New Zealand

ACE INSURANCE LIMITED

FINANCIAL REPORT

31 DECEMBER 2013

ACE INSURANCE LIMITED

FINANCIAL REPORT 2013

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ACE INSURANCE LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

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 2013.

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 45 for issue on 9 May 2014.

9th of May 2014

For and on behalf of the Board of Directors

Director	Director
Date 9 May 2014	Date 9 May 2014

Independent Auditor's 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 6 to 45, which comprise the statement of financial position as at 31 December 2013, the statement of comprehensive income, the statement of changes in equity and the 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 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.

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 auditor's 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 capacities as auditors and providers of other assurance and taxation services. These services have not impaired our independence as auditors of the Company.

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pwc

Opinion

In our opinion, the financial statements on pages 6 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 2013, 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 2013:

(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 Use of our Report

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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

PricewaterhouseCoopers

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 2013. I was responsible for the execution of the audit and delivery of our firm's audit report. The audit work completed on 9 May 2014 and an unqualified opinion was issued.

RB

R Balding
Partner

Sydney
9 May 2014

ACE INSURANCE LIMITED

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2013

	NOTE	*2013*	*2012*
		$'000	*$'000*
Net premium revenue		47,948	43,459
Net claims incurred	9	(17,211)	(24,769)
Other underwriting expenses	7	(28,213)	(28,059)
Other underwriting revenue	5	16,381	18,233
Underwriting profit		18,905	8,864
Net investment income	6	912	2,704
Profit before income tax		19,817	11,568
Income tax expense	8	(5,549)	(2,646)
Profit after income tax		14,268	8,922
Profit for the year attributable to owners of the Company		14,268	8,922
Other Comprehensive Income			
Gain on revaluation of land and buildings	24(a)	400	-
Other comprehensive income for the year, net of tax		400	-
Total comprehensive income for the year, net of tax attributable to owners of the Company		14,668	8,922

The above statement of comprehensive income should be read in conjunction with the accompanying notes

ACE INSURANCE LIMITED

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2013

	Note	2013 $000	2012 $000
ASSETS			
Cash and cash equivalents	10	23,962	7,871
Financial assets at fair value through profit or loss	13	69,808	68,193
Trade and other receivables	11	32,892	39,316
Reinsurance and other recoveries receivable	12	160,484	177,793
Reinsurance and other recoveries receivable – Life insurance business	16	33	27
Reinsurance and other recoveries receivable – Life assurance fund	16	914	914
Deferred insurance costs	15	22,757	25,130
Tax refund receivable		-	769
Deferred tax assets	18	642	678
Property, plant and equipment	17	3,463	2,941
TOTAL ASSETS		**314,955**	**323,632**
LIABILITIES			
Trade and other payables	19	17,765	15,623
Current tax liabilities		2,504	-
Outstanding claims	21	183,685	201,743
Outstanding claims – Life insurance business	16	47	39
Outstanding claims – Life assurance fund	16	1,305	1,342
Provisions	22	332	366
Unearned premiums	20	57,949	57,640
Deferred tax liability	18	893	1,072
TOTAL LIABILITIES		**264,480**	**277,825**
NET ASSETS		**50,475**	**45,807**
EQUITY			
Share capital	23	16,900	16,900
Reserves	24(a)	1,642	1,242
Retained earnings	24(b)	31,933	27,665
TOTAL EQUITY		**50,475**	**45,807**

The above statement of financial position should be read in conjunction with the accompanying notes

Director

Date 9 May 2014

Director

Date 9 May 2014

ACE INSURANCE LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2013

	NOTE	CONTRIBUTED EQUITY $000	RESERVES $000	RETAINED EARNINGS $000	TOTAL $000
At 1 January 2012		**16,900**	**1,242**	**25,743**	**43,885**
Profit for the year		-	-	8,922	8,922
Revaluation gain on land and buildings	24(a)	-	-	-	-
Total comprehensive income for the year		-	-	8,922	8,922
Transaction with owners:					
Ordinary dividends		-	-	(7,000)	(7,000)
Total transactions with owners		-	-	(7,000)	(7,000)
At 31 December 2012	23, 24	**16,900**	**1,242**	**27,665**	**45,807**

	NOTE	CONTRIBUTED EQUITY $000	RESERVES $000	RETAINED EARNINGS $000	TOTAL $000
At 1 January 2013		**16,900**	**1,242**	**27,665**	**45,807**
Profit for the year		-	-	14,268	14,268
Revaluation gain on land and buildings	24(a)	-	400	-	400
Total comprehensive income for the year		-	400	14,268	14,668
Transaction with owners:					
Ordinary dividends		-	-	(10,000)	(10,000)
Total transactions with owners		-	-	(10,000)	(10,000)
At 31 December 2013	23, 24	**16,900**	**1,642**	**31,933**	**50,475**

The above statement of changes in equity should be read in conjunction with the accompanying notes

