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ACE INSURANCE LIMITED

FINANCIAL REPORT

31 DECEMBER 2010

ACE INSURANCE LIMITED

FINANCIAL REPORT 2010

CONTENTS

ACE INSURANCE LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2010

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 2010.

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

26TH DAY of MAY 2011

For and on behalf of the Board of Directors

Director

Director

Date 26 May 2011

Date 26 MAY 2011

Independent Auditors' Report

to the shareholders of Ace Insurance Limited

Report on the Financial Statements

We have audited the financial statements of Ace Insurance Limited on pages 4 to 45, which comprise the balance sheet as at 31 December 2010, statement of comprehensive income and statement of changes in equity and cash flow statement for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

We have no relationship with, or interests in Ace Insurance Limited other than in our capacities as auditors and tax advisers. These services have not impaired our independence as auditors of the Company.

pwc

Independent Auditors' Report

Ace Insurance Limited

Opinion

In our opinion, 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 2010, and its financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 31 December 2010:

(i) we have obtained all the information and explanations that we have required; and

(ii) in our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records.

Restriction on Distribution or Use

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 work has been undertaken so that we might state to the Company's shareholders those matters which 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 opinions we have formed.

PricewaterhouseCoopers

Chartered Accountants

8 June 2011

Auckland

ACE INSURANCE LIMITED

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010 $000	2009 $000
Premium revenue		71,001	64,905
Outwards reinsurance expense		40,274	44,991
Net premium revenue	5	30,727	19,914
Net claims incurred	10	12,427	12,401
Net acquisition expenses		1,848	1,124
Finance costs		-	126
Other expenses		9,864	8,154
Total expenses		11,712	9,404
Underwriting profit/(loss)		**6,588**	**(1,891)**
Other income	6	3,692	2,797
Net profit before tax	7	**10,280**	**906**
Income tax expense	9	3,011	286
Net profit attributable to members of the company		7,269	620
Other Comprehensive Income			
Gain on revaluation of land and buildings	28 (a)	1,002	-
Other comprehensive income for the year, net of tax		1,002	-
Total comprehensive income for the year attributed to members of the company		**8,271**	**620**

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 2010

	CONTRIBUTED EQUITY	RESERVES	RETAINED EARNINGS	TOTAL
	$000	$000	$000	$000
Year ended 31 December 2010				
At beginning of year	16,900	-	5,488	22,388
Profit for the year	-	-	7,269	7,269
Revaluation gain on land and buildings	-	1,002	-	1,002
Total comprehensive income for the year	-	1,002	7,269	8,271
Transaction with owners:				
Ordinary dividends	-	-	-	-
Supplementary dividends	-	-	-	-
Foreign investor tax credit	-	-	-	-
Total transactions with owners	-	-	-	-
At end of year	16,900	1,002	12,757	30,659
Year ended 31 December 2009				
At beginning of year	16,900	-	9,868	26,768
Profit for the year	-	-	620	620
Revaluation gain/(loss) on land and buildings	-	-	-	-
Total comprehensive income for the year	-	-	620	620
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

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

ACE INSURANCE LIMITED

BALANCE SHEET

AS AT 31 DECEMBER 2010

	Note	2010 $000	2009 $000
ASSETS			
Cash and cash equivalents	11	5,358	3,498
Premiums receivable	12	21,658	16,827
Reinsurance and other recoveries	14	48,794	29,233
Reinsurance and other recoveries – Life insurance business	16	30	-
Reinsurance and other recoveries – Life assurance fund	16	579	-
Trade and other receivables	13	2,245	1,385
Deferred acquisition costs	15	2,168	1,446
Financial assets at fair value through profit or loss	17	63,276	49,987
Property, plant and equipment	19	3,597	454
Intangible assets	20	17	44
Tax refund receivable		301	1,736
Deferred income tax asset	21	698	735
TOTAL ASSETS		**148,721**	**105,345**
LIABILITIES			
Trade and other creditors and payables	22	11,794	10,850
Unearned premiums	23	26,132	14,772
Unexpired risk liability	24	547	1,658
Outstanding claims	25	77,459	55,243
Outstanding claims – Life insurance business	16	75	-
Outstanding claims – Life assurance fund	16	1,448	-
Deferred income tax liability	21	607	434
TOTAL LIABILITIES		**118,062**	**82,957**
NET ASSETS		**30,659**	**22,388**
EQUITY			
Share capital	26	16,900	16,900
Reserves	28(a)	1,002	-
Retained earnings	28(b)	12,757	5,488
TOTAL EQUITY		**30,659**	**22,388**

