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ACE INSURANCE LIMITED

FINANCIAL REPORT

31 DECEMBER 2009

P# 28
18 MAY 2010

ACE INSURANCE LIMITED

FINANCIAL REPORT 2009

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ACE INSURANCE LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2009

The Board of Directors present the annual report of ACE Insurance Limited ("the Company") incorporating the financial statements and auditors' report for the year ended 31 December 2009.

In accordance with section 211(3) of the Companies Act 1993, the shareholders have passed a unanimous resolution that the annual report of the Company include only the signed financial statements, the Directors' report for the accounting period completed and an Auditors' report.

The Board of ACE Insurance Limited authorised these financial statements for issue on

10th of May 2010

For and on behalf of the Board of Directors

Director

Director

Date 10 May 2010

Date 10 May 2010

PRICEWATERHOUSECOOPERS

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Auckland 1142
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Auditors' Report

To the shareholders of ACE Insurance Limited

We have audited the financial statements on pages 4 to 45. The financial statements provide information about the past financial performance and cash flows of the Company for the year ended 31 December 2009 and its financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 9 to 17.

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

Directors' Responsibilities

The Company's Directors are responsible for the preparation and presentation of the financial statements which give a true and fair view of the financial position of the Company as at 31 December 2009 and its financial performance and cash flows for the year ended on that date.

Auditors' Responsibilities

We are responsible for expressing an independent opinion on the financial statements presented by the Directors and reporting our opinion to you.

Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

(a) the significant estimates and judgements made by the Directors in the preparation of the financial statements; and

(b) whether the accounting policies are appropriate to the circumstances of the Company, consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

We have no relationship with or interests in the Company other than in our capacities as auditors and tax advisors.

PRICEWATERHOUSECOOPERS

Auditors' Report
ACE Insurance Limited

Unqualified Opinion

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

In our opinion:

(a) proper accounting records have been kept by the Company as far as appears from our examination of those records; and

(b) the financial statements on pages 4 to 45:

  (i) comply with generally accepted accounting practice in New Zealand;

  (ii) comply with International Financial Reporting Standards; and

  (iii) give a true and fair view of the financial position of the Company as at 31 December 2009 and its financial performance and cash flows for the year ended on that date.

Our audit was completed on 10 May 2010 and our unqualified opinion is expressed as at that date.

PricewaterhouseCoopers
Chartered Accountants

Auckland

ACE INSURANCE LIMITED

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	2009 $000	2008 $000
Premium revenue		64,905	63,911
Outwards reinsurance expense		44,991	44,433
Net premium revenue	5	19,914	19,478
Claims incurred		26,591	34,101
Reinsurance and other recoveries revenue		14,190	20,668
Net claims incurred	10	12,401	13,433
Net acquisition expenses		1,124	3,795
Finance costs		126	188
Other expenses		8,154	7,888
Total expenses		9,404	11,871
Underwriting loss		**(1,891)**	**(5,826)**
Other income	6	2,797	8,778
Net profit before tax	7	**906**	**2,952**
Income tax expense	9	286	931
Total comprehensive income and profit		**620**	**2,021**

The attached notes form an integral part of these financial statements.

ACE INSURANCE LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2009

	CONTRIBUTED EQUITY	RETAINED EARNINGS	TOTAL
	$000	$000	$000
Year ended 31 December 2009			
At beginning of year	16,900	9,868	26,768
Profit for the year	-	620	620
Total comprehensive income for the year	16,900	10,488	27,388
Transaction with owners:			
Ordinary dividends	-	(5,000)	(5,000)
Supplementary dividends	-	(882)	(882)
Foreign investor tax credit	-	882	882
Total transactions with owners	-	(5,000)	(5,000)
At end of year	16,900	5,488	22,388
Year ended 31 December 2008			
At beginning of year	16,900	14,347	31,247
Profit for the year	-	2,021	2,021
Total comprehensive income for the year	16,900	16,368	33,268
Transaction with owners:			
Ordinary dividends	-	(6,500)	(6,500)
Supplementary dividends		(1,147)	(1,147)
Foreign investor tax credit	-	1,147	1,147
Total transactions with owners	-	(6,500)	(6,500)
At end of year	16,900	9,868	26,768

The attached notes form an integral part of these financial statements.

ACE INSURANCE LIMITED

BALANCE SHEET

AS AT 31 DECEMBER 2009

	Note	2009 $000	2008 $000
ASSETS			
Cash and cash equivalents	11	3,498	6,393
Premiums receivable	12	16,827	18,118
Reinsurance and other recoveries	14	29,233	28,970
Trade and other receivables	13	1,385	867
Deferred acquisition costs	15	1,446	20
Financial assets at fair value through profit or loss	16	49,987	61,821
Property, plant and equipment	18	454	650
Intangible assets	19	44	79
Tax refund receivable		1,736	-
Deferred income tax asset	20	735	1,355
TOTAL ASSETS		**105,345**	**118,273**
LIABILITIES			
Trade and other creditors and payables	21	10,850	15,994
Provision for tax liability		-	794
Deferred income tax liability	20	434	6
Unearned premiums	22	14,772	16,268
Unexpired risk liability	23	1,658	654
Outstanding claims	24	55,243	57,789
TOTAL LIABILITIES		**82,957**	**91,505**
NET ASSETS		**22,388**	**26,768**
EQUITY			
Share capital	25	16,900	16,900
Retained earnings	26	5,488	9,868
TOTAL EQUITY		**22,388**	**26,768**

The attached notes form an integral part of these financial statements.

....
Director

Date 10 May 2010

....
Director

Date 10 May 2010

ACE INSURANCE LIMITED

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	2009 $000	2008 $000
OPERATING ACTIVITIES			
Cash was provided from			
Receipts of premium revenue		66,192	63,869
Receipts from reinsurance recoveries		13,927	16,544
Interest received		3,315	5,383
		83,434	85,796
Cash was applied to			
Payment of claims and claims expenses		(29,137)	(29,600)
Payment of outward reinsurance		(46,145)	(41,472)
Commission paid		(2,550)	(2,431)
Payments to suppliers and employees		(13,036)	(6,444)
Income tax paid		(1,770)	(1,624)
		(92,638)	(81,571)
Net cash (outflow)/inflow from operating activities		**(9,204)**	**4,225**
INVESTING ACTIVITIES			
Cash was provided from			
Proceeds from sale of investments		47,130	21,888
Proceeds from sale of property, plant and equipment and intangibles		34	14
		47,164	21,902
Cash was applied to			
Purchase of investments		(35,855)	(20,463)
Purchase of property, plant & equipment and intangibles		-	(37)
		(35,855)	(20,500)
Net cash inflow from investing activities		**11,309**	**1,402**
FINANCING ACTIVITIES			
Cash was applied to			
Dividends paid		(5,000)	(6,500)
Net cash outflows from financing activities		**(5,000)**	**(6,500)**
Net decrease in cash held		(2,895)	(873)
Cash at beginning of year		6,393	7,266
Cash at end of year	11	**3,498**	**6,393**

The attached notes form an integral part of these financial statements.

