ACS (NZ) LIMITED

Formerly "Ansvar Insurance Limited"

Annual report for the financial year ended 31 December 2011

ACS (NZ) LIMITED

FORMERLY "ANSVAR INSURANCE LIMITED"

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2011

ACS (NZ) LIMITED

DIRECTORS' REPORT

The directors of ACS (NZ) Limited ("ACS") submit herewith the annual report for the financial year ended 31 December 2011. In order to comply with the provisions of the Companies Act 1993, the directors report as follows:

Principal activities

The Company's principal activity in the course of the financial year was insurance underwriting.

In relation to the devastating earthquakes, with 185 lives lost in the February earthquake, the company incurred $807 million gross claims and $4 million net claims after reinsurance recoveries. The financial effect on the New Zealand company was significant, with the reported loss for the year being $9.9 million. The total cost of claims in relation to the earthquakes continues to evolve. Due to the complexity of events it will take some considerable time for the final level to be established, and we have made an actuarial assessment of the potential costs. The company has engaged a team of experienced catastrophe claim professionals to assist with the assessment of claims.

Given the unsustainable rise in reinsurance premiums and the financial burden on the company, the Directors took the prudent decision in September to close the operations to new business and after much analysis, cancelled all insurance policies in December. Effective 1 January 2012, the company operates as a claims management business.

As part of the insurance cover cancellation transition, all customers were provided with an opportunity to take up temporary cover, excluding earthquake (natural disasters) cover, from the parent company, Ansvar Insurance Limited (Australia). This was effective 31 December 2011. This interim measure provided customers with sufficient time to find alternative insurance. The expiry dates of the temporary covers were to be the same expiry date as the customers' existing policies with ACS.

Subsequent Events

The Directors wish to note the following events:

- Effective 1 January 2012, the company operates as a claims management business.

- Effective 1 February 2012, the company changed its name from Ansvar Insurance Limited to ACS (NZ) Limited ("ACS").

- In March 2012, the company entered into a commercially priced, arms length reinsurance arrangement with the ultimate parent company, Ecclesiastical Insurance Office plc ("Ecclesiastical"), whereby Ecclesiastical provides a fixed maximum upper limit Property Catastrophe Excess of Loss Reinsurance Contract in respect of the February 2011 earthquake the premium for which is payable in installments. This arrangement is able to be cancelled by Ecclesiastical if the proposed contingent Scheme of Arrangement (referred to below) is not approved.

- In March 2012, the company issued 100,000 new shares at $1.00 each to Ecclesiastical. Ecclesiastical has committed to subscribe a further $4.5 million $1.00 shares at a future date, solely to enable the company to enter into, and to fund, the premiums on the reinsurance arrangement referred to in the paragraph above. As a result, when this occurs, the company will cease to be a subsidiary of Ansvar Insurance Limited (Australia) and will become a subsidiary of Ecclesiastical.

- In April 2012, the company entered into a short term loan facility with Ecclesiastical, for the amount of $20 million. The drawn down loan amount will be utilised to fund certain earthquake claims and will be repaid to Ecclesiastical immediately upon receipt of the appropriate reinsurance recoveries.

- The company has committed substantial resources to claims settlement and is making good progress in resolving existing claims. As at the date hereof the company expects to meet all of its claims in full. However, the claims situation in Canterbury is still developing, and is subject to a high degree of complexity and uncertainty. It will take some time to stabilise, and several years for all claims to be resolved. To protect the situation of claimants in the event of circumstances changing adversely in the future, the company proposes to ask claimants to approve a contingent Scheme of Arrangement. The purpose is to ensure that, regardless of the financial position of the company, its current and future claimants are treated fairly, and claims are settled as quickly and as fully as possible. The proposed Scheme of Arrangement is described as "contingent" because the Scheme arrangements would only be triggered if the company's claims position deteriorated to the point where the company would be insolvent.

ACS (NZ) LIMITED

DIRECTORS' REPORT

Dividends

In February 2011 a dividend of $510,139 was declared in respect of 2010 and paid in March 2011.

In respect of the financial year ended 31 December 2011, the directors have resolved that no dividend be paid or payable to its parent entity (2010: $493,840).

Auditors

In terms of the Companies Act 1993, Deloitte Touche Tohmatsu are to continue in office as the company's auditors.

Results

ACS (NZ) Limited's losses after tax for the year were $9,876,136 (2010: Profit $535,771).

Appropriations

Losses after tax for the year	$ (9,876,136)
Accumulated surplus brought forward	$ 9,978,353
Dividend paid*	$ (510,139)
Accumulated losses carried forward	**$ (407,922)**

*The dividend paid is out of profits in respect of the 2010 financial year.

S211 disclosures

No disclosure has been made pursuant to section 211(1) (a) and (e) to (j) of the Companies Act 1993 ("the Act") following a unanimous decision by the shareholders in accordance with section 211(3) of the Act.

On behalf of the Directors

……………………………………………………
D J Harrison
Chairman

……………………………………………………
B G Harris
Director

26 April 2012

Deloitte.

Independent Auditor's Report to the Shareholders of ACS (NZ) Limited (formerly Ansvar Insurance Limited)

Report on the Financial Statements

We have audited the accompanying financial statements of ACS (NZ) Limited ("the Company"), which comprise the statement of financial position as at 31 December 2011, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information as set out on pages 6 to 37.

Directors' Responsibility for the Financial Statements

The directors of the company are responsible for the preparation of the financial statements that give a true and fair view in accordance with generally accepted accounting practice in New Zealand and for such internal control as the directors determine is necessary to enable the preparation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance 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 auditor considers internal control relevant to the entity's preparation of the 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

Other than in our capacity as auditor and the provision of taxation advice, we have no relationship with or interests in ACS (NZ) Limited.

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

Opinion

In our opinion the financial statements of ACS (NZ) Limited:

a. give a true and fair view of the company's financial position as at 31 December 2011 and of its performance for the year ended on that date; and

b. comply with generally accepted accounting practice in New Zealand.

Member of Deloitte Touche Tohmatsu Limited

Deloitte.

Basis of Accounting

Without modifying our opinion, we draw attention to Note 1 to the financial statements, which describe the basis of accounting. The financial statements have been prepared for the purpose of fulfilling the directors' financial reporting responsibilities under New Zealand law. As a result, the financial statements may not be suitable for another purpose.

Report on Other Legal and Regulatory Requirements

We also report in accordance with section 16 of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 31 December 2011:

- we have obtained all the information and explanations we have required; and
- in our opinion, proper accounting records have been kept by ACS (NZ) Limited, as far as appears from our examination of those records.

