acs
claims services

ACS (NZ) LIMITED

ABN: 115156

Annual Report for the financial year ended 31 December 2013

ACS (NZ) LIMITED

ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2013

ACS (NZ) LIMITED

DIRECTORS' REPORT

The directors of ACS (NZ) Limited ("ACS" or "the Company") submit herewith their Annual Report including the financial statements for the financial year ended 31 December 2013 and the auditors' report thereon. In order to comply with the provisions of the Companies Act 1993, the directors report as follows:

The names and details of the Company's directors in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

David Harrison FNZIM Chairman	David has extensive experience in insurance. He is the former Chairman and Chief Executive of Marsh Ltd in New Zealand and the Pacific Islands and a member of the international team of Managing Directors, Chairman of Aviation Co-operating Underwriters Pacific Ltd and has extensive interest at board level in the Charitable and Not for Profit sectors. David is a trustee of the Canterbury Earthquake Church and Heritage Trust which owns 100% of the ordinary share capital of the Company.
Bruce Harris CA, CPA, ACIS Director	Bruce was appointed to the Board in 2011. He is a former insurance Executive Director with experience in financial management, strategy, governance, compliance and risk management. He is also the Executive Officer of Ridley Melbourne Mission & Ministry College, a Director of Ansvar Insurance Ltd and a Director of Arrow Leadership Australia Ltd. Bruce is the Chairman of the Audit Risk and Compliance Committee.
Ian Campbell BSc (Econ) Hons, ACA Director (Appointed 26 June 2013)	Ian was appointed to the Board on 26 June 2013. He is the Group Chief Financial Offier of the Ecclesiastical Insurance Group. Ian is a Chartered Accountant with more than 25 years of experience in financial services. Ian started his career at KPMG in its Insurance and Consulting Practice covering a wide range of projects for Lloyds, London market and life insurance companies. Since then Ian has held senior finance roles at both Cox Insurance and Aspen Insurance, focusing on property and casualty reinsurance and insurance acquisitions, finance, investment and tax management, Solvency II, capital management, capital raising, actuarial and reinsurance. He is also a director of Ansvar Insurance Ltd.
Michael Tripp B.Sc., ARCS, FIA Director (Resigned 5 June 2013)	Michael resigned as a member from the board on 5 June 2013. Michael had been on the Board since 2007. He was the Chief Executive of the Ecclesiastical Insurance Group based at the Head Office in Gloucester, UK. Prior to commencing with Ecclesiastical, Michael was a partner with the global professional services practices, Ernst & Young and Watson Wyatt. He was also a director of Ansvar Insurance Ltd.
Brent Pattison CA, B.Bus Director (Resigned 23 September 2013)	Brent resigned as a director on 23 September 2013. He had been a member of the Board since July 2009. Brent has a wealth of experience in mergers and acquisitions, divestments, corporate structuring, debt and corporate advisory. He has provided lead and joint lead advisory services to international clients, financial sponsors and Australasian private equity firms, such as Archer Capital, Intermediate Capital Group, Anchorage Capital, Onesource Group, Metro Glasstech, Resimac, Fidelity Life, Imagetec, Freshmax and TRG Group.
Andrew Moon M.B.A. Director (Resigned 23 September 2013)	Andrew resigned as the CEO of ACS on 23 September 2013. Prior to commencing with ACS in August 2010, he held leadership roles in financial and corporate services in Australia and overseas. He is an accomplished senior executive working at CEO and GM level in a number of organisations including Tower Life's Australian operations, Colonial State Bank, First Chicago's Australian operations and Wardley Hong Kong. Andrew was also a director and the CEO of Ansvar Insurance Ltd, and was the former Chair of the Parkinson's Association of NSW.

As at the date of this report, the directors held no interests in the shares and options of the Company.

ACS (NZ) LIMITED

DIRECTORS' REPORT

Principal activities

ACS's principal activity continues to be the settlement of claims which primarily relate to the devastating earthquakes in New Zealand in 2010 and 2011. In the year ended 31 December 2013, ACS continued its significant progress by making claims payments of $171 million reducing gross outstanding claims to $131 million at 31 December 2013.

On 9 September 2013, the Reserve Bank of New Zealand ('RBNZ') completed its licensing process. As permitted by the RBNZ, ACS has continued to operate under its provisional license.

Effective 20 June 2012, as part of ensuring a fair, managed process for finalising all outstanding claims, ACS began operating under a Contingent Scheme of Arrangement ('the Scheme'). The Scheme was put in place to protect the interests of claimants, and is part of the Company's commitment to ensuring as fast and efficient a claims settlement process as possible. It means that, under certain circumstances such as the Company becoming insolvent, certain procedures for managing the Company and settling claims would be followed. It is believed that this will result in better outcomes for claimants (who are called Creditors under the Scheme) than the alternative, which would be insolvent liquidation. The Company is currently in an "Initial Scheme Period", meaning it is continuing normal day to day operations. It is business as usual. If the scheme is triggered, ACS will write to inform creditors and advise them of the implications.