ACE INSURANCE LIMITED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2013

	NOTE	2013 $000	2012 $000
OPERATING ACTIVITIES			
Premiums received		125,769	123,906
Reinsurance and other recoveries received		59,929	140,698
Interest received		4,194	4,274
Rental income received		373	313
Other underwriting revenue		16,381	18,233
Claims paid		(73,750)	(163,862)
Outwards reinsurance paid		(75,045)	(82,644)
Acquisition expenses paid		(8,000)	(7,653)
Other underwriting expenses		(16,177)	(20,467)
Income tax paid		(2,420)	(7,505)
Net cash inflows from operating activities	29	**31,254**	**5,293**
INVESTING ACTIVITIES			
Proceeds from sale of financial assets		22,160	28,855
Purchase of financial assets		(27,107)	(34,037)
Payments for property, plant & equipment		(216)	(17)
Proceeds from sale of property, plant & equipment		-	46
Net cash outflows from investing activities		**(5,163)**	**(5,153)**
FINANCING ACTIVITIES			
Dividends paid		(10,000)	(7,000)
Net cash outflows from financing activities		**(10,000)**	**(7,000)**
Net increase in cash held		16,091	(6,860)
Cash at beginning of year		7,871	14,731
Cash at end of year	10	**23,962**	**7,871**

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 2013

Contents of the notes to the financial statements

1. GENERAL INFORMATION

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

The Company is a for-profit entity. 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 9 May 2014. The Directors have the power to amend the financial statements after issue.

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. The financial statements are presented in New Zealand dollars, and values are rounded to the nearest thousand dollars, or in certain cases, the nearest dollar.

(i) Interpretations to published standards which became effective for annual reporting periods commencing 1 January 2013

The Company mandatorily adopted the following accounting policies which became effective for annual reporting periods commencing 1 January 2013. These standards have introduced new disclosures but did not materially affect the amounts recognised in the financial statements.

- NZ IFRS 13: Fair Value Measurement (Application date: 1 January 2013)
- NZ IAS 19: Employee Benefits (Application date: 1 January 2013)

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

The following new interpretations to existing standards have been published that are mandatory for the Company's accounting periods beginning on or after 1 January 2014, or later periods, but that the Company has not early adopted. When applied in future periods, these amended standards are not expected to have a material impact on the Company's results or financial position, however they may have an impact on disclosures.

- 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)

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 ("the 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.

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 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, 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.

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.

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	7% to 13%
Office equipment	25%

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 loans 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, 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.

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.

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 Jeff Uhl FSA, MAAA where he 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%.

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.

3. RISK MANAGEMENT POLICIES AND PROCEDURES (continued)

(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.

(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 21(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:

	2013	**2012**
Discounted average weighted term to settlement from reporting date	1.36	1.40
Ultimate claim numbers - current accident year	4,469	4,454
Average claims size – current accident year	10,380	10,515
Indirect claims handling expense rate	1.4%	1.4%
Discount rate	3.4%	2.7%

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% (2012: 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.

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		55,663	17,211	-
Total equity per balance sheet		-	-	50,475
Variables:				
Discounted average weighted term to settlement	+0.5 years	52,585	16,799	50,764
	-0.5years	58,795	17,631	50,181
Ultimate claim number	+10%	60,602	19,103	49,151
	-10%	50,725	15,319	51,800
Average claims size	+10%	60,602	19,103	49,151
	-10%	50,725	15,319	51,800
Indirect claims handling expense rate	+1%	57,475	19,022	49,208
	-1%	53,853	15,401	51,743
Discount rate	+1%	54,333	16,891	50,699
	-1%	57,017	17,676	50,150

(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.

5. REVENUE

	Note	*2013* *$'000*	*2012* *$'000*
Revenue from ordinary activities			
Premium revenue:			
Direct		121,952	125,200
Inwards reinsurance		1,365	1,136
		123,317	126,336
Reinsurance and other recoveries revenue	9	38,452	69,558
Investment revenue:			
Investment income	6	4,245	4,430
Commission revenue		16,381	18,233
Total revenue from ordinary activities		182,395	218,557

6. INVESTMENT INCOME

Interest		4,090	4,110
Rental and other		373	313
Foreign exchange losses		(218)	7
Investment and other income before fair value gains	5	4,245	4,430
Net realised and unrealised gains on financial assets held at fair value through profit or loss		(3,333)	(1,726)
Net investment income		912	2,704

7. EXPENSES

	NOTE	*2013* *$'000*	*2012* *$'000*
Claims expense	9	55,663	94,327
Outwards reinsurance expense		75,369	82,877
Acquisition expenses		8,033	7,858
Underwriting expenses		9,807	9,057
Commission expense		10,373	11,144
Total expenses		159,245	205,263

8. TAXATION

Profit before income tax		19,817	11,568
Permanent difference:			
Expenditure not deductible for tax purposes		2	78
Profit subject to tax		19,819	11,646
Prima facie tax payable at 28% (2012: 28%)		5,549	3,261
Over provision in prior year – current tax		-	(937)
Under provision in prior year – deferred tax		-	322
Income tax recognised in statement of comprehensive income		**5,549**	**2,646**
Comprising:			
Estimated current year tax assessment		5,692	3,432
Over provision in prior year		-	(937)
Net movement in deferred tax	18	(143)	151
		5,549	**2,646**
IMPUTATION BALANCES			
Balance at the beginning of the year		5,320	1,585
Tax payments (net of refunds)		3,666	6,457
Dividend paid imputation credit		-	(2,722)
Balance at the end of the year		8,986	5,320