DELOITTE TOUCHE TOHMATSU

Peter A. Caldwell
Partner
Chartered Accountants
Melbourne, 26 April 2012

ACS (NZ) LIMITED

STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

	Note	2011 $	2010 $
Direct premium revenue	6a	29,662,354	24,736,149
Outwards reinsurance premium expense	20	(17,833,167)	(12,390,204)
Net premium revenue		**11,829,187**	**12,345,945**
Direct claims expense	17	(651,378,680)	(145,276,873)
Reinsurance and other recoveries revenue	17	638,183,460	138,227,867
Net claims incurred		**(13,195,220)**	**(7,049,006)**
Acquisition costs		(6,481,219)	(4,973,111)
Underwriting expenses		**(6,481,219)**	**(4,973,111)**
Underwriting result		**(7,847,252)**	**323,828**
Interest and dividend revenue		716,553	804,779
Changes in fair value			
Realised (losses)/gains on investments		(737,308)	842
Unrealised gains/(losses) on investments		2,770	(25,001)
Other operating income		165,552	178,889
Finance costs		(17,047)	(19,579)
General and administrative expenses		(2,159,404)	(484,129)
(Loss)/profit for the year before income tax	7b	**(9,876,136)**	**779,629**
Income tax expense relating to ordinary activities	7	-	(243,858)
(Loss)/profit for the year		**(9,876,136)**	**535,771**
Other comprehensive income		-	-
Total comprehensive (loss)/income for the year		**(9,876,136)**	**535,771**

The above Statement of Comprehensive Income is to be read in conjunction with the notes to the financial statements.

ACS (NZ) LIMITED

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011

	Note	2011 $	2010 $
Current assets			
Cash and cash equivalents	28 (a)	5,993,372	2,379,449
Trade and other receivables	9	18,698,106	18,907,194
Current tax asset	12	900	-
Investments	10	551,678	9,233,521
Reinsurance recoveries receivable	11	189,881,640	136,827,148
Total current assets		215,125,696	167,347,312
Non-current assets			
Investments	10	-	3,715,989
Property, plant and equipment	13	-	304,870
Reinsurance recoveries receivable	11	477,270,067	1,761,951
Intangible assets	14	-	10,455
Total non-current assets		477,270,067	5,793,265
Total assets		**692,395,763**	**173,140,577**
Current liabilities			
Trade and other payables	15	14,504,983	3,381,490
Provisions	16	116,218	1,519,538
Current tax liability	12	-	47,600
Outstanding claims liabilities	18	192,597,229	141,109,926
Unearned premium	19 (a)	-	13,731,528
Total current liabilities		207,218,431	159,790,082
Non-current liabilities			
Provisions	16	89,516	89,516
Deferred tax liability	7(c)	-	88,628
Outstanding claims liabilities	18	484,095,739	1,794,000
Total non-current liabilities		484,185,255	1,972,144
Total liabilities		**691,403,686**	**161,762,226**
Net assets		**992,078**	**11,378,353**
Equity			
Issued capital	23	1,400,000	1,400,000
(Accumulated losses)/retained earnings	24	(407,922)	9,978,353
Total equity		**992,078**	**11,378,353**

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

STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

	Issued capital $	Retained Earnings $	Total $
Balance at 1 January 2010	**1,400,000**	**9,936,422**	**11,336,422**
Profit for the year	-	535,771	535,771
Total comprehensive income for the year	**-**	**535,771**	**535,771**
Payment of dividends	-	(493,840)	(493,840)
Balance at 1 January 2011	**1,400,000**	**9,978,353**	**11,378,353**
Loss for the year	-	(9,876,136)	(9,876,136)
Total comprehensive income for the year	**-**	**(9,876,136)**	**(9,876,136)**
Payment of dividends	-	(510,139)	(510,139)
Balance at 31 December 2011	**1,400,000**	**(407,922)**	**992,078**

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

ACS (NZ) LIMITED

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

	Note	2011 $	2010 $
Cash flows from operating activities			
Premiums received		26,858,199	23,321,880
Outwards reinsurance paid		(21,970,208)	(13,906,057)
Claims expense paid		(119,366,526)	(13,720,992)
Reinsurance and other recoveries received		109,620,852	7,063,843
Acquisition costs and other costs paid		(3,499,723)	(5,178,546)
Interest received		711,539	803,744
Other revenue		165,553	178,889
Income tax paid		(48,500)	(259,449)
Net cash used in operating activities	28b	**(7,528,814)**	**(1,696,688)**
Cash flows from investing activities			
Payments for investments		(4,536,246)	(20,806,887)
Proceeds from sale of investments		16,199,540	20,864,436
Payments for plant and equipment		(10,418)	(19,232)
Payments for intangible assets		-	(15,376)
Net cash provided by investing activities		**11,652,876**	**22,941**
Cash flows from financing activities			
Dividends paid		(510,139)	(493,840)
Net cash used in financing activities		**(510,139)**	**(493,840)**
Net increase / (decrease) in cash and cash equivalents		**3,613,923**	**(2,167,587)**
Cash and cash equivalents at the beginning of the financial year		2,379,449	4,547,036
Cash and cash equivalents at the end of the financial year	28a	**5,993,372**	**2,379,449**

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

1. Significant accounting policies

Statement of Compliance

The financial report is a general purpose financial report which has been prepared in accordance with the Financial Reporting Act 1993, Accounting Standards and Interpretations, and complies with other requirements of the law.

The Financial statements have been prepared in accordance with NZ GAAP. They comply with New Zealand equivalents to International Financial Reporting Standards and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities that qualify for and apply differential reporting concessions.

The company took the prudent decision in September 2011 to close the operations to new business and after much analysis, effective 31 December, cancelled all insurance policies.

Effective 1 January 2012, the company now operates as a claims management business.

Effective 1 February 2012, the company changed its name to ACS (NZ) Limited.

The financial statements of the company were authorised for issue by the directors on 26 April 2012.

Basis of Preparation

The financial report has been prepared on the basis of historical cost, except for the revaluation of certain assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets.

All amounts are presented in New Zealand dollars.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

These financial statements are prepared on a going concern basis. The company has a history of profitability before the devastating earthquakes in Canterbury. ACS also has had ready access to financial support and resources when required, from its direct and ultimate parent companies. On 22 November 2011, ACS entered into a lending facility with its direct parent, Ansvar Insurance Limited.

ACS's assets are still greater than its liabilities and can meet its debt commitments as they fall due. Management believes this going concern basis of accounting is appropriate.

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

(a) Principles of general insurance business

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

(b) Premium revenue

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

The pattern of recognition of income over the policy period is based on time, which closely approximates the pattern of risks underwritten. Unearned premium is determined by apportioning the premiums written in the year, after deducting reinsurance.

1. Significant accounting policies (Cont'd)

(c) Claims

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

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

(d) Outwards reinsurance

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

(e) Reinsurance and other recoveries receivable

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

(f) Acquisition costs

Acquisition costs incurred in obtaining insurance contracts are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to revenue that will be recognised in profit or loss in subsequent reporting periods. Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the general insurance contracts to which they relate. This pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue.