ACE INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

Contents of the notes to the financial statements

1. GENERAL INFORMATION

The financial statements are for the reporting entity ACE Insurance Limited. The Company is registered under the Companies Act 1993 and is incorporated and domiciled in New Zealand. The address of the registered office is: CU 1-3, Shed 24, Princes Wharf, Auckland, New Zealand.

These financial statements have been authorised for issue by the Board of Directors on 10 May 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(2.1) Basis of preparation

The financial statements have been prepared in accordance with the Companies Act 1993, the Financial Reporting Act 1993 and with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS). They are also in compliance with International Financial Reporting Standards. They have been prepared under the historical cost convention, as modified by the revaluation of certain assets as identified in specific accounting policies below.

(i) The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2009 and are relevant to the Company's operations:

- IAS 1 Presentation of Financial Statements – resulted in minor presentational changes to the financial statements
- NZ IFRS 2 Share Based Payments – Vesting Conditions and Cancellations – no material impact on financial statements

(ii) Interpretations to published standards that are not yet effective and have not been early adopted by the Company

The following new interpretations to existing standards have been published that are mandatory for the Company's accounting periods beginning on or after 1 January 2010, or later periods, but that the Company has not early adopted. It is expected that theses standards will have no material impact on the financial statements.

- NZ IFRS 2: Share Based Payments (amended)– Vesting Conditions and Cancellations – Group Cash – settled Share based Payment Transactions
- NZ IFRS 9: Financial Instruments
- NZ IAS 24: Related party transactions (revised)
- NZ IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(2.2) Functional and presentation currency

Items included in the financial statements of this Company are measured using the currency of the primary economic environment in which the Company operates ("functional currency"). The financial statements are presented in thousands of New Zealand dollars, which is ACE Insurance Limited's functional and presentation currency.

(2.3) Premium Revenue

Direct and inwards reinsurance premiums comprise amounts charged to the policyholders or other insurers, including government levies. 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.

Premiums where there is a deposit component are not unbundled where the deposit component can be reliably measured. The rights and obligations arising from any deposit component are immediately recorded as assets and liabilities in the balance sheet.

The earned portion of premiums received and receivable, including unclosed business is recognised as revenue. The pattern of recognition of income over the policy or indemnity periods is based on time, which is considered to closely approximate the pattern of risks underwritten. Unearned premium is determined by apportioning the premium written in the year on a daily pro rata basis.

(2.4) Outwards Reinsurance

Premiums ceded to reinsurers are recorded as an outwards reinsurance expense and are recognised in the Statement of Comprehensive Income from the attachment date over the period of indemnity of the reinsurance contract in accordance with the expected pattern of the incidence of risk ceded.

Reinsurance and other recoveries are recognised as revenue within net claims incurred. Recoveries receivable on outstanding claims are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(2.5) Receivables and Creditors

All debtors are recognised at the amounts receivable as trade debtors. The fair value of trade receivables is deemed to approximate the original amount less any impairment. The impairment is determined by assessing the likelihood of collectability of all trade debtors on a regular basis. Debts that are known to be uncollectible are written off.

Trade and other creditors represent liabilities for goods and services provided to the Company prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition for unrelated creditors and within 90 days for related parties.

(2.6) Claims

Claims incurred expense and liabilities for outstanding claims are recognised in respect of the direct and inwards reinsurance business. The liability covers claims incurred but not yet paid, incurred but not yet reported and the anticipated direct and indirect costs of settling those claims. Claims outstanding are assessed by reviewing individual claim files and estimating unnotified claims and settlement costs using statistics based on past experience and trends.

The liability for outstanding claims is measured as the present value of the expected future payments reflecting the fact that all the claims do not have to be paid out in the immediate future. The expected future 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 inflation and "superimposed inflation". The expected future payments are then discounted to present value at the balance date using a risk free rate. The details of rates applied are included in Note 4.

A risk margin is added to the outstanding claims provision net of reinsurance and other recoveries to increase the probability that the net liability is adequate at a sufficiency level deemed appropriate by the Directors and set at a minimum confidence level of 80%.

(2.7) Acquisition costs

A portion of acquisition costs relating to unearned premium is deferred where it represents future benefits to the organisation and can be reliably measured. Deferred acquisition costs are amortised over the period expected to benefit from the expenditure and are stated at the lower of cost and recoverable value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(2.8) Unexpired Risk Liability

At each reporting date the Company is required to perform a liability adequacy test and immediately recognize any deficiencies if the carrying amount of unearned premium less any related deferred acquisition costs does not meet estimated future claims costs including risk margins.

The adequacy of the unearned premium liability in respect of each class of business is assessed by considering current estimates of all expected future cash flows to future claims covered by current insurance contracts.

If the present value of the expected future cash flow relating to future claims plus the additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned premium liability less related deferred costs then the unearned premium liability is deemed to be deficient. The Company applies a risk margin to achieve the same probability of sufficiency for future claims as is applied to the outstanding claims liability.

The entire deficiency, if any, gross and net of reinsurance, is recognised immediately in the statement of comprehensive income. The deficiency is recognised first by writing down the related deferred acquisition costs with any excess being recorded in the balance sheet as an unexpired risk liability.

(2.9) Financial Assets Backing Insurance Contract Liabilities

All financial assets are deemed to back insurance contract liabilities and are valued at fair value in the balance sheet. Financial assets backing insurance liabilities consist of liquid and high quality investments such as cash and fixed income securities. Financial assets backing insurance liabilities are invested to reflect the nature of the insurance liabilities.

The financial assets backing insurance liabilities are designated at fair value through profit or loss. Initial recognition and subsequent measurement is at fair value in the balance sheet with any resultant unrealised gains and losses recognised in the Statement of Comprehensive Income.

Interest income is brought to account on an accruals basis using the effective interest method.

Dividend income is recognized when the right to receive payment is established.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(2.10) Taxation

The tax expense recognized for the year is based on the accounting profit, adjusted for temporary differences between accounting and tax rules.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled. The relevant tax rates are applied to the cumulative amounts of deductibles and assessable temporary differences to measure the deferred tax assets or liability. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred income tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(2.11) Property, Plant and Equipment

Property, plan and equipment are measured at historical cost less deprecation. Historical cost includes expenditure that is directly attributable to the acquisitions of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probably that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation is calculated on a straight line basis, so as to allocate the cost of the assets or the revalued amounts less their residual value over their useful lives. The rates are as follows:

Computer equipment	13.5% to 36.0%
Furniture and fittings	6.5% to 48.0%
Motor vehicles	18.0% to 21.6%

Gains and losses on disposal of fixed assets are taken into account in determining the operating profit for the year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(2.12) Intangible Assets

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful life (3 years).

Computer software development costs recognized as an asset are amortised using the straight line method over their useful lives, not exceeding a period of 3 years.

(2.13) Financial Assets

The Company classifies its investments as financial assets at fair value through profit or loss. All other financial assets are classified as loan and receivables.

(i) Financial assets at fair value through profit or loss
A financial asset is classified into the "financial assets at fair value through profit or loss" category at inception if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short term profit making, or if so designated by management.

Financial assets designated as at fair value through profit or loss at inception as those that are:

- Managed and whose performance is evaluated on a fair value basis. Information about these financial assets is provided internally on a fair value basis to the Company's key management personnel. The Company's investment strategy is to invest in debt securities and to evaluate them with reference to their fair values. Assets that are part of these portfolios are designated upon initial recognition at fair value through profit or loss.