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

Director

Date 26 May 2011

Director

Date 26 MAY 2011

ACE INSURANCE LIMITED

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010 $000	2009 $000
OPERATING ACTIVITIES			
Receipts of premium revenue		72,389	66,192
Receipts from reinsurance recoveries		17,887	13,927
Interest received		2,674	3,315
Rental income received		77	-
Payment of claims and claims expenses		(32,671)	(29,137)
Payment of outward reinsurance		(41,043)	(46,145)
Insurance costs paid		(2,636)	(2,550)
Payments to suppliers and employees		(13,505)	(13,036)
Income tax paid		(1,100)	(1,770)
Net cash inflow/(outflow) from operating activities		**2,072**	**(9,204)**
INVESTING ACTIVITIES			
Proceeds from sale of investments		37,981	47,130
Proceeds from sale of property, plant and equipment and intangibles		-	34
Purchase of investments		(50,296)	(35,855)
Purchase of property, plant & equipment and intangibles		(452)	-
Net cash inflow/(outflow) from investing activities		**(12,767)**	**11,309**
FINANCING ACTIVITIES			
Dividends paid		-	(5,000)
Net cash outflows from financing activities		**-**	**(5,000)**
Cash received from Combined Insurance portfolio transfer		12,555	-
Net increase/(decrease) in cash held		1,860	(2,895)
Cash at beginning of year		3,498	6,393
Cash at end of year	11	**5,358**	**3,498**

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

ACE INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

Contents of the notes to the financial statements **Page**

ACE INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

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.

The principal activities of the Company during the year were the underwriting of general insurance and the investment of funds.

These financial statements have been authorised for issue by the Board of Directors on 26 May 2011.

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) 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 2011, 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.

(2.7) Acquisition costs

A portion of acquisition costs relating to unearned premium is deferred where it represents future benefits to the Company 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 recognise 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, other than loans and receivables, 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 recognised when the right to receive payment is established.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(2.10) Taxation

The tax expense recognised 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 recognised 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

The Company has taken the option to measure owner occupied freehold land and buildings at fair value at each balance date. Changes in the fair value of owner occupied freehold land and buildings are recognised directly to a revaluation reserve in the balance sheet. Changes in fair value are net of deferred tax.

Fair values for freehold land and buildings are at directors' valuation by reference to an independent valuation and are performed annually. Buildings are depreciated and any adjustments are carried out as part of the revaluation increment or decrement. Any remaining balance in the revaluation reserve is credited to retained earnings when the corresponding property is sold.

Plant 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:

Buildings	4.0%
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 capitalised 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 recognised 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 profit or loss 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.

(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 recognised 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 recognised 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 recognises 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 recognises 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 and expenses 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, where applicable.

(2.24) Life claims provision

The Life Claims provision comprises the estimated cost of reported Life claims at balance date.

(2.25) Life assurance fund

The liability is based on a valuation undertaken by Crosby Business Partners Limited (Actuaries) where they complete the 6th schedule and schedule II in terms of section 18 of the Life Assurance Act 1908.

The net liability is derived using values by the 1958 CSO table and the 1952 Disability study tables at 3%.

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 minimise 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 maximise 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 various market risks, including changes in interest rates and foreign currency exchange rates. The investment portfolio consists mainly of fixed income securities, which are sensitive to changes in interest rates.

(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 2010 is $10,717,800 (2009: $6,502,617) based on the Net Written Premiums requirement (2009: based on the Net Outstanding Claims requirement). The Company has met the Preferred Capital Requirements as at 31 December 2010 and 31 December 2009. The total amount of equity retained in the Company as at 31 December 2010 is $30,659,670 (2009: $22,388,468).

(ii) Insurance risk – non-Life insurance

(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 25(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 non-life 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:

	2010	2009
Discounted average weighted term to settlement from reporting date	1.48	1.63
Ultimate claim numbers - current accident year	4,864	5,010
Average claims size – current accident year	11,674	7,385
Indirect claims handling expense rate	4.4%	5.5%
Discount rate	3.8%	4.0%

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(i) The ultimate liability arising from claims made under non-life 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 New Zealand 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 a 75% (2009: 80%) probability of sufficiency. The change from 80% to 75% probability of sufficiency resulted in a $0.9m reduction in net claims incurred in the statement of comprehensive income for 2010.