In 2011, due to a change in operations and cancellation of insurance policies as at 31 December 2011, acquisition costs were no longer likely to give rise to future revenue and accordingly have been expensed.

(g) Unearned premium liabilities

Unearned premium liability is determined by apportioning the premium written over the period from date of attachment of risk to the expiry of the policy term. Liability adequacy testing is performed in order to recognise any deficiencies in profit or loss arising from the carrying amount of the unearned premium liability less any related deferred acquisition costs and intangible assets not meeting the estimated future claims under current insurance contracts.

The estimated future claims under current insurance contracts are measured using the present value of the expected cash flows relating to future claims and associated expenses (discounted using a risk free discount rate) plus an additional fair value risk margin to reflect the inherent uncertainty of those estimated cash flows. Liability adequacy testing is performed at the level of a portfolio of contracts that are subject to broadly similar risks and are managed together as a single portfolio.

In 2011, due to a change in operations and cancellation of insurance policies as at 31 December 2011, there was no longer a requirement to defer any premiums.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

1. Significant accounting policies (Cont'd)

(h) Financial Assets

Investments are recognised and derecognised on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets that back the insurance provisions of the entity are designated as at fair value through profit or loss (FVTPL) on initial recognition as permitted by NZ IAS 39.

Financial Assets at FVTPL

Financial Assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets. Fair value is determined by reference to the closing bid price of the instrument at balance sheet day.

Loans and receivables

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

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

All debtors exceeding 90 days overdue are considered doubtful and any movements in the resultant provision are recognised in profit or loss.

Recoverability of Reinsurance Debtors is assessed with reference to the Financial Strength rating of each Reinsurer. A provision for impairment is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivable. The provision for impairment is recognised in the profit or loss.

If, in a subsequent period, the amount of the impairment provision changes and the change can be related objectively to an event occurring after the impairment provision was recognised, the previously recognised impairment provision is reversed.

(i) Financial instruments issued by the company

Debt and equity instruments

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

Transaction costs on the issue of equity instruments

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

Interest and dividends

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

1. Significant accounting policies (Cont'd)

(j) Property, plant and equipment

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

Depreciation is provided on property, plant and equipment and is calculated on a diminishing value so as to write off the cost less the estimated residual value of these assets over their estimated useful lives. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period and are listed below:

• Leasehold improvements	Straight line rate of 20%
• Office furniture and fittings	11.40% to 31.20%
• Computer hardware	36.00% to 60.00%

As at 31 December 2011, impairment loss was recognised on all property, plant and equipment as Management perceived no residual / fair value in these assets.

(k) Employee benefits

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

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

Provisions made in respect of employee benefits not expected to be settled within 12 months are measured as the present value of the expected future cash outflows to be made by the economic entity 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 periods of service. Expected future payments are discounted using interest rates on government guaranteed securities with terms to maturity that match, as closely as possible, the estimated future cash outflows.

Defined contribution plans

Contributions to defined contribution superannuation plans are expensed when incurred.

(l) Foreign currency

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

1. Significant accounting policies (Cont'd)

(m) Borrowings

Borrowings are recorded initially at fair value less any transaction costs.

Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the borrowing using the effective interest rate method.

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks and current accounts in banks, net of outstanding bank overdrafts, short term deposits and commercial bills. Bank overdrafts are shown within borrowings in current liabilities in the Statement of financial position.

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

(o) Goods and Services Tax

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

a. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or

b. for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables. Cash flows are included in the statement of cash flows exclusive of GST.

(p) Impairment of Assets

At each reporting date, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

(q) Income Tax

<u>Current tax</u>

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

<u>Deferred tax</u>

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

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

<u>Current and deferred tax for the period</u>

Current and deferred tax is recognised as an expense or income in profit or loss, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity.

(r) Intangible assets

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

It is to be amortised over its useful life and tested for impairment whenever there is an indication that the asset may be impaired. Software is amortised on a straight line basis at a rate of 36% to 48%.

As at 31 December 2011, impairment loss was recognised on all software as Management perceived no residual / fair value in these assets.

(s) Payables

Payables are recognised when the company becomes obliged to make future payments resulting from the purchase of goods and services.

(t) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Operating lease rentals are recognised evenly over the expected period of benefit to the company.

1. Significant accounting policies (Cont'd)

(u) Cash flows

The following are the definitions of the terms used in the statement of cash flow:

- Cash and cash equivalents are considered to be cash on hand and current accounts in the banks, net of bank overdrafts, short term deposits and commercial bills.
- Investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment and of other non-current investments. Investments can include securities not falling within the definition of cash.
- Financing activities are those activities which result in changes in the size and composition of the capital structure of the company. This includes both equity and debt not falling within the definition of cash. Dividends paid in relation to the capital structure are included in financing activities.
- Operating activities include all transaction and other events that are not investing or financing activities.

(v) Standards and interpretations effective in current period

There are no new and revised standards and interpretations adopted in these financial statements affecting the reporting results or financial position.

(w) Capital structure

The capital structure of the company consists only of equity, comprising issued capital, reserves and retained earnings and accumulated losses as disclosed in notes 27 and 29 and on the statement of changes in equity. There is no debt in the structure.

2. Differential reporting

The company qualifies for differential reporting exemptions as described in the Framework for Differential Reporting issued by the New Zealand Institute of Chartered Accountants because the company is not publicly accountable and there is no separation between the shareholders and the governing body. The company has elected to apply all available exemptions except those available under NZIAS 7 cashflow statements, NZIAS 12 income taxes and NZIAS 18 which allows revenue and expenses to be recognised inclusive of goods and services tax.

3. Risk management

The financial condition and operation of the company are affected by a number of key risks including insurance risk, interest rate risk, credit risk, market risk, liquidity risk, financial risk, compliance risk, fiscal risk and operational risk.

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

The company has an objective to control insurance risk thus minimising substantial unexpected losses that would expose the consolidated entity to an adverse financial capital loss.

The Board and senior management of the Company has developed, implemented and maintain a sound and prudent Risk Management Strategy (RMS) and a Reinsurance Management Strategy (REMS).

The RMS and REMS identify the Company's policies and procedures, processes and controls that comprise its risk management and control systems. These systems address all material risks, financial and non-financial, likely to be faced by the Group.