Financial assets that are designated as at fair value through profit or loss are subsequently carried at fair value. Realised and unrealised gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included in the Statement of Comprehensive Income in the period in which they arise.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active, the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the statement of comprehensive income within net fair value gains on financial assets at fair value through income in the period in which they arise.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Company intends to sell in the short term or that it has designated as at fair value through income or available for sale. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(2.14) Impairment of non financial assets

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

(2.15) Cash and cash equivalents

Cash and cash equivalents includes cash at hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts.

(2.16) Share Capital

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax. Incremental costs directly attributable to the issue of equity instruments as consideration for the acquisition of a business are included in the cost of acquisition.

(2.17) Operating Leases

Leases under which all the risks and rewards of ownership are substantially retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the Statement of Comprehensive Income on a straight line basis over the period of the lease.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(2.18) Employee benefits

(i) Pension obligations
The Company operates a defined contribution pension plan. The scheme is funded through payments to a trust administered fund. A defined contribution plan is a pension plan under which the Company pays fixed contributions to a separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits to employee service in the current and prior periods.

The Company pays contributions to a privately administered insurance plan on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

(ii) Share based compensation

The Company's parent operates a share based compensation plan. The fair value of the employee services received in exchange for the grant of the options or shares in the ultimate parent company, ACE Limited, is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options or shares granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-vesting conditions are included in the assumptions about the number of options or shares that are expected to vest. At each balance sheet date, the Company revises its estimates of the number of options or shares that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the Statement of Comprehensive Income, with a corresponding adjustment to liabilities. The Company settles this liability in cash with the ultimate parent entity.

(iii) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without the possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to present value.

(iv) Bonus plans

The Company recognizes an expense for bonuses. A provision is recognised where contractually obliged or where there is a past practice that has created a constructive obligation.

(2.19) Fair Values of Financial Assets and Liabilities

The fair value of cash and cash equivalents and non-interest bearing monetary financial assets and financial liabilities of the entity approximates their carrying amounts.

The fair value of other monetary financial assets and financial liabilities is based upon market prices where a market exists or by discounting the expected future cash flows by the current interest rates for assets and liabilities with similar risk profiles.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(2.20) Statement of cash flows

The following are the definitions of the terms used in the Statement of Cash Flows:

(a) Operating activities include all transactions and other events that are not investing or financing activities.

(b) Investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment and of investments. Investments include securities not falling within the definition of cash.

(c) Financing activities are those activities that result in changes in size and composition of the capital structure. This includes both equity and debt not falling within the definition of cash. Dividends paid in relation to capital structure are included in financing activities.

(d) Cash is considered to be cash on hand, current accounts in banks, and deposits on call, net of bank overdrafts.

(2.21) Goods and Services Tax

Revenue, expenses and assets are recognised net of GST. Receivables and payables are stated inclusive of GST. The net amount of GST recoverable from, or payable to, the Inland Revenue Department is included as part of receivables and payables.

(2.22) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the financial statements.

(2.23) Changes in accounting policies

There have been no significant changes in accounting policies during the current period. Accounting policies have been applied on a basis consistent with the prior year.

3. RISK MANAGEMENT POLICIES AND PROCEDURES

The Company's operations are exposed to a number of key risks including insurance risk and financial risk. The Company's policies and procedures in respect of managing these risks are set out below.

(i) Financial risk

The Company's operations are exposed to a variety of financial risks including market risk (including interest rate risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Company.

The Company's principal investment objective is to ensure that funds will be available to meet its primary insurance and reinsurance obligations. Within this broad liquidity constraint, the investment portfolio's structure seeks to maximize return subject to specifically-approved guidelines of overall asset classes, credit quality, liquidity and volatility of expected returns. As such, the investment portfolio is invested primarily in investment-grade fixed income securities as measured by the major rating agencies.

(a) Market risk
Market risk represents the potential for loss due to adverse changes in the fair value of financial instruments and interest rates. The Company is exposed to securities price risk because of investments held by the Company and classified on the balance sheet as fair value through profit or loss. At 31 December 2009, if prices had weakened/strengthened by 5 percentage points with all other variables held constant, post-tax profit for the year would have been $1.76m (2008: $2.16m) lower/higher with a corresponding impact on equity.

The Company is exposed to interest rate risk because of investments and cash held by the Company. At 31 December 2009, if interest rates had weakened/strengthened by 1 percentage point with all other variables held constant, post-tax profit for the year would have been $0.8m (2008: $1.01m) lower/higher with a corresponding impact on equity.

(b) Credit risk
The Company has significant credit risk in relation to reinsurance recoveries on outstanding claims receivable from related parties. This credit risk is managed by settling reinsurance recoveries in the month following payment by the Company of the direct claim and monitoring the credit rating of reinsurers on a continual basis. It is also Company policy that all reinsurers are required to be approved by the ACE Global Reinsurance Security Committee.

The investment portfolio is managed following prudent standards of diversification. Specific provisions in the investment mandate limit the allowable holdings of a single issue and issuers.

(c) Liquidity risk
Prudent liquidity risk management implies maintaining sufficient cash and marketable securities to meet the Company's insurance and reinsurance obligations. The Company's cash position is monitored daily and funding requirements are managed through a structured investment portfolio that allows flexibility in funding.

3. RISK MANAGEMENT POLICIES AND PROCEDURES (continued)

(d) Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders to reduce the cost of capital and to comply with the insurance capital requirements required by the legal statute.

The basis that has been used for capital adequacy is the Preferred Capital Requirement established by the Public Trustee in the Trust Deed entered into with the Company on 1 June 1999. The Preferred Capital Requirement is the greatest of $2,000,000, 30% of Net Written Premiums or 25% of Net Outstanding Claims.

The amount of equity retained for the purpose of capital adequacy as at 31 December 2009 is $6,502,617 (2008: $7,204,750) based on the Net Outstanding Claims requirement (2008: based on the Net Outstanding Claims requirement). The Company has met the Preferred Capital Requirements as at 31 December 2009. The total amount of equity retained in the Company as at 31 December 2009 is $22,388,468 (2008: $27,915,702).

(ii) Insurance risk

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

Risk management forms parts of operational and line management responsibilities, and is integrated into the Company's planning process.

The Company's policies and procedures, processes and controls are designed to manage risk. These systems address all material risks, financial and non-financial, likely to be faced by the Company. The Board, aided by the Board Audit Committee and the Business Risk Steering Committee directs and monitors implementation, practice and performance throughout the organisation. Key processes and controls include:

- employment of consistent, disciplined pricing and risk selection in order to maintain a profitable book of business.
- a formal underwriting review process to periodically test compliance standards and guidelines.
- employment of catastrophe loss and risk modeling techniques to ensure that risks are well distributed and those loss potentials are contained within our financial capacity.
- centrally coordinated reinsurance management facilitates appropriate risk transfer and efficient cost-effective use of external reinsurance markets. Reinsurance is placed with a select group of only the most financially secure and experienced companies in the reinsurance industry.
- the maintenance and use of information systems provide up to date and reliable data, thus ensuring integrity of data to management and financial models.
- claims management team ensures there is consistent approach to reserving practices and the settlement of claims.
- all operating units and functional areas are subject to review by a corporate audit team that regularly carries out operational audits.
- specific guidelines and mandates with respect to investment assets including an independent Investment Committee.