On 15 May 2012, the Canterbury Earthquake Church and Heritage Trust, a charitable trust domiciled in New Zealand, became the sole shareholder of ACS. From that date, its former parent companies, Allchurches Trust Limited, Ecclesiastical Insurance Office plc and Ansvar Insurance Limited no longer controlled ACS. In accordance with a management services agreement, Ansvar Insurance Limited (domiciled in Australia) now performs certain management services for ACS.

Subsequent Events

Subsequent to balance date in the period from 1 January to 29 April 2014, ACS settled in excess of half its outstanding claims liabilities at 31 December 2013. Gross claim payments for this period were more than $73 million. The quantum of the claim payments and associated reinsurance recoveries were relatively consistent with the outstanding claims liabilities at 31 December 2013.

With the exception of the above, there has not been any matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may significantly affect, the Company's operations in future financial years, the results of those operations or the Company's state of affairs in future financial years.

ACS (NZ) LIMITED

DIRECTORS' REPORT

Dividends

In respect of the financial year ended 31 December 2013, the directors have resolved that no dividend be paid or payable (2012: none).

Auditors

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

Results

ACS's loss after tax for the year was $1,321,349 (2012: $17,932,342).

Appropriations

Losses after tax for the year	$ 1,321,349
Accumulated losses brought forward	$18,340,264
Accumulated losses carried forward	$ 19,661,613

S211 disclosures

The shareholders of the Company have exercised their right under section 211(3) of the Companies Act 1993 and unanimously agreed that this Annual Report need not comply with any of paragraphs (a), and (e) to (h) of section 211 (1) of the Act.

Signed on behalf of the Directors

D J Harrison
Chairman

B G Harris
Director

29 April 2014

Deloitte.

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF ACS (NZ) LIMITED

Report on the Financial Statements

We have audited the financial statements of ACS (NZ) Limited on pages 7 to 33, which comprise the statement of financial position as at 31 December 2013, the statement of profit or loss and other comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an 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's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Board of Directors' Responsibility for the Financial Statements

The Board of Directors 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 Board of 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 International Standards on Auditing and International Standards on Auditing (New Zealand). Those standards require that we comply with 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 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.

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

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

Opinion

In our opinion the financial statements of ACS (NZ) Limited on pages 7 to 33:

- give a true and fair view of the company's financial position as at 31 December 2013 and of its performance and cash flows for the year ended on that date; and
- comply with generally accepted accounting practice in New Zealand; and
- comply with International Financial Reporting Standards.

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 2013:

- 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

Chartered Accountants
29 April 2014
Christchurch, New Zealand

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

	Note	2013 $	2012 $
Direct premium revenue		-	-
Outwards reinsurance premium expense		(27,287)	(8,053,853)
Net premium revenue/(expense)		**(27,287)**	**(8,053,853)**
Direct claims expenses	14	(63,154,455)	(80,737,656)
Reinsurance and other recoveries revenue	14	61,744,704	70,967,652
Net claims incurred		**(1,409,751)**	**(9,770,004)**
Underwriting profit/(loss)		**(1,437,038)**	**(17,823,857)**
Interest and dividend revenue		136,569	152,542
Changes in fair value of investments			
Realised (losses)/gains on investments		-	-
Unrealised (losses)/gains on investments		(20,880)	(12,581)
Finance costs		-	(248,446)
Loss for the year before income tax	6	**(1,321,349)**	**(17,932,342)**
Income tax expense relating to ordinary activities	7	-	-
Loss for the year		**(1,321,349)**	**(17,932,342)**
Other comprehensive income		-	-
Total comprehensive loss for the year		**(1,321,349)**	**(17,932,342)**

The above Statement of Profit or Loss and Other 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 2013

	Note	2013 $	2012 $
Current assets			
Cash and cash equivalents	22 (a)	20,056,335	26,099,245
Trade and other receivables	9	6,811,712	10,544,496
Investments	10	517,449	558,329
Reinsurers' share of outstanding claims liabilities	11	83,537,066	115,071,880
Total current assets		**110,922,562**	**152,273,950**
Non-current assets			
Reinsurers' share of outstanding claims liabilities	11	42,370,513	111,233,839
Total non-current assets		**42,370,513**	**111,233,839**
Total assets		**153,293,075**	**263,507,789**
Current liabilities			
Trade and other payables	12	8,416,813	15,085,639
Provisions	13	206,299	135,340
Outstanding claims liabilities	15	87,135,774	118,348,943
Total current liabilities		**95,758,886**	**133,569,922**
Non-current liabilities			
Provisions	13	-	104,491
Outstanding claims liabilities	15	44,195,801	115,173,639
Total non-current liabilities		**44,195,801**	**115,278,130**
Total liabilities		**139,954,687**	**248,848,052**
Net assets		**13,338,388**	**14,659,737**
Equity			
Issued capital	18	33,000,001	33,000,001
Accumulated losses		(19,661,613)	(18,340,264)
Total equity		**13,338,388**	**14,659,737**