Key aspects of the processes established in the RMS to mitigate risks include:

- The maintenance and use of sophisticated management information systems, which provide up to date, reliable data on the risks to which the business is exposed at any point in time.
- Actuarial models, using information from the management information systems, are used to calculate premiums and monitor claims patterns. Past experience and statistical methods are used as part of the process.
- Documented procedures are followed for underwriting and accepting insurance risks.
- Reinsurance is used to limit the Company's exposure to large single claims and catastrophes.
- The mix of assets in which the company invests is driven by the nature and term of insurance liabilities. The management of assets and liabilities is closely monitored to attempt to match the maturity dates of assets with the expected pattern of claim payments.
- The diversification of business over classes within the reinsurance portfolio, separate geographical segments and large numbers of uncorrelated individual risks seeks to reduce variability in loss experience.

(b) Interest rate risk

None of the financial assets or liabilities arising from insurance or reinsurance contracts entered into by the company is directly exposed to interest rate risk.

Insurance and reinsurance contracts are entered into annually. At the time of entering into the contract, all terms and conditions are negotiable or, in the case of renewals, renegotiable.

The company is exposed to interest rate risk as the company invests funds in fixed interest securities of various maturities. This exposure is closely monitored by the Investment Committee. Assets and liabilities are appropriately matched in terms of type, duration and currency. The Committee's functions include reviewing the effectiveness of the company's investment strategy, recommending specific investment action; also, reviewing the investment risk management statement and recommending any changes of this statement to the Board of Directors.

3. Risk management (Cont'd)

(c) Credit risk

Financial assets or liabilities arising from insurance and reinsurance contracts are stated in the statement of financial position at the amount that best represents the maximum credit risk exposure at balance date. The company actively monitors the credit ratings of reinsurers to ensure there is no significant exposure that requires immediate attention and action. There have been no issues or defaults with payments to date.

Refer to Note 26(d) for the composition of ACS's reinsurance asset split by Standard & Poor's rating.

(d) Terms and conditions of insurance business

The terms and conditions attaching to insurance contracts affect the level of insurance risk accepted by the company. There are no special terms and conditions in any non standard contracts that have a material impact on the financial statements.

(e) Concentration of insurance risk

The company's exposure to concentrations of insurance risk is mitigated by a portfolio diversified into different classes of business comprising personal and commercial markets and short and long tail classes of risk written out of New Zealand.

The company lays high emphasis on selection of reinsurance counterparties with good credit standing and capacity to meet obligations under the contract. The reinsurance programmes are drawn in a way that there is no concentration which would create large exposures or detract from diversification benefits. Reinsurance arrangements are entered into with at least 15 reinsurers with credit ratings ranging from A to AAA.

(f) Terms and conditions of reinsurance contracts

The company reinsures a portion of the risks it underwrites in order to control exposure to losses, stabilize earnings, protect capital resources and ensure efficient control and spread of underwriting risk.

The company's reinsurance program is structured to adequately protect the company's solvency and capital position. It covers per risk and event losses assessed as the worst possible scenario. Reinsurance is placed to cover losses in excess of the company's agreed retention for each class of business. No inwards reinsurance is written by the company.

The financial probity of reinsurers is determined by the UK based group reinsurance security committee which decides annually which reinsurers the group will utilise. This decision is based on the nominated reinsurers meeting a desired credit rating and performance criteria.

4. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 1, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are regularly reviewed and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The estimation of the ultimate liability arising from claims made under general business insurance contracts is a critical accounting estimate. There are various sources of uncertainty as to how much the company will ultimately pay with respect to such contracts. There is uncertainty as to the total number of claims made on each class of business, the amounts that such claims will be settled for and the timings of any payments.

Revisions to accounting estimates are recognised in the period in which the estimate is revised.

5. Actuarial assumptions and methods

Actuarial information

Greg Moran, AM Actuaries, Melbourne Australia. Greg Moran is the appointed actuary for the Australian operations of AM Actuaries and is a fellow of the Institute of Actuaries of Australia. The valuation of insurance liabilities report prepared by AM actuaries is compliant with the Institute of Actuaries of Australia Professional Standard PS300.

Report Date: 31 December 2011

The actuaries were satisfied with the information supplied and declared that the data provided formed a suitable basis for conducting their analysis and establishing estimates of the outstanding claims liability for all valuation classes.

(a) Assumptions

The following assumptions have been made in determining the outstanding claims liabilities:

	2011		2010	
	Short-tail	**Long-tail**	**Short-tail**	**Long-tail**
Weighted average term to settlement (years)	1.92	1.68	1.01	1.62
Inflation rate	2.25%	2.25%	3.80%	3.80%
Superimposed inflation rate	0%	0%	0%	0%
Discount rate	2.50%	0%	0%	0%
Discounted mean term (years)	0.94	1.68	1.01	1.62
Claim handling expense ratio	32.20%	32.20%	16.00%	16.00%
Risk margin	16.90%	14.90%	16.50%	14.90%

(b) Processes used to determine assumptions

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

Average weighted term to settlement

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

Claims Inflation

The Incurred Claim Development method has implicit allowance for future claims inflation and hence no explicit allowance for claims inflation has been made.

Superimposed inflation rate

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

Discount rate

For the estimation of the outstanding claims no allowance has been made for future investment earnings. This reflects the short tail nature of the liabilities where the majority of the claim payments will be made over the next 12 months.

5. Actuarial assumptions and methods (Cont'd)

(b) Processes used to determine assumptions

Claims Handling Expenses

ACS is responsible for the ongoing management of all claims incurred on or before 31 December 2011. To reflect this expense, an allowance is included in the central estimate of the outstanding claims liability. The indirect claims expense of 32.2% of net claims has been assumed, the same rate as assumed for outstanding claims. No allowance has been made for discounting of claims costs. The loss ratios applied were the undiscounted loss ratios. This provides a small positive margin.

Risk margin

A risk margin at an 80% level of sufficiency has been used to determine the outstanding claims liability on the liability line of business as at 31 December 2011. The minimal risk margin reflects the predominantly short tail nature of the business.

The net claims incurred relating to a reassessment of risks borne in previous reporting periods are not significant. There is no significant concentration of insurance risk due to the nature of the portfolio and the reinsurance programme due to the fact that there are no more policies.

