ACS (NZ) LIMITED

(formerly Ansvar Insurance Limited)
Annual report for the financial year ended 31 December 2012

ACS (NZ) LIMITED

FORMERLY "ANSVAR INSURANCE LIMITED"

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2012

ACS (NZ) LIMITED

DIRECTORS' REPORT

The directors of ACS (NZ) Limited ("ACS") submit herewith the annual report for the financial year ended 31 December 2012. 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, is Chairman of Aviation Co-operating Underwriters Pacific Ltd and has extensive interest at board level in the Charitable and Not for Profit sectors.
Andrew Moon M.B.A. Director	Andrew is the CEO of ACS (NZ) Ltd and joined the board in August 2010. Andrew 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 is also a director and the CEO of Ansvar Insurance Ltd, and is the former Chair of the Parkinson's Association of NSW.
Bruce Harris CA, CPA, ACIS Director	Bruce was appointed to the Board in 2011. Bruce 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.
Michael Tripp B.Sc., ARCS, FIA Director	Michael has been on the Board since 2007. He is 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. A qualified actuary, he has more than 30 years experience in the insurance industry. He is also a director of Ansvar Insurance Ltd.
Brent Pattison CA, B.Bus Director	Brent was appointed to the Board in 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, such as Archer Capital, Intermediate Capital Group, Anchorage Capital, Onesource Group, Metro Glasstech, Resimac, Fidelity Life, Imagetec, Freshmax and TRG Group. Brent is a CA and a member of the New Zealand Institute of Chartered Accountants. He holds a Bachelor of Business Studies degree.

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

As described in the previous year's financial statements, ACS was very significantly impacted by the devastating earthquakes in New Zealand in 2010 and 2011. As a result of this and the resultant increases in reinsurance costs, ACS closed its operations to new business and effective 1 January 2012 its principal activity was as a claims management business. On 1 February 2012, the company also changed its name from Ansvar Insurance Limited to ACS (NZ) Limited.

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

Following the earthquakes, ACS engaged a team of experienced catastrophe professionals to assist with the assessment and settlement of claims and during 2012 the company paid $511 million of claims which was the main driver of the significant decrease in the gross outstanding claims provision during the year.

Effective 20 June 2012, as part of ensuring a fair, managed process for finalising all outstanding claims, ACS began operating under a Scheme of Arrangement. 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 if, 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.

As a result of the changes in the business during the year, the following changes were made to the corporate ownership of the Company:

- On 29 March 2012, ACS issued 100,000 new shares at $1.00 each to the ultimate parent company, Ecclesiastical;
- On 14 May 2012, ACS issued 10,000,000 ordinary shares to the Canterbury Earthquake Church and Heritage Trust (CECH) for consideration of NZ$ 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 $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.

From 15 May 2012, Ansvar Australia and EIO no longer controlled ACS and the company ceased to be a subsidiary of Ansvar Australia and EIO. In accordance with a management services agreement, Ansvar Australia now performs certain management services for ACS.

From 15 May 2012, CECH owned all the ordinary share capital of ACS and was its ultimate parent company.

Subsequent Events

There has been no 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 2012, the directors have resolved that no dividend be paid or payable (2011: none).

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 loss after tax for the year was $17,932,342 (2011:$ 9,876,136).

Appropriations

Losses after tax for the year	$ 17,932,342
Accumulated losses brought forward	$ 407,922
Accumulated losses carried forward	$ 18,340,264

S211 disclosures

No disclosure has been made pursuant to section 211(1) (a) and (e) to (h) 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

14 May 2013

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 38, which comprise the statement of financial position as at 31 December 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash for the year then ended, 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 Director's Responsibility for the Financial Statements

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

Auditor's Responsibilities

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing 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 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 the accounting policies used and the reasonableness of accounting estimates, as well as 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, we have no relationship with or interests in ACS (NZ) Limited.

Opinion

In our opinion, the financial statements on pages 7 to 38:

- comply with generally accepted accounting practice in New Zealand; and
- give a true and fair view of the financial position of ACS (NZ) Limited as at 31 December 2012, and its financial performance and its cash flows for the year ended on that date.

Deloitte.