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 Statement of Comprehensive Income		47,881	12,427	
Total equity per balance sheet				30,659
Variables:				
Discounted average weighted term to settlement	+0.5 years	46,464	11,902	31,026
	-0.5years	49,325	12,961	30,285
Ultimate claim number	+10%	54,623	14,836	28,972
	-10%	41,140	10,017	32,325
Average claims size	+10%	54,623	14,836	29,972
	-10%	41,140	10,017	32,345
Indirect claims handling expense rate	+1%	48,623	13,169	30,139
	-1%	47,139	11,685	31,178
Discount rate	+1%	46,791	12,023	30,941
	-1%	48,998	13,108	30,182

(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

	2010 $000	2009 $000
Gross written premium	74,279	64,334
Inward reinsurance premium	1,721	(15)
Movement in unearned premium	(6,110)	1,590
Movement in unexpired risk liability	1,111	(1,004)
Gross earned premium revenue	**71,001**	**64,905**
Outward reinsurance premium expense	(40,274)	(44,991)
Total	**30,727**	**19,914**

6. OTHER INCOME

Interest income	2,813	3,324
Fair value gains/(losses) on investments at fair value through profit or loss	802	(556)
Rental income	77	-
Gain on sale of property, plant and equipment	-	29
Total	**3,692**	**2,797**

7. NET PROFIT BEFORE TAXATION

	2010 $000	2009 $000
Profit for the year is after charging/(crediting):		
(Gain)/loss on foreign exchange translation	95	(20)
Interest expense	-	126
Depreciation and amortisation		
- Furniture and equipment	182	182
- Motor vehicles	-	12
- Software	27	35
Rent and lease expenses	518	421
Employee benefit expense (see note 8)	4,566	3,431

8. EMPLOYEE BENEFIT EXPENSE

Wages and salaries, including restructuring costs	4,067	3,113
Share options granted to directors and employees	126	31
Pension costs (defined contribution scheme)	373	287
Total	**4,566**	**3,431**

9. TAXATION

	2010 $000	2009 $000
Net profit before income tax	10,280	906
Permanent difference:		
Expenditure not deductible for tax	46	49
Profit subject to tax	10,326	955
Prima facie tax payable at 30%	3,097	286
Change in tax rate for deferred taxes	6	-
Prior year adjustments	(92)	-
Income tax recognised in Statement of Comprehensive Income	**3,011**	**286**
Comprising:		
Estimated current year tax assessment	2,536	148
Prior year adjustment	(92)	-
Deferred tax asset/(liability)	561	138
Change in tax rate for deferred tax expense (28%)	6	-
	3,011	**286**

In May 2010, legislation was passed to reduce the company tax rate from 30% to 28%. This is effective for the Company from 1 January 2011. The financial impact of the change in tax rate has been taken into account in these financial statements and on a net basis increases deferred tax liabilities and increases tax expense by $6,000.

IMPUTATION BALANCES		
Balance at the beginning of the year	(996)	(554)
Tax refund	-	(76)
Tax payment	1,100	895
Imputation credits attached to dividends paid	-	(1,261)
Balance at the end of the year	**104**	**(996)**

10. NET CLAIMS INCURRED

	2010 Current Year $000	2010 Prior Year $000	2010 Total $000	2009 Current Year $000	2009 Prior Year $000	2009 Total $000
Gross claims expense						
Gross claims incurred – undiscounted	72,276	(24,921)	47,355	44,022	(17,223)	26,799
Discount movement	1,924	(2,450)	(526)	1,438	(1,230)	208
	70,352	(22,471)	47,881	42,584	(15,993)	26,591
Reinsurance and other recoveries received						
Reinsurance and other recoveries revenue - undiscounted	51,513	(15,915)	35,598	26,481	(11,911)	14,570
Discount movement	1,290	(1,208)	82	813	(433)	380
	50,223	(14,707)	35,516	25,668	(11,478)	14,190
Life insurance net claims incurred	62	-	62	-	-	-
Net claims incurred	**20,191**	**(7,764)**	**12,427**	**16,916**	**(4,515)**	**12,401**

11. CASH AND CASH EQUIVALENTS

	2010 $000	2009 $000
Cash on hand and at bank	4,136	3,075
Deposits at call	1,222	423
Total	**5,358**	**3,498**

