

ACE INSURANCE LIMITED

FINANCIAL REPORT

31 DECEMBER 2011

ACE INSURANCE LIMITED

FINANCIAL REPORT 2011

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ACE INSURANCE LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2011

The Board of Directors present the annual report of ACE Insurance Limited ("the Company") incorporating the financial statements and the auditor's report for the year ended 31 December 2011.


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 presented on pages 6 to 46 for issue on 24 May 2012.

24TH DAY of MAY 2012

For and on behalf of the Board of Directors

Director



Director



Date 24/05/12

Date 24/05/12



Independent auditor's report to the shareholders of ACE Insurance Limited

Report on the financial report

We have audited the financial statements of ACE Insurance Limited ('the company') on pages 6 to 46, which comprise the statement of financial position as at 31 December 2011, the statement of comprehensive income, the statement of changes in equity and statement of cash flows 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 report

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.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand) 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 auditors consider 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 capacity as auditors and providers of other assurance and taxation services. These services have not impaired our independence as auditors of the Company.



Auditor's opinion

In our opinion, the financial statements on pages 6 to 46:

- (i) comply with generally accepted accounting practice in New Zealand; and
- (ii) give a true and fair view of the financial position of the company as at 31 December 2011, 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 2011:

- (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

I, R Balding, am currently a member of the Institute of Chartered Accountants in Australia and my membership number is 45745.

PricewaterhouseCoopers was the audit firm appointed to undertake the audit of ACE Insurance Limited for the year ended 31 December 2011. I was responsible for the execution of the audit and delivery of our firm's auditor's report. The audit work was completed on 24 May 2012 and an unqualified opinion was issued.

R Balding
Partner

Sydney
24 May 2012

ACE INSURANCE LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2011

	<i>NOTE</i>	<i>2011</i> <i>\$'000</i>	<i>2010</i> <i>\$'000</i>
Net premium revenue		48,817	30,727
Net claims incurred	9	21,176	12,427
Other underwriting expenses	7	27,758	18,381
Other underwriting revenue	5	14,988	6,914
Underwriting profit		14,871	6,833
Net investment income	6	4,472	3,447
Profit before income tax		19,343	10,280
Income tax expense attributable to profit	8	6,357	3,011
Profit after income tax		12,986	7,269
<i>Net profit attributable to members of the company</i>		12,986	7,269
Other Comprehensive Income			
Gain on revaluation of land and buildings	27(a)	240	1,002
Other comprehensive income for the year, net of tax		240	1,002
Total comprehensive income for the year attributable to members of the company		13,226	8,271

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes

ACE INSURANCE LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	CONTRIBUTED EQUITY \$000	RESERVES \$000	RETAINED EARNINGS \$000	TOTAL \$000
At 1 January 2010		16,900	-	5,488	22,388
Net profit for the year		-	-	7,269	7,269
Revaluation gain on land and buildings	27(a)	-	1,002	-	1,002
Total comprehensive income for the year		-	1,002	7,269	8,271
Transaction with owners:					
Ordinary dividends		-	-	-	-
Total transactions with owners		-	-	-	-
At 31 December 2010	26, 27	16,900	1,002	12,757	30,659
At 1 January 2011		16,900	1,002	12,757	30,659
Net profit for the year		-	-	12,986	12,986
Revaluation gain on land and buildings	27(a)	-	240	-	240
Total comprehensive income for the year		-	240	12,986	13,226
Transaction with owners:					
Ordinary dividends		-	-	-	-
Total transactions with owners		-	-	-	-
At 31 December 2011	26, 27	16,900	1,242	25,743	43,885

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes

ACE INSURANCE LIMITED

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2011

	Note	2011 \$000	2010 \$000
ASSETS			
Cash and cash equivalents	10	14,731	5,384
Financial assets at fair value through profit or loss	13	64,738	63,276
Trade and other receivables	11	34,326	23,249
Reinsurance and other recoveries	12	247,552	50,062
Reinsurance and other recoveries – Life insurance business	17	103	30
Reinsurance and other recoveries – Life assurance fund	17	684	579
Other	16	6	-
Deferred insurance costs	15	25,269	20,410
Tax refund receivable		-	301
Deferred tax asset	20	634	698
Property, plant and equipment	18	3,336	3,597
Intangible assets	19	-	17
TOTAL ASSETS		391,379	167,603
LIABILITIES			
Trade and other payables	21	15,527	12,250
Tax liabilities		4,241	-
Outstanding claims	24	271,428	77,459
Outstanding claims – Life insurance business	17	156	75
Outstanding claims – Life assurance fund	17	1,368	1,448
Provisions	25	431	184
Unearned premiums	22	53,466	44,374
Unexpired risk liability	23	-	547
Deferred tax liability	20	877	607
TOTAL LIABILITIES		347,494	136,944
NET ASSETS		43,885	30,659
EQUITY			
Share capital	26	16,900	16,900
Reserves	27(a)	1,242	1,002
Retained earnings	27(b)	25,743	12,757
TOTAL EQUITY		43,885	30,659

The above Statement of Financial Position should be read in conjunction with the accompanying notes