9. NET CLAIMS INCURRED

	2013 Current Year $'000	Prior Year $'000	Total $'000	*2012* Current Year $'000	Prior Year $'000	Total $'000
Gross claims expense						
Direct	53,592	1,803	55,395	56,101	36,908	93,009
Discount movement	(1,090)	1,358	268	(773)	2,091	1,318
Discounted gross claims expense	52,502	3,161	55,663	55,328	38,999	94,327
Reinsurance and other recoveries revenue						
Reinsurance and other recoveries revenue – undiscounted	(33,394)	(4,549)	(37,943)	(25,478)	(42,749)	(68,227)
Discount movement	191	(700)	(509)	(170)	(1,161)	(1,331)
Discounted reinsurance and other recoveries revenue	(33,203)	(5,249)	(38,452)	(25,648)	(43,910)	(69,558)
Net claims incurred	19,299	(2,088)	17,211	29,680	(4,911)	24,769

10. CASH AND CASH EQUIVALENTS

	2013 *$000*	*2012* *$000*
Cash on hand and at bank	21,030	5,011
Deposits at call	2,932	2,860
Total	**23,962**	**7,871**

(a) Cash at bank and on hand

These are interest bearing.

(b) Deposits at call

Short term deposits are bearing floating interest rates averaging 2.40% (2012: 2.72%). These deposits are at call.

11. TRADE AND OTHER RECEIVABLES

	2013 $'000	2012 $'000
Premiums and other trade debtors:		
Premiums and other trade debtors receivable – direct insurance	31,928	34,176
Less impairment	(200)	(250)
	31,728	33,926
Premiums and other trade debtors receivable – inwards reinsurance	233	179
Other receivables	931	5,211
Total trade and other receivables	32,892	39,316
Current	32,892	39,316
Non current	-	-
Total	32,892	39,316

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

	2013 $'000	2012 $'000
Opening balance as at 1 January	250	250
Provision for impairment recognised/(released) during the year	(50)	-
Total	200	250

12. REINSURANCE AND OTHER RECOVERIES RECEIVABLE

	2013 $'000	2012 $'000
Reinsurance recoveries on claims paid	1,415	1,421
Expected future reinsurance recoveries on outstanding claims	162,246	180,058
Discount to present value	(3,177)	(3,686)
Total reinsurance and other recoveries	160,484	177,793
Current	147,662	139,701
Non current	12,822	38,092
Total	160,484	177,793

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2013 *$'000*	*2012* *$'000*
Government bonds	52,214	48,502
Corporate bonds	17,454	19,549
Life insurance policy loans	140	142
Total financial assets at fair value through profit or loss	69,808	68,193
Current	6,033	18,235
Non current	63,775	49,958
	69,808	68,193

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	3%	2%
AA	91%	91%
A	4%	5%
Unrated[1]	2%	2%
Total	100%	100%

[1] This represents financial assets rated by Moodys as Baa3.

A sensitivity analysis has been carried out on the portfolio as at the end of the 2012 and 2013 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:

	Upgraded Impact on Investments ($)	Downgraded Impact on Investments ($)	Upgraded Impact on Equity ($)	Downgraded Impact on Equity ($)
2012	374,030	(374,030)	269,302	(269,302)
2013	325,093	(325,093)	234,067	(234,067)

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 ($)	Downward Impact on Equity ($)
2012	(1,591,916)	1,591,916	(1,146,179)	1,146,719
2013	(1,719,391)	1,719,391	(1,237,962)	1,237,962

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.

2013	Notes	Floating interest rate $'000	Fixed interest maturing in: 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	23,962	-	-	-	-	-	-	-	23,962
Receivables	11,12	-	-	-	-	-	-	-	34,307	34,307
Financial assets at fair value through profit or loss	13	-	6,033	22,730	2,526	35,648	2,731	140	-	69,808
		23,962	6,033	22,730	2,526	35,648	2,731	140	34,307	128,077
Weighted average interest rate		2.30%	3.56%	3.43%	4.55%	4.00%	5.13%	6.00%		

2012	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	Non-interest bearing $'000	Total $'000
Financial assets										
Cash and Cash equivalents	10	7,871	-	-	-	-	-	-	-	7,871
Receivables	11,12	-	-	-	-	-	-	-	40,737	40,737
Financial assets at fair value through profit or loss	13	-	18,773	6,117	15,443	2,570	25,148	142	-	68,193
		7,871	18,773	6,117	15,443	2,570	25,148	142	40,737	116,801
Weighted average interest rate		2.78%	2.66%	3.63%	3.04%	4.17%	2.96%	6.00%	-	

(b) Credit risk exposure

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

14. FINANCIAL INSTRUMENTS (CONT'D)

(c) Fair value measurement of financial assets and liabilities

Assets and liabilities recorded at fair value in the statement of financial position are measured and classified in a hierarchy for disclosure purposes consisting of three "levels" based on the observability of inputs available in the market place used to measure the fair values as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities,
Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly, and
Level 3: inputs that are not based on observable market data.