12. PREMIUMS RECEIVABLE

	2010	2009
Premium due from policyholders and intermediaries	21,908	17,077
Provision for impairment	(250)	(250)
Total	**21,658**	**16,827**
Current	21,908	17,069
Non current	-	8
Provision for impairment on current receivables	(250)	(250)
Total	**21,658**	**16,827**

13. TRADE AND OTHER RECEIVABLES

	2010 $000	2009 $000
Accrued income	753	614
Other receivables	1,492	771
Total	**2,245**	**1,385**
Current	2,245	1,385
Non current	-	-
Total	**2,245**	**1,385**

14. REINSURANCE AND OTHER RECOVERIES

Expected future reinsurance recoveries on outstanding claims	50,964	31,219
Discounted to present value	(2,170)	(1,986)
Total	**48,794**	**29,233**
Current	34,566	19,546
Non current	14,228	9,687
Total	**48,794**	**29,233**

15. DEFERRED ACQUISITION COSTS

Deferred acquisition cost at 1 January	1,446	20
Acquisition costs deferred	1,866	1,931
Write down for premium deficiency	(1,074)	(485)
Amortisation charged to income	(70)	(20)
Total	**2,168**	**1,446**

16. LIFE INSURANCE BUSINESS

	2010 $000	2009 $000
Net outstanding claims liability		
Outstanding claims	75	-
Reinsurance and other recoveries	(30)	-
	45	-
Life assurance fund		
Life assurance fund as at 1 January	-	-
Combined insurance portfolio transfer	899	-
Renewal premiums received	16	-
Due and deferred premium adjustment	(2)	-
Less:		
Claims paid/incurred	(17)	-
Surrender of policies	(19)	-
Reinsurance recoveries	7	-
	884	-
Outstanding claims – Life assurance fund	1,448	-
Reinsurance and other recoveries – Life assurance fund	(579)	-
Life assurance fund as at 31 December	869	-
Surplus from Life operations	15	-
Life investment income	75	-
Claims, underwriting and administration costs	(4)	-
Profit transferred to Statement of Comprehensive Income	86	-

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2010 $000	2009 $000
Government securities	48,497	35,863
Other fixed interest securities	14,611	14,124
Life insurance policy loans	168	-
Total	**63,276**	**49,987**
Current	20,951	2,518
Non current	42,325	47,469
Total	**63,276**	**49,987**

A sensitivity analysis has been carried out on the portfolio as at the end of the 2009 and 2010 reporting periods. General sector credit spreads (excluding government bonds) were upgraded/downgraded by a single credit rating grade and then applied to the yield or trading margin to recalculate the price for each security and then compared to the initial valuation. This has had the following increases/decreases on the portfolio:

	Upgraded Impact on Investments ($)	Downgraded Impact on Investments ($)	Upgraded Impact on Equity ($)	Downgraded Impact on Equity ($)
2009	26,207	(26,207)	18,345	(18,345)
2010	48,574	(78,393)	34,002	(54,875)

Using portfolio duration as a measure, an upward/downward parallel shift in the yield curve of 1% would result in the following decreases/increases to the portfolio:

	Upward Impact on Investments ($)	Downward Impact on Investments ($)	Upward Impact on Equity ($)	Downward Impact on Equity ($)
2009	(1,123,890)	1,123,890	(786,723)	786,723
2010	(1,408,196)	1,408,196	(985,737)	985,737

18. 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.

2010	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	2.80%	5,358	-	-	-	-	-	5,358
Fixed Interest Securities	5.97%	20,951	2,581	14,040	3,648	20,008	1,880	63,108
Life insurance policy loans		-	-	-	-	-	168	168
Total		**26,309**	**2,581**	**14.,040**	**3,648**	**20,008**	**2,048**	**68,634**

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
Life insurance policy loans		-	-	-	-	-	-	-
Total		**6,016**	**18,274**	**2,545**	**22,139**	**3,982**	**529**	**53,485**

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 recognised 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 predominantly 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 31).

18. FINANCIAL INSTRUMENTS (continued)

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 2010, the Company had no investments classified as Level 1 (2009: nil). Fair value measurements classified as Level 1 include exchange-traded prices of fixed maturities, equity securities and derivative contracts.