Effects of changes in actuarial assumptions from 31 December 2010 to 31 December 2011

Assumption category		Effect on net outstanding claims liabilities Increased/(Decreased) $
Discount rates	2.5%	-
Claims inflation	No change	-
Claims handling expense ratio	16.2%	1,000,000
Risk margin	No change	-
Specific short tail class assumptions		
ICD assumptions		62,000
Specific long tail class assumptions		
Net loss ratio		(1,273,000)

(c) Sensitivity analysis

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

The sensitivity of the Company's profit and equity to key valuation assumptions is tabulated below (the assumed tax rate is 28%)

	Net Loss $	Equity $
Recognised amounts in the financial statements	(9,876,136)	992,078

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

5. Actuarial assumptions and methods (Cont'd)

(c) Sensitivity analysis (Cont'd)

Variable	Movement in variable	Movement in amount	
		Net Profit $	Equity $
Average weighted term to settlement	+ 1 year	-	-
	- 1 year	-	-
Claims inflation rate	+ 1.00 %	-	-
	- 1.00 %	-	-
Discount rate	+ 1.00 %	-	-
	- 1.00 %	-	-
Minimum loss ratio	+ 1.00 %	50,000	50,000
	- 1.00 %	(50,000)	(50,000)
Claims handling expenses ratio	+ 1.00 %	72,000	72,000
	- 1.00 %	(72,000)	(72,000)
Risk margin	+ 1.00 %	-	-
	- 1.00 %	-	-

6. Profit from operations

(a) Revenue

An analysis of the company's premium for the year is as follows:	2011 $	2010 $
Premium revenue:		
Gross written premium	15,930,826	25,647,291
Movement in unearned premiums	13,731,528	(911,142)
Gross earned premiums	**29,662,354**	**24,736,149**

(b) Profit before income tax

Profit/(loss) for the year has been arrived at after charging the following expenses / (gains):

	2011 $	2010 $
Depreciation of non-current assets		
Office furniture and fittings	35,887	43,418
Computer hardware	24,408	31,737
Leasehold improvements	-	5,420
	60,295	**80,575**
Impairment of non-current assets		
Office furniture and fittings	208,090	-
Computer hardware	31,998	-
Leasehold improvements	14,905	-
	254,993	**-**

6. Profit from operations (Cont'd)

(b) Profit before income tax (Cont'd)

	2011 $	2010 $
Amortisation of non-current assets		
Software	7,381	8,966
Impairment of non-current assets		
Software	3,075	-
Rental expense relating to operating leases	235,734	212,915
Employee benefits:		
Defined contribution plans	255,858	181,501
Salaries	2,694,443	2,180,189
Other	24,373	46,245
	2,974,674	**2,407,935**
Doubtful debts allowance:		
Reinsurance receivable	-	(9,303)
Trade debtors	(49,320)	(2,517)
	(49,320)	**(11,820)**

7. Income taxes

(a) Tax expense

	2011 $	2010 $
Current tax (benefit)/expense	(2,589,299)	207,060
Deferred tax expense	(170,766)	43,129
Effect of change in tax rate	-	(6,331)
Tax credits not recognised	2,760,064	-
	-	**243,858**

(b) Income tax recognised in profit or loss

Tax expense comprises:

	2011	2010
Profit before taxation	**(9,876,136)**	**779,629**
Tax expense at 28% (2010: 30%)	(2,765,318)	233,889
Adjustments recognised in the current year in relation to the current tax of prior years	-	10,714
Effect of change in tax rate	-	(6,331)
Tax credits not recognised	2,760,064	-
Tax effect on Non-deductible expenses	5,254	5,586
	-	**243,858**

The tax rate in New Zealand changed due to a change in legislation.

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

7. Income taxes (Cont'd)

(c) *Deferred tax*

2011	**Opening balance $**	**Charged to income $**	**Charged to equity $**	**Change in tax rates $**	**Derecognition of tax credits $**	**Closing balance $**
Deferred tax balances:						
Temporary differences						
Property, plant & equipment	-	-	-	-	-	-
Liability adequacy test	220,920	(220,920)	-	-	-	-
Provision for unpaid premiums (doubtful debts)	10,080	3,920	-	-	(14,000)	-
Provision for accounting fees	2,800	11,907	-	-	(14,707)	-
Provision for annual leave	36,358	(3,817)	-	-	(32,541)	-
Unearned reinsurance commission	389,113	(389,113)	-	-	-	-
Deferred acquisition costs	(431,390)	785,847	-	-	(354,457)	-
Deferred agents commission	(354,457)	-	-	-	354,457	-
Make good provision	20,891	-	-	-	(20,891)	-
Risk margin	17,058	(17,058)	-	-	-	-
	(88,628)	**170,767**	**-**	**-**	**(82,139)**	**-**

2010	**Opening balance $**	**Charged to income $**	**Charged to equity $**	**Change in tax rates $**	**Derecognition of tax credits $**	**Closing balance $**
Deferred tax balances:						
Temporary differences						
Property, plant & equipment	8,924	(8,924)	-	-	-	-
Liability adequacy test	251,400	(14,700)	-	(15,780)	-	220,920
Provision for unpaid premiums (doubtful debts)	10,800	-	-	(720)	-	10,080
Provision for accounting fees	3,000	-	-	(200)	-	2,800
Provision for annual leave	40,109	(1,154)	-	(2,597)	-	36,358
Unearned reinsurance commission	380,680	36,227	-	(27,794)	-	389,113
Outstanding claims reserve	(9,300)	9,300	-	-	-	-
Deferred acquisition costs	(426,919)	(35,285)	-	30,814	-	(431,390)
Deferred agents commission	(352,347)	(27,428)	-	25,318	-	(354,457)
Make good provision	20,757	1,626	-	(1,492)	-	20,891
Risk margin	21,067	(2,791)	-	(1,218)	-	17,058
	(51,829)	**(43,129)**	**-**	**6,331**	**-**	**(88,628)**

8. Remuneration of auditors

	2011 $	2010 $
Audit the financial report	79,490	69,000
Tax services (i)	19,983	25,150
Other assurance services (ii)	-	3,700
	99,473	**97,850**

(i) Includes tax compliance services
(ii) Includes engagements required by regulator and other services

9. Current receivables

	2011 $	2010 $
Trade receivables	5,923,741	7,824,490
Allowance for doubtful debts	(50,000)	(36,000)
	5,873,741	**7,788,490**
Indirect tax receivable	4,177,353	-
Other debtors and prepayments	460,556	522,827
Reinsurance ceded debtors	1,165,347	1,605,832
Deferred reinsurance expense	7,021,109	6,972,449
Deferred acquisition costs	-	2,017,596
	12,824,365	**11,118,704**
	18,698,106	**18,907,194**

The allowance for doubtful debts in relation to trade receivables is provided for based on estimated irrecoverable amounts determined by reference to current customer circumstances and past default experience. In determining the recoverability of a trade receivable the company considers any change in the credit quality of the trade receivable from the date the credit was initially granted up to the reporting date. The company has provided fully for all receivables over 180 days past due because historical experience is such that receivables that are past due beyond 180 days are generally not recoverable. As at balance date, provision for doubtful debts increased by $14,000 to $50,000 (2010: $36,000).