The following table presents information about assets carried at fair value and indicates the level of fair value measurement based on the levels of the input used. 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).

	Fair value hierarchy			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total Fair value $'000
As at 31 December 2013:				
Government bonds	-	52,214	-	52,214
Corporate bonds	-	17,454	-	17,454
Life insurance policy loans	-	140	-	140
	-	69,808	-	69,808
As at 31 December 2012:				
Government bonds	-	48,502	-	48,502
Corporate bonds	-	19,549	-	19,549
Life insurance policy loans	-	142	-	142
	-	68,193	-	68,193

The fair value of other financial assets and financial liabilities approximate their carrying amounts.

The Company had no transfers between Level 1 and Level 3 during the year ended 31 December 2013. There were no Level 3 holdings during the year ended 31 December 2013.

15. DEFERRED INSURANCE COSTS

	2013 *$'000*	*2012* *$'000*
Deferred acquisition costs as at 1 January	3,029	3,131
Acquisition costs deferred	2,498	3,029
Amortisation charged to income	(3,029)	(3,131)
Deferred acquisition costs as at 31 December	2,498	3,029
Deferred reinsurance premiums at 1 January	22,101	22,138
Deferral of reinsurance premiums on contracts entered into in the period	20,643	22,308
Earning of reinsurance premiums on contracts entered into in previous periods	(22,485)	(22,345)
Deferred reinsurance premiums at 31 December	20,259	22,101
Total deferred insurance costs	22,757	25,130

16. LIFE INSURANCE BUSINESS

Net outstanding claims liability		
Outstanding claims liability	47	39
Reinsurance and other recoveries receivable	(33)	(27)
Asset and liability included in Statement of Financial Position	14	12
Life assurance fund		
Life assurance fund as at 1 January	428	684
Renewal premiums received	67	71
Less:		
Claims paid/incurred	(89)	(221)
Surrender of policies	(37)	(46)
Reinsurance recoveries	6	(77)
	375	411
Outstanding claims liability – Life assurance fund	1,305	1,342
Reinsurance and other recoveries receivable – Life assurance fund	(914)	(914)
Net Life assurance fund as at 31 December	391	428
Loss included in Statement of Comprehensive Income	**(16)**	**(17)**

17. PROPERTY, PLANT AND EQUIPMENT

	2013 *$'000*	*2012* *$'000*
Land and building		
Valuation at 1 January	2,890	2,890
Revaluation	400	-
Valuation at 31 December	3,290	2,890
Office equipment and fittings		
At 31 December:		
Opening net book value	51	446
Additions	187	17
Disposals	(4)	(98)
Accumulated depreciation on disposal	2	84
Depreciation charge for year	(92)	(366)
Work in progress	29	(32)
Closing net book value	173	51
At 31 December:		
Cost	2,276	2,062
Accumulated depreciation	(2,103)	(2,011)
Net book value	173	51
Total property, plant and equipment	3,463	2,941

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 2013 and 2012 valuations were based on independent assessments by qualified valuers. The revaluation surplus was credited to the property revaluation reserve (Note 24(a)).

ACE INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

18. DEFERRED TAX

Total deferred tax assets	642	678
Total deferred tax liabilities	(893)	(1,072)
Net deferred tax liability	(251)	(394)
Movements:		
Opening balance 1 January	(394)	(243)
Prior period adjustment	-	(323)
Credited to Statement of Comprehensive Income	143	172
Closing balance at 31 December	(251)	(394)
Deferred tax assets		
At 1 January	678	634
Prior period adjustment	-	(99)
Depreciation	(32)	27
Accrued expenses	42	(31)
Employee benefits	(46)	147
At 31 December	642	678
Deferred tax liabilities		
At 1 January	1,072	877
Prior period adjustment	(30)	224
Deferred acquisition costs	(149)	(29)
At 31 December	893	1,072

19. TRADE AND OTHER PAYABLES

	2013 *$000*	*2012* *$000*
Outwards reinsurance expense liability – balance due to reinsurers:		
Related companies	969	3,032
Non related companies	5,347	4,804
Other creditors and accruals	11,449	7,787
Total trade and other payables	17,765	15,623
Current	17,765	15,623
Non-current	-	-
	17,765	15,623

20. UNEARNED PREMIUMS

Unearned premium liability as at 1 January	57,640	53,466
Movement in unearned premium		
Deferral of premiums on contracts written at year end	57,775	57,404
Earning of premiums deferred in prior years	(57,466)	(53,230)
Unearned premium liability as at 3 December	57,949	57,640
Current	56,483	57,125
Non-current	1,466	515
	57,949	57,640

The unearned premium liability is subject to a Liability Adequacy Test as described in accounting policy (2.8). The liability adequacy test identified a surplus in respect of all portfolios as at 31 December 2013. (2012: Surplus).