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

For and on behalf of the Board, who authorise the issue of these financial statements on 29 April 2014:

D J Harrison
Chairman
29 April 2014

B G Harris
Director
29 April 2014

STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

	Issued capital $	Retained Earnings $	Total $
Balance at 1 January 2012	**1,400,000**	**(407,922)**	**992,078**
Loss for the year	-	(17,932,342)	(17,932,342)
Total comprehensive loss for the year	-	**(17,932,342)**	**(17,932,342)**
Issue of shares (Note 18)	31,600,001	-	31,600,001
Balance at 1 January 2013	**33,000,001**	**(18,340,264)**	**14,659,737**
Loss for the year	-	(1,321,349)	(1,321,349)
Total comprehensive loss for the year	-	**(1,321,349)**	**(1,321,349)**
Balance at 31 December 2013	**33,000,001**	**(19,661,613)**	**13,338,388**

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

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

	Note	2013 $	2012 $
Cash flows from operating activities			
Premium (refunded)/ received		-	(6,822,465)
Outwards reinsurance paid		(273,478)	(1,032,745)
Claims expenses paid		(171,495,295)	(510,567,435)
Reinsurance and other recoveries received		165,589,294	507,840,244
Acquisition costs and other costs paid		-	(1,045,677)
Interest received		136,569	152,543
Net cash from/(used in) operating activities	**22b**	**(6,042,910)**	**(11,475,535)**
Cash flows from investing activities			
Payments for investments		-	(19,389)
Net cash from/(used in) investing activities		**-**	**(19,389)**
Cash flows from financing activities			
Proceeds from issue of shares		-	31,600,001
Net cash from/(used in) financing activities		**-**	**31,600,001**
Net increase / (decrease) in cash and cash equivalents		**(6,042,910)**	**20,105,077**
Cash and cash equivalents at the beginning of the financial year		**26,099,245**	5,993,372
Effect of exchange rate on cash held in foreign currencies		-	796
Cash and cash equivalents at the end of the financial year	22a	**20,056,335**	**26,099,245**

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 2013

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 and Accounting Standards and Interpretations.

The Financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practices (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The financial statements also comply with International Financial Reporting Standards (IFRS).

On 1 January 2013 the Company became an issuer as required by the Insurance (Prudential Supervision) Act 2010. Prior to 1 January 2013 the Company qualified for Differential Reporting exemptions as it had no public accountability, and there was no separation between owners and the governing body. The company had previously elected to apply all available exemptions except those available under NZ IAS 7 Statement of cash flows, NZ IAS 12 Income Taxes and NZ IAS 18 Revenue which allows revenue and expenses to be recognised inclusive of goods and services tax.

The company took the prudent decision in September 2011 to close the operations to new business and after much analysis, effective 31 December 2011, cancelled all insurance policies. From 1 January 2012, the company operated as a claims management business and, on 1 February 2012, changed its name to ACS (NZ) Limited.

The financial statements of the company were authorised for issue by the directors on 29 April 2014.

2. Significant accounting policies - 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 as the Company is expected to be able to pay its debts as they fall due and payable. The Company's level of capital is in excess of the Reserve Bank of New Zealand's requirements.

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.

The liability for outstanding claims 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.

(d) Outwards reinsurance

Reinsurance and other recoveries on paid claims and movements in the reinsurers' share of outstanding claims liabilities are recognized as revenue or expenses as appropriate. Reinsurers' share of claims liabilities is assessed in a manner similar to the assessment of outstanding claims.

(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. The reinsurers' share of outstanding liabilities is 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.

(g) Unearned premium liabilities

The 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.

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 and NZ IFRS 4.

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 quoted prices of the instruments at balance date.

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) 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.

<u>Defined contribution plans</u>

Contributions to defined contribution superannuation plans are expensed when incurred.

(k) 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.

(l) 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.

(m) Goods and Services Tax

Revenues, expenses, assets and liabilities 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.

1. Significant accounting policies (Cont'd)

(n) 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.

(o) Income Tax

Current tax

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).

Deferred tax

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.

Current and deferred tax for the period

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.

1. Significant accounting policies (Cont'd)

(p) Payables

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

(q) 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 recognized evenly over the expected period of benefit.

(r) 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.

(s) Standards and interpretations effective in current period

The adoption of full New Zealand Equivalent of International Financial Reporting Standards with effect from 1 January 2013 has required the Company to comply fully with:

- NZIFRS 13 Fair Value Measurement
- NZIFRS 7 Financial Instruments

The financial impact of the change in accounting policies has been disclosed where applicable.

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Company's accounting periods beginning after 1 January 2013 or later periods, and the Company has not early adopted them. The Company expects to adopt the following new standards on 1 January after the effective date.

- NZ IFRS 9 'Financial Instruments' (effective from 1 January 2017). The standard replaces NZ IAS 39 and introduces requirements for classifying and measuring financial assets and liabilities. The Company is in the process of evaluating the potential effect of this standard.

