of the market risks to which it considers it is acceptable to be exposed. These limits are documented in the Risk Appetite Statement and the Investment Policy. The Group's Finance department is responsible for complying with the risk appetite limits that have been imposed.

The Group's Finance department also performs regular stress testing to determine the impact of currency risk, interest rate risk and price risk on the Group's balance sheet. The stress testing determines the APRA risk charge and this then forms the capital which APRA considers appropriate to hold in relation to the asset risks to which the Group is exposed.

Stress testing is the key analysis performed by the Group on the appropriateness of the matching of assets and liabilities.

(v) Compliance Risk

The Group defines compliance risk as the risk of not adhering to legislative and regulatory obligations.

The Group has a Risk & Compliance function responsible for the development of its compliance framework, policies and standards. Business Unit General Managers are responsible for compliance with the Compliance Policy and adherence with legislative and regulatory requirements.

Any compliance breaches must be reported to Risk & Compliance, and are recorded in the breach register. Any significant breaches are required to be reported to APRA / ASIC in accordance with the relevant regulatory obligations.

A Risk & Compliance Monitoring Plan has also been designed and implemented to monitor Ansvar Business Units' compliance with legislative and regulatory requirements. Findings and recommendations are provided to the Executive Leadership Team and the Group's Risk & Compliance Committee.

(vi) Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk may arise from inadequacies in the area of human resources, financial crime, outsourcing, technology and business continuity management.

(a) Human Resources

Human Resources ensure that management policies, processes and procedures are in place to identify and manage operational risks involving employees, contractors and third parties. The Human Resources function is responsible for sourcing, selecting, recruiting, developing and retaining suitable people who can meet the requirements of the role and fit into Ansvar's culture.

(b) Financial Crime

The Group has a Financial Crime Policy that addresses the risks of both internal and external fraud. The Financial Crime Policy sets out the controls to mitigate fraud and the processes to be undertaken in the event of fraud being identified.

5. Risk Management (Cont'd)

(vi) Operational Risk (cont'd)

(c) Outsourcing

The use of a third party can be beneficial as they can provide specialist knowledge, expertise and cost efficiencies.

In accordance with the Group's Outsourcing Policy, the key controls to mitigate outsourcing risk are performing due diligence on the external service provider including checks prior to appointment, regular compliance monitoring and performance reviews which are contractually mandated.

(d) Technology

Information Technology (IT) systems provide flexibility, security and accessibility to the Group to achieve its strategic objectives. Primary risks around the use of IT systems include the unacceptable use of business systems and applications, ineffective performance of IT systems and breaches of privacy of data information and systems and continuity of processing.

Ansvar has established a number of policies, procedures and processes covering IT Security, Authorised Use and Privacy Guidelines. These policies, procedures and processes are used to identify and manage any operational risk involving IT hardware, software and information.

(e) Business Continuity Management

Business continuity risk is the chance of any event that disrupts the Group's business operations and/or performance.

The Group has addressed its business continuity risks by developing a Business Continuity Management framework that includes the Business Continuity Management Policy. Business continuity tests and a review of the policy are regularly performed with outcomes being reported to the Chief Executive Offier and the Risk & Compliance Committee.

(vii) Credit Risk

Credit risk is the risk of loss from a counterparty failing to fulfil their financial obligations. The Group's credit risk generally arises from investment activities, reinsurance activities and dealings with any intermediaries such as brokers. The Group has a Credit Risk Policy which is approved by the Board and reviewed on a regular basis.

The Credit Risk Policy outlines the Group's approach to the monitoring and management of credit risk.

i. Investments

The Group is exposed to credit risk from investments where the Group holds debt and securities issued by companies and the Federal/State governments. The Group has set limits to specific investments which are described in the Financial Risk Overarching Policy, Investment Policy and the Risk Appetite and are monitored and assessed at regular intervals.

Breaches of any investment limits are reported in accordance with policies and procedures.

ii. Reinsurers

Reinsurance arrangements are critical in mitigating insurance risk. The Group reinsures a portion of the risks it underwrites to control exposure to losses, stabilize earnings, protect capital resources and ensure efficient control and spread of the underwriting risk.

The Group places reinsurance based on an evaluation of the reinsurers' financial strength including its credit rating, length and quality of relationship with the Group, pricing, the Group's risk appetite limits and the specific expertise of the reinsurer. On appointment, the Group requests terms and conditions from reinsurer(s). These terms and conditions address coverage and price and then reinsurer(s) respond with an offer to underwrite a percentage of the programme or layer at a selected price and with certain conditions.

5. Risk Management (Cont'd)

(vii) Credit Risk (cont'd)

ii. Reinsurers (cont'd)

The financial probity of reinsurers is determined with the assistance of the UK-based Group Reinsurance Security Committee which performs regular analysis of reinsurers' credit ratings and performance against certain criteria.

The Reinsurance Committee will propose the final reinsurance arrangements and submit the arrangements to the Board for approval.

The Risk Appetite requirements are monitored by the Chief Actuary and reported to the Risk & Compliance Committee. Given the importance of the Group's reinsurance program to provide adequate cover, reinsurer relationships are closely monitored in order to detect any change in attitude, appetite or approach, and mitigate any potentially negative effects.

iii. Brokers

The Group engages a credit monitoring agency to provide ongoing monitoring of the credit worthiness of the Group's brokers and intermediaries.