10. Investments

Investments carried at fair value:	2011 $	2010 $
Current		
Government securities	551,678	6,055,728
Debentures	-	3,177,793
	551,678	**9,233,521**
Non current		
Government securities	-	1,054,315
Debentures	-	2,661,674
	-	**3,715,989**
	551,678	**12,949,510**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

11. Reinsurance recoveries receivable

	2011 $	2010 $
Expected future reinsurance recoveries		
on claims reported	596,654,195	130,685,022
on claims incurred but not reported	103,671,377	7,965,000
Discount adjustment	(33,173,865)	-
	667,151,707	**138,650,022**
Provision for impairment of reinsurance assets	-	(60,923)
Reinsurance recoveries receivable	**667,151,707**	**138,589,099**
Current	189,881,640	136,827,148
Non-current	477,270,067	1,761,951
	667,151,707	**138,589,099**

Almost all of the outstanding claims within ACS are from the multiple earthquakes that have occurred in Christchurch from September 2010 through to the end of 2011. Unsurprisingly these claims have not been settled quickly as ongoing earthquake activity has caused uncertainty about the extent of damage and until the activity reduces it is unlikely that significant rebuild will occur. In many instances claimants are taking time to decide the type of rebuild they would prefer. In assessing the likely payment pattern of these claims, we have benchmarked the payments to date against other slow paying earthquake events and then projected these payments for 2013 and beyond.

12. Current tax

	2011 $	2010 $
Income tax receivable/(payable)	**900**	**(47,600)**

13. Property, plant & equipment

2011	Leasehold improvements $	Office furniture & fittings $	Computer hardware $	Total $
Cost of the asset	89,516	402,787	205,898	698,201
Additions	-	1,313	9,105	10,418
Accumulated Depreciation	(74,611)	(196,010)	(183,005)	(453,626)
Impairment charged	(14,905)	(208,090)	(31,998)	(254,993)
Net book value as at 31 December 2011	**-**	**-**	**-**	**-**

2010	Leasehold improvements $	Office furniture & fittings $	Computer hardware $	Total $
Cost of the asset	89,516	402,787	205,898	698,201
Additions	-	-	-	-
Accumulated Depreciation	(74,611)	(160,123)	(158,597)	(393,331)
Impairment charged	-	-	-	-
Net book value as at 31 December 2010	**14,905**	**242,664**	**47,301**	**304,870**

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

14. Intangible assets

Computer software	2011 $	2010 $
Cost of the asset	1,036,725	1,036,725
Accumulated amortisation	(1,033,650)	(1,026,270)
Impairment charged	(3,075)	-
Net book value as at 31 December	-	**10,455**

15. Current payables

	2011 $	2010 $
Direct insurance payables	-	931,012
Policy cancellations	12,696,206	-
Reinsurance ceded creditors	-	948,211
Sundry creditors and accruals	1,011,545	690,851
Payable to related party entities	797,232	811,416
	14,504,983	**3,381,490**

16. Provisions

	2011 $	2010 $
Current		
Employee entitlements	116,218	129,848
Deferred reinsurance commission	-	1,389,690
	116,218	**1,519,538**
Non-current		
Provision for makegood	89,516	89,516
	89,516	**89,516**

The above items are classed as provisions rather than liabilities because of the inherent uncertainty surrounding their ultimate value. The make good provision is made based on the estimation of future costs of returning the leasehold premises on completion of lease to a condition agreed with the landlord.

The amount provided will be paid out in September 2013, unless the lease is renewed at that time.

17. Net claims incurred

Direct business

2011	**Current year $**	**Prior years $**	**Total $**
Gross claims expense			
Gross claims incurred	670,183,202	14,369,343	684,552,545
Discount movement	(33,173,865)	-	(33,173,865)
	637,009,337	**14,369,343**	**651,378,680**
Reinsurance and other recoveries revenue			
Reinsurance and other recoveries	(657,324,716)	(14,032,609)	(671,357,325)
Discount movement	33,173,865	-	33,173,865
	(624,150,851)	**(14,032,609)**	**(638,183,460)**
Net claims incurred	**12,858,486**	**336,734**	**13,195,220**

2010	**Current year $**	**Prior years $**	**Total $**
Gross claims expense			
Gross claims incurred	147,440,635	(2,163,762)	145,276,873
Discount movement	-	-	-
	147,440,635	**(2,163,762)**	**145,276,873**
Reinsurance and other recoveries revenue			
Reinsurance and other recoveries	(140,201,000)	1,973,133	(138,227,867)
Discount movement	-	-	-
	(140,201,000)	**1,973,133**	**(138,227,867)**
Net claims incurred	**7,239,635**	**(190,629)**	**7,049,006**

18. Outstanding claims liabilities

	2011 $	**2010 $**
Gross central estimate	666,610,865	141,820,926
Discount to present value	(33,173,865)	-
Claims handling costs	2,511,968	504,000
Risk margin	40,744,000	579,000
Gross outstanding claims liabilities	**676,692,968**	**142,903,926**
Current	192,597,229	141,109,926
Non-current	484,095,739	1,794,000
	676,692,968	**142,903,926**

18. Outstanding claims liabilities (Cont'd)

Claim provisions

	2011 $	2010 $
Estimated expected future payments for claims reported including		
Reported claims	601,153,660	132,629,926
Indirect claims settlement costs	2,511,968	504,000
Incurred but not yet reported	106,201,205	9,770,000
Discount adjustment	(33,173,865)	-
Gross outstanding claims liabilities	**676,692,968**	**142,903,926**

Reconciliation of movement in outstanding claims liabilities

2011	Gross $	Reinsurance $	Net $
At 1 January	142,903,926	(138,589,099)	4,314,827
Increase due to claims incurred in the current accident year	669,729,229	(659,698,882)	10,030,347
Movement in prior year claims provisions	14,369,343	(14,032,609)	336,734
Claim payments/recoveries	(117,135,665)	111,995,018	(5,140,647)
Discount adjustment	(33,173,865)	33,173,865	-
At 31 December	**676,692,968**	**(667,151,707)**	**9,541,261**

2010	Gross $	Reinsurance $	Net $
At 1 January	11,447,970	(7,425,075)	4,022,895
Increase due to claims incurred in the current accident year	147,440,635	(140,201,000)	7,239,635
Movement in prior year claims provisions	(2,163,762)	1,973,133	(190,629)
Claim payments/recoveries	(13,820,917)	7,063,843	(6,757,074)
Discount adjustment	-	-	-
At 31 December	**142,903,926**	**(138,589,099)**	**4,314,827**

19. Unearned premium and deferred acquisition costs

(a) Unearned premium

2011	Gross $	Reinsurance $	Net $
At 1 January	13,731,528	(6,972,449)	6,759,079
Premiums on contracts written	15,800,326	(12,609,630)	3,190,696
Earning of premiums written	(29,531,854)	19,582,079	(9,949,775)
At 31 December	**-**	**-**	**-**

2010	Gross $	Reinsurance $	Net $
At 1 January	12,820,386	(6,376,210)	6,444,176
Premiums on contracts written	25,647,290	(13,348,958)	12,298,332
Earning of premiums written	(24,736,148)	12,752,719	(11,983,429)
At 31 December	**13,731,528**	**(6,972,449)**	**6,759,079**

(b) Deferred acquisition costs

	2011 $	2010 $
At 1 January	2,017,597	1,759,555
Cost deferred in the year	-	91,427
Amortisation charged to income	(6,481,219)	117,615
Write down for premium deficiency	4,463,622	49,000
At 31 December	**-**	**2,017,597**

20. Reinsurance ceded

	2011 $	2010 $
Reinsurance premium written	14,000,888	15,767,795
Deferred reinsurance premium	6,972,449	(596,240)
Reinsurance commissions	(2,866,331)	(2,568,966)
Reinsurance rebates	(273,839)	(212,385)
	17,833,167	**12,390,204**

21. Unexpired risk liability

ACS cancelled all policies effective 31 December 2011. Hence, there is no unexpired risk liability as at 31 December 2011.