3. RISK MANAGEMENT POLICIES AND PROCEDURES (continued)

(b) Terms and conditions of insurance and inwards reinsurance business

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

(c) Concentration of insurance risks

The Company's exposure to concentrations of insurance risk is mitigated by a diverse portfolio of business written across a broad range of locations and industries.

The Company has a specific concentration risk associated with natural catastrophes. This risk is mitigated through a combination of underwriting strategy, management of risk accumulations and reinsurance.

(d) Development of claims

There is a possibility that changes may occur in the estimate of our obligations at the end of a contract period. The tables in note 24(c) show our estimates of total claims outstanding for each underwriting year at successive year ends.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Company makes estimates and judgements in respect of certain key assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) The ultimate liability arising from claims made under insurance contracts
Provision is made at the end of the year for the estimated cost of claims incurred but not settled at the balance date. These reserves include estimates for both claims that have been reported and those that have been incurred but not reported (IBNR), and include estimates of expenses associated with processing and settling these claims.

The process of establishing reserves is subject to considerable variability as it requires the use of informed estimates and judgements. These estimates and judgements are based on numerous factors, and may be revised as additional experience and other data become available or as regulations change.

Outstanding claims provision is estimated by class of business. Historical experience and other statistical information are used to estimate the ultimate claim costs. To determine outstanding claims provisions for a particular line of business, more than one method may be used to estimate ultimate losses and loss expenses and use the results to select a single point estimate. These methods may include, but are not necessarily limited to, extrapolations of historical reported and paid loss data, application of industry loss development patterns to the reported or paid losses, expected loss ratios developed by management, or historical industry loss ratios. Underlying judgments and assumptions that may be incorporated into these actuarial methods include, but are not necessarily limited to, adjustments to historical data used in models to exclude aberrations in claims data such as catastrophes that are typically analysed separately, adjustments to actuarial models and related data for known business changes, such as changes in claims covered under insurance contracts, and the effect of recent or pending litigation on future claims settlements.

Provisions are calculated gross of any reinsurance recoveries and a separate estimate is made of the amounts that will be recoverable from reinsurers.

The following assumptions were made in determining the outstanding claims liabilities:

	2009	2008
Discounted average weighted term to settlement from reporting date	1.63	1.77
Ultimate claim numbers - current accident year	5,010	5,588
Average claims size – current accident year	7,385	6,792
Indirect claims handling expense rate	5.5%	5.0%
Discount rate	4.0%	4.4%

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(i) The ultimate liability arising from claims made under insurance contracts (continued)

The processes used to determine these assumptions are as follows:

Discounted average weighted term to settlement from reporting date
The discounted average weighted term to settlement is calculated separately by class of business based on historical payment patterns.

Ultimate claim number current year
The ultimate claim number for the current accident year is estimated separately by class of business by projecting the number of claims reported to date based on historical reporting patterns.

Average claims size - current year
The average claim size for the current accident year is estimated separately by class of business by projecting the ultimate claims costs based on historical claim development patterns and dividing by the estimated ultimate claim number.

Indirect claims handling expense rate
The indirect claims handling expense rate is calculated separately by class of business based on historical indirect claims handling expenses as a percentage of historical payments.

Inflation rate
The inflation rate is implicit in the valuation models used so no explicit inflation rate is used in the valuation. Movement in average claim size provides a de facto estimate of the inflation rate implied in the valuation.

Discount rate
The discount rate is derived from market yields of Commonwealth Government securities at the balance date.

Risk margin
The overall risk margin is determined allowing for uncertainty of the outstanding claim estimates. Uncertainty is analysed at a total portfolio level which includes an implicit assumption for diversification between individual classes of business.

The assumptions regarding uncertainty are applied to the gross and net central estimates to arrive at an overall provision which is intended to have an 80% probability of sufficiency.

The Company conducts sensitivity analysis to quantify the exposure to changes in the key underlying variables. The valuations included in the reported results are calculated using certain assumptions about these variables as disclosed above. The movement in any key variables will impact the performance and equity of the Company. The below table shows how a change in each assumption will affect the outstanding claims liabilities both gross and net of reinsurance and shows an analysis of the sensitivity of the profit/(loss) and equity to changes in these assumptions. As no explicit inflation rate is used in the valuation no sensitivity analysis is able to be carried out for a change in the inflation rate.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Risk margin (continued)

Impact of changes in key variables

		Impact on profit before tax		
		Gross of Reinsurance $'000	**Net of Reinsurance $'000**	**Impact on Equity $'000**
Claims incurred per the income statement		26,591	12,401	
Total equity per balance sheet				22,388
Variables:				
Discounted average weighted term to settlement	+0.5 years	25,513	11,894	22,743
	-0.5years	27,691	12,919	22,025
Ultimate claim number	+10%	31,118	14,165	21,153
	-10%	22,064	10,638	23,622
Average claims size	+10%	31,118	14,165	21,153
	-10%	22,064	10,638	23,622
Indirect claims handling expense rate	+1%	27,115	12,925	22,021
	-1%	26,068	11,878	22,754
Discount rate	+1%	25,736	11,999	22,670
	-1%	27,469	13,008	21,963

(ii) Assets arising from reinsurance contracts

Reinsurance recoverable includes the balances due to the Company from reinsurance companies for paid and unpaid losses and loss expenses based on contracts in force, net of uncollectible reinsurance - determined based upon a review of the financial condition of the reinsurers and other factors.

The recognition of reinsurance recoverable requires two key judgements. The first involves the estimation of the gross IBNR to be ceded to reinsurers. Ceded IBNR is developed as part of the loss reserving process and consequently, its estimation is subject to similar risks and uncertainties as the estimation for gross IBNR. The second judgement involves the estimation of the amount of the reinsurance balance that ultimately will not be recovered from reinsurers due to insolvency, contractual dispute, or for other reasons. Amounts estimated to be uncollectible on unpaid losses are reflected in the reinsurance IBNR.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(iii) Unclosed business

Due to insufficient information available at the end of a reporting period to accurately identify the business written with date of attachment of risk prior to the reporting date, provision is made at the end of the financial year to estimate the Company's unclosed business. Unclosed business is estimated using historical data which measures effective date of the transaction against processing date. From this data patterns are modeled and ultimate written premium projected for months where the full amount of the effective premium is yet to be processed. Estimation is adjusted for the impact of recent trends and events and consistency checks are made against historical written premium.