Any changes in credit worthiness advised by the monitoring agency will be reviewed to assess whether brokers and other intermediaries continue to represent an acceptable risk.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

6. Profit from operations	**Company & Consolidated**	
	2016 $'000	**2015 $'000**
(a) Revenue		
An analysis of the Group's revenue for the year is as follows:		
Premium revenue:		
Gross written premium	76,412	76,215
Movement in unearned premiums	(2,403)	(2,069)
Gross earned premiums	**74,009**	**74,146**
Reinsurance and other recoveries (note 19)	47,801	51,821
Total general insurance revenue	**121,810**	**125,967**
Investment income:		
Interest revenue	6,640	7,769
Changes in net market value of investments:		
Realised gains/(losses)	641	2,379
Unrealised gains/(losses)	(1,966)	(5,062)
Total investment income	**5,315**	**5,086**
Commission revenue	7,488	9,799
Other operating income	1,248	2,784
Total Revenue	**135,861**	**143,636**
(b) Profit before income tax		
Depreciation	145	150
Amortisation of intangible assets	2	77
(Profit)/loss on disposal of property, plant and equipment	16	68
Increases/(decreases) in the provisions for impairment		
- Trade receivables	9	(43)
Employee entitlements	844	930
Rental expense relating to operating leases	1,110	1,104

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

7. Income taxes

	Company & Consolidated	
	2016	2015
	$'000	$'000
Tax expense comprises:		
Current income tax charge	938	2,183
Deferred tax expense/(benefit) relating to the origination and reversal of timing differences	(321)	(947)
Total income tax expense/(benefit)	**617**	**1,236**

Net profit/(loss) for the year before income tax	**2,006**	**4,072**
Income tax expense/(credit) calculated at 30%	602	1,221
Non-deductible expenses	15	15
Total income tax expense/(benefit)	**617**	**1,236**

The tax rate used for the 2016 and 2015 reconciliations above is the corporate tax rate of 30% payable by Ansvar on taxable profits under Australian tax law.

	Company & Consolidated	
	2016	2015
	$'000	$'000
Current tax assets and liabilities		
Income tax payable/(receivable)	(1,052)	2,007

7. Income taxes (Cont'd)

Temporary Differences

Taxable and deductible temporary differences arise from the following:

2016	**Company & Consolidated**			
	Opening balance $'000	**Charged to income $'000**	**Charged to equity $'000**	**Closing balance $'000**
Gross deferred tax liabilities:				
Revenue receivable	(501)	(128)	-	(629)
Unrealised gains on fixed interest securities	(45)	45	-	-
Total	**(546)**	**(83)**	**-**	**(629)**
Gross deferred tax assets:				
Provisions	613	(122)	-	491
Doubtful debts allowance	21	(3)	-	18
Indirect claims settlement costs	2,986	34	-	3,020
Unrealised losses on fixed interest securities	0	545	-	545
Purchased interest	258	(69)	-	189
Other	59	19	-	78
Total	**3,937**	**404**	**-**	**4,341**

Presented in the balance sheet as follows:	
Deferred tax liability	(629)
Deferred tax asset	4,341
	3,712

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

7. Income taxes (cont'd)

2015	**Company & Consolidated**			
	Opening balance $'000	**Charged to income $'000**	**Charged to equity $'000**	**Closing balance $'000**
Gross deferred tax liabilities:				
Revenue receivable	(12)	(489)	-	(501)
Unrealised gains on fixed interest securities	(1,562)	1,517	-	(45)
Total	**(1,574)**	1,028	**-**	**(546)**
Gross deferred tax assets:				
Provisions	599	14	-	613
Doubtful debts allowance	17	4	-	21
Indirect claims settlement costs	3,036	(50)	-	2,986
Purchased interest	281	(23)	-	258
Other	84	(26)	-	58
Total	**4,017**	**(81)**	**-**	**3,936**
Presented in the balance sheet as follows:				
Deferred tax liability				(546)
Deferred tax asset				3,936
				3,390

8. Key management personnel compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

The aggregate compensation of the key management personnel, being the key management personnel of the Group and the Company is set out below:

	Consolidated	
	2016 $'000	**2015 $'000**
Short-term employee benefits	2,671	2,607
Post-term employee benefits	199	248
Termination benefits	-	313
Total	**2,870**	**3,168**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

9. Remuneration of auditors

	Company & Consolidated	
	2016	2015
	$	$
Auditor of the parent entity:		
Audit of the financial report	93,240	91,862
Other services (i)	69,160	68,138
	162,400	**160,000**

(i) included engagements required by the regulator and other services.

10. Trade and other receivables

	Company & Consolidated	
	2016	2015
	$'000	$'000
Current receivables		
Trade receivables	24,393	23,086
Allowance for doubtful debts	(59)	(68)
	24,334	**23,018**
Other debtors and prepayments	3,726	4,180
Reinsurance recoveries receivable	12,817	10,228
Deferred GST on claims outstanding	2,104	3,095
Total current receivables	**42,981**	**40,521**
Non-current receivables		
Other recoveries receivable	6,253	4,871
Allowance for doubtful debts	-	-
Total non-current receivables	**6,253**	**4,871**
Total trade and other receivables	**49,234**	**45,392**

Receivables are non-interest bearing and normally settled within 12 months. The balance has not been discounted as the effect of the time value of money is not considered material.