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 31December 2012:

- 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
14 May 2013
Christchurch, New Zealand

STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

	Note	2012 $	2011 $
Direct premium revenue	6a	-	29,662,354
Outwards reinsurance premium expense	20	(8,053,853)	(17,833,167)
Net premium revenue		**(8,053,853)**	**11,829,187**
Direct claims expense	17	(80,737,656)	(651,378,680)
Reinsurance and other recoveries revenue	17	70,967,652	638,183,460
Net claims incurred		**(9,770,004)**	**(13,195,220)**
Acquisition costs		-	(6,481,219)
Underwriting expenses		**-**	**(6,481,219)**
Underwriting profit/(loss)		**(17,823,857)**	**(7,847,252)**
Interest and dividend revenue		152,542	716,553
Changes in fair value			
Realised (losses)/gains on investments		-	(737,308)
Unrealised gains/(losses) on investments		(12,581)	2,770
Other operating income		-	165,552
Finance costs		(248,446)	(17,047)
General and administrative expenses		-	(2,159,404)
Loss for the year before income tax	7b	**(17,932,342)**	**(9,876,136)**
Income tax expense relating to ordinary activities	7	-	-
Loss for the year		**(17,932,342)**	**(9,876,136)**
Other comprehensive income		-	-
Total comprehensive loss for the year		**(17,932,342)**	**(9,876,136)**

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 2012

	Note	2012 $	2011 $
Current assets			
Cash and cash equivalents	28 (a)	26,099,245	5,993,372
Trade and other receivables	9	10,544,496	18,698,106
Current tax asset	12	-	900
Investments	10	558,329	551,678
Reinsurance recoveries receivable	11	115,071,880	189,881,640
Total current assets		152,273,950	215,125,696
Non-current assets			
Property, plant and equipment	13	-	-
Reinsurance recoveries receivable	11	111,233,839	477,270,067
Intangible assets	14	-	-
Total non-current assets		111,233,839	477,270,067
Total assets		**263,507,789**	**692,395,763**
Current liabilities			
Trade and other payables	15	15,085,639	14,504,983
Provisions	16	135,340	116,218
Outstanding claims liabilities	18	118,348,943	192,597,229
Unearned premium	19 (a)	-	-
Total current liabilities		133,569,922	207,218,431
Non-current liabilities			
Provisions	16	104,491	89,516
Deferred tax liability	7(c)	-	-
Outstanding claims liabilities	18	115,173,639	484,095,739
Total non-current liabilities		115,278,130	484,185,255
Total liabilities		**248,848,052**	**691,403,686**
Net assets		**14,659,737**	**992,078**
Equity			
Issued capital	23	33,000,001	1,400,000
Accumulated losses	24	(18,340,264)	(407,922)
Total equity		**14,659,737**	**992,078**

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 14 May 2013:

D J Harrison
Chairman
14 May 2013

B G Harris
Director
14 May 2013

ACS (NZ) LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

	Issued capital $	Retained Earnings $	Total $
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 1 January 2012	**1,400,000**	**(407,922)**	**992,078**
Loss for the year	-	(17,932,342)	(17,932,342)
Total comprehensive income for the year	-	**(17,932,342)**	**(17,932,342)**
Issue of shares (Note 23)	31,600,001	-	31,600,001
Balance at 31 December 2012	**33,000,001**	**(18,340,264)**	**14,659,737**

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 2012

	Note	2012 $	2011 $
Cash flows from operating activities			
Premium (refunded)/ received		(6,822,465)	26,858,199
Outwards reinsurance paid		(1,032,745)	(21,970,208)
Claims expenses paid		(510,567,435)	(119,366,526)
Reinsurance and other recoveries received		507,840,244	109,620,852
Acquisition costs and other costs paid		(1,045,677)	(3,499,723)
Interest received		152,543	711,539
Other revenue		-	165,553
Income tax paid		-	(48,500)
Net cash from/(used in) operating activities	**28b**	**(11,475,535)**	**(7,528,814)**
Cash flows from investing activities			
Payments for investments		(19,389)	(4,536,246)
Proceeds from sale of investments		-	16,199,540
Payments for plant and equipment		-	(10,418)
Payments for intangible assets		-	-
Net cash from/(used in) investing activities		**(19,389)**	**11,652,876**
Cash flows from financing activities			
Dividends paid		-	(510,139)
Proceeds from issue of shares		31,600,001	-
Net cash from/(used in) financing activities		**31,600,001**	**(510,139)**
Net increase / (decrease) in cash and cash equivalents		**20,105,077**	**3,613,923**
Cash and cash equivalents at the beginning of the financial year		5,993,372	2,379,449
Effect of exchange rate on cash held in foreign currencies		796	-
Cash and cash equivalents at the end of the financial year	28a	**26,099,245**	**5,993,372**

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

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 New Zealand Generally Accepted Accounting Practices (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 2011, cancelled all insurance policies.