5. NET PREMIUM REVENUE

	2009 $000	2008 $000
Gross written premium	64,334	64,571
Inward reinsurance premium	(15)	162
Movement in unearned premium	1,590	(168)
Movement in unexpired risk liability	(1,004)	(654)
Gross earned premium revenue	**64,905**	**63,911**
Outward reinsurance premium expense	(44,991)	(44,433)
Total	**19,914**	**19,478**

6. OTHER INCOME

Interest income	3,324	5,082
Fair value (losses)/gains on investments at fair value through profit or loss	(556)	3,694
Gain on sale of property, plant and equipment	29	2
Total	**2,797**	**8,778**

7. NET PROFIT BEFORE TAXATION

	2009 $000	2008 $000
Profit for the year is after charging/(crediting):		
Gain on foreign exchange translation	(20)	(164)
Interest expense	126	189
Depreciation and amortisation		
- Furniture and equipment	182	206
- Motor vehicles	12	25
- Software	35	35
Audit fees	130	110
Other fees paid to auditors for tax services	35	62
Rent and lease expenses	421	404
Employee benefit expense (see note 8)	3,431	3,767

8. EMPLOYEE BENEFIT EXPENSE

Wages and salaries, including restructuring costs and termination benefits	3,113	3,319
Share options granted to directors and employees	31	82
Pension costs (defined contribution scheme)	287	366
Total	**3,431**	**3,767**

9. TAXATION

	2009 $000	2008 $000
Net profit before income tax	906	2,952
Permanent differences:		
Prior year adjustment	-	67
Expenditure not deductible for tax	49	83
Profit subject to tax	955	3,102
Prima facie tax payable at 30%	286	931
Income tax recognized in Statement of Comprehensive Income	**286**	**931**
Comprising:		
Estimated current year tax assessment	148	2,052
Prior year adjustment	-	20
Deferred tax asset/(liability)	138	(1,141)
	286	**931**

IMPUTATION BALANCES		
Balance at the beginning of the year	(554)	835
Tax refund	(76)	-
Tax payment	895	250
Imputation credits attached to dividends paid	(1,261)	(1,639)
Balance at the end of the year	**(996)**	**(554)**

10. NET CLAIMS INCURRED

	2009 Current $000	2009 Previous years $000	2009 Total $000	2008 Current $000	2008 Previous years $000	2008 Total $000
Gross outstanding claims reserve						
Gross outstanding claims reserve – undiscounted	26,959	32,424	59,382	30,832	30,888	61,720
Discount to present value	1,438	2,701	4,139	1,604	2,327	3,931
	25,521	29,723	55,243	29,228	28,561	57,789
Reinsurance and other recoveries revenue - undiscounted	17,625	13,594	31,219	19,327	11,248	30,575
Discount to present value	813	1,173	1,986	790	815	1,605
	16,812	12,421	29,233	18,537	10,433	28,970
Net discounted outstanding claims	**8,709**	**17,302**	**26,010**	**10,691**	**18,128**	**28,819**
Gross claims paid						
Gross paid claims – undiscounted	17,064	12,073	29,137	15,116	14,483	29,600
	17,064	12,073	29,137	15,116	14,483	29,600
Reinsurance and other recoveries received						
Reinsurance and other recoveries received	8,856	5,071	13,927	8,860	7,684	16,544
	8,856	5,071	13,927	8,860	7,684	16,544
Net discounted claims paid	8,208	7,002	15,210	6,256	6,799	13,056
Gross claims expense						
Gross claims incurred – undiscounted	44,022	(17,223)	26,799	45,948	(14,392)	31,556
Discount movement	1,438	(1,230)	208	1,604	(4,149)	(2,545)
	42,584	(15,993)	26,591	44,344	(10,243)	34,101
Reinsurance and other recoveries received						
Reinsurance and other recoveries revenue - undiscounted	26,481	(11,911)	14,570	28,187	(8,648)	19,539
Discount movement	813	(433)	380	790	(1,919)	(1,129)
	25,668	(11,478)	14,190	27,397	(6,729)	20,668
Net claims incurred	**16,916**	**(4,515)**	**12,401**	**16,947**	**(3,514)**	**13,433**

11. CASH AND CASH EQUIVALENTS

	2009 $000	2008 $000
Cash on hand and at bank	3,075	5,259
Deposits at call	423	1,134
Total	**3,498**	**6,393**

12. PREMIUMS RECEIVABLE

	2009 $000	2008 $000
Premium due from policyholders and intermediaries	17,077	18,368
Provision for impairment	(250)	(250)
Total	**16,827**	**18,118**
Current	17,069	18,347
Non current	8	21
Provision for impairment on current receivables	(250)	(250)
Total	**16,827**	**18,118**

13. TRADE AND OTHER RECEIVABLES

	2009 $000	2008 $000
Accrued income	614	848
Other receivables	771	19
Total	**1,385**	**867**
Current	1,385	867
Non current	-	-
Total	**1,385**	**867**

14. REINSURANCE AND OTHER RECOVERIES

	2009 $000	2008 $000
Expected future reinsurance recoveries on outstanding claims	31,219	30,575
Discounted to present value	(1,986)	(1,605)
Total	**29,233**	**28,970**
Current	19,546	19,223
Non current	9,687	9,747
Total	**29,233**	**28,970**

15. DEFERRED ACQUSITION COSTS

	2009 $000	2008 $000
Deferred acquisition cost at 1 January	20	1,924
Acquisition costs deferred	1,931	1,812
Write down for premium deficiency	(485)	(1,904)
Amortisation charged to income	(20)	(1,812)
Total	**1,446**	**20**

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Government securities	35,863	44,089
Other fixed interest securities	14,124	17,732
Total	**49,987**	**61,821**

Current	2,518	11,570
Non current	47,469	50,251
Total	**49,987**	**61,821**

17. FINANCIAL INSTRUMENTS

The Company has financial instruments comprising cash and cash equivalents, premiums receivable, reinsurance and other recoveries, trade and other receivables, financial assets at fair value, trade and other creditors and payables.

a) Interest Rate Risk

The following table identifies the years in which interest rates are subject to review on interest bearing assets and provides the current weighted average interest rate of each item.

2009	Weighted Average Interest Rate	< 1 year $000	1 to 2 years $000	2 to 3 years $000	3 to 4 years $000	4 to 5 years $000	> 5 Years $000	Total $000
Cash & cash equivalents	2.62%	3,498	-	-	-	-	-	3,498
Fixed Interest Securities	6.43%	2,518	18,274	2,545	22,139	3,982	529	49,987
Total		**6,016**	**18,274**	**2,545**	**22,139**	**3,982**	**529**	**53,485**

2008	Weighted Average Interest Rate	< 1 year $000	1 to 2 years $000	2 to 3 years $000	3 to 4 years $000	4 to 5 years $000	> 5 Years $000	Total $000
Cash & cash equivalents	4.80%	6,393	-	-	-	-	-	6,393
Fixed Interest Securities	6.41%	11,570	2,945	32,348	1,535	7,332	6,091	61,821
Total		**17,963**	**2,945**	**32,348**	**1,535**	**7,332**	**6,091**	**68,214**

b) Credit risk

The Company incurs credit risk from transactions with reinsurers, trade receivables and financial institutions in the normal course of its business. The Company has a credit policy, which restricts the exposure to individual trade receivables, which are reviewed on a regular basis. The Company places a majority of its reinsurance placements with ACE group entities. The credit exposure on financial assets, which have been recognized in the financial statements, is generally the carrying amount of the assets net of any provision for doubtful debts. The Company is also exposed to credit risk in respect of its investments held in debt securities for which the maximum exposure is the fair value of these financial assets recorded in the financial statements. The Company's debt securities are all held with the New Zealand Government and have a Standard and Poor's Credit rating of AAA. The Company does not have any other significant concentrations of credit risk, except for reinsurance placements with ACE group entities (refer to note 30).

c) Fair values

The carrying value of financial assets and liabilities of the Company are representative of their fair values as at balance date. The carrying amounts of all financial assets and liabilities are reviewed to ensure they equal or approximate their fair market values.