11. Deferred expenses

	Company & Consolidated	
	2016	2015
	$'000	$'000
Deferred reinsurance expenses	20,268	20,702
Deferred acquisition costs	8,588	7,722
Deferred fire service levies	1,840	1,460
Total deferred expenses	**30,696**	**29,884**

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

12. Investments	**Company & Consolidated**	
	2016	**2015**
	$'000	**$'000**
Corporate bonds	103,173	107,488
Government/semi-government fixed income securities	40,106	39,695
Loans and receivables	436	459
Total investments	**143,715**	**147,642**

All investments are measured at fair value through profit and loss.

13. Reinsurers' share of outstanding claims liabilities

	Company & Consolidated	
	2016	**2015**
	$'000	**$'000**
Expected future reinsurance recoveries		
- Undiscounted central estimate	55,483	57,586
- Risk margin	9,767	9,928
Undiscounted reinsurers' share of outstanding claims liabilities	**65,250**	**67,514**
Discount to present value	(1,924)	(1,564)
Provision for impairment of reinsurance assets	-	-
Discounted reinsurers' share of outstanding claims liabilities	**63,326**	**65,950**
Current reinsurers' share of outstanding claims liabilities	13,685	12,775
less: provision for impairment of reinsurance asset	-	-
	13,685	**12,775**
Non-current reinsurers' share of outstanding claims liabilities	49,641	53,175
less: provision for impairment of reinsurance asset	-	-
	49,641	**53,175**

14. Property, plant and equipment

	Company & Consolidated		
	Office furniture and fittings $'000	Computer hardware $'000	Total $'000
Cost or valuation			
Balance at 1 January 2015	**142**	**536**	**678**
Additions	-	212	212
Disposals	(24)	(222)	(246)
Balance at 1 January 2016	**118**	**526**	**644**
Additions	39	115	154
Disposals	(112)	(39)	(151)
Balance at 31 December 2016	**45**	**602**	**647**
Accumulated depreciation			
Balance at 1 January 2015	**(44)**	**(246)**	**(290)**
Disposals	6	172	178
Depreciation expense	(48)	(102)	(150)
Balance at 1 January 2016	**(86)**	**(176)**	**(262)**
Disposals	104	30	134
Depreciation expense	(19)	(126)	(145)
Balance at 31 December 2016	**(1)**	**(272)**	**(273)**
Net Book Value			
As at 31 December 2015	**32**	**350**	**382**
As at 31 December 2016	**44**	**330**	**374**

Aggregate depreciation allocated, recognised as an expense during the year and disclosed in note 6 to the financial statements:

	Company & Consolidated	
	2016 $'000	2015 $'000
Office furniture and fittings	19	48
Computer hardware	126	102
	145	**150**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

15. Intangible assets

	Company & Consolidated		
	Trademarks $'000	**Computer software $'000**	**Total $'000**
Gross carrying amount			
Balance at 1 January 2015	**23**	**318**	**341**
Additions	-	-	-
Disposals	(4)	(318)	(322)
Balance at 1 January 2016	**19**	**-**	**19**
Additions	-	-	-
Disposals	-	-	-
Balance at 31 December 2016	**19**	**-**	**19**
Accumulated amortisation			
Balance at 1 January 2015	**(19)**	**(221)**	**(240)**
Amortisation expense (i)	(2)	(75)	(77)
Disposals	4	296	300
Balance at 1 January 2016	**(17)**	**-**	**(17)**
Amortisation expense (i)	(2)	-	(2)
Disposals	-	-	-
Balance at 31 December 2016	**(19)**	**-**	**(19)**
Net Book Value			
As at 31 December 2015	**2**	**-**	**2**
As at 31 December 2016	**0**	**-**	**0**

(i) Amortisation expense is included in the line item 'general and administration expenses' in the Statement of Profit or Loss and Other Comprehensive Income.

16. Trade and other payables

	Company & Consolidated	
	2016	2015
	$'000	$'000
Direct insurance payables	463	816
Deposits from reinsurers	6,679	10,420
Accrued reinsurance premiums	12,277	12,471
Trade creditors	34	230
Sundry creditors and accruals	3,055	2,580
Unsecured amount payable to parent entity	98	436
Indirect taxes	1,867	519
Total trade and other payables	**24,473**	**27,472**

Trade and other payables are non-interest bearing and normally settled within 12 months. The balance has not been discounted as the effect of the time value of money is not considered material.

17. Deferred revenue

	Company & Consolidated	
	2016	2015
	$'000	$'000
Deferred reinsurance commission	4,325	4,386
Other deferred revenue	-	10
	4,325	**4,396**

18. Provisions

	Company & Consolidated	
	2016	2015
	$'000	$'000
Current		
Employee entitlements	489	578
Other employee provisions	459	600
Provision for make good	58	193
	1,006	**1,371**
Non-current		
Employee entitlements	570	619
Provision for make good	62	54
	632	**673**
Total provisions	**1,638**	**2,044**

Company & Consolidated	Employee entitlements $'000	Other employee provisions $'000	Provision for make good $'000	Total $'000
Balance at 1 January 2016	**1,197**	**600**	**247**	**2,044**
Additional provisions recognised	389	459	62	910
Used during the year	(527)	(600)	(189)	(1,316)
Balance at 31 December 2016	**1,059**	**459**	**120**	**1,638**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