The following standards resulting from amendments to NZ IFRS that are relevant to the Company have been adopted.

- NZ IFRS 13 'Fair value measurement' (effective from 1 January 2013). The standard replaces the guidance on fair value measurement in existing IFRS literature with a single standard. The standard did not have a material impact on the financial statements.

(t) Capital structure

The capital structure of the company solely consists of issued share capital and accumulated losses as disclosed in note 18.

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 entity to an adverse financial capital loss.

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

The RMS identifies 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 Company.

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

- The maintenance and use of 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 monitor claims patterns. Past experience and statistical methods are used as part of the process.
- 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 ensure that ACS has sufficient liquidity to fund claim payments.

(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. Exposure is closely monitored and assets and liabilities are appropriately matched in terms of currency.

(c) Credit risk

ACS is exposed to credit risk mainly through its holding of cash and cash equivalents and reinsurance assets. The company actively monitors the credit ratings and payment history of reinsurers to ensure there are no significant exposures that require immediate attention and action. There have been no issues or defaults with payments of reinsurance amounts relating to any of ACS's run-off claims to date.

Please refer to Note 20(d) for the composition of ACS's reinsurance asset split by credit rating.

3. Risk management (Cont'd)

(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.

The company lays high emphasis on 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 were entered into with reinsurers with credit ratings ranging from A to AAA.

(e) Terms and conditions of reinsurance contracts

The company reinsured a portion of the risks it underwrote 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 was structured to protect the company's solvency and capital position. It covers per risk and event losses assessed as the reasonable worst case scenario. Reinsurance was placed to cover losses in excess of the company's agreed retention for each class of business. No inwards reinsurance was written by the company.

4. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in Notes 1 and 2, 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.

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.

The other critical accounting estimates relates to the assessment of the recovery of reinsurance assets. To date, there have been no defaults or non-recoverable reinsurance amounts relating to ACS's earthquake claims. At each reporting date ACS reviews the carrying amounts of its reinsurance assets for impairment.

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

5. Actuarial assumptions and methods

Actuarial information

Mr David Davies of Ansvar Insurance Limited is the Appointed Actuary of ACS under a Management Service Agreement between ACS (NZ) Limited and Ansvar Insurance Limited. He is a Fellow of the Institute of Actuaries of Australia. The valuation of insurance liabilities report prepared by Mr Davies is compliant with the Institute of Actuaries of Australia Professional Standard PS300 and the New Zealand Society of Actuaries Professional Standard 4.1.

Report Date: 31 December 2013

Mr Davies was satisfied with the information supplied and declared that the data provided formed a suitable basis for conducting analysis and establishing estimates of the outstanding claims liability for all valuation classes.

5. Actuarial assumptions and methods (Cont'd)

(a) Assumptions

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

	2013		2012	
	Short-tail	**Long-tail**	**Short-tail**	**Long-tail**
Weighted average term to settlement (years)	0.93	2.14	1.00	1.62
Discount rate	3.0%	n/a	2.5%	n/a
Discounted mean term (years)	1.38	2.14	1.00	1.62
Claim handling expense ratio	3.4%	0.0%	2.1%	2.0%
Risk margin	14.0%	11.0%	13.1%	11.0%

1. The claims handling ratio is here expressed as a percentage of the gross claims liabilities.

(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 non-earthquake 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 2013. To reflect this expense, an allowance is included in the central estimate of the outstanding claims liability. This claims handling expenses provision has been calculated by use of a budget model of current and future costs. These future costs have been discounted back to present value at the same rate as the claims liabilities.

Risk margin

A risk margin at a 75% probability of sufficiency has been used to determine the outstanding claims liability as at 31 December 2013 (2012: 75%).

Effects of changes in actuarial assumptions from 31 December 2012 to 31 December 2013

Assumption category	Effect on net outstanding claims liabilities Increased/(Decreased) $
Discount rates	-
Specific Non-quake claims assumptions	
Reported Incurred Claims Development (RICD) assumptions	59,076

(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 net assets to key valuation assumptions is tabulated below:

	Net Loss $	Net Assets $
Recognised amounts in the financial statements	(1,321,349)	13,338,388

Variable	Movement in variable	Movement in amount	
		Net Profit $	Equity $
Claims handling expenses ratio	+ 1.00 %	(1,264,522)	(1,264,522)
	- 1.00 %	1,264,522	1,264,522
Risk margin	+ 1.00 %	(47,621)	(47,621)
	- 1.00 %	47,621	47,621

6. Loss from operations

Loss from operations includes the following items:

	2013 $	2012 $
Rental expense relating to operating leases	205,586	223,936
Employee benefits:		
Defined contribution plans	30,177	58,856
Salaries	913,533	1,263,176
Other	32,483	779
	976,193	**1,322,811**

7. Income taxes

(a) Tax expense/benefit

	2013 $	2012 $
Current tax (benefit)/expense	(369,978)	(5,021,056)
Tax credits not recognised	369,978	5,021,056
	-	-