For reporting purpose, the net deficiency for 2010 is presented below.

Being a test of adequacy, the probability of sufficiency for the liability adequacy test is set to highlight deficiencies in product pricing following an analysis of the company's profit margins that equates to the company's cost of capital after having regard to regulatory minimum requirements. The process of determining the overall risk margin, including the way in which diversification for risks have been allowed for is discussed in note 3.

Calculation of deficiency	**2011 $**	**2010 $**
Unearned premium liability relating to insurance contracts issued	-	6,760,000
Related deferred acquisition costs	-	(1,417,000)
	-	**5,343,000**
Central estimate of present value of expected future cash flows arising from future claims on insurance contracts issued	-	5,189,000
Risk margin – N/A (2010: 18.2%)	-	943,000
	-	**6,132,000**
Net deficiency	**-**	**(789,000)**

22. Commitments

Operating lease commitments:	**2011 $**	**2010 $**
Not later than one year	233,250	233,250
Later than one year and not later than five years	137,582	370,832
	370,832	**604,082**

23. Issued capital

	2011 $	**2010 $**
Issued share capital 1,600,000 ordinary shares (2010:1,600,000)	1,400,000	1,400,000

Ordinary shares carry the right to dividends and have one vote per share with equal voting rights.

24. Retained profits

	2011 $	2010 $
Balance at beginning of financial year	9,978,353	9,936,422
Net (loss)/profit	(9,876,136)	535,771
Dividend paid	(510,139)	(493,840)
Balance at end of financial year	**(407,922)**	**9,978,353**

A dividend of $31.88 per 100 shares was paid on 23/2/ 2011 (2010: $30.87 per 100 shares paid on 2/3/2010).

25. Insurer financial strength rating

ACS (NZ) Limited has a financial strength of B+ (good) issued by A.M. Best Limited (2010: A- Excellent).

26. Financial instruments

(a) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 of the financial statements.

(b) Financial risk management objectives

It is ultimately the responsibility of the board of directors to ensure that there is an effective risk management control framework in place. Consistent with regulatory requirements the board has explicitly allocated to the Manager for New Zealand, the function of overseeing the establishment and maintenance of risk-based systems and controls across the company.

As part of the overall governance framework the Group has established a number of board and management committees to overview and manage financial risks, which are described in note 3 to the financial statements.

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

26. Financial instruments (Cont'd)

(c) Categories of financial instruments

	Note	2011 $	2010 $
Financial assets			
Fair value through profit or loss	10	551,678	12,949,510
Premium receivables		5,873,741	7,788,490
Reinsurance receivables		1,165,347	1,605,832
Reinsurance recoveries receivable	11	667,151,707	138,589,099
Bank		5,993,372	2,379,449
Total financial assets		**680,735,845**	**163,312,380**
Non-financial assets		11,659,918	9,828,197
Total assets		**692,395,763**	**173,140,577**
Financial liabilities			
Trade, claims and other payables		614,964,638	136,011,416
Total financial liabilities		**614,964,638**	**136,011,416**
Non-financial liabilities		76,439,048	25,750,810
Total liabilities		**691,403,686**	**161,762,226**

(d) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the company. The company has adopted the policy of only dealing with creditworthy counterparties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the risk of financial loss from defaults. The policies and procedures in place to mitigate the company's exposure to credit risk are described in note 3 of this report.

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

As at 31 December 2011, the company's reinsurance asset is comprised of the following percentage split based on Standard & Poor's ratings (except where noted):

Standard & Poor's Ratings	
AAA	2.50%
AA-	67.64%
A+	14.23%
A	10.70%
A-	2.66%
A- (AM Best)	2.26%

26. Financial instruments (Cont'd)

(d) Credit risk (Cont'd)

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

Financial assets - Credit risk	2011 $	2010 $
Cash	5,993,372	179,449
Short term bills and notes	-	2,200,000
Government securities	551,678	7,110,043
Debentures	-	5,839,467
Premium and reinsurance receivables	7,039,088	9,394,322
Reinsurance recoveries receivable	667,151,707	138,589,099
	680,735,845	**163,312,380**

(e) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial instruments. Ultimate responsibility for liquidity risk management rests with the board of directors, who has built a liquidity risk management framework for the management of the company's short, medium and long-term funding and liquidity management requirements. The company manages liquidity risk by maintaining adequate reserves and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of assets and liabilities. The company has developed and implemented a Risk Management Strategy, which is described in note 3.

The following tables summarise the maturity profile of the company's financial liabilities.

2011	Weighted average interest rate %	Less than 1 year $	1 - 5 years $	5 + years $	Adjustment	Total $
Outstanding claims liabilities	2.5%	192,597,229	484,095,739	-	33,173,865	709,866,833
Financial liabilities						
Non-interest bearing payables	-	13,386,978	-	-	-	13,386,978
		205,984,207	**484,095,739**	**-**	**33,173,865**	**723,253,811**

2010	Weighted average interest rate %	Less than 1 year $	1 - 5 years $	5 + years $	Adjustment	Total $
Outstanding claims liabilities	-	141,109,926	1,794,000	-	-	142,903,926
Financial liabilities						
Non-interest bearing payables	-	3,381,490	-	-	-	3,381,490
		144,491,416	**1,794,000**	**-**	**-**	**146,285,416**

26. Financial instruments (Cont'd)

(f) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises two types of risk: Foreign exchange (currency risk) and market interest rates (interest rate risk).

Foreign currency risk management

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of the change in foreign exchange rates. The currency risk is minimal as the company does not enter into many foreign currency transactions.

Interest risk management

The company's activities expose it to the financial risk of changes in interest rates. Floating rate instruments expose the company to cash flow risk, whereas fixed interest rate instruments expose the company to fair value interest rate risk. The company's Investment Committee monitors the company's exposures to interest rate risk as described in note 3 to this financial report.

The following tables detail the company's expected maturity for its financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets except the company anticipates that the cash flow will occur in a different period.