19. Net claims incurred

Company & Consolidated	2016			2015		
	Current year $'000	Prior years $'000	Total $'000	Current year $'000	Prior years $'000	Total $'000
Gross claims expense						
Gross claims incurred (undiscounted)	58,677	5,617	64,294	67,896	(1,395)	66,501
Discount movement	116	384	500	476	1,627	2,103
	58,793	**6,001**	**64,794**	**68,372**	**232**	**68,604**
Reinsurance and other recoveries revenue						
Reinsurance and other recoveries (undiscounted)	(37,423)	(10,739)	(48,162)	(46,778)	(4,138)	(50,916)
Discount movement	83	278	361	(437)	(468)	(905)
	(37,340)	**(10,461)**	**(47,801)**	**(47,215)**	**(4,606)**	**(51,821)**
Net claims incurred	**21,453**	**(4,460)**	**16,993**	**21,157**	**(4,374)**	**16,783**

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

20. Outstanding claims liabilities

	Company & Consolidated 2016 $'000	Company & Consolidated 2015 $'000
a) Gross outstanding claims liabilities		
Gross undiscounted central estimate	132,746	139,901
Discount to present value	(7,510)	(8,010)
Claims handling expenses provision	8,475	8,432
Risk margin	24,445	24,570
Gross outstanding claims liabilities	**158,156**	**164,893**
Current	35,841	31,201
Non-current	122,315	133,692
	158,156	**164,893**

20. Outstanding claims liabilities (Cont'd)

The following table shows the development of net undiscounted outstanding claims relative to the current estimate of ultimate claims costs for the five most recent accident years. At 31 December 2016, the outstanding claims liabilities valuation was enhanced which resulted in more information being available to produce this table. The additional information resulted in some amounts being reclassified between accident years. As a result, the comparative figures in the table do not agree to prior year financial statements.

Company & Consolidated	**Accident Year**						
	Prior	**2012**	**2013**	**2014**	**2015**	**2016**	**Total**
Ultimate claims cost estimate	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
At end of accident year		39,225	37,218	17,664	18,068	18,063	
One year later		34,165	37,050	16,636	14,841		
Two years later		31,590	35,824	14,745			
Three years later		30,687	32,441				
Four years later		31,593					
Current estimate of ultimate claims cost		31,593	32,441	14,745	14,841	18,063	
Cumulative net payments		25,730	25,330	3,950	2,486	1,648	
Undiscounted net central estimates	**17,255**	**5,863**	**7,111**	**10,795**	**12,355**	**16,415**	**69,794**
Net discount							(5,527)
Claims handling expenses provision							8,475
Net risk margin							13,732
Net outstanding claims liabilities							**86,474**
Reinsurers' share of outstanding claims liabilities							63,326
Other recoveries on outstanding claims							8,356
Gross outstanding claims liabilities							**158,156**

b) Reconciliation of movement in discounted outstanding claims provision, reinsurance and other recoveries

Company & Consolidated	**2016**			**2015**		
	Gross	**Re-insurance and other recoveries**	**Net**	**Gross**	**Re-insurance and other recoveries**	**Net**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
At 1 January	164,893	(73,916)	90,977	171,120	(77,429)	93,691
Increase due to claims incurred in current accident year	57,976	(42,553)	15,423	64,792	(49,150)	15,642
Movement in prior year claims provisions	4,028	(5,276)	(1,248)	933	(2,671)	(1,738)
Claim payments / recoveries	(68,741)	50,063	(18,678)	(71,952)	55,334	(16,618)
At 31 December	**158,156**	**(71,682)**	**86,474**	**164,893**	**(73,916)**	**90,977**

21. Unearned premium and deferred insurance costs

a) Unearned premium

Company & Consolidated	2016			2015		
	Gross $'000	Reinsurance $'000	Net $'000	Gross $'000	Reinsurance $'000	Net $'000
At 1 January	**41,356**	**(20,702)**	**20,654**	**39,287**	**(19,919)**	**19,368**
Premiums on contracts written	76,412	(40,899)	35,513	76,215	(42,508)	33,707
Earning of premiums written	(74,009)	41,333	(32,676)	(74,146)	41,725	(32,421)
At 31 December	**43,759**	**(20,268)**	**23,491**	**41,356**	**(20,702)**	**20,654**

b) Deferred insurance costs

Company & Consolidated	2016		2015	
	Acquisition costs $'000	Fire service levy $'000	Acquisition costs $'000	Fire service levy $'000
At 1 January	**7,722**	**1,460**	**7,894**	**1,343**
Costs deferred in the year	8,588	3,230	7,722	2,613
Amortisation charged to income	(7,722)	(2,850)	(7,894)	(2,496)
At 31 December	**8,588**	**1,840**	**7,722**	**1,460**

22. Liability Adequacy Test

At 31 December 2016, the liability adequacy test on net premium liabilities is a surplus (2015: surplus). The probability of sufficiency ("POS") adopted in performing the liability adequacy test is set at the 75th percentile which is the same as the prior year. The POS adopted in in determining the outstanding claims liability is 80%. The probability of sufficiency represented by the liability adequacy test differs from the probability of sufficiency represented by the outstanding claims liability. The reason for this difference 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. The process of determining the overall risk margin, including the way in which diversification for risks has been allowed for is discussed in note 4.