(b) Income tax recognised in profit or loss

Tax expense comprises:

Loss before taxation	**(1,321,349)**	**(17,932,342)**
Tax credit at 28% (2012: 28%)	(369,978)	(5,021,056)
Tax credits not recognised	369,978	5,021,056
	-	-

Due to the change in ACS's shareholder from Ansvar Insurance Limited to the Canterbury Earthquake Church and Heritage Trust on 15 May 2012, the tax loses relating to periods prior to 15 May 2012 were forfeited. As at 31 December 2013, the Company has unrecognised deferred tax assets relating to tax losses of $5,162,590 (2012: $4,792,612). Deferred tax assets are not recognised as the Company does not anticipate generating sufficient taxable profit in the future to allow these deferred tax assets to be utilized.

8. Remuneration of auditors

	2013 $	2012 $
Audit the financial report	47,227	44,120
Tax services (i)	31,347	-
Other assurance services (ii)	15,000	8,824
	93,574	**52,944**

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

9. Trade and other receivables

	2013 $	2012 $
Trade receivables	-	89,242
Allowance for doubtful debts	-	(89,242)
	-	**-**
Reinsurance receivables	5,437,205	8,716,709
Allowance for doubtful debts	(1,044,298)	(877,352)
	4,392,907	**7,839,357**
GST receivable	1,537,544	657,428
Other debtors and prepayments	881,261	2,047,711
	6,811,712	**10,544,496**

10. Investments

Investments designated at fair value through profit or loss:	2013 $	2012 $
Current		
Government securities	517,449	538,329
Loans	-	20,000
	517,449	**558,329**

11. Reinsurers' share of outstanding claims liabilities

	2013 $	2012 $
Expected future reinsurance recoveries		
on claims reported	121,951,905	204,857,463
on claims incurred but not reported	9,251,413	32,554,036
Discount adjustment	(5,295,739)	(11,105,780)
	125,907,579	**226,305,719**
Provision for impairment of reinsurance assets	-	-
Reinsurers' share of outstanding claims liabilities	**125,907,579**	**226,305,719**
Current	83,537,066	115,071,880
Non-current	42,370,513	111,233,839
	125,907,579	**226,305,719**

Almost all of the outstanding claims within ACS are from the earthquakes that occurred from September 2010 through to the December 2011. In assessing the likely payment pattern of these claims, we have benchmarked the payments to date against other earthquake events and then projected these payments for 2014 and beyond.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

12. Trade and other payables

	2013 $	2012 $
Reinsurance ceded creditors	2,454,130	2,700,321
Accruals	949,348	4,398,270
Trade payables	4,777,109	7,071,447
Other payables	236,226	915,601
	8,416,813	**15,085,639**

13. Provisions

	2013 $	2012 $
Current		
Employee entitlements	26,324	35,340
Provision for lease make good	29,975	-
Other provisions	150,000	100,000
	206,299	**135,340**
Non-current		
Provision for lease make good	-	104,491
	206,299	**239,831**

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 at the time of renewal of the lease unless the lease is renewed.

14. Net claims incurred

2013	Current year $	Prior years $	Total $
Gross claims expense			
Gross claims incurred	-	68,964,496	68,964,496
Discount movement	-	(5,810,041)	(5,810,041)
	-	**63,154,455**	**63,154,455**
Reinsurance and other recoveries revenue			
Reinsurance and other recoveries	-	(67,554,745)	(67,554,745)
Discount movement	-	5,810,041	5,810,041
	-	**(61,744,704)**	**(61,744,704)**
Net claims incurred	-	**1,409,751**	**1,409,751**

14. Net claims incurred (Cont'd)

2012	Current year $	Prior years $	Total $
Gross claims expense			
Gross claims incurred	-	58,669,571	58,669,571
Discount movement	-	22,068,085	22,068,085
	-	80,737,656	80,737,656
Reinsurance and other recoveries revenue			
Reinsurance and other recoveries	-	(48,899,567)	(48,899,567)
Discount movement	-	(22,068,085)	(22,068,085)
	-	(70,967,652)	(70,967,652)
Net claims incurred	-	**9,770,004**	**9,770,004**

Included in claims expense are the following claims handling costs:	2013 $	2012 $
Consultant expenses	1,196,069	3,528,424
Employee expenses (excluding defined contribution superannuation)	1,144,872	1,280,254
Defined contribution superannuation	30,177	58,856
Accommodation and office expenses	489,671	571,078
Travel expenses	188,912	827,135
Directors' fees	81,250	87,000
Audit fees (refer Note 8)	47,227	44,120
Other costs	303,870	620,966
	3,482,048	**7,017,833**

15. Outstanding claims liabilities

	2013 $	2012 $
Gross central estimate	120,923,752	212,716,149
Discount to present value	(5,295,739)	(11,105,780)
Claims handling expenses	4,249,401	4,826,928
Risk margin	11,454,161	27,085,285
Gross outstanding claims liabilities	**131,331,575**	**233,522,582**
Current	87,135,774	118,348,943
Non-current	44,195,801	115,173,639
	131,331,575	**233,522,582**