2011	**Weighted average interest rate %**	**Less than 1 year $**	**1 - 5 years $**	**5 + years $**	**Total $**
Non interest bearing:					
Cash	-	5,993,372	-	-	5,993,372
Net trade debtors	-	7,039,088	-	-	7,039,088
Variable interest rate instruments:					
Cash	-	-	-	-	-
Fixed interest rate instruments:					
Short term bills and notes	-	-	-	-	-
Government securities	3.27%	551,678	-	-	551,678
Debentures	-	-	-	-	-
Bank overdraft	-	-	-	-	-
		13,584,138	**-**	**-**	**13,584,138**

26. Financial instruments (Cont'd)

(f) Market risk (Cont'd)

2010	Weighted average interest rate %	Less than 1 year $	1 - 5 years $	5 + years $	Total $
Non interest bearing:					
Cash	-	179,449	-	-	179,449
Net trade debtors	-	9,394,322	-	-	9,394,322
Variable interest rate instruments:					
Cash	-	-	-	-	-
Fixed interest rate instruments:					
Short term bills and notes	2.88%	2,200,000	-	-	2,200,000
Government securities	3.27%	6,064,514	1,102,526	-	7,167,040
Debentures	4.57%	3,212,072	2,715,151	-	5,927,223
Bank overdraft		-	-	-	-
		21,050,357	**3,817,677**	**-**	**24,868,034**

27. Related party disclosures

Related parties of ACS (NZ) Limited fall into the following category:

Ultimate holding company

Ecclesiastical Insurance Office plc, incorporated in the United Kingdom, is the company's ultimate holding company.

Parent company

Ansvar Insurance Limited, incorporated in Australia, is the company's immediate parent company.

Related party transactions

The immediate parent company, Ansvar Insurance Limited (Australia) pays for the following services on behalf of the company. The cost of these services is charged back to the company.

	2011 $	2010 $
Computer services	63,640	41,713
Intercompany travel expenses	23,485	16,560
Telecommunications	-	10,573
Reinsurance paid via Australia	4,513,412	1,710,052
Marketing and branding	19,029	8,273
Others	42,468	191,371
	4,662,034	**1,978,542**

As at 31 December 2011, the company owed Ecclesiastical Insurance Office plc $746,104 (2010: $201,032) and Ansvar Insurance Limited, Australia $51,129 (2010: $610,384).

27. Related party disclosures (Cont'd)

On 22 November 2011 ACS (NZ) Limited entered into a secured $20 million AUD lending facility with its parent Ansvar Insurance Limited. No balance was outstanding as at balance date. The loan is secured over all the assets of ACS and interest is charged at the official cash rate set by the Reserve Bank of Australia plus 0.5%.

28. Notes to the cash flow statement

a. Reconciliation of cash and cash equivalents

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

	2011 $	2010 $
Cash	5,993,372	179,449
Add: short term deposits (i)	-	2,200,000
	5,993,372	**2,379,449**

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

b. Reconciliation of net surplus after taxation

	2011 $	2010 $
Net (loss)/profit for the year	**(9,876,136)**	**535,771**
Depreciation, amortization and impairment charged	325,744	89,541
Changes in fair value of investments	2,770	25,001
Increase / (decrease) in deferred tax balances	(170,766)	36,799
Increase / (decrease) in taxation payable	(48,500)	(52,390)
(Increase) / decrease in debtors and prepayments	(1,882,525)	(2,326,446)
(Increase) / decrease in investments	(286,808)	(842)
Increase / (decrease) in creditors and provisions	10,853,317	(21,328)
(Increase) / decrease in net general insurance technical reserves	(5,483,516)	348,792
Increase / (decrease) in reinsurance payable	(948,211)	(900,143)
Increase / (decrease) in intercompany payable	(14,183)	568,557
	(7,528,814)	**(1,696,688)**

29. Contingent Liabilities

As at 31 December 2011, there were no contingent liabilities existing at balance date (2010: $Nil) not otherwise provided for in these financial statements.

30. Subsequent events

As the directors have resolved that no dividend for the financial year ended 31 December 2011, there are no dividend payment commitments post balance date (2010: $510,139 declared on 15/2/2011 and paid on 23/03/2011).

The trading name, Ansvar Insurance Limited was changed to ACS (NZ) Limited on 1 February 2012. The primary activity for the company effective 1 January 2012 is to provide claim management services for any outstanding claims.

In February 2012, the company gained a Provisional Insurance Licence as required under the Insurance (Prudential Supervision) Act 2010.

In March 2012, the company entered into a commercially priced, arms length reinsurance arrangement with the ultimate parent company, Ecclesiastical Insurance Office plc (“Ecclesiastical”), whereby Ecclesiastical provides a fixed maximum upper limit Property Catastrophe Excess of Loss Reinsurance Contract in respect of the February 2011 earthquake the premium for which is payable in installments. This arrangement is able to be cancelled by Ecclesiastical if the proposed contingent Scheme of Arrangement (referred to below) is not approved.

In March 2012, the company issued 100,000 new shares at $1.00 each to Ecclesiastical. Ecclesiastical has committed to subscribe a further $4.5 million $1.00 shares at a future date, solely to enable the company to enter into, and to fund, the premiums on the reinsurance arrangement referred to in the paragraph above. As a result, when this occurs, the company will cease to be a subsidiary of Ansvar Insurance Limited (Australia) and will become a subsidiary of Ecclesiastical.

In April 2012, the company entered into a short term loan facility with Ecclesiastical, for the amount of $20m. The drawn down loan amount will to be utilised to fund certain earthquake claims and will be repaid to Ecclesiastical immediately upon receipt of the appropriate reinsurance recoveries.

The company has committed substantial resources to claims settlement and is making good progress in resolving existing claims. As at the date hereof the company expects to meet all of its claims in full. However, the claims situation in Canterbury is still developing, and is subject to a high degree of complexity and uncertainty. It will take some time to stabilise, and several years for all claims to be resolved. To protect the situation of claimants in the event of circumstances changing adversely in the future, the company proposes to ask claimants to approve a contingent Scheme of Arrangement. The purpose is to ensure that, regardless of the financial position of the company, its current and future claimants are treated fairly, and claims are settled as quickly and as fully as possible. The proposed Scheme of Arrangement is described as “contingent” because the Scheme arrangements would only be triggered if the company’s claims position deteriorated to the point where the company would be insolvent.

31. Imputation credit account

	2011 $	2010 $
Opening balance at 1 January	**3,945,684**	**3,897,880**
Income tax paid	48,500	259,450
Other	(198,387)	(211,646)
Closing balance at 31 December	**3,795,797**	**3,945,684**

32. Additional company information

ACS (NZ) Limited is a company incorporated and operating in New Zealand.

Registered Office
Level 6
Sofrana House
396 Queen Street
Auckland