At 31 December 2009, the Company had no investments classified as Level 1 (2008: nil). Fair value measurements classified as Level 1 include exchange-traded prices of fixed maturities, equity securities and derivative contracts.

17. FINANCIAL INSTRUMENTS (continued)

As 31 December 2009, investments classified as Level 2 comprises approximately 100% (2008: 100%) of financial assets measured at the fair value on a recurring basis. They primarily include government and agency securities and certain corporate debt securities, such as private fixed maturities. As market quotes generally are not readily available or accessible for these securities, their fair value measures are determined utilising relevant information generated by market transactions involving comparable securities. They are often based on model pricing techniques that effectively discount prospective cash flows to present value using appropriate sector-adjusted credit spreads commensurate with the security's duration, also taking into consideration issuer-specific credit quality and liquidity. These valuation methodologies have been studied and evaluated by the Company and the resulting prices determined to be representative of exit values.

Observable inputs generally used to measure the fair value of securities classified as Level 2 include benchmark yields, broker - dealer quotes, issuer spreads, benchmark securities, bids, offers and reference data. Additional observable inputs are used when available, and as may be appropriate, for certain security types.

For the accounting policies regarding the determination of the fair values of financial assets and financial liabilities, see Note 2.13.

The following table presents the Group's assets and liabilities measured at the fair value at 31 December 2009

2009	**Level 2**	**Total**
Financial assets at fair value through profit and loss		
- Debt securities	49,987	49,987
Total assets	**49,987**	**49,987**

2008	**Level 2**	**Total**
Financial assets at fair value through profit and loss		
- Debt securities	61,821	61,821
Total assets	**61,821**	**61,821**

d) Currency risk

During the normal course of business the Company transacts insurance and other business with amounts denominated in foreign currencies, primarily certain reinsurance transactions are arranged in United States Dollars. As a result of these transactions, exposures to fluctuations in foreign currency exchange rates arise. These foreign exchange transactions are settled on a quarterly basis to minimise foreign exchange risk exposure.

17. FINANCIAL INSTRUMENTS *(continued)*

e) Liquidity Risk

The following table analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period as at the 31 December 2009 to the contractual and or expected maturity date. The amounts in the table are the contractual undiscounted cash flows.

2009	< 1 year $000	1 to 2 years $000	2 to 3 years $000	Total $000
Trade and other creditors	9,602	1,248	-	10,850
Total Financial Liabilities	**9,602**	**1,248**	**-**	**10,850**
2008	**< 1 year $000**	**1 to 2 years $000**	**2 to 3 years $000**	**Total $000**
Trade and other creditors	14,413	1,581	-	15,994
Total Financial Liabilities	**14,413**	**1,581**	**-**	**15,994**

f) Financial instruments by category

31 December 2009 Financial Assets as per balance sheet	Loans & receivables $000	Assets at fair value through the profit and loss $000	Total $000
Premium receivables	16,827	-	16,827
Trade and other receivables	1,385	-	1,385
Financial assets at fair value through profit or loss	-	49,987	49,987
Total	**18,212**	**49,987**	**68,199**
31 December 2008 Financial Assets as per balance sheet	**Loans & receivables $000**	**Assets at fair value through the profit and loss $000**	**Total $000**
Premium receivables	18,118	-	18,118
Trade and other receivables	867	-	867
Financial assets at fair value through profit or loss	-	61,821	61,821
Total	**18,985**	**61,821**	**80,806**

31 December 2009 Financial Liabilities as per balance sheet	Other financial liabilities at amortised cost $000	Total $000
Trade creditors and other payables	10,850	10,850
Total	**10,850**	**10,850**
31 December 2008 Financial Liabilities as per balance sheet	**Other financial liabilities at amortised cost $000**	**Total $000**
Trade creditors and other payables	15,994	15,994
Total	**15,994**	**15,994**

18. PROPERTY, PLANT AND EQUIPMENT

2009	Office Equipment & Fittings	Motor Vehicles	Total
Opening net book value	**636**	**14**	**650**
Movement during year:			
Additions	-	-	-
Disposals	-	(2)	(2)
Depreciation expense	(182)	(12)	(194)
Closing net book value	**454**	**-**	**454**
At 31 December			
Cost	1,311	-	1,311
Accumulated depreciation	(857)	-	(857)
Net book value	**454**	**-**	**454**

2008	Office Equipment & Fittings	Motor Vehicles	Total
Opening net book value	**816**	**49**	**865**
Movement during year:			
Additions	27	-	27
Disposals	(3)	(11)	(14)
Depreciation expense	(204)	(24)	(228)
Closing net book value	**636**	**14**	**650**
At 31 December			
Cost	1,311	100	1,411
Accumulated depreciation	(675)	(86)	(761)
Net book value	**636**	**14**	**650**

19. INTANGIBLE ASSETS

2009	Software
Opening net book value	79
Movement during year:	
Additions	-
Disposals	-
Depreciation expense	(35)
Closing net book value	44
At 31 December	
Cost	145
Accumulated depreciation	(101)
Net book value	44

2008	Software
Opening net book value	104
Movement during year:	
Additions	10
Disposals	-
Depreciation expense	(35)
Closing net book value	79
At 31 December	
Cost	145
Accumulated depreciation	(66)
Net book value	79

ACE INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

20. DEFERRED TAX

	2009 $000	2008 $000
Total deferred tax assets	735	1,355
Total deferred tax liabilities	(434)	(6)
Net deferred tax asset	**301**	**1,349**
Movements:		
Opening balance 1 January	1,349	228
Prior period adjustment	(910)	(20)
Credited/(charged) to income statement	(138)	1,141
Total	**301**	**1,349**
Deferred tax assets		
At 1 January	1,355	863
Prior period adjustment	(910)	-
Credit to income statement:	(25)	-
Change in tax rate	-	(78)
Outstanding claims reserves	-	364
Unexpired risk liability	301	196
Accrued expenses	2	12
Employee benefits	12	(2)
Total	**735**	**1,355**
Current	2	12
Non-current	733	1,343
Total	**735**	**1,355**
Deferred tax liabilities		
At 1 January	6	635
Charge/(credit) to income statement:		
Change in tax rate	-	(58)
Deferred acquisition costs	428	(571)
Total	**434**	**6**
Current	-	-
Non-current	434	6
Total	**434**	**6**

The prior year adjustment reducing the deferred tax asset arises from legislative change codifying the tax deductibility of accounting reserves that took effect after completion of the December 2008 accounts.