 Director

Date 24/05/12



 Director

Date 24/05/12

ACE INSURANCE LIMITED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 \$000	2010 \$000
OPERATING ACTIVITIES			
Premiums received		100,203	69,331
Reinsurance and other recoveries received		108,102	17,887
Interest received		3,783	2,674
Rental income received		300	77
Other underwriting revenue		14,989	6,914
Claims paid		(138,171)	(32,671)
Outwards reinsurance paid		(49,438)	(37,986)
Acquisition expenses paid		(7,138)	(2,636)
Other underwriting expenses		(20,726)	(20,418)
Income tax paid		(1,481)	(1,100)
Net cash inflows from operating activities	31	10,423	2,072
INVESTING ACTIVITIES			
Proceeds from sale of financial assets		37,981	37,981
Purchase of financial assets		(38,988)	(50,296)
Payment for property, plant & equipment		(69)	(452)
Net cash outflows from investing activities		(1,076)	(12,767)
FINANCING ACTIVITIES			
Net cash outflows from financing activities		-	-
Cash received from Combined Insurance portfolio transfer		-	12,555
Net increase in cash held		9,347	1,860
Cash at beginning of year		5,384	3,524
Cash at end of year	10	14,731	5,384

The above Statement of Cash Flows should be read in conjunction with the accompanying notes

ACE INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

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ACE INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

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 24 May 2012.

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 2012, or later periods, but that the Company has not early adopted. It is expected that these standards will have no material impact on the financial statements.

- NZ IAS 12: Amendment to NZ IAS 12 Income Taxes – Deferred Tax: Recovery of Underlying Assets (Application date: 1 January 2012)
- NZ IAS 1: Amendments to NZ IAS 1 Presentation of Financial Statements – Presentation of Other Comprehensive Income (Application date: 1 July 2012)
- NZ IFRS 13: Fair Value Measurement (Application date: 1 January 2013)
- NZ IAS 19: Employee Benefits (Application date: 1 January 2013)
- NZ IFRS 7: Amendments to NZ IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities and Disclosures – Transition Disclosures (Application date: 1 January 2013)
- NZ IAS 32: Amendments to NZ IAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities (Application date: 1 January 2014)
- NZ IFRS 9: Financial Instruments (Application date: 1 January 2015)

ACE INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(2.2) *Foreign Currency Translations*

(i) Functional and presentation currency

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

(ii) Transactions and balances

Foreign currency transactions during the year are recorded in New Zealand dollars using the rate of exchange prevailing at the date of the transaction. At balance date, amounts receivable and payable in foreign currency are translated at the exchange rate prevailing at that date. Exchange gains and losses are brought to account in determining the profit or loss for the year.

(2.3) *Premium Revenue*

Direct and inwards reinsurance premiums comprise amounts charged to the policyholders or other insurers, including government levies but excluding amounts collected on behalf of third parties, principally GST. The earned portion of premiums received and receivable, including unclosed business is recognised as revenue. 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 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.

ACE INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

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.

ACE INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

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 liability adequacy test is calculated using 4 portfolios of broadly similar risk based on the clients and product offerings, being Property and Casualty, Accident and Health, Personal Business, and Combined.

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 (note (2.6)).

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 measured at fair value through profit or loss at each balance date. All financial assets are managed and evaluated on a fair value basis which is consistent with the Company's documented investment strategy. They are initially recorded at fair value and are subsequently remeasured at fair value at each balance date. Changes in the fair value of financial assets at the balance date from their fair values at the previous balance date (or cost of acquisition, if acquired during the financial year) are recognised as revenue or expense in the statement of comprehensive income. Fair value is determined for listed equities and quoted debt securities by reference to market quotations.

Regular purchases and sales of investments are recognised on trade-date – the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

Investment income is brought to account on an accruals basis and dividends are taken into account when received.

ACE INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(2.10) Taxation

The income tax expense or revenue for the year is the tax payable on the current year's taxable income adjusted for changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements and changes in unused tax losses.

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 depreciation. 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 probable 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%
Computer equipment	20% to 36%
Furniture and fittings	5%
Office equipment	6%

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

ACE INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

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.

ACE INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(2.14) Impairment of Non Financial Assets

Assets, other than financial 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.

(2.15) Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, 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 benefits of ownership are substantially retained by the lessor are classified as operating leases. Payments made under operating leases (net of incentives) are charged to the Statement of Comprehensive Income on a straight line basis over the period of the lease.

ACE INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(2.18) Employee Benefits

(i) Wages, Salaries and Annual Leave

Liabilities for employees' entitlements to wages and salaries, annual leave and other current employee entitlements expected to be paid within one year are measured as the amount unpaid at the reporting date at current pay rates in respect of employees' services up to that date. Payments of non-accumulating sick leave are recognised when the leave is taken.

(ii) Long Service Leave

A liability for long service leave is recognised, and is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date.

Consideration is given to expected future wage and salary levels, experience of employee departures and period of service. Expected future payments are discounted using interest rates at the reporting date on national government guaranteed securities with terms to maturity that match, as closely as possible, the estimated future cash flows.

(iii) 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.