23. Employee benefits

The aggregate employee benefits recognised and included in the financial statements is as follows:

	Company & Consolidated	
	2016	**2015**
	$'000	**$'000**
Current provision for employee benefits (note 18)	489	578
Non-current provision for employee benefits (note 18)	570	619
Aggregate employee benefits	**1,059**	**1,197**
Number of employees at end of financial year	**87**	**81**

24. Commitments

	Company & Consolidated	
Operating lease commitments:	**2016**	**2015**
	$'000	**$'000**
Not later than one year	1,353	1,395
Later than one year and not later than five years	4,223	465
Later than five years	-	-
	5,576	**1,860**

Operating leases relate to leases of property, IT and motor vehicles with lease terms of up to five years. The Group has no option to purchase the leased items at the expiry of the lease periods.

25. Share capital

a) Share capital

	Company & Consolidated	
	2016	**2015**
	$'000	**$'000**
Issued share capital 7,307,692 ordinary shares each fully paid (2015: 7,307,692)	7,308	7,308

Ordinary shares carry the right to dividends and one vote per share.

b) Dividends

On 3 March 2017, the directors of Ansvar Insurance Limited declared a dividend on ordinary shares in respect of the 2016 financial year. The total amount of the dividend is $1,200,000 (2015 financial year: $2,552,538) which represents a fully franked dividend of 16.4 cents (2015 financial year: 34.9 cents) per share. The dividend has not been provided for in the 31 December 2016 financial statements. The 2015 dividend was paid in 2016.

26. Financial instruments

a) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 of the financial statements.

b) Financial risk management objectives

It is ultimately the responsibility of the Board of Directors to ensure that there is an effective risk management control framework in place. Consistent with regulatory requirements the Board has explicitly allocated to the Chief Executive Officer, the function of overseeing the establishment and maintenance of risk-based systems and controls across the Group.

As part of the overall governance framework the Group has established a number of Board and management committees to oversee and manage financial risks, which are described in Note 5 to the financial statements.

The Group has assessed the effectiveness of the controls in place to mitigate the risks and implemented appropriate policies for managing these risks. In order to establish the parameters within which risk must be managed, the Group has also developed a statement of 'risk appetite', or tolerance. Both the risk policies and risk appetite are subject to an annual review to ensure that they reflect the changing risk profile of the business.

c) Categories of financial instruments

	Company & Consolidated	
	2016	**2015**
	$'000	**$'000**
Financial assets		
Cash and cash equivalents	17,720	28,168
Financial assets at fair value through profit or loss	143,715	147,642
Trade and other receivables	49,234	45,392
Reinsurers' share of outstanding claims liabilities	63,326	65,950
Financial liabilities		
Trade and other payables	24,473	27,472
Outstanding claims liabilities	158,156	164,893

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

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

26. Financial instruments (Cont'd)
c) Categories of financial instruments (cont'd)

Company & Consolidated	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Fair value through profit and loss				
Corporate bonds	107,488	-	-	107,488
Government/semi-government fixed income securities	39,695	-	-	39,695
Loans and receivables	-	3	456	459
As at 31 December 2015	**147,183**	**3**	**456**	**147,642**
Fair value through profit and loss				
Corporate bonds	103,173	-	-	103,173
Government/semi-government fixed income securities	40,106	-	-	40,106
Loans and receivables	-	3	433	436
As at 31 December 2016	**143,279**	**3**	**433**	**143,715**

During the year there were no transfers between the three levels.

(i) Valuation techniques and significant unobservable inputs for Level 3 financial instruments

The following table presents the valuation technique and the significant unobservable inputs used in the fair value measurements of the financial instruments categorized within Level 3 of the fair value hierarchy:

Financial instruments measured at fair value

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Loans and Receivables - unlisted	*Discounted cash flows:* The valuation considers the present value of the cash flows expected to be generated under the loan arrangement. The expected net cash flows are discounted using a risk-adjusted discount rate.	• Risk-adjusted discount rate – 5.82% (2015: 5.65%)	The estimated fair value would increase if the risk-adjusted discount rate was lower.

(ii) Reconciliation of Level 3 fair value measurements

The following table shows a reconciliation from the opening balances to the closing balances for Level 3 fair values.

	Company & Consolidated Loans and other receivables $'000
Balance at 1 January 2015	457
Unrealised gains/(losses) in profit and loss	(1)
Balance at 31 December 2015	**456**
Unrealised gains/(losses) in profit and loss	(23)
Balance at 31 December 2016	**433**

26. Financial instruments (Cont'd)

d) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted the policy of only dealing with creditworthy counterparties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the risk of financial loss from defaults. The policies and procedures in place to mitigate the Group's exposure to credit risk are described in note 5 of this financial report.

The Group actively monitors the credit ratings of reinsurers to ensure there is no significant exposure that requires immediate attention and action. There have been no issues or defaults with payments to date.

The Group's reinsurance assets comprise the following percentage split based on Standard & Poor's ratings (except where noted):

Credit Rating	2016 Proportion	2015 Proportion
AA+	73.0%	77.1%
AA	0.1%	0.1%
AA-	8.7%	7.3%
A+	3.8%	3.5%
A	7.5%	6.1%
A-	6.9%	5.7%
A- (AM Best)	0.0%	0.1%
BBB+	0.0%	0.1%

The table below shows the maximum exposure to credit risk for the components of the balance sheet. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting or taking account of the value of any collateral or other security obtained.