21. TRADE CREDITORS AND OTHER PAYABLES

	2009 $000	2008 $000
Trade creditors	3,555	4,447
Accruals	763	924
Amounts due to reinsurers	2,873	3,538
Amounts due to related parties	3,234	6,538
Employee entitlements	425	547
Total	**10,850**	**15,994**
Current	9,602	14,413
Non-current	1,248	1,581
Total	**10,850**	**15,994**

22. UNEARNED PREMIUMS

	2009 $000	2008 $000
Unearned premium liability as at 1 January	16,268	16,933
Movement in unearned premium		
Deferral of premiums on contracts written at year end	23,197	22,532
Earning of premiums deferred in prior years	(24,693)	(23,197)
Total	**14,772**	**16,268**

23. UNEXPIRED RISK LIABILITY

The liability adequacy test detected a deficiency in the unearned premium liability in respect of the Property and Casualty, Accident and Health and Commercial Lines of business as at 31 December 2009. As noted in accounting policy Note 2.8 the deficiency was recognised in the Statement of Comprehensive Income.

	2009 $000	2008 $000
(a) Unexpired Risk Liability		
Unexpired risk liability as at 1 January	654	-
Recognition of unexpired risk liability in the period	1,004	654
Release of unexpired risk liability recorded in the previous year	-	-
Unexpired risk liability as at 31 December	**1,658**	**654**
(b) Deficiency recognized in the statement of comprehensive income		
Net movement in unexpired risk liability	1,004	654
Write down of deferred acquisition costs	485	1,904
Total deficiency recognised in the Statement of Comprehensive Income	**1,489**	**2,558**

24. OUTSTANDING CLAIMS

	2009 $000	2008 $000
Central estimate of outstanding claims liabilities	45,949	47,985
Risk margin	10,907	11,336
Claim handling expenses	2,527	2,400
Total undiscounted claims	59,383	61,721
Discount to present value	(4,139)	(3,932)
Total	**55,243**	**57,789**
Current	31,041	32,447
Non-current	24,203	25,342
Total	**55,243**	**57,789**

(a) Risk Margin

The overall risk margin was determined allowing for uncertainty of the outstanding claims estimate. Uncertainty was analysed for all classes of business combined taking into account potential uncertainties relating to the actuarial models and assumptions, the quality of the underlying data used in the models and the general insurance environment.

The assumptions regarding uncertainty were applied to the gross and net central estimates to arrive at an overall provision which is intended to have an 80% probability of sufficiency.

	2009	2008
Risk margin applied	22.5%	22.5%

(b) *Reconciliation of movement in discounted outstanding claims liability*

2009	Gross $000	Reinsurance and other recoveries $000	Net $000
Brought forward	57,789	28,970	28,819
Effect of changes in assumptions for prior accident years	861	1,240	(379)
Increase in claims incurred/recoveries anticipated over the year	25,730	12,950	12,780
Claims payments/recoveries during the year	(29,137)	(13,927)	(15,210)
Carried forward	**55,243**	**29,233**	**26,010**

24. OUTSTANDING CLAIMS (continued)

2008	Gross	Reinsurance and other recoveries	Net
	$000	$000	$000
Brought forward	53,288	24,846	28,442
Effect of changes in assumptions for prior accident years	1,344	243	1,101
Increase in claims incurred/recoveries anticipated over the year	32,757	20,425	12,332
Claims payments/recoveries during the year	(29,600)	(16,544)	(13,056)
Carried forward	**57,789**	**28,970**	**28,819**

(c) Claims development tables:

The following table shows the development of gross and net undiscounted outstanding claims relative to the ultimate expected claims for the five most recent accident years.

Gross

Accident year	2003 & Prior $000	2004 $000	2005 $000	2006 $000	2007 $000	2008 $000	2009 $000	Total $000
Estimate of ultimate claims cost:								
At end of accident year		9,994	13,823	8,898	6,849	7,776	5,867	
One year later		6,753	12,184	9,847	5,919	9,382	-	
Two years later		5,306	11,395	8,661	6,727	-	-	
Three years later		3,527	9,885	6,877	-	-	-	
Four years later		2,971	7,967	-	-	-	-	
Current estimate of cumulative claims cost		2,793	7,967	6,877	6,727	9,382	5,867	
Cumulative payments		1,890	4,994	4,119	1,652	2,224	110	
Outstanding claims undiscounted	1,986	903	2,973	2,759	5,105	7,158	5,756	26,640
Discount	(68)	(74)	(278)	(274)	(541)	(748)	(734)	(2,717)
Outstanding claims	1,918	829	2,695	2,.485	4,564	6,410	5,022	23,923
Short tail outstanding claims								18,823
Gross outstanding claims excl claims handling expenses								42,746
Claims handling expenses								2,351
Total gross central estimate								45,097
Risk margin								10,147
Total gross outstanding claims per Balance Sheet								**55,243**

24. OUTSTANDING CLAIMS (continued)

Net

Accident year	2003 & Prior $000	2004 $000	2005 $000	2006 $000	2007 $000	2008 $000	2009 $000	Total $000
Estimate of ultimate claims cost:								
At end of accident year		6,683	9,867	6,469	3,748	5,157	2,992	
One year later		4,663	9,810	6,254	4,169	5,263	-	
Two years later		3,886	9,493	5,060	3,831	-	-	
Three years later		2,679	8,614	3,941	-	-	-	
Four years later		2,358	6,877	-	-	-	-	
Current estimate of cumulative claims cost		2,201	6,877	3,941	3,831	5,263	2,992	
Cumulative payments		1,766	4,580	2,477	1,442	963	99	
Outstanding claims undiscounted	1,194	435	2,297	1,464	2,389	4,300	2,893	14,972
Discount	(33)	(33)	(209)	(132)	(231)	(450)	(363)	(1,450)
Outstanding claims	1,161	402	2,088	1,332	2,158	3,850	2,530	13,522
Short tail outstanding claims								5,360
Gross outstanding claims excl claims handling expenses								18,882
Claims handling expenses								2,351
Total gross central estimate								21,233
Risk margin								4,777
Total net outstanding claims per Balance Sheet								**26,010**

25. SHARE CAPITAL

	2009 $000	2008 $000
1 January	16,900	16,900
Shares issued during the year	-	-
31 December	**16,900**	**16,900**

As at 31 December 2009, the Company had 16,899,558 ordinary shares that were issued for 100 cents per share. All issued shares are fully paid.

26. DIVIDENDS PER SHARE

The dividends paid in 2009 and 2008 were $5,000,000 (29 cents per share) and $6,500,000 (38 cents per share) respectively.

27. RETAINED EARNINGS

	2009 $000	2008 $000
Balance at beginning of year	9,868	14,347
Net profit for the year	620	2,021
Ordinary dividends	(5,000)	(6,500)
Supplementary dividends	(882)	(1,147)
Foreign investor tax credit	882	1,147
Balance at end of year	**5,488**	**9,868**

28. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital expenditure commitments

At year end there is no estimated capital expenditure under contract but not recognised as liabilities in the financial report of the Company.

(b) Operating lease commitments

	2009 $000	2008 $000
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:		
Not later than one year	330	357
Later than one year but not later than five years	715	1,506
Later than five years	-	-
Non cancellable operating leases	1,045	1,863

The Company leases office premises in Wellington and Auckland with the leases expiring within 5 years. The leases are both subject to renewal rights and have varying terms. On renewal, the terms of the leases are renegotiated.

(c) Contingent liabilities

As at 31 December 2009 there were no contingent liabilities outstanding (2008: Nil).