21. OUTSTANDING CLAIMS

	2013 *$000*	*2012* *$000*
(a) Outstanding claims liability		
Central estimate of outstanding claims liability	163,882	179,874
Risk margin	21,858	23,968
Claim handling expenses	2,379	2,604
Total undiscounted claims liability	188,119	206,446
Discount to present value	(4,434)	(4,703)
Total discounted claims liability	**183,685**	**201,743**
Current	161,915	153,734
Non-current	21,770	48,009
	183,685	**201,743**

(b) Gross risk margins applied

	2013	2012
New Zealand	13.1%	13.1%

(c) Reconciliation of movement in discounted outstanding claims liability

		2013			**2012**	
	Gross $'000	Reinsurance $'000	Net $'000	Gross $'000	Reinsurance $'000	Net $'000
Brought forward	201,743	176,372	25,371	271,428	246,164	25,264
Effect of changes in assumptions	(6,194)	(5,707)	(487)	49,682	48,276	1,406
Increase in claims incurred/recoveries anticipated over the year	61,857	44,159	17,698	44,645	21,282	23,363
Incurred claims recognised in statement of comprehensive income	55,663	38,452	17,211	94,327	69,558	24,769
Claims payments/recoveries during the year	(73,721)	(55,755)	(17,966)	(164,012)	(139,350)	(24,662)
Carried forward	183,685	159,069	24,616	201,743	176,372	25,371

21. 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	2007 & Prior $000	2008 $000	2009 $000	2010 $000	2011 $000	2012 $000	2013 $000	Total $000
Estimate of ultimate claims cost:								
At end of accident year		7,776	5,867	6,396	6,106	8,434	7,384	
One year later		9,382	5,612	5,250	5,296	5,149	-	
Two years later		8,530	4,663	4,298	4,186	-	-	
Three years later		7,098	4,264	4,372	-	-	-	
Four years later		6,131	4,989	-	-	-	-	
Five years later		6,663	-	-	-	-	-	
Six years later								
Current estimate of cumulative claims cost		6,663	4,989	4,372	4,186	5,149	7,384	
Cumulative payments		5,290	2,705	2,008	965	697	335	
Outstanding claims undiscounted	11,920	1,373	2,284	2,364	3,221	4,452	7,049	32,663
Discount	395	67	102	137	217	291	703	1,912
Outstanding claims								30,751
Short tail outstanding claims								129,334
Claims handling expenses								2,268
Total gross central estimate								162,353
Risk margin								21,332
Total gross outstanding claims per statement of financial position								**183,685**

21. OUTSTANDING CLAIMS (continued)

Net

Accident year	2007 & Prior $000	2008 $000	2009 $000	2010 $000	2011 $000	2012 $000	2013 $000	Total $000
Estimate of ultimate claims cost:								
At end of accident year		5,157	3,192	3,278	3,281	3,125	3,482	
One year later		5,263	2,759	2,604	2,745	2,386		
Two years later		4,816	2,807	2,308	2,252	-		
Three years later		4,095	3,124	2,769	-	-		
Four years later		3,448	2,814	-	-	-		
Five years later		3,338						
Current estimate of cumulative claims cost		3,338	2,814	2,769	2,252	2,386	3,482	
Cumulative payments		3,025	2,212	1,943	828	632	257	
Outstanding claims undiscounted	2,612	313	602	826	1,424	1,754	3,225	10,756
Discount	114	20	43	58	93	122	350	800
Outstanding claims								9,956
Short tail outstanding claims								9,542
Claims handling expenses								2,268
Total net central estimate								21,766
Risk margin								2,850
Total net outstanding claims per statement of financial position								**24,616**

22. PROVISIONS

	2013 $'000	*2012 $'000*
Employee benefits	332	366
	332	366
Current	260	270
Non-Current	72	96
	332	366

23. SHARE CAPITAL

	2013 $000	2012 $000
Issued share capital at 1 January	16,900	16,900
Shares issued during the year	-	-
Issued share capital at 31 December	**16,900**	**16,900**

As at 31 December 2013, the Company had 16,899,558 (2012: 16,899,558) ordinary shares that were issued for 100 cents per share. All issued shares are fully paid. Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. Each share is entitled to one vote.

24. RESERVES AND RETAINED EARNINGS

(a) Reserves

Property revaluation reserve	1,642	1,242
	1,642	1,242

Movements:

Property revaluation reserve:		
Balance at the beginning of the year	1,242	1,242
Revaluation	400	-
Balance at end of year	**1,642**	**1,242**

(b) Retained earnings

Balance at the beginning of year	27,665	25,743
Profit for the year	14,268	8,922
Dividends paid	(10,000)	(7,000)
Balance at end of year	**31,933**	**27,665**

(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.

25. SOLVENCY CAPITAL REQUIREMENTS

The Company maintains a Minimum Solvency Capital policy that provides guidance to the level of capital maintained and approved by the Board of Directors. The objective of this policy is to hold sufficient levels of capital that is commensurate with the Company's overall risk profile and to maintain a level that enables efficient use of capital.

The Minimum Solvency Capital required to be retained to meet solvency requirements are shown below. The Actual Solvency Capital exceeds the minimum requirements by $22,645,000 (2012: $15,761,000).