As 31 December 2010, investments classified as Level 2 comprises approximately 100% (2009: 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 2010

2010	**Level 2**	**Total**
Financial assets at fair value through profit and loss		
- Debt securities	63,108	63,108
- Life insurance policy loans	168	168
Total assets	**63,276**	**63,276**

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**

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.

18. 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 31 December to the contractual and or expected maturity date. The amounts in the table are the contractual undiscounted cash flows.

2010	< 1 year $000	1 to 2 years $000	2 to 3 years $000	Total $000
Trade and other creditors	11,776	18	-	11,794
Total Financial Liabilities	**11,776**	**18**	-	**11,794**
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**

f) Financial instruments by category

31 December 2010 Financial Assets as per balance sheet	Loans & receivables $000	Assets at fair value through the profit and loss $000	Total $000
Premium receivables	21,658	-	21,658
Trade and other receivables	2,245	-	2,245
Financial assets at fair value through profit or loss	-	63,108	63,108
Life insurance policy loans	-	168	168
Total	**23,903**	**63,276**	**87,179**
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
Life insurance policy loans	-	-	-
Total	**18,212**	**49,987**	**68,199**

31 December 2010 Financial Liabilities as per balance sheet	Other financial liabilities at amortised cost $000	Total $000
Trade creditors and other payables	11,794	11,794
Total	**11,794**	**11,794**
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**

19. PROPERTY, PLANT AND EQUIPMENT

Plant and Equipment	**2010 $000**			**2009 $000**		
	Office Equipment & Fittings	**Motor Vehicles**	**Total**	**Office Equipment & Fittings**	**Motor Vehicles**	**Total**
Opening net book value	**454**	**-**	**454**	**636**	**14**	**650**
Movement during year:						
Combined insurance portfolio transfer	214	-	214	-	-	-
Additions	461	-	461	-	-	-
Disposals	(102)	-	(102)	-	(2)	(2)
Accumulated depreciation on disposals	102	-	102	-	-	-
Depreciation expense	(182)	-	(182)	(182)	(12)	(194)
Closing net book value	**947**	**-**	**947**	**454**	**-**	**454**
At 31 December						
Cost	1,899	-	1,899	1,311	-	1,311
Accumulated depreciation	(952)	-	(952)	(857)	-	(857)
Net book value	**947**	**-**	**947**	**454**	**-**	**454**

	2010 $000	**2009 $000**
Land and Building		
Valuation at 1 January	-	-
Combined Insurance portfolio transfer	1,648	-
Revaluation recognised directly in equity	1,002	-
Valuation at 31 December	**2,650**	**-**
Total property, plant and equipment	**3,597**	**454**

The valuation basis of the land and building is fair value being the amounts for which the assets could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition. The 2010 valuation was based on independent assessments by qualified valuers, Telfer Young (Auckland) Limited, on 20 December 2010. The revaluation surplus was credited to the property revaluation reserve (Note 28).

The cost basis for the property is as follows:

Land	282	-
Building	1,366	-
Total	**1,648**	**-**

ACE INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

20. INTANGIBLE ASSETS

	2010 $000	2009 $000
Opening net book value	44	79
Movement during year:		-
Additions	-	-
Disposals	-	-
Amortisation expense	(27)	(35)
Closing net book value	17	44
At 31 December		
Cost	145	145
Accumulated amortisation	(128)	(101)
Net book value	17	44

21. DEFERRED TAX

	2010	2009
Total deferred tax assets	698	735
Total deferred tax liabilities	(607)	(434)
Net deferred tax asset	**91**	**301**
Movements:		
Opening balance 1 January	301	1,349
Combined insurance portfolio transfer	265	-
Prior period adjustment	92	(910)
Credited/(charged) to Statement of Comprehensive Income	(567)	(138)
Total	**91**	**301**

	2010	2009
Deferred tax assets		
At 1 January	735	1,355
Combined insurance portfolio transfer	265	-
Prior period adjustment	72	(910)
Credit to income statement:	-	(25)
Change in tax rate	(50)	-
Depreciation	3	-
Unexpired risk liability	(333)	301
Accrued expenses	(14)	2
Employee benefits	20	12
Total	***698***	***735***

	2010	2009
Deferred tax liabilities		
At 1 January	434	6
Prior period adjustment	(20)	-
Change in tax rate	(43)	-
Deferred acquisition costs	236	428
Total	**607**	**434**