	2013 $	2012 $
Estimated expected future payments for claims reported including		
Reported claims	123,126,500	206,182,588
Claims handling expenses	4,249,401	4,826,928
Incurred but not yet reported	9,251,413	33,618,846
Discount adjustment	(5,295,739)	(11,105,780)
Gross outstanding claims liabilities	**131,331,575**	**233,522,582**

15. Outstanding claims liabilities (Cont'd)

Reconciliation of movement in outstanding claims liabilities

2013	**Gross $**	**Reinsurance $**	**Net $**
At 1 January	**233,522,582**	**(226,305,719)**	**7,216,863**
Movement in prior year claims provisions	63,494,247	(59,381,113)	4,113,134
Claim payments/recoveries	(171,495,295)	165,589,294	(5,906,001)
Discount adjustment	5,810,041	(5,810,041)	-
At 31 December	**131,331,575**	**(125,907,579)**	**5,423,996**

2012	**Gross $**	**Reinsurance $**	**Net $**
At 1 January	676,692,968	(667,151,707)	9,541,261
Movement in prior year claims provisions	45,328,964	(44,926,171)	402,793
Claim payments/recoveries	(510,567,435)	507,840,244	(2,727,191)
Discount adjustment	22,068,085	(22,068,085)	-
At 31 December	**233,522,582**	**(226,305,719)**	**7,216,863**

16. Unexpired risk liability

ACS cancelled all policies effective 31 December 2011 and there was no unexpired risk liability as at 31 December 2012 or 31 December 2013.

17. Commitments

Operating lease commitments:	**2013 $**	**2012 $**
Not later than one year	41,281	200,847
Later than one year and not later than five years	-	51,851
	41,281	**252,698**

18. Issued capital

	2013 Number of shares	2012 Number of shares	2013 $	2012 $
Ordinary share capital	33,200,000	33,200,000	33,000,000	33,000,000
Special share capital	1	1	1	1
Total issued share capital	**33,200,001**	**33,200,001**	**33,000,001**	**33,000,001**

In 2012, there were the following changes to issued share capital:

- On 29 March 2012, ACS issued 100,000 new shares at NZ$1 per share to its ultimate parent company, Ecclesiastical;
- On 14 May 2012, ACS issued 10,000,000 ordinary shares to the Canterbury Earthquake Church and Heritage Trust (CECH) for consideration of NZ$ 1 per share;
- On 15 May 2012, CECH acquired the existing share capital of ACS from Ansvar (1,600,000 shares) and Ecclesiastical (100,000 shares) for consideration of NZ$ 1 to each party;
- On 15 May 2012, ACS issued one special share to Ecclesiastical for consideration of NZ$ 1;
- On 29 June 2012, ACS issued 18,500,000 ordinary shares to CECH for consideration of NZ$ 1 per share; and
- On 30 June 2012, ACS issued a further 3,000,000 ordinary shares to CECH for consideration of NZ$ 1 per share.

Ordinary shares carry the right to dividends and have one vote per share with equal voting rights. The special share gives Ecclesiastical the right to appoint, replace or remove one director of the Company.

19. Insurer financial strength rating

In 2013, the Reserve Bank of New Zealand granted ACS with an exemption from the requirement to maintain a financial strength credit rating. Following the granting of this exemption, ACS ceased to be rated by AM Best. Its exit rating, confirmed on 6 November 2013, was a financial strength rating of B+ (Stable).

20. 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 2.

(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 Chief Executive Officer, the function of overseeing the establishment and maintenance of risk-based systems and controls across the company.

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.

20. Financial instruments (Cont'd)

(c) Categories of financial instruments

Financial Assets are classified in one of the following categories at initial recognition:

- Loans and receivables; or
- Fair value through profit or loss

Financial Liabilities are measured at amortised cost.

The carrying value of financial assets and liabilities closely resembles the fair value.

Loans and Receivables
Assets in this category are measured initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest method. Financial assets classified as loans and receivables include:

- Reinsurance receivables; and
- Cash and cash equivalents

Fair Value through Profit or Loss
Financial assets are measured at fair value with movements recognised in the Statement of Profit or Loss and Other Comprehensive Income. Financial assets classified at fair value through profit or loss include:

- Government bonds which are at Level 1 in the fair value hierarchy under NZ IFRS13

	Note	2013 $	2012 $
Financial assets			
Investments designated at fair value through profit or loss	10	517,449	558,329
Reinsurance receivables		4,392,907	7,839,357
Cash and cash equivalents		20,056,335	26,099,245
Total financial assets		**24,966,691**	**34,496,931**
Financial liabilities			
Trade and other payables		8,416,813	15,085,639
Total financial liabilities		**8,416,813**	**15,085,639**

20. Financial instruments (Cont'd)

(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 its 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 in relation to ACS's run off claims.