	2013			*2012*		
	Non-Life	*Life*	*Entity Solvency*	*Non-Life*	*Life*	*Entity Solvency*
	$000	*$000*	*$000*	*$000*	*$000*	*$000*
Actual Solvency Capital	50,430	45	50,475	45,772	35	45,807
Minimum Solvency Capital	27,807	23	27,830	30,020	26	30,046
Solvency Margin	22,623	22	22,645	15,752	9	15,761
Solvency Coverage Multiple	1.81	1.92	1.81	1.52	1.37	1.52

The methodology and bases for determining the Solvency Margin are in accordance with the requirements of the Solvency Standards for Non-life and Life Insurance Business as published by the Reserve Bank of New Zealand. The Life business is in run-off and not material to the company's overall operation.

26. 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

	2013	*2012*
	$000	*$000*
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:		
Not later than one year	444	145
Later than one year but not later than five years	1,421	48
Later than five years	77	-
Non cancellable operating leases	1,942	193

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 is not aware of the existence of any contingent liabilities as at reporting date.

27. REMUNERATION OF AUDITORS

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

Assurance services	*2013* *$*	*2012* *$*
Audit services		
Fees paid to PricewaterhouseCoopers Australian firm:		
- Audit and review of financial report	133,000	133,000
- Audit of regulatory return	5,000	5,000
Total remuneration for audit services	**138,000**	**138,000**
Taxation services		
Fees paid to PricewaterhouseCoopers New Zealand firm for Tax compliance and advisory services	34,725	79,000
Total remuneration for taxation services	**34,725**	**79,000**

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.

28. 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: Paul Martin and Giles Ward (executive directors), Graeme Evans (non-executive Chairman) and David Kennedy (non-executive director).

(c) Key management compensation

Key management personnel include the directors and six key roles performed by key executives during the year (2012: 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:

	2013 *$*	*2012* *$*
Short term employee benefits	1,100,155	1,028,581
Post employment benefits	83,972	85,664
Other long term benefits	3,945	4,904
Termination benefits	-	-
Share based payments	161,173	149,147
Total	**1,349,245**	**1,268,296**

28. RELATED PARTIES (continued)

(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:

	2013	***2012***
	$	$
Expenses with commonly controlled entities:		
Reinsurance premiums	64,541,053	69,070,969
Management and systems support	7,435,817	5,887,534
Commissions paid	169,016	140,555
Losses paid	409,707	336,391
Revenue with commonly controlled entities:		
Reinsurance and other recoveries revenue	47,737,853	72,247,379
Commissions received	16,354,941	18,197,216
Premiums assumed	1,832,293	1,136,007
Dividend paid to Parent entity	10,000,000	7,000,000

(e) Outstanding balances

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

	2013	***2012***
	$	*$*
Receivables:		
Commonly controlled entities with the Ultimate Parent	156,778,523	159,630,124
Payables:		
Commonly controlled entities with the Ultimate Parent	1,786,769	3,917,751

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.

29. RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH INFLOWS FROM OPERATING ACTIVITIES

	2013	*2012*
	$000	*$000*
Profit for the year	14,268	8,922
Adjusted for:		
Depreciation and amortisation	92	366
Fair value change on financial assets	3,333	1,726
Change in operating assets and liabilities:		
Increase/(Decrease) in unearned premium reserve	309	4,174
Increase/(Decrease) in outstanding claims	(18,087)	(69,828)
Increase/(Decrease) in trade and other creditors	2,143	97
Increase/(Decrease) in employee entitlements	(34)	(65)
Increase/(Decrease) in deferred tax liabilities	(179)	195
Increase/(Decrease) in tax liabilities	2,504	(4,241)
Decrease/(Increase) in deferred insurance costs	2,373	139
Decrease/(Increase) in other receivables	4,280	1,697
Decrease/(Increase) in policyholder debtors	2,144	(6,687)
Decrease/(Increase) in reinsurance and other recoveries	17,303	69,605
Decrease/(Increase) in deferred tax assets	36	(44)
Decrease/(Increase) in tax receivable	769	(769)
Decrease/(Increase) in other assets	-	6
Net cash inflows from operating activities	**31,254**	**5,293**

30. EVENTS OCCURRING AFTER REPORTING 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.

31. CREDIT RATING

On 22 May 2013, the Company's financial strength rating was upgraded to 'A+/Positive' by rating agency Standard and Poor's in accordance with the Insurance Companies Rating and Inspections Act 1994. This rating was reaffirmed on 10 October 2013.

32. CASH COLLATERAL

Under the Deed of Partial Release executed on 14 June 2013, the Public Trustee maintains cash collateral of $100,000 representing the Company's exposure in relation to workplace accident insurance for policies covering 1 July 1999 to 1 July 2000.

33. 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, 1,568 restricted ordinary shares were awarded during the year ended 31 December 2013 (2012: 2,039) and 221 (2012: 1,166) restricted ordinary shares were transferred to other ACE entities due to employee transfers during the year ended 31 December 2013. 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 $171,860 (2012: NZD $171,860).