(iv) Share based compensation

The Company operates a long term incentive plan under which restricted stock awards are granted. Shares granted are for shares in the Ultimate Parent Entity. For restricted share awards the value of shares on the grant date is expensed over the period that the shares vest.

The fair value of the share options at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

(v) 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.

(vi) 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.

ACE INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(2.20) 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; and
- (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 certain assets are recognised net of the amount of GST, except where the GST is not recoverable. In these circumstances, the GST is included in the related asset or expense. 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 receivable or a payable in the balance sheet.

(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 sheet date.

(2.25) Life assurance fund

The liability is based on a valuation undertaken by Marianne Clifford FSA, MAAA where she completed 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%.

ACE INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

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 currency and interest rate risks), credit risk and liquidity risk. The Company's overall risk management program 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. The Investment Committee conducts quarterly reviews with funds managers on the portfolio's performance and ensures investment mandates as set by the Company are adhered to.

(a) Market risk

Market risk represents the potential for loss due to adverse changes in the fair value of financial instruments. 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 significant areas exposed to credit risk are premium collections and reinsurance recoveries on outstanding claims from related parties.

Most premium revenue is derived from brokers operating in the New Zealand insurance market who are subject to industry credit terms. Credit risk arising from reinsurance recoveries is managed by settling the majority of 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.

Liquidity risk controls include quarterly actuarial reviews of insurance reserves, matching asset and liability duration and cash flow monitoring.

ACE INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

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 2011 is \$16.0m (2010: \$10.7m) based on the Net Written Premiums requirement (2010: based on the Net Written Premiums requirement). The Company has met the Preferred Capital Requirements as at 31 December 2011 and 31 December 2010. The total amount of equity retained in the Company as at 31 December 2011 is \$43.9m (2010: \$30.7m).

(ii) Insurance risk

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

Risk management forms part of management's 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 Enterprise Risk 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; and
- specific guidelines and mandates with respect to investment assets including an independent Investment Committee.

ACE INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

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.

ACE INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

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:

	2011	2010
Discounted average weighted term to settlement from reporting date	1.35	1.48
Ultimate claim numbers - current accident year	4,828	4,864
Average claims size – current accident year	64,218	11,674
Indirect claims handling expense rate	1.2%	4.4%
Discount rate	2.8%	3.8%

ACE INSURANCE LIMITED
NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

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. The average term of payment for all short tail classes is relatively small and therefore future inflation of the payment pattern is implicit in the ultimate loss development assumptions. Inflation costs between one accident year and the next is reflected in the average claim size.

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% (2010: 75%) 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.

ACE INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

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		332,230	21,176	
Total equity per balance sheet				43,885

Variables:

Discounted average weighted term to settlement	+0.5 years	328,565	20,835	44,124
	-0.5 years	335,946	21,522	43,643
Ultimate claim number	+10%	367,044	23,212	42,461
	-10%	297,417	19,141	45,310
Average claims size	+10%	367,044	23,212	42,461
	-10%	297,417	19,141	45,310
Indirect claims handling expense rate	+1%	334,914	23,855	42,011
	-1%	329,547	18,498	45,760
Discount rate	+1%	330,080	20,848	44,116
	-1%	334,420	21,579	43,604

(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.

(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. This estimation is adjusted for the impact of recent trends and events and consistency checks are made against historical written premium.

ACE INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

5. REVENUE

	NOTE	2011 \$'000	2010 \$'000
Revenue from ordinary activities			
Premium revenue:			
Direct		96,381	78,197
Inwards reinsurance		1,020	1,426
		97,401	79,623
Reinsurance and other recoveries revenue	9	311,054	35,454
Investment revenue:			
Investment income	6	4,017	3,098
Commission revenue		14,988	6,914
Total revenue from ordinary activities		427,460	125,089

6. INVESTMENT INCOME

Interest		3,846	3,116
Rental and other		300	77
Foreign exchange losses		(129)	(95)
Investment and other income before fair value gains	5	4,017	3,098
Net realised and unrealised gains on financial assets held at fair value through profit or loss		455	349
Net investment income		4,472	3,447

ACE INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

7. EXPENSES

	NOTE	2011 \$'000	2010 \$'000
Claims expense	9	332,230	47,881
Outwards reinsurance expense		48,584	48,896
Acquisition expenses		6,176	7,069
Underwriting expenses		9,496	2,923
Commission expense		12,086	8,389
Total expenses		408,572	115,158

8. TAXATION

Net profit before income tax		19,343	10,280
Permanent difference:			
Expenditure not deductible for tax purposes		3,359	46
Profit subject to tax		22,702	10,326
Prima facie tax payable at 28% (2010: 30%)		6,357	3,097
Change in tax rate for deferred taxes		-	6
Over provision in prior year		-	(92)
Income tax recognised in Statement of Comprehensive Income		6,357	3,011
Comprising:			
Estimated current year tax assessment		6,023	2,536
Over provision in prior year		-	(92)
Net movement in deferred tax	20	334	561
Change in tax rate for deferred tax expense (28%)		-	6
		6,357	3,011

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 2010 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	104	(996)
Tax payments	1,481	1,100
Balance at the end of the year	1,585	104