	Company & Consolidated	
	2016 $'000	2015 $'000
Cash and cash equivalents	17,720	28,168
Financial assets at fair value through profit or loss		
Corporate bonds	103,173	107,488
Government/semi-government fixed income securities	40,106	39,695
Loans and receivables	436	459
Trade and other receivables		
Trade receivables	24,393	23,086
Other debtors and prepayments	3,726	4,180
Reinsurance recoveries receivable	12,817	10,228
Deferred GST on claims outstanding	2,104	3,095
Other recoveries receivable	6,253	4,871
Reinsurers' share of outstanding claims liabilities	63,326	65,950
Total	**274,054**	**287,220**

26. Financial instruments (Cont'd)

d) Credit risk (cont'd)

Credit risk exposure by credit rating

The following table provides information regarding credit risk exposure of the Group by classifying assets according to the Group's credit ratings of counterparties.

Company & Consolidated	Neither past-due nor impaired				
	Investment grade (i) $'000	Non-investment grade: satisfactory (ii) $'000	Non-investment grade: unsatis-factory (iii) $'000	Past-due or impaired $'000	Total $'000
2016					
Cash and cash equivalents	17,720	-	-	-	17,720
Financial assets at fair value through profit or loss					
Corporate bonds	103,173	-	-	-	103,173
Government/semi-government fixed income securities	40,106	-	-	-	40,106
Loans and receivables	-	436	-	-	436
Trade and other receivables					
Trade receivables	-	24,393	-	-	24,393
Other debtors and prepayments	-	3,726	-	-	3,726
Unsecured amounts receivable from related entity	-	-	-	-	-
Reinsurance recoveries receivable	12,817	-	-	-	12,817
Deferred GST on claims outstanding	-	2,104	-	-	2,104
Other recoveries receivable	-	6,253	-	-	6,253
Reinsurers' share of outstanding claims liabilities	63,326	-	-	-	63,326
Total	**237,142**	**36,912**	**-**	**-**	**274,054**
2015					
Cash and cash equivalents	28,168	-	-	-	28,168
Financial assets at fair value through profit or loss					
Corporate bonds	107,488	-	-	-	107,488
Government/semi-government fixed income securities	39,695	-	-	-	39,695
Loans and receivables	-	459	-	-	459
Trade and other receivables					
Trade receivables	-	23,086	-	-	23,086
Other debtors and prepayments	-	4,180	-	-	4,180
Unsecured amounts receivable from related entity	-	-	-	-	-
Reinsurance recoveries receivable	10,228	-	-	-	10,228
Deferred GST on claims outstanding	-	3,095	-	-	3,095
Other recoveries receivable	-	4,871	-	-	4,871
Reinsurers' share of outstanding claims liabilities	65,950	-	-	-	65,950
Total	**251,529**	**35,691**	**-**	**-**	**287,220**

26. Financial instruments (Cont'd)

d) Credit risk (cont'd)

(i) The Group and the Company classify all assets with Standard and Poor's credit ratings of AAA to BBB as investment grade.

(ii) Non-investment grade (satisfactory) assets include assets that fall outside the rage of AAA to BBB Standard and Poor's credit rating as well as non-rated assets that are within the risk parameters outlined by the Group's risk management policy.

(iii) Non-investment grade (unsatisfactory) assets include assets that fall outside the risk parameters outlined by the Group's risk management policy and assets that would otherwise be past due or impaired whose terms have been renegotiated.

e) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial instruments. Ultimate responsibility for liquidity risk management rests with the Board of directors that has built a liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of assets and liabilities. As required by APRA Prudential Standard GPS 220, the Group has developed and implemented a Risk Management Strategy, which is described in Note 5. The Group and the Company have no significant concentration of liquidity risk.

The following table presents the maturity profile of financial liabilities. The profile is based on undiscounted cash flows of financial liabilities on the earliest date on which the Group can be required to pay, except for outstanding claims liabilities where the maturity profile is based on expected claim payments.

Company & Consolidated	**Less than 1 year $'000**	**1 - 5 years $'000**	**5+ years $'000**	**Discount to present value $'000**	**Total $'000**
2016					
Financial liabilities					
Outstanding claims liabilities	34,746	89,609	41,311	(7,510)	158,156
Non-interest bearing:					
Trade and other payables	24,473	-	-	-	24,473
	59,219	**89,609**	**41,311**	**(7,510)**	**182,629**
2015					
Financial liabilities					
Outstanding claims liabilities	32,717	94,174	46,012	(8,010)	164,893
Non-interest bearing:					
Trade and other payables	27,472	-	-	-	27,472
	60,189	**94,174**	**46,012**	**(8,010)**	**192,365**

26. Financial instruments (Cont'd)

f) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign exchange (currency risk), market interest rates (interest rate risk) and market prices (price risk). The Group's policies and procedures put in place to mitigate the Group's exposure to market risk are described in note 5 to this financial report. There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

Interest rate risk management

The Group's and the Company's activities expose it to the financial risk of changes in interest rates. Floating rate instruments expose the Group to cash flow risk, whereas fixed interest rate instruments expose the Group to fair value interest rate risk. The impact of movements in interest rates on the Group's profit or loss is mitigated due to the Group's policy of investing in assets backing insurance liabilities principally in fixed interest securities that are matched to the duration of the insurance liabilities. Therefore, movements in the fair value measurement of the assets broadly offset the impact of movements in the insurance liabilities from changes in interest rates. The Group's Board monitors the Group's and the Company's exposures to interest rate risk as described in Note 5 to this financial report.