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 $33,898 (2012: NZD $33,898).

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

	2013		2012	
	Average exercise price in NZD per share	**Options**	**Average exercise price in NZD per share**	**Options**
At 1 January		8,881		10,343
Granted	103.22	1,741	89.76	1,700
Forfeited	54.05	(456)	-	-
Exercised	60.08	(2,189)	53.88	(1,658)
Transferred out		(357)		(1,504)
At 31 December		7,620		8,881

33. SHARE BASED PAYMENT TRANSACTIONS (continued)

Out of the 7,620 outstanding options (2012: 8,881 options), 4,372 options (2012: 4,658) were exercisable. Options exercised in 2013 resulted in 2,189 shares (2012: 1,658) being issued at 60.08 NZD (2012: 53.88). The weighted average remaining life of the share options outstanding at the end of the period is 6 years (2012: 6 years).

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 2013	Share options 2012
2013	33.33	-	600
2014	52.65	481	510
2015	53.77	180	180
2016	68,18	-	-
2017	67.86	290	290
2018	72.87	465	465
2019	46.55	1,115	1,115
2020	60.89	907	2,260
2021	75.72	1,339	1,762
2022	88.66	1,183	1,700
2023	103.22	1,660	-
		7,620	8,881

The weighted average fair value of options granted during the period determined using the Black-Scholes valuation model was 20.61 NZD per option (2012: 18.82 NZD). The significant inputs into the model were share price of 103.22 NZD (2012: 89.76 NZD), at the grant date, the exercise price shown above, volatility of 28.00% (2012: 30.00%), dividend yield of 2.39% (2012: 2.67%), and an expected option life of 5 years and on annual risk-free interest rate of 0.89% (2012: 1.01%). 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 (2012: NZD $0).

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Company No. 104656
FSP No. 35924

To: Mr Paul Martin, Country President, ACE Insurance Limited

From: Stephen Wilson, Appointed Actuary for ACE Insurance Limited

Cc: Mr G Evans, Mr D Kennedy, Mr G Ward, Mr A Hourvardas, Ms F Eagles, Mr R Roy, Mr B Hammond

Date: 9 May 2014

Re: Section 78 Appointed Actuary's Report - ACE Insurance Limited

1. Introduction and scope

In accordance with section 78 of the *Insurance (Prudential Supervision) Act 2010* (**IPSA**), as the appointed actuary for ACE Insurance Limited (**AIL**), this report documents my review under section 77 of IPSA.

In particular:

- Section 77 (1) of IPSA specifies that "A licensed insurer must ensure that the actuarial information contained in, or used in the preparation of, the financial statements of the insurer and any group financial statements referred to in section 81(1) (*of IPSA*) is reviewed by the appointed actuary."

- Section 77 (3) specifies that the "review must be carried out in accordance with an applicable solvency standard."

- Section 77 (4) specifies that "For the purposes of this section and section 78, actuarial information means—

  (a) information relating to an insurer's calculations of premiums, claims, reserves, dividends, insurance and annuity rates, and technical provisions;

  (b) information relating to assessments of the probability of uncertain future events occurring and the financial implications for the insurer if those events do occur;

  (c) information specified in an applicable solvency standard as being actuarial information for the purposes of this section."

With respect to section 77 (4)(c) of IPSA, section 130 of the Reserve Bank of New Zealand's (RBNZ) Solvency Standard for Non-Life Business, specifies the actuarial information as:

a) the Premium Liabilities as defined in this solvency standard;
b) the Net Outstanding Claims Liability as defined in this solvency standard;
c) the reinsurance and any other recovery asset(s) relevant to the Reinsurance Recovery Risk Capital Charge;
d) any deferred acquisition cost or deferred fee revenue relevant to the Premium Liabilities; and
e) any other information deemed by the appointed actuary to warrant actuarial review.

With respect to section 77 (4)(c) of IPSA, section 144 of the RBNZ's Solvency Standard for Life Business, specifies the actuarial information as:

a) the Policy Liability;
b) the reinsurance and any other recovery asset(s) relevant to the Policy Liability, or relevant to outstanding claims reserves or incurred but not reported claims reserves held outside of the Policy Liability;
c) any deferred or other tax asset relevant to the Policy Liability;
d) any deferred acquisition cost or deferred fee revenue relevant to the Policy Liability;
e) the unvested policyholder benefits liability; and
f) any other information deemed by the appointed actuary to warrant actuarial review for the purpose of profit or solvency reporting.

Each of these items are addressed and documented in detail (to the extent relevant and material) in AIL's Insurance Liability Valuation Report dated 2 May 2014.

Additional analysis has been performed in the preparation of my Financial Condition Report which will be finalised following the AIL Board meeting on 9 May 2014.