ACE INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

9. NET CLAIMS INCURRED

	Current Year \$'000	2011 Prior Year \$'000	Total \$'000	Current Year \$'000	2010 Prior Year \$'000	Total \$'000
Gross claims expense						
Direct	342,287	(7,919)	334,368	72,276	(24,921)	47,355
Discount movement	(5,470)	3,332	(2,138)	(1,924)	2,450	526
Discounted gross claims expense	336,817	(4,587)	332,230	70,352	(22,471)	47,881
Reinsurance and other recoveries revenue						
Reinsurance and other recoveries revenue – undiscounted	312,176	3,895	316,071	51,451	(15,915)	35,536
Discount movement	(5,422)	405	(5,017)	(1,290)	1,208	(82)
Discounted reinsurance and other recoveries revenue	306,754	4,300	311,054	50,161	(14,707)	35,454
Net claims incurred	30,063	(8,887)	21,176	20,191	(7,764)	12,427

10. CASH AND CASH EQUIVALENTS

	2011 \$000	2010 \$000
Cash on hand and at bank	10,841	4,194
Deposits at call	3,890	1,190
Total	14,731	5,384

(a) Cash at bank and on hand

These are interest bearing.

(b) Deposits at call

Short term deposits are bearing floating interest rates averaging 3.05% (2010: 3.10%). These deposits are at call.

ACE INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

11. TRADE AND OTHER RECEIVABLES

	<i>2011</i> <i>\$'000</i>	<i>2010</i> <i>\$'000</i>
Premiums and other trade debtors:		
Premiums and other trade debtors receivable – direct insurance	26,842	20,719
Less impairment	(250)	(250)
	26,592	20,469
Premiums and other trade debtors receivable – inwards reinsurance	826	1,218
Other receivables	6,908	1,562
Total trade and other receivables	34,326	23,249

Movements in the provision for impairment of receivables are as follows:

Opening balance as at 1 January	250	250
Provision for impairment recognised/(released) during the year	-	-
Total	250	250

12. REINSURANCE AND OTHER RECOVERIES

Reinsurance recoveries on claims paid	1,388	1,268
Expected future reinsurance recoveries on outstanding claims	251,181	50,963
Discount to present value	(5,017)	(2,169)
Total reinsurance and other recoveries	247,552	50,062
Current	202,311	35,833
Non current	45,241	14,229
Total	247,552	50,062

ACE INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2011 \$'000	2010 \$'000
Government bonds	47,138	48,497
Corporate bonds	17,448	14,611
Life insurance policy loans	152	168
Total financial assets at fair value through profit or loss	64,738	63,276
Current	4,099	20,951
Non current	60,639	42,325
	64,738	63,276

The fair value of investments has been determined based on quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data (Level 2).

The following analysis illustrates the credit rating of financial assets as at the end of the reporting period. This includes deposits at call in Note 10.

S&P rating		
AAA	2%	84%
AA	92%	8%
A	6%	6%
BBB	-	2%
Total	100%	100%

A sensitivity analysis has been carried out on the portfolio as at the end of the 2010 and 2011 reporting periods. The sensitivity analysis has been performed on the portfolio using a movement in credit spreads. The table below shows the following increases/decreases of an increase in the spread rates of 100 bps on the portfolio:

	<u>Upgraded Impact on Investments (\$)</u>	<u>Downgraded Impact on Investments (\$)</u>	<u>Upgraded Impact on Equity (\$)</u>	<u>Downgraded Impact on Equity (\$)</u>
2010	282,324	(282,324)	203,273	(203,273)
2011	359,604	(359,604)	258,915	(258,915)

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:

	<u>Upward Impact on Investments (\$)</u>	<u>Downward Impact on Investments (\$)</u>	<u>Upward Impact on Equity (\$)</u>	<u>Downward Impact on Equity (\$)</u>
2010	(1,408,196)	1,408,196	(1,013,901)	1,013,901
2011	(1,233,794)	1,233,794	(888,332)	888,332

ACE INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

14. FINANCIAL INSTRUMENTS

(a) Interest rate risk exposures

The Company's exposure to interest rate risk is managed primarily through investments in interest rate futures and adjustments to existing investment portfolios. The Company's exposure to interest rate risk and the effective weighted average interest rate by maturity periods is set out in the following table.

2011	Notes	Floating interest rate \$'000	1 year or less \$'000	Fixed interest maturing in:					Non- interest bearing \$'000	Total \$'000
				Over 1 to 2 years \$'000	Over 2 to 3 years \$'000	Over 3 to 4 years \$'000	Over 4 to 5 years \$'000	More than 5 years \$'000		
Financial assets										
Cash and cash equivalents	10	14,731	-	-	-	-	-	-	-	14,731
Receivables	11,12	-	-	-	-	-	-	-	35,714	35,714
Financial assets at fair value through profit or loss	13	-	4,099	29,961	4,783	22,847	2,037	1,011	-	64,738
		14,731	4,099	29,961	4,783	22,847	2,037	1,011	35,714	115,183
Weighted average interest rate		2.68%	3.97%	2.63%	3.85%	2.96%	4.54%	4.13%	-	
2010										
	Notes	Floating interest rate \$'000	1 year or less \$'000	Over 1 to 2 years \$'000	Over 2 to 3 years \$'000	Over 3 to 4 years \$'000	Over 4 to 5 years \$'000	More than 5 years \$'000	Non- interest bearing \$'000	Total \$'000
Financial assets										
Cash and Cash equivalents	10	5,384	-	-	-	-	-	-	-	5,384
Receivables	11,12	-	-	-	-	-	-	-	24,517	24,517
Financial assets at fair value through profit or loss	13	-	20,951	2,581	14,040	3,648	20,008	2,048	-	63,276
		5,384	20,951	2,581	14,040	3,648	20,008	2,048	24,517	93,177
Weighted average interest rate		2.80%	3.66%	4.65%	4.15%	5.25%	4.92%	5.43%	-	