As at 31 December 2013, 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	0.0%
AA-	22.6%
A+	45.6%
A	3.9%
A-	16.8%
A- (AM Best)	1.3%
BBB+	9.8%

Subsequent to 31 December 2013, the only entity rated BBB+ was upgraded to A-.

The table below shows the maximum exposure to credit risk for the relevant 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.

Credit risk	2013 $	2012 $
Cash	20,056,335	26,099,245
Government securities	517,449	538,329
Loans	-	20,000
Reinsurance receivables	4,392,907	7,839,357
Reinsurers' share of outstanding claims liabilities	125,907,579	226,305,719
	150,874,270	**260,802,650**

20. Financial instruments (Cont'd)

(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 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. 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 outstanding claims liabilities and non-interest bearing payables.

2013	Weighted average interest rate %	Less than 1 year $	1 - 5 years $	5 + years $	Discount Adjustment	Total $
Outstanding claims liabilities	3.0%	90,649,387	45,977,927	-	(5,295,739)	**131,331,575**
Non-interest bearing payables	-	8,416,813	-	-	-	8,416,813
		99,066,200	**45,977,927**	**-**	**(5,295,739)**	**139,748,388**

2012	Weighted average interest rate %	Less than 1 year $	1 - 5 years $	5 + years $	Discount Adjustment	Total $
Outstanding claims liabilities	2.5%	118,348,943	126,279,419	-	(11,105,780)	233,522,582
Non-interest bearing payables	-	15,085,639	-	-	-	15,085,639
		133,434,582	**126,279,419**	**-**	**(11,105,780)**	**248,608,221**

(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 not considered to be significant 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.

20. Financial instruments (Cont'd)

(f) Market risk (Cont'd)

The following tables detail the expected maturity profile for the reinsurers' share of outstanding claims liabilities and financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets except where the company anticipates that the cash flow will occur in a different period.

2013	**Weighted average interest rate %**	**Less than 1 year $**	**1 - 5 years $**	**5 + years $**	**Discount Adjustment**	**Total $**
Non interest bearing:						
Reinsurers' share of outstanding claims liabilities	3.0%	87,050,679	44,152,639	-	(5,295,739)	125,907,579
Reinsurance receivables	-	4,392,907	-	-	-	4,392,907
Variable interest rate instruments:						
Cash and cash equivalents	0.5%	20,056,335	-	-	-	20,056,335
Fixed interest rate instruments:						
Government securities	3.2%	517,449	-	-	-	517,449
Loans	-	-	-	-	-	-
		112,017,370	**44,152,639**	**-**	**(5,295,739)**	**150,874,270**

2012	**Weighted average interest rate %**	**Less than 1 year $**	**1 - 5 years $**	**5 + years $**	**Discount Adjustment**	**Total $**
Non interest bearing:						
Reinsurers' share of outstanding claims liabilities	2.5%	115,071,880	122,339,619	-	(11,105,780)	226,305,719
Reinsurance receivables	-	7,839,357	-	-	-	7,839,357
Variable interest rate instruments:						
Cash and cash equivalents	0.8%	26,099,245	-	-	-	26,099,245
Fixed interest rate instruments:						
Government securities	2.5%	538,329	-	-	-	538,329
Loans	-	20,000	-	-		20,000
		149,568,811	**122,339,619**	**-**	**(11,105,780)**	**260,802,650**

21. Related party disclosures

Related parties of ACS (NZ) Limited are as follows:

Immediate and ultimate parent companies

Until 15 May 2012, Ansvar Insurance Limited ('Ansvar'), incorporated in Australia, was the company's immediate parent company, Allchurches Trust Limited, incorporated in the United Kingdom, was the company's ultimate holding company and Ecclesiastical, domiciled in the United Kingdom, was its intermediate holding company. From 15 May 2012, its immediate and ultimate parent was the Canterbury Earthquake Church and Heritage Trust, domiciled in New Zealand and Ansvar Insurance Limited, Allchurches Trust Limited and Ecclesiastical ceased to be related entities.

Related party transactions

Prior to 15 May 2012, Ansvar paid $344,321 for certain expenses following services on behalf of the company. The cost of these services was charged back to the company.

Effective the 20 June 2012, ACS (NZ) Limited signed a Management Services Agreement with Ansvar and Ansvar now performs certain management services for ACS (NZ) Limited. As at 31 December 2013, no monies had been paid to Ansvar in respect of these services provided.

In March 2012, the company entered into a commercially priced, arms length reinsurance arrangement with Ecclesiastical, whereby Ecclesiastical provided a fixed maximum upper limit Property Catastrophe Excess of Loss Reinsurance Contract in respect of the February 2011 earthquake.