2. Information required

a) Name: Stephen James Wilson

b) Work done by the actuary:

I confirm that I have reviewed the following in respect of AIL's financial statements:

- Information relating to an insurer's calculations:

  - **Premiums**

    - Discussions and review of written, earned and unearned premium data with AIL Finance and PwC Auditors

  - In addition, as part of my Insurance Liability Valuation (ILV) I have calculated an amount of unclosed written, earned and unearned premium, gross and net of reinsurance

- **Claims** – As part of my Insurance Liability Valuation Report (ILVR) dated 2 May 2014, I have:

  - Reconciled the actuarial claims data with Finance claims data
  - Analysed AIL's claims data using actuarial techniques

- **Reserves** – As part of my ILVR I have:

  - Reconciled the actuarial claim reserve data with Finance claim reserve data
  - Analysed the strength of AIL's claims reserves using actuarial techniques
  - Had detailed discussions regarding large claim reserve with underwriting and claims departments
  - Determined Insurance Liability Reserves (including both Outstanding Claim Liabilities and Premium Liabilities) in accordance with the Reserve Bank of New Zealand's (RBNZ) Solvency Standards for Non-Life Business and Life Business

- **Dividends** – Reviewed the 2013 and proposed future level of dividends in the context of AIL's current and forecast financial condition as part of my analysis for AIL's Financial Condition Report (FCR), which will be finalized in May 2014

- **Insurance** (and annuity) **rates** – Reviewed the adequacy and profitability of AIL's premium rates as part of my analysis for AIL's FCR

- **Technical provisions** – Determined and documented as part of my ILVR

- Information relating to assessments of the probability of uncertain future events occurring and the financial implications for the insurer if those events do occur

  - An assessment of the probability of uncertain future events has been performed and documented as part of my ILVR

- Information specified in an applicable solvency standard as being actuarial information for the purposes of this section.

  - I have reviewed the information (both actuarial and non-actuarial) required under both the RBNZ's Solvency Standard for Non-Life Business and RBNZ's Solvency Standard for Life Business.

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- I confirm that my review covered:

  - Net outstanding claims as per NZ IFRS 4 including:
    - central estimate of expected claims and recoveries;
    - discounting at a risk free rate;
    - allowance for claim handling expenses; and
    - a risk margin intended to provide the specified probability of sufficiency;

  - The relevant accounting provisions (unearned premium, deferred acquisition cost, deferred reinsurance expense, deferred reinsurance commissions, and unexpired risk);

  - The actuarial estimate of net premium liabilities comprising:

    - determination of the appropriate assessment period for Premium Liabilities;
    - central estimate of expected claims and recoveries;
    - discounting at a risk free rate;
    - allowance for policy administration and claim handling expenses;
    - allowance for the cost of any future **reinsurance** (i.e. that has not yet been purchased) required to cover unexpired risks; and
    - a risk margin intended to provide a 75% POS.

  - Application of the Liability Adequacy Test

  - The level of deferred acquisition cost in the financial statements after the application of the Liability Adequacy Test.

c) Scope and limitations of the review

The scope of my review has been to review the information referred to as “actuarial information” in Section 77 (4) of IPSA, and detailed above, namely:

- information relating to an insurer’s calculations of premiums, claims, reserves, dividends, insurance and annuity rates, and technical provisions;
- information relating to assessments of the probability of uncertain future events occurring and the financial implications for the insurer if those events do occur;
- information specified in an applicable solvency standard as being actuarial information for the purposes of this section; and
- legal advice provided in conjunction with the compilation of the solvency return.

There have been no limitations placed on my review.

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d) The existence of any relationship (other than that of actuary) that the actuary has with, or any interests that the actuary has in, the licensed insurer or any of its subsidiaries

I confirm that I am an employee of a related corporate entity, ACE Insurance Limited (Australia) – which is not a subsidiary of AIL - and I am not a Director of AIL.

e) Whether the actuary has obtained all information and explanations that he or she has required

I confirm that I have obtained all information and explanations required to perform my review.

f) Whether, in the actuary's opinion and from an actuarial perspective:

i) the actuarial information contained in the financial statements and any group financial statements has been appropriately included in those statements (and if not, the respects in which it has been inappropriately included)

ii) the actuarial information used in the preparation of the financial statements and any group financial statements has been used appropriately (and if not, the respects in which it has been used inappropriately).

I confirm that in my opinion, and from an actuarial perspective, the actuarial information contained in AIL's financial statements has been appropriately included and has been used appropriately.

g) Whether, in the actuary's opinion and from an actuarial perspective, the licensed insurer is maintaining the solvency margin that applies under a condition imposed under section 21(2)(b) (as at the balance date of the insurer)

I confirm that in my opinion, and from an actuarial perspective, AIL has maintained the solvency margin in accordance with both the RBNZ's Solvency Standard for Non-Life Business and RBNZ's Solvency Standard for Life Business.

h) in the case of a life insurer, whether, in the actuary's opinion and from an actuarial perspective, the life insurer is maintaining the solvency margins that apply in respect of its statutory funds under a condition imposed under section 21(2)(c) (as at the balance date of the insurer).

Not applicable as AIL is a non-life insurer and, despite having a small amount of life insurance business (in run-off), AIL has been given an exemption from holding statutory funds in respect of this life insurance business.

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Please do not hesitate to contact me if you would like to discuss any aspect of this memorandum.

Stephen Wilson
Appointed Actuary, ACE Insurance Limited

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