(b) Credit risk exposure

The credit risk on financial assets in the balance sheet is generally the carrying amount, net of any impairment.

(c) Net fair value of financial assets and liabilities

The net fair value of financial assets and financial liabilities is their carrying amounts. As noted in the accounting policy 2.9, investments are measured at fair value through profit or loss at balance date.

ACE INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

15. DEFERRED INSURANCE COSTS

	NOTE	<i>2011</i> <i>\$'000</i>	<i>2010</i> <i>\$'000</i>
Deferred acquisition costs as at 1 January		2,168	1,446
Combined Insurance portfolio transfer		-	1,937
Acquisition costs deferred		3,168	1,866
Write down for premium deficiency	23(b)	(37)	(1,074)
Amortisation charged to income		(2,168)	(2,007)
Deferred acquisition costs as at 31 December		3,131	2,168
Deferred reinsurance premiums at 1 January		18,242	14,440
Combined Insurance portfolio transfer		-	4,366
Deferral of reinsurance premiums on contracts entered into in the period		21,720	12,709
Earning of reinsurance premiums on contracts entered into in previous periods		(17,824)	(13,273)
Deferred reinsurance premiums at 31 December		22,138	18,242
Total deferred insurance costs		25,269	20,410

16. OTHER ASSETS

Prepayments	6	-
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ACE INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

17. LIFE INSURANCE BUSINESS

	<i>2011</i>	<i>2010</i>
	<i>\$000</i>	<i>\$000</i>
<i>Net outstanding claims liability</i>		
Outstanding claims	156	75
Reinsurance and other recoveries	(103)	(30)
	<hr/>	<hr/>
Asset and liability included in Statement of Financial Position	53	45
	<hr/>	<hr/>
<i>Life assurance fund</i>		
Life assurance fund as at 1 January	869	-
Combined insurance portfolio transfer (net)	-	899
Renewal premiums received	34	16
Due and deferred premium adjustment	2	(2)
Less:		
Claims paid/incurred	(144)	(17)
Surrender of policies	(58)	(19)
Reinsurance recoveries	77	7
	<hr/>	<hr/>
	780	884
	<hr/>	<hr/>
Outstanding claims – Life assurance fund	1,368	1,448
Reinsurance and other recoveries – Life assurance fund	(684)	(579)
Net Life assurance fund as at 31 December	<hr/>	<hr/>
	684	869
	<hr/>	<hr/>
Surplus from Life Insurance operations	96	15
	<hr/>	<hr/>
Less: claims, underwriting and administration costs	(10)	(4)
	<hr/>	<hr/>
Profit included in Statement of Comprehensive Income	86	11
	<hr/>	<hr/>

ACE INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

18. PROPERTY, PLANT AND EQUIPMENT

	<i>2011</i> <i>\$'000</i>	<i>2010</i> <i>\$'000</i>
Land and building		
Valuation at 1 January	2,650	-
Combined Insurance portfolio transfer	-	1,648
Revaluation	240	1,002
Valuation at 31 December	2,890	2,650
Office equipment and fittings		
At 31 December:		
Opening net book amount	947	454
Combined Insurance portfolio transfer	-	223
Additions	69	452
Disposals	-	(102)
Accumulated depreciation on disposal	-	102
Depreciation charge	(570)	(182)
Closing net book amount	446	947
At 31 December:		
Cost	1,968	1,899
Accumulated depreciation	(1,522)	(952)
Net book amount	446	947
Total property, plant and equipment	3,336	3,597

Valuation of land and building

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 2011 and 2010 valuations were based on independent assessments by qualified valuers. The revaluation surplus net of applicable deferred income taxes was credited to the property revaluation reserve (Note 27).