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

22. Notes to the cash flow statement

a. Reconciliation of cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents 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:

	2013 $	2012 $
Cash	20,056,335	26,099,245

b. Reconciliation of net surplus after taxation

	2013 $	2012 $
Net (loss)/profit for the year	**(1,321,349)**	**(17,932,342)**
Changes in fair value of investments and loans	40,880	12,581
(Increase) / decrease in trade and other receivables	3,732,786	8,153,608
Increase / (decrease) in trade and other payables	(6,702,360)	(1,288,334)
Increase / (decrease) in outstanding claims liabilities	(1,792,867)	376,184
Increase / (decrease) in intercompany payable	-	(797,232)
Net cash from/(used in) operating activities	**(6,042,910)**	**(11,475,535)**

23. Contingent Liabilities

Effective the 20 June 2012, ACS signed a Management Services Agreement with Ansvar under which Ansvar performs certain management services for ACS. A performance based management fee of $3 million may be payable to Ansvar once the Company has settled all claims against it to the extent ACS has surplus capital in excess of $5 million. In accordance with the Trust Deed of CECH, ACS's parent, the first $5 million of surplus of ACS will be payable to charitable organizations or used for charitable purposes within New Zealand. These amounts have not been provided for in the Statement of Financial Position.

As at 31 December 2013, with the exception of the items listed above, there were no contingent liabilities existing at balance date (2011: $Nil) not otherwise provided for in these financial statements.

24. Subsequent events

Subsequent to balance date in the period from 1 January to 29 April 2014, ACS settled in excess of half its outstanding claims liabilities at 31 December 2013. Gross claim payments for this period were more than $73 million. The quantum of the claim payments and associated reinsurance recoveries were relatively consistent with the outstanding claims liabilities at 31 December 2013.

With the exception of the above, there has not been any matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may significantly affect, the Company's operations in future financial years, the results of those operations or the Company's state of affairs in future financial years.

25. Imputation credit account

	31 Dec 2013 $	31 Dec 2012 $
The amount of imputation credits available for use in subsequent reporting periods	-	-

Due to the change in ACS's shareholder from Ansvar Insurance Limited to the Canterbury Earthquake Church and Heritage Trust during 2012, the imputation credits available at 31 December 2011 were forfeited on 15 May 2012 and no imputation credits have been recognized in the period from 16 May 2012 to 31 December 2012 or the year to 31 December 2013 as ACS made taxable losses in these periods.

26. Solvency margin

	31 Dec 2013	31 Dec 2012
RBNZ Solvency margin (Excess of Actual Solvency Capital over Minimum Solvency Capital)	3,876,568	799,043

27. Additional company information

ACS (NZ) Limited is a company incorporated and operating in New Zealand. Its immediate and ultimate parent is the Canterbury Earthquake Church and Heritage Trust.

Registered Office:
Suite 404,
Level 4,
Achilles House,
8 Commerce Street,
Auckland,
1010,
New Zealand

ACS (NZ) Limited

Insurance (Prudential Supervision) Act 2010

Appointed Actuary's report required under Section 78 of the Act

Section 78 of the Insurance (Prudential Supervision) Act 2010 requires that the Appointed Actuary make the following statements, in a report, in respect of the work undertaken for the insurer. These statements are made in respect to work undertaken for ACS (NZ) Limited audited financial statements as at 31 December 2013.

- This report has been completed by David Davies BSc FIA FIAA GAICD, Appointed Actuary to ACS (NZ) Limited.
- I have provided an Insurance Liability Valuation Report (ILVR) as at 31 December 2013 dated 15th April 2014. The figures provided in that ILVR are for inclusion in the Financial Statements of ACS (NZ) Limited. In that report I determined the:
    - Gross Outstanding Claims Liabilities;
    - Reinsurance Recoveries associated with those Gross Outstanding Claims Liabilities; and
    - Internal Claims Handling Expense Allowance for future periods.
- Although in my report I comment on Premium Liabilities, with ACS (NZ) Limited in managed run-off, this issue and the associated Liability Adequacy Test are purely for noting.
- Within the scope of the work described above, there have been no limitations placed on the work undertaken, or the areas that have been explored, to arrive at my conclusions.
- I have no personal financial interests in ACS (NZ) Limited. ACS (NZ) Limited has in place a management services agreement with my employer, Ansvar Insurance Limited. Under this agreement in addition to the provision of actuarial services, I am also involved in the provision of reinsurance recovery services.
- In order to perform this work, I have had open access to claims and policy information from within ACS (NZ) Limited. I have received explanations, and have been provided with a response, to all requests that I have made as part of this work.
- In my opinion, and from an actuarial perspective:
    - The actuarial information contained in the financial statements has been appropriately included in these statements; and
    - The actuarial information used in the preparation of these financial statements has been used appropriately.
- In my opinion, and from an actuarial perspective, as at 31 December 2013, ACS (NZ) Limited is maintaining a solvency margin that applies under a condition imposed under section 21(2)(b) of the Insurance (Prudential Supervision) Act 2010. The relevant solvency standard is the "Solvency Standard for Non-Life Insurance Business in Run Off" issued by the Reserve Bank of New Zealand in May 2012. Solvency calculations are consistent with this standard.

Signed: D Davies

Date: 29th April 2014