Effective 1 January 2012, the company operated 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 14 May 2013.

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 financial position of the company improved significantly during the year primarily due to the issue of shares and 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

Premium ceded to reinsurers is recognised as an expense in accordance with the pattern of reinsurance service received. Accordingly, prior to 2012, 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 were expensed.

(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.

<u>Financial Assets at FVTPL</u>

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.

<u>Loans and receivables</u>

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

<u>Impairment of financial assets</u>

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

<u>Debt and equity instruments</u>

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

<u>Transaction costs on the issue of equity instruments</u>

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.

<u>Interest and dividends</u>

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 and no property, plant or equipment was purchased in 2012.

(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

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.

(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 23 and 24 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 NZ IAS 7 cashflow statements, NZ IAS 12 income taxes and NZ IAS 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 credit 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 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.

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

Mr David Davies of Ansvar Australia is the Appointed Actuary of ACS under a Management Service Agreement. 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 2012

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.

(a) Assumptions

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

	2012		2011	
	Short-tail	**Long-tail**	**Short-tail**	**Long-tail**
Weighted average term to settlement (years)	1.00	1.62	1.92	1.68
Inflation rate	n/a	n/a	2.25%	2.25%
Superimposed inflation rate	0%	0%	0%	0%
Discount rate	2.5%	0%	2.5%	0%
Discounted mean term (years)	1.00	1.62	0.94	1.68
Claim handling expense ratio	2.1% (Gross)	2.0% (Gross)	32.2% (Net)	32.2% (Net)
Risk margin	13.1%	11.0%	16.9%	14.9%

(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 2012. To reflect this expense, an allowance is included in the central estimate of the outstanding claims liability. This claims handling expenses has been calculated by use of a budget model of current and future costs for the coming years. These amounts have been discounted at the same rate as the claims liabilities.

Risk margin

A risk margin at a 75% level of sufficiency has been used to determine the outstanding claims liability as at 31 December 2012 (2011: 80%).

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 2011 to 31 December 2012

Assumption category		**Effect on net outstanding claims liabilities Increased/(Decreased)** $
Discount rates	No change	-
Claims inflation		-
Risk margin		(292,000)
Specific short tail class assumptions		
ICD assumptions		287,000
Specific long tail class assumptions		
Net loss ratio		(367,000)

(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	(17,932,342)	14,659,737

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 %	(37,000)	(37,000)
	- 1.00 %	37,000	37,000
Claims handling expenses ratio	+ 1.00 %	(2,127,000)	(2,127,000)
	- 1.00 %	2,127,000	2,127,000
Risk margin	+ 1.00 %	(64,000)	(64,000)
	- 1.00 %	64,000	64,000

6. Profit from operations

(a) Revenue

An analysis of the company's premium for the year is as follows:	2012 $	2011 $
Premium revenue:		
Gross written premium	-	15,930,826
Movement in unearned premiums	-	13,731,528
Gross earned premiums	**-**	**29,662,354**

(b) Loss before income tax

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

	2012 $	2011 $
Depreciation of non-current assets		
Office furniture and fittings	-	35,887
Computer hardware	-	24,408
Leasehold improvements	-	-
	-	**60,295**
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) Loss before income tax (Cont'd)

	2012 $	2011 $
Amortisation of non-current assets		
Software	-	7,381
Impairment of non-current assets		
Software	-	3,075
Rental expense relating to operating leases	223,936	235,734
Employee benefits:		
Defined contribution plans	58,856	255,858
Salaries	1,263,176	2,694,443
Other	779	24,373
	1,322,811	**2,974,674**
Doubtful debts allowance:		
Reinsurance receivable	-	-
Trade debtors	(34,169)	(49,320)
	737,186	**(49,320)**

7. Income taxes

(a) Tax expense/benefit

	2012 $	2011 $
Current tax (benefit)/expense	(5,021,056)	(2,589,299)
Deferred tax expense	-	(170,766)
Adjustments recognised in the current year in relation to the current tax of prior years	-	-
Tax credits not recognised	5,021,056	2,760,064
	-	**-**