ACE INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

19. INTANGIBLE ASSETS

	<i>2011</i> <i>\$000</i>	<i>2010</i> <i>\$000</i>
Opening net book value	17	44
Movement during year:		
Additions	-	-
Disposals	-	-
Amortisation expense	(17)	(27)
Closing net book value	-	17
 At 31 December		
Cost	145	145
Accumulated amortisation	(145)	(128)
Net book value	-	17

20. DEFERRED TAX

Total deferred tax assets	634	698
Total deferred tax liabilities	(877)	(607)
Net deferred tax asset/(liability)	(243)	91
 Movements:		
Opening balance 1 January	91	301
Combined insurance portfolio transfer	-	265
Prior period adjustment	-	92
Charged to Statement of Comprehensive Income	(334)	(567)
Total	(243)	91
 Deferred tax assets		
At 1 January	698	735
Combined insurance portfolio transfer	-	265
Prior period adjustment	-	72
Change in tax rate	-	(50)
Depreciation	(49)	3
Unexpired risk liability	(153)	(333)
Accrued expenses	34	(14)
Employee benefits	104	20
Total	634	698
 Deferred tax liabilities		
At 1 January	607	434
Prior period adjustment	-	(20)
Change in tax rate	-	(43)
Deferred acquisition costs	270	236
Total	877	607

ACE INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

21. TRADE AND OTHER PAYABLES

	2011 \$000	2010 \$000
Outwards reinsurance expense liability – balance due to reinsurers:		
Related companies	3,852	136
Non related companies	3,788	4,462
Other creditors and accruals	7,887	7,652
Total trade and other payables	15,527	12,250

22. UNEARNED PREMIUMS

Unearned premium liability as at 1 January	44,374	29,212
Movement in unearned premium		
Combined insurance portfolio transfer	-	10,916
Deferral of premiums on contracts written at year end	52,484	31,590
Earning of premiums deferred in prior years	(43,392)	(27,344)
Total	53,466	44,374
Current	52,302	42,253
Non-current	1,164	2,121
Total	53,466	44,374

The unearned premium liability is subject to a Liability Adequacy Test as described in accounting policy (2.8). Details of the amounts recognised in respect of any surplus/deficiency are set out in Note 23.

23. UNEXPIRED RISK LIABILITY

(a) Unexpired Risk Liability

Unexpired risk liability as at 1 January	547	1,658
Recognition of unexpired risk liability in the period	-	-
Release of unexpired risk liability recorded in the previous year	(547)	(1,111)
Unexpired risk liability as at 31 December	-	547

(b) Release recognised in the Statement of Comprehensive Income

Net movement in unexpired risk liability	(547)	(1,111)
Write down of deferred acquisition costs	37	1,074
Total release recognised in the Statement of Comprehensive Income	(510)	(37)

ACE INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

24. OUTSTANDING CLAIMS

2011
\$000

2010
\$000

(a) Outstanding claims liability

Central estimate of outstanding claims liabilities	242,376	66,011
Risk margin	32,207	12,408
Claim handling expenses	2,866	2,924
Total undiscounted claims	277,449	81,343
Discount to present value	(6,021)	(3,884)
Total	271,428	77,459
Current	216,238	50,556
Non-current	55,190	26,903
Total	271,428	77,459

(b) Gross risk margins applied

New Zealand	13.1%	18.0%
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(c) Reconciliation of movement in discounted outstanding claims liability

	2011			2010		
	Gross \$'000	Reinsurance \$'000	Net \$'000	Gross \$'000	Reinsurance \$'000	Net \$'000
Brought forward	77,459	48,794	28,665	55,243	29,233	26,010
Combined Insurance portfolio transfer	-	-	-	6,987	2,587	4,400
Effect of changes in assumptions	(1,286)	815	(2,101)	(1,273)	(559)	(714)
Increase in claims incurred/recoveries anticipated over the year	333,516	310,239	23,277	49,154	36,013	13,141
Incurred claims recognised in Statement of Comprehensive Income	332,230	311,054	21,176	47,881	35,454	12,427
Claims payments/recoveries during the year	(138,261)	(113,684)	(24,577)	(32,652)	(18,480)	(14,172)
Carried forward	271,428	246,164	25,264	77,459	48,794	28,665

ACE INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

24. OUTSTANDING CLAIMS (continued)

(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	2005 & Prior \$000	2006 \$000	2007 \$000	2008 \$000	2009 \$000	2010 \$000	2011 \$000	Total \$000
Estimate of ultimate claims cost:								
At end of accident year		8,898	6,849	7,776	5,867	6,396	6,106	
One year later		9,847	5,919	9,382	5,612	5,250		
Two years later		8,661	6,727	8,530	4,663			
Three years later		6,877	5,109	7,098				
Four years later		5,405	4,980					
Five years later		5,404						
Current estimate of cumulative claims cost		5,404	4,980	7,098	4,663	5,250	6,106	
Cumulative payments		4,581	3,539	3,613	890	683	251	
Outstanding claims undiscounted	2,972	823	1,441	3,485	3,773	4,567	5,855	22,916
Discount	155	54	88	177	211	265	469	1,419
Outstanding claims								21,497
Short tail outstanding claims								215,678
Gross outstanding claims excl claims handling expenses								237,175
Claims handling expenses								2,757
Total gross central estimate								239,932
Risk margin								31,496
Total gross outstanding claims per Statement of Financial Position								271,428