22. TRADE CREDITORS AND OTHER PAYABLES

	2010 $000	2009 $000
Trade creditors	4,669	6,789
Accruals	1,592	763
Amounts due to reinsurers	4,598	2,873
Employee entitlements	935	425
Total	**11,794**	**10,850**
Current	11,776	9,602
Non-current	18	1,248
Total	**11,794**	**10,850**

23. UNEARNED PREMIUMS

Unearned premium liability as at 1 January	14,772	16,268
Movement in unearned premium		
Combined insurance portfolio	6,549	-
Deferral of premiums on contracts written at year end	18,919	23,197
Earning of premiums deferred in prior years	(14,108)	(24,693)
Total	**26,132**	**14,772**

24. 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 2010. As noted in accounting policy Note 2.8 the deficiency was recognised in the Statement of Comprehensive Income.

	2010 $000	2009 $000
(a) Unexpired Risk Liability		
Unexpired risk liability as at 1 January	1,658	654
Recognition of unexpired risk liability in the period	-	1,004
Release of unexpired risk liability recorded in the previous year	(1,111)	-
Unexpired risk liability as at 31 December	**547**	**1,658**
(b) (Release)/deficiency recognised in the Statement of Comprehensive Income		
Net movement in unexpired risk liability	(1,111)	1,004
Write down of deferred acquisition costs	1,074	485
Total (release)/deficiency recognised in the Statement of Comprehensive Income	**(37)**	**1,489**

25. OUTSTANDING CLAIMS

	2010 $000	2009 $000
Central estimate of outstanding claims liabilities	66,011	45,949
Risk margin	12,408	10,907
Claim handling expenses	2,924	2,527
Total undiscounted claims	81,343	59,383
Discount to present value	(3,884)	(4,140)
Total	**77,459**	**55,243**
Current	50,556	31,041
Non-current	26,903	24,202
Total	**77,459**	**55,243**

(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 a 75% probability of sufficiency.

	2010	2009
Risk margin applied	18.0%	22.5%

(b) Reconciliation of movement in discounted outstanding claims liability

2010	Gross $000	Reinsurance and other recoveries $000	Net $000
Brought forward	55,243	29,233	26,010
Combined insurance portfolio transfer	6,987	2,587	4,400
Effect of changes in assumptions for prior accident years	(1,274)	(558)	(716)
Increase in claims incurred/recoveries anticipated over the year	49,155	36,074	13,081
Claims payments/recoveries during the year	(32,652)	(18,542)	(14,110)
Carried forward	**77,459**	**48,794**	**28,665**

25. OUTSTANDING CLAIMS (continued)

2009	Gross	Reinsurance and other recoveries	Net
	$000	$000	$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**

(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	2004 & Prior $000	2005 $000	2006 $000	2007 $000	2008 $000	2009 $000	2010 $000	Total $000
Estimate of ultimate claims cost:								
At end of accident year		13,823	8,898	6,849	7,776	5,867	6,395	
One year later		12,184	9,847	5,919	9,382	5,612	-	
Two years later		11,395	8,661	6,727	8,530	-	-	
Three years later		9,885	6,877	5,109	-	-	-	
Four years later		7,967	5,405	-	-	-	-	
Five years later		7,017	-	-	-	-	-	
Current estimate of cumulative claims cost		7,017	5,405	5,109	8,530	5,612	6,395	
Cumulative payments		5,010	4,295	2,685	2,937	292	201	
Outstanding claims undiscounted	2,343	2,007	1,111	2,424	5,593	5,320	6,194	24,992
Discount	156	172	97	202	389	412	648	2,076
Outstanding claims	2,187	1,835	1,014	2,222	5,204	4,908	5,546	22,916
Short tail outstanding claims								39,961
Gross outstanding claims excl claims handling expenses								62,877
Claims handling expenses								2,766
Total gross central estimate								65,643
Risk margin								11,816
Total gross outstanding claims per Balance Sheet								77,459