The Group's and the Company's exposures to interest rates on financial liabilities are detailed in the liquidity risk section of this note.

The following tables detail the Group's and the Company's expected maturity for its financial assets. The tables below are based on the undiscounted contractual maturities of the financial assets.

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26. Financial instruments (Cont'd)

f) Market risk (cont'd)

Company & Consolidated 2016	Weighted average interest rate %	Less than 1 year $'000	1 - 5 years $'000	5+ years $'000	Total $'000
Non-interest bearing:					
Trade receivables	-	24,393	-	-	24,393
Unsecured amounts receivable from related entity	-	-	-	-	-
Other debtors and prepayments	-	3,726	-	-	3,726
Reinsurance recoveries receivable	-	12,817	-	-	12,817
Deferred GST on claims outstanding	-	2,104	-	-	2,104
Other recoveries receivable	-	6,253	-	-	6,253
Reinsurers' share of outstanding claims liabilities	-	13,685	49,641	-	63,326
Loans	-	3	433	-	436
Variable interest rate instruments:					
Cash	1.99%	17,720	-	-	17,720
Corporate bonds	3.71%	-	34,210	14,904	49,114
Fixed interest rate instruments:					
Corporate bonds	3.34%	-	40,152	13,907	54,059
Government/semi-government fixed income securities	2.46%	-	30,865	9,241	40,106
Total		**80,701**	**155,301**	**38,052**	**274,054**

Company & Consolidated 2015	Weighted average interest rate %	Less than 1 year $'000	1 - 5 years $'000	5+ years $'000	Total $'000
Non-interest bearing:					
Trade receivables	-	23,086	-	-	23,086
Unsecured amounts receivable from related entity	-	-	-	-	-
Other debtors and prepayments	-	4,180	-	-	4,180
Reinsurance recoveries receivable	-	10,228	-	-	10,228
Deferred GST on claims outstanding	-	3,095	-	-	3,095
Other recoveries receivable	-	4,871	-	-	4,871
Reinsurers' share of outstanding claims liabilities	-	12,775	53,175	-	65,950
Loans	-	3	456	-	459
Variable interest rate instruments:					
Cash	1.72%	28,168	-	-	28,168
Corporate bonds	3.73%	-	35,265	16,480	51,745
Fixed interest rate instruments:					
Corporate bonds	3.44%	-	41,710	14,033	55,743
Government/semi-government fixed income securities	2.44%	-	36,743	2,952	39,695
Total		**86,406**	**167,349**	**33,465**	**287,220**

26. Financial instruments (Cont'd)

f) Market risk (cont'd)

Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the possible change in interest rates.

At reporting date, if interest rates had been 50 basis points higher or lower and all other variables were held constant, the Group's and the Company's equity would increase/decrease by $152k (2015: increase/decrease by $307k). This is mainly attributable to the Group's and the Company's exposure to interest rates on its variable rate borrowings. All other equity reserves would have been unaffected.

Foreign currency risk management

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Exchange rate exposure is managed in line with the Group's Risk Management Statement as described in Note 5. The Group's overall strategy in foreign currency risk management remains unchanged from 2015.

Other price risks

The Group and the Company do not hold equity investments and have no exposure to equity price risks arising from equity investments.

27. Related party disclosures

Related parties of Ansvar Insurance Limited fall into the following categories:

Controlled entities

Information relating to controlled entities is set out in note 28.

Parent entities

The ultimate parent entity in the wholly owned group is Allchurches Trust Limited, incorporated in the UK.

The immediate parent entity of the Group is Ecclesiastical Insurance Office Plc, incorporated in the UK.

The parent entity in the Group is Ansvar Insurance Limited.

Directors

The names of persons who were directors of the parent entity during the financial year are set out in the Directors' Report.

Jacinta Whyte and Ian Campbell were directors of Ecclesiastical Insurance Office plc, the immediate parent entity of Ansvar during the year. Jacinta Whyte is Group Deputy Chief Executive Officer of Ecclesiastical Insurance Office plc and Ian Campbell is Group Chief Financial Officer of Ecclesiastical Insurance Office plc.

Other transactions with directors or their director related entities

The profit from ordinary activities before income tax includes the following items of revenue and expense that resulted from transactions with directors or their director related entities:

	Company & Consolidated	
	2016 $'000	2015 $'000
Income		
Management services fee income from ACS (NZ) Limited	436	1,654
Expense		
Purchase of services from Insync	11	24

Ansvar Insurance Limited provides management services to ACS (NZ) Limited, its former subsidiary. The management services agreement includes a performance-based management fee of NZ $3 million which may be payable to Ansvar once ACS (NZ) Limited has settled all claims against it, to the extent it has surplus capital in excess of NZ $5 million. Prior to 2015, the management services fee income was disclosed as a contingent asset in Ansvar's financial statements. From 2015 onwards, Ansvar recognised the amount of the revenue earned to date from this agreement in profit and loss. In the normal course of business, Ansvar Insurance Limited incurs certain expenses which are recharged to ACS (NZ) Limited. There were no other transactions between the entities during the year.

The above transactions were made on commercial terms and conditions and at market rates.