ACE INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

24. OUTSTANDING CLAIMS (continued)

Net

Accident year	2005 & Prior \$000	2006 \$000	2007 \$000	2008 \$000	2009 \$000	2010 \$000	2011 \$000	Total \$000
Estimate of ultimate claims cost:								
At end of accident year		6,469	3,748	5,157	3,192	3,278	3,281	
One year later		6,254	4,169	5,263	2,759	2,604		
Two years later		5,060	3,831	4,816	2,807			
Three years later		3,941	3,406	4,095				
Four years later		3,206	2,950					
Five years later		3,188						
Current estimate of cumulative claims cost		3,188	2,950	4,095	2,807	2,604	3,281	
Cumulative payments		2,985	2,280	2,375	786	642	227	
Outstanding claims undiscounted								
	1,819	203	670	1,720	2,021	1,962	3,054	11,449
Discount	82	13	37	74	94	94	218	612
Outstanding claims								10,837
Short tail outstanding claims								8,777
								19,614
Claims handling expenses								2,757
Total net central estimate								22,371
Risk margin								2,893
Total net outstanding claims per Statement of Financial Position								25,264

25. PROVISIONS

	2011 \$'000	2010 \$'000
Employee benefits	431	184
	431	184
Current	347	166
Non-Current	84	18
	431	184

ACE INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

26. SHARE CAPITAL

	2011 \$000	2010 \$000
Authorised capital at 1 January	16,900	16,900
Shares issued during the year	-	-
Authorised capital at 31 December	16,900	16,900

As at 31 December 2011, the Company had 16,899,558 (2010: 16,899,558) ordinary shares that were issued for 100 cents per share. All issued shares are fully paid.

27. RESERVES AND RETAINED EARNINGS

(a) Reserves

Property revaluation reserve	1,242	1,002
	1,242	1,002

Movements:

Property revaluation reserve:		
Balance at the beginning of the year	1,002	-
Revaluation	240	1,002
Balance at end of year	1,242	1,002

(b) Retained earnings

Balance at the beginning of year	12,757	5,488
Net profit for the year	12,986	7,269
Balance at end of year	25,743	12,757

(c) Nature and purpose of reserves

(i) Property revaluation reserve

The property, plant and equipment revaluation reserve is used to record increments and decrements on the revaluation of owner occupied freehold land and buildings. Revaluation increments and decrements are taken directly to the reserve account as described in accounting note 2.11.

ACE INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

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 statements of the Company.

(b) Operating lease commitments

	2011 \$000	2010 \$000
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:		
Not later than one year	375	346
Later than one year but not later than five years	196	439
Later than five years	-	34
Non cancellable operating leases	571	819

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

The Company has received personal grievance claims from an existing employee (formerly a contracted agent with Combined Insurance) and two contracted agents in the Combined Division. The employee has formally commenced proceedings in the Employment Relations Authority seeking compensation and damages, currently unquantified, in respect of his current employment and for alleged unpaid entitlements whilst he was an agent. His claims include that he was an employee whilst an agent, not an independent contractor. Both agents are also seeking damages, which have also not yet been quantified, based on allegations that they are and always have been employees rather than independent contractors. The Company has legal representation in respect of all 3 claims.

As at 31 December 2010, there were no other contingent liabilities.

29. REMUNERATION OF AUDITORS

During the year the auditors of the Company, PricewaterhouseCoopers, were paid for the following services:

Assurance services	2011 \$	2010 \$
Audit services		
Fees paid to PricewaterhouseCoopers firm:		
- Audit and review of financial report (2011: PricewaterhouseCoopers Australia; 2010: PricewaterhouseCoopers New Zealand)	133,000	152,000
- Audit of regulatory return	5,000	5,000
Total remuneration for audit services	138,000	157,000
Taxation services		
Fees paid to PricewaterhouseCoopers New Zealand firm for Tax compliance and advisory services	47,690	58,000
Total remuneration for taxation services	47,690	58,000

It is the Company's policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where PricewaterhouseCoopers expertise and experience with the Company are important and these assignments are obtained on a competitive basis. These assignments are principally tax advice and other advisory services.

ACE INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

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 Zurich, Switzerland.

(b) Directors and key executives

The following persons were directors of ACE Insurance Limited during the financial year: Kenneth Brown (Chairman), Jarrod Hill, Alexander Houvardas, Paul Martin and Giles Ward (all executive directors).

Subsequent to year end, Graeme Evans was appointed Chairman and non-executive director, along with David Kennedy who was appointed as a non-executive director, both on 1 May 2012. Kenneth Brown, Alexander Houvardas and Jarrod Hill resigned as directors on the same day.

(c) Key management compensation

Key management personnel include the directors and six key roles performed by key executives during the year (2010: six key roles) with the influence and authority to execute the strategic direction of the Company during the financial year. Total compensation for key management personnel is set out as follows:

	2011	2010
	\$	\$
Short term employee benefits	668,690	531,210
Post employment benefits	52,906	43,789
Other long term benefits	618	450
Termination benefits	-	1,878
Share based payments	130,599	165,603
Total	852,813	742,930

(d) Transactions and balances

The Company has transactions in the normal course of business with fellow subsidiaries. These comprise of insurance and reinsurance transactions (based on written premiums and incurred claims), and management and support services. The significant transactions are as follows:

	2011	2010
	\$	\$
Expenses with commonly controlled entities:		
Reinsurance premiums	55,086,548	34,010,674
Management and systems support	4,086,308	3,873,186
Commissions paid	147,924	275,039
Losses paid	66,068	28,569
Revenue with commonly controlled entities:		
Reinsurance and other recoveries revenue	242,148,71	27,717,411
Commissions received	14,947,689	6,906,176
Premiums assumed	1,020,072	1,426,252

ACE INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

30. RELATED PARTIES (continued)

(e) Outstanding balances

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	2011 \$	2010 \$
<u>Receivables:</u>		
Commonly controlled entities with the Ultimate Parent	221,812,515	38,546,133
<u>Payables:</u>		
Commonly controlled entities with the Ultimate Parent	5,219,868	337,460

No impairment has been recognised in relation to any outstanding balances, and no impairment has been recognised in respect of debts due from related parties.