29. REMUNERATION OF AUDITORS

During the year the auditors of the company, PricewaterhouseCoopers New Zealand, were paid for the following services:

	2009 $000	2008 $000
Audit fees	130	110
Other assurance related services	-	8
Taxation services	35	54
Total	**165**	**172**

30. RELATED PARTIES

(a) Controlling Entities

ACE Insurance Limited is a wholly owned subsidiary of ACE INA International Holdings, Ltd, registered in Delaware, United States of America. The ultimate holding company is ACE Limited, whose principal office is located in Hamilton, Bermuda.

(b) Transactions and Balances

The Company has transactions in the normal course of business with fellow subsidiaries. These comprise of insurance and reinsurance transactions, and management and support services. The significant transactions are as follows:

Related party	Relationship	Type of transaction	2009 Transactions $000	2009 Balances $000	2008 Transactions $000	2008 Balances $000
Tempest Reinsurance Company Limited, Bermuda	Fellow Subsidiary	Reinsurance placements/claims	31,703	(2,003)	32,684	(6,213)
Other ACE entities	Fellow Subsidiary	Reinsurance placements/claims	6,808	(399)	4,972	(214)
ACE Asia Pacific Pte Ltd, Singapore	Fellow Subsidiary	Management charges and IT System implementation costs	2,024	(410)	1,440	-
Cover Direct Ltd, USA	Fellow Subsidiary	Management charges	205	-	209	-
ACE INA Services UK Ltd.	Fellow Subsidiary	EDP support service charges	664	(169)	483	-
ACE Insurance Limited, Australia	Fellow Subsidiary	Management/IT service charges	812	(253)	927	(111)
			42,216	(3,234)	40,715	(6,538)

Other ACE entities comprise transactions with fellow subsidiary entities which are not individually material to disclose separately.

No related party balances have been written off or forgiven during the year (2008: Nil).

(c) Key management compensation

	2009 $000	2008 $000
Short term employee benefits	414	290
Share based payments	2	30
Total	**416**	**320**

ACE INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

31. RECONCILIATION OF NET OPERATING CASH FLOWS

	2009 $000	2008 $000
Operating profit after income tax	620	2,021
Items not involving cash flows		
Decrease in unearned premium reserve	(1,496)	(665)
(Decrease)/Increase in net outstanding claims	(2,809)	377
(Increase)/decrease in deferred acquisition costs	(1,426)	1,904
Increase in unexpired risk liability	1,004	654
Changes in net market value of investments	3,008	(3,767)
Depreciation and amortisation expense	229	266
	(1,490)	(1,231)
Impact of changes in working capital items		
(Increase)/decrease in other receivables	(518)	282
Decrease/(increase) in policyholder debtors	1,291	(858)
(Decrease)/increase in other payables	(1,840)	3,129
(Decrease)/increase in intercompany payables	(3,304)	1,503
Decrease in tax payable	(1,483)	(693)
	(5,854)	3,363
Items classified as investing activities		
(Loss)/gain on disposal of investments	(2,451)	74
(Gain) on disposal of assets	(29)	(2)
	(2,480)	72
Net cash (outflow)/inflow from operating activities	**(9,204)**	**4,225**

32. EVENTS OCCURRING AFTER BALANCE DATE

There has been no matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may significantly affect the Company's operations, or state of affairs in future financial years.

33. CREDIT RATING

On 26 May 2009, the Company's financial strength rating of 'A stable' was reaffirmed by rating agency Standard and Poor's in accordance with the Insurance Companies Rating and Inspections Act 1994.

34. CHARGE

Under the Trust Deed, which governs the operation and management of the accident insurance business, the Public Trustee maintains a floating first charge over the assets of the Company.

35. SHARE BASED PAYMENT TRANSACTIONS

ACE Limited has a restricted share grant plan, a restricted share option plan and an employee share purchase plan.

Restricted Share Grant Plan

Under ACE Limited's long term incentive plan, 557 restricted ordinary shares were awarded during the year ended 31 December 2009 and 391 restricted ordinary shares during the year ended 31 December 2008 eligible employees of the Company. These shares vest at various dates over a 4 year period from the grant dates and any unvested shares are cancelled on termination of the employment of the eligible employees. This plan is a group scheme with expenses incurred under the scheme charged out by ACE Limited to the Company on an annual basis. The annual expense is based on an amortised calculation that is reflective of the current year's expense portion of all restricted share grants issued in the current and prior years, and is consistent with the treatment required by NZ IFRS. There is no liability to the Company for the unamortised portion of the restrictive stock grants issued. The amortised calculation incorporates the fair market value of ACE Limited's common stock in determining the expense amount. Expected future dividend payments in relation to the restrictive stock grants issued are made directly by ACE Limited to the eligible employees. The total expense for the year was NZD $30,000 (2008: NZD $65,000).

Restricted Share Option Plan

Under ACE Limited's long term incentive plan, restrictive share options were granted to eligible employees of the Company. The exercisable price of these options is the fair market value at issue date. These options vest at various dates over a 3 year period from the grant date and any unvested options are cancelled on termination of employment. This plan is a group scheme with expenses incurred under the scheme charged out by ACE Limited to the Company on an annual basis. Any option not exercised or cancelled pursuant to the terms of plan will be forfeited by the tenth anniversary from the date of grant. The total value of the options granted during the year was NZD $1,000 (2008: NZD $17,000).

35. SHARE BASED PAYMENT TRANSACTIONS (continued)

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2009		2008	
	Average exercise price in NZD per share	Options	Average exercise price in NZD per share	Options
At 1 January		4,272		3,527
Granted	53.16	1,960	112.73	1,225
Forfeited	68.83	(2,152)	107.83	(455)
Exercised		-	104.99	(180)
Lapsed		-		-
At 31 December		4,080		4,117

Out of the 4,080 outstanding options (2008: 4,117 options), 2,436 options (2007: 2,474) were exercisable. Options exercised in 2009 resulted in nil shares (2008: nil) being issued.

Share options outstanding at the end of the year have the following expiry date and exercise prices:

Expiry Year	Exercise price NZD per share	Share options 2009	Share options 2008
2010	-		-
2011	50.10	200	200
2012	60.59	450	450
2013	38.05	700	700
2014	60.13	510	510
2015	61.40	180	300
2016	77.49	290	127
2017	83.20	620	760
2018	53.16	1,130	1,070
		4,080	4,117

The weighted average fair value of options granted during the period determined using the Black-Scholes valuation model was 17.38 NZD per option (2008: 30.68 NZD). The significant inputs into the model were share price of 53.16 NZD (2008: 112.73 NZD), at the grant date, the exercise price shown above, volatility of 45% (2008: 32%), dividend yield of 2.8% (2008: 1.79%), and an expected option life of 5 years and on annual risk-free interest rate of 2.8% (2008: 2.98%). The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the last three years.

Employee Share Purchase Plan

The Company collects monies from local eligible employees and acquires ordinary shares in ACE Limited on behalf of the employees on a bi-annual basis. The price paid by the eligible employees is set at a discount of 15% to the fair value of the ordinary shares at the date of acquisition; this discount is incurred at the group level by ACE Limited and not charged to the Company. The total amount of discount applied to the employee share plan purchases in the current year was NZD $0 (2008: NZD $4,000).