In the normal course of business, insurance policies are provided to certain entities related to the directors. These insurance policies are provided on an arm's length basis.

Wholly-owned group

The wholly-owned group consists of Allchurches Trust Limited and its wholly owned controlled entities, including Ansvar Insurance Limited and its controlled entities. Ownership interests in these controlled entities are set out in note 28.

27. Related party disclosures (Cont'd)

Ansvar Insurance Limited entered into the following transactions with its parent:

	Company & Consolidated	
	2016 $'000	2015 $'000
Revenue		
Reinsurance recoveries	68	62
Expenses		
Interest on collateral	86	196
Reinsurance premiums	31	-
IT expenses recharges	94	122
Other expenses recharges	24	25
Other Items		
Dividends declared and paid	2,553	6,537
Repayment of reinsurance collateral to parent	3,019	-

The above transactions were made on commercial terms and conditions and at market rates. There were no transactions other than dividends paid between Ansvar and the immediate parent during the financial year.

Aggregate amounts receivable from or payable to entities in the wholly-owned group at balance date were as follows:

	Company & Consolidated	
	2016 $'000	2015 $'000
Current unsecured receivable/(payable) from/(to) parent entity	(98)	(436)

28. Controlled entities

Name of Entity	Country of incorporation	Ownership Interest	
		2016 %	2015 %
Ansvar Insurance Services Pty Limited	Australia	100%	100%

On 28 February 2013, EA Insurance Services Pty Ltd was incorporated. On this date, Ansvar Insurance Limited purchased 100% of the share capital of 1,000 shares for $100. In October 2014, EA Insurance Services Pty Ltd changed its name to Ansvar Insurance Services Pty Limited. Ansvar Insurance Services Pty Limited did not enter into any transactions during the year (2015: none).

29. APRA capital adequacy

The table below sets out Ansvar's Regulatory Capital, Prescribed Capital Amount and Prescribed Capital Amount Coverage calculated in accordance with APRA's Prudential Standards.

	Company & Consolidated	
	2016	**2015**
	$'000	**$'000**
Net Assets	77,478	78,642
Regulatory Adjustments	(3,205)	(2,971)
Common Equity Tier 1 Capital	**74,273**	**75,671**
Additional Tier 1 and Tier 2 Capital	-	-
Total Regulatory Capital	**74,273**	**75,671**
Prescribed Capital Amount		
Insurance Risk Charge	14,790	15,271
Insurance Concentration Risk Charge	2,500	2,000
Asset Risk Charge	13,065	12,786
Operational Risk Charge	2,623	2,727
Aggregation Benefit	(6,691)	(6,603)
Total Prescribed Capital Amount	**26,287**	**26,181**
Prescribed Capital Amount Coverage (Total Regulatory Capital divided by Total Prescribed Capital Amount)	**2.83**	**2.89**

30. Notes to the cash flow statement

For the purposes of the cash flow statement, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows

a) Reconciliation of cash and cash equivalents

	Company & Consolidated	
	2016	**2015**
	$'000	**$'000**
Cash at hand	6,033	14,155
Add: Short term deposits (i)	11,687	14,013
	17,720	**28,168**

(i) Money market instruments that qualify as cash equivalents under the Group's accounting policies have short maturities (three months or less from the date of acquisition), are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

30. Notes to the cash flow statement (Cont'd)

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

	Company & Consolidated	
	2016	**2015**
	$'000	**$'000**
Profit / (loss) for the year	**1,389**	**2,836**
Depreciation and amortization	147	227
Changes in fair value of investments	1,325	2,683
Decrease / (increase) in current tax balances	(3,059)	1,142
Decrease / (increase) in deferred tax balances	(322)	(949)
Other items	17	90
Changes in operating assets and liabilities:		
(Increase) / decrease in trade debtors	(1,316)	(2,229)
(Increase) / decrease in reinsurance recoveries receivable	(2,589)	(6,812)
Decrease / (increase) in other debtors	63	1,340
Decrease / (increase) in deferred insurance costs	(812)	(729)
(Increase) / decrease in unearned premiums	2,403	2,069
(Decrease) / Increase in outstanding claims	(4,113)	(4,729)
Increase / (decrease) in provision for employee entitlements	(138)	(44)
Increase / (decrease) in direct insurance payables	(353)	524
(Decrease) / increase in other payables	(3,994)	3,186
(Decrease) / increase in indirect taxes	1,348	(598)
(Decrease) / increase in deferred revenue	(71)	(761)
Increase / (decrease) in other operating provisions	(268)	187
Net cash generated by / (used in) operating activities	**(10,343)**	**(2,567)**

31. Subsequent events

There has not been any matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may significantly affect, the Group's and the Company's operations in future financial years, the results of those operations or the Group's and the Company's state of affairs in future financial years.

On 3 March 2017, the directors of Ansvar Insurance Limited declared a dividend on ordinary shares in respect of the 2016 financial year. The total amount of the dividend is $1,200,000 which represents a fully franked dividend of 16.4 cents per share. The dividend has not been provided for in the 31 December 2016 financial statements.

32. Contingent Assets and Liabilities

Ansvar has a bank guarantee facility totalling $525,099 which comprises an undertaking by the bank pursuant to agreements for leased office premises in the event of extinguishing liabilities if necessary. The unused amount of the facility at 31 December 2016 is $525,099 (2015: $463,271).