(f) Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates. Services are usually negotiated with related parties on a cost-plus basis, allowing a reasonable profit margin. Outstanding balances are unsecured and are repayable in cash.

31. RECONCILIATION OF NET OPERATING CASH FLOWS

	2011 \$000	2010 \$000
Operating profit after income tax	12,986	7,269
Depreciation and amortisation	587	209
Fair value change on financial assets	(455)	(349)
Change in operating assets and liabilities:		
Increase/(Decrease) in unearned premium reserve	9,092	4,246
Increase/(Decrease) in unexpired risk liability	(547)	(1,111)
Increase/(Decrease) in outstanding claims	193,970	15,181
Increase/(Decrease) in trade and other creditors	3,277	(2,039)
Increase/(Decrease) in employee entitlements	247	(7)
Increase/(Decrease) in deferred tax liabilities	270	(408)
Increase/(Decrease) in tax liabilities	4,241	-
Decrease/(Increase) in deferred insurance costs	(4,859)	(223)
Decrease/(Increase) in other receivables	(5,346)	(1,266)
Decrease/(Increase) in policyholder debtors	(5,731)	(4,794)
Decrease/(Increase) in reinsurance and other recoveries	(197,668)	(16,955)
Decrease/(Increase) in deferred tax assets	64	884
Decrease/(Increase) in tax receivable	301	1,435
Decrease/(Increase) in other assets	(6)	-
Net cash inflow from operating activities	10,423	2,072

32. EVENTS OCCURRING AFTER BALANCE DATE

The directors are not aware of any matter or circumstance not otherwise dealt with in this report that has significantly or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company in subsequent financial years.

ACE INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

33. CREDIT RATING

On 9 August 2011, 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, 3,021 restricted ordinary shares were awarded during the year ended 31 December 2011 (2010: 4,381) and nil (2010: 3,865) restricted ordinary shares were transferred from other ACE entities due to employee transfers during the year ended 31 December 2011. 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 \$300,221 (2010: NZD \$28,749).

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 \$62,629 (2010: NZD \$97,467).

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

	2011		2010	
	Average exercise price in NZD per share	Options	Average exercise price in NZD per share	Options
At 1 January		10,689		4,080
Granted	83.86	2,514	65.13	8,760
Forfeited	-	-	49.79	(810)
Exercised	65.58	(2,860)	49.26	(1,341)
Lapsed		-		-
At 31 December		<u>10,343</u>		<u>10,689</u>

Out of the 10,343 outstanding options (2010: 10,869 options), 4,210 options (2010: 4,252) were exercisable. Options exercised in 2011 resulted in 2,860 shares (2010: 1,341) being issued at 65.58 NZD (2010: 65.13). The weighted average remaining life of the share options outstanding at the end of the period is 7 years (2010: 7 years).

ACE INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

35. SHARE BASED PAYMENT TRANSACTIONS (continued)

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	
		2011	2010
2011	-	-	200
2012	58.77	450	450
2013	36.91	700	700
2014	58.31	510	510
2015	59.54	180	180
2016	75.50	-	190
2017	75.15	290	535
2018	80.70	465	1,170
2019	51.55	2,324	3,224
2020	67.43	2,910	3,530
2021	83.86	2,514	-
		<u>10,343</u>	<u>10,689</u>

The weighted average fair value of options granted during the period determined using the Black-Scholes valuation model was 18.98 NZD per option (2010: 15.11 NZD). The significant inputs into the model were share price of 83.86 NZD (2010: 65.13 NZD), at the grant date, the exercise price shown above, volatility of 29.00% (2010: 30.33%), dividend yield of 2.23% (2010: 2.46%), and an expected option life of 5 years and on annual risk-free interest rate of 2.17% (2010: 2.31%). 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 (2010: NZD \$0).

ACE INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

36. TRANSFER OF INSURANCE BUSINESS

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 were 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 2010 are as follows:

	<i>2011</i>	<i>2010</i>
	<i>\$000</i>	<i>\$000</i>
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 reinsurance premiums	-	4,366
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	-	25,047
LIABILITIES		
Trade and other creditors	-	2,989
Deferred tax liabilities	-	581
Deferred reinsurance commission	-	2,003
Unearned premiums	-	10,916
Outstanding claims	-	6,987
Outstanding claims – Life insurance business	-	73
Outstanding claims – Life assurance fund	-	1,498
TOTAL LIABILITIES	-	25,047
NET ASSETS	-	-