25. OUTSTANDING CLAIMS (continued)

Net

Accident year	2004 & Prior $000	2005 $000	2006 $000	2007 $000	2008 $000	2009 $000	2010 $000	Total $000
Estimate of ultimate claims cost:								
At end of accident year		9,867	6,469	3,748	5,157	3,192	3,278	
One year later		9,810	6,254	4,169	5,263	2,759	-	
Two years later		9,493	5,060	3,831	4,816	-	-	
Three years later		8,614	3,941	3,406	-	-	-	
Four years later		6,877	3,206	-	-	-	-	
Five years later		6,147	-	-	-	-	-	
Current estimate of cumulative claims cost		6,147	3,206	3,406	4,816	2,759	3,278	
Cumulative payments		4,703	2,699	2,160	1,701	189	161	
Outstanding claims undiscounted	1,560	1,445	508	1,246	3,116	2,571	3,117	13,563
Discount	90	121	41	99	198	177	301	1,027
Outstanding claims	1,470	1,324	467	1,147	2,918	2,394	2,816	12,536
Short tail outstanding claims								8,990
								21,526
Claims handling expenses								2,766
Total gross central estimate								24,292
Risk margin								4,373
Total net outstanding claims per Balance Sheet								28,665

26. SHARE CAPITAL

	2010 $000	2009 $000
1 January	16,900	16,900
Shares issued during the year	-	-
31 December	16,900	16,900

As at 31 December 2010, the Company had 16,899,558 (2009: 16,899,558) ordinary shares that were issued for 100 cents per share. All issued shares are fully paid.

27. DIVIDENDS PER SHARE

The dividends paid in 2010 and 2009 were $nil and $5,000,000 (29 cents per share) respectively.

28. RESERVES AND RETAINED EARNINGS

	2010 $000	2009 $000
(a) Reserves		
Property revaluation reserve	1,002	-
	1,002	-
Movements:		
Property revaluation reserve:		
Balance at beginning of the year	-	-
Revaluation	1,002	-
Balance at end of year	**1,002**	-

(b) Retained earnings

	2010 $000	2009 $000
Balance at beginning of year	5,488	9,868
Net profit for the year	7,269	620
Ordinary dividends	-	(5,000)
Supplementary dividends	-	(882)
Foreign investor tax credit	-	882
Balance at end of year	12,757	5,488

29. 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 statements of the Company.

(b) Operating lease commitments

	2010 $000	2009 $000
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:		
Not later than one year	346	330
Later than one year but not later than five years	570	715
Later than five years	34	-
Non cancellable operating leases	950	1,045

The Company leases office premises in Wellington and Auckland. 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 2010 there were no contingent liabilities outstanding (2009: Nil).

30. REMUNERATION OF AUDITORS

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

	2010 $000	2009 $000
Audit fees	157	130
Taxation services	58	35
Total	215	165

31. 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	2010 Transactions $000	2010 Balances $000	2009 Transactions $000	2009 Balances $000
Tempest Reinsurance Company Limited, Bermuda	Fellow Subsidiary	Reinsurance placements/claims	28,420	940	31,703	(2,003)
Other ACE entities	Fellow Subsidiary	Reinsurance placements/claims	6,087	134	6,808	(399)
ACE Asia Pacific Pte Ltd, Singapore	Fellow Subsidiary	Management charges and IT System implementation costs	1,362	-	2,024	(410)
Cover Direct Ltd, USA	Fellow Subsidiary	Management charges	260	-	205	-
ACE INA Services UK Ltd.	Fellow Subsidiary	EDP support service charges	1,424	-	664	(169)
ACE Insurance Limited, Australia	Fellow Subsidiary	Management/IT service charges	909	(338)	812	(253)
			38,462	736	42,216	(3,234)

31. RELATED PARTIES (continued)

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 (2009 Nil).

(c) Key management compensation

	2010 $000	2009 $000
Short term employee benefits	502	460
Share based payments	144	58
Total	**646**	**518**

32. RECONCILIATION OF NET OPERATING CASH FLOWS

Operating profit after income tax	7,269	620
Depreciation and amortisation	209	229
Net loss on sale of plant and equipment	-	(29)
Fair value change on financial assets	(802)	557
Change in operating assets and liabilities:		
Increase/(Decrease) in unearned premium reserve,	4,811	(1,496)
Increase/(Decrease) in unexpired risk liability	(1,111)	1,004
Increase/(Decrease) in net outstanding claims	15,181	(2,546)
Decrease/(Increase) in deferred acquisition costs	(788)	(1,426)
Decrease/(Increase) in other receivables	(813)	(518)
Decrease/(Increase) in policyholder debtors	(4,794)	1,291
Increase/(Decrease) in trade and other creditors	(2,046)	(5,144)
Decrease/(Increase) in reinsurance and other recoveries	(16,955)	(263)
Decrease/(Increase) in deferred tax assets	884	-
Increase/(Decrease) in deferred tax liabilities	(408)	-
Decrease/(Increase) in tax receivable	1,435	(1,483)
Net cash inflow/(outflow) from operating activities	**2,072**	**(9,204)**

33. EVENTS OCCURRING AFTER BALANCE DATE

On 22 February 2011 a major earthquake struck Christchurch and surrounding areas. The impact and exposure to risks relating to this large catastrophe event have not been brought to account in the financial period for 31 December 2010.

The total expected pre tax impact of the above catastrophe events is $336,000, net of reinsurance recoveries.

34. CREDIT RATING

On 10 December 2010, 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.

35. 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.

36. 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, 2,154 restricted ordinary shares were awarded during the year ended 31 December 2010 (2009: 557) and 3,865 (2009: nil) restricted ordinary shares were transferred from other ACE entities due to employee transfers during the year ended 31 December 2010. 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 $28,749 (2009: NZD $30,000).

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 $97,467 (2009: NZD $1,000).

36. SHARE BASED PAYMENT TRANSACTIONS (continued)

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

	2010		2009	
	Average exercise price in NZD per share	**Options**	**Average exercise price in NZD per share**	**Options**
At 1 January		4,080		4,272
Granted	65.13	8,760	53.16	1,960
Forfeited	49.79	(810)	68.83	(2,152)
Exercised	49.26	(1,341)	-	-
Lapsed		-		-
At 31 December		10,689		4,080

Out of the 10,869 outstanding options (2009: 4,080 options), 4,252 options (2009: 2,436) were exercisable. Options exercised in 2010 resulted in 1,341 shares (2009: nil) being issued at 65.13 NZD (2009: nil).

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 2010**	**Share options 2009**
2011	46.94	200	200
2012	56.76	450	450
2013	35.65	700	700
2014	56.32	510	510
2015	57.51	180	180
2016	77.92	190	-
2017	72.59	535	290
2018	77.94	1,170	620
2019	49.79	3,224	1,130
2020	65.13	3,530	-
		10,689	4,080

The weighted average fair value of options granted during the period determined using the Black-Scholes valuation model was 15.11 NZD per option (2009: 17.38 NZD). The significant inputs into the model were share price of 65.13 NZD (2009: 53.16 NZD), at the grant date, the exercise price shown above, volatility of 30.33% (2009: 45%), dividend yield of 2.46% (2009: 2.8%), and an expected option life of 5 years and on annual risk-free interest rate of 2.31% (2009: 2.8%). 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 (2009: NZD $0).

37. TRANSFER OF INSURANCE BUSINESS

As from 1 October 2010, Combined Insurance Company of America (Combined) has not carried on in New Zealand any class of insurance business, by virtue of an arrangement approved by the High Court of New Zealand on 10 September 2010 under Part 15 of the Companies Act 1993. Under this arrangement the rights and obligations of Combined under insurance policies issued by its New Zealand branch were transferred to ACE Insurance Limited (ACE) with effect from 1 October 2010.

All the liabilities of Combined in New Zealand in respect of every class of insurance business previously carried on in New Zealand by Combined are transferred, fully liquidated or provided for. This has been achieved by the arrangement referred to above, pursuant to which, ACE became directly liable to holders of insurance policies issued by the New Zealand branch of Combined in place of Combined.

Combined assets and liabilities transferred to the Company, at their book values, on 1 October are as follows:

	2010 $000	2009 $000
ASSETS		
Cash and cash equivalents	12,555	-
Premiums receivable	38	-
Reinsurance and other recoveries	2,587	-
Reinsurance and other recoveries – Life insurance business	29	-
Reinsurance and other recoveries – Life assurance fund	599	-
Trade and other receivables	48	-
Deferred acquisition costs	1,937	
Financial assets at fair value through profit or loss	171	-
Property, plant and equipment	1,871	-
Deferred tax assets	846	-
TOTAL ASSETS	20,681	-
LIABILITIES		
Trade and other creditors	2,990	-
Deferred income tax liability	581	-
Deferred reinsurance commission	2,003	-
Unearned premiums	6,549	-
Outstanding claims	6,987	-
Outstanding claims – Life insurance business	73	-
Outstanding claims – Life assurance fund	1,498	-
TOTAL LIABILITIES	20,681	-
NET ASSETS	-	-