(b) Income tax recognised in profit or loss

Tax expense comprises:		
Loss before taxation	**(17,932,342)**	**(9,876,136)**
Tax credit at 28% (2011: 28%)	(5,021,056)	(2,765,318)
Adjustments recognised in the current year in relation to the current tax of prior years	-	-
Tax credits not recognised	5,021,056	2,760,064
Tax effect on non-deductible expenses	-	5,254
	-	**-**

7. Income taxes (Cont'd)

(c) *Deferred tax*

2012	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	-	-	-	-	-	-
Provision for unpaid premiums (doubtful debts)	-	-	-	-	-	-
Provision for accounting fees	-	-	-	-	-	-
Provision for annual leave	-	-	-	-	-	-
Unearned reinsurance commission	-	-	-	-	-	-
Deferred acquisition costs	-	-	-	-	-	-
Deferred agents commission	-	-	-	-	-	-
Make good provision	-	-	-	-	-	-
Risk margin	-	-	-	-	-	-
	-	-	**-**	**-**	-	**-**

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)**	**-**

8. Remuneration of auditors

	2012 $	2011 $
Audit the financial report	44,120	79,490
Tax services (i)	-	19,983
Other assurance services (ii)	8,824	-
	52,944	**99,473**

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

9. Current receivables

	2012 $	2011 $
Trade receivables	89,242	5,923,741
Allowance for doubtful debts	(89,242)	(50,000)
	-	**5,873,741**
GST receivable	657,428	4,177,353
Other debtors and prepayments	2,047,711	460,556
Reinsurance ceded debtors	7,839,357	1,165,347
Deferred reinsurance expense	-	7,021,109
Deferred acquisition costs	-	-
	10,544,496	**12,824,365**
	10,544,496	**18,698,106**

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, the trade receivables balance of $89,242 was fully provided for.

10. Investments

Investments carried at fair value:	2012 $	2011 $
Current		
Government securities	538,329	551,678
Loans	20,000	-
	558,329	**551,678**

11. Reinsurance recoveries receivable

	2012 $	2011 $
Expected future reinsurance recoveries		
on claims reported	204,857,463	596,654,195
on claims incurred but not reported	32,554,036	103,671,377
Discount adjustment	(11,105,780)	(33,173,865)
	226,305,719	**667,151,707**
Provision for impairment of reinsurance assets	-	-
Reinsurance recoveries receivable	**226,305,719**	**667,151,707**
Current	115,071,880	189,881,640
Non-current	111,233,839	477,270,067
	226,305,719	**667,151,707**

Almost all of the outstanding claims within ACS are from the multiple earthquakes that occurred from September 2010 through to the end of 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 2013 and beyond.

12. Current tax

	2012 $	2011 $
Income tax receivable/(payable)	-	**900**

13. Property, plant & equipment

2012	Leasehold improvements $	Office furniture & fittings $	Computer hardware $	Total $
Cost of the asset	-	-	-	-
Additions	-	-	-	-
Accumulated Depreciation	-	-	-	-
Impairment charged	-	-	-	-
Net book value as at 31 December 2012	**-**	**-**	**-**	**-**

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	**-**	**-**	**-**	**-**

14. Intangible assets

Computer software	2012 $	2011 $
Cost of the asset	-	1,036,725
Accumulated amortisation	-	(1,033,650)
Impairment charged		(3,075)
Net book value as at 31 December	-	**-**

15. Current payables

	2012 $	2011 $
Direct insurance payables	-	-
Policy cancellations	-	12,696,206
Reinsurance ceded creditors	2,700,321	-
Sundry creditors and accruals	12,385,318	1,011,545
Payable to related party entities	-	797,232
	15,085,639	**14,504,983**

16. Provisions

	2012 $	2011 $
Current		
Employee entitlements	35,340	116,218
Other provisions	100,000	-
	135,340	**116,218**
Non-current		
Provision for make good	104,491	89,516
	239,831	**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 at the time of renewal of the lease unless the lease is renewed.

17. Net claims incurred

Direct business

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**

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**

18. Outstanding claims liabilities

	2012 $	2011 $
Gross central estimate	212,716,149	666,610,865
Discount to present value	(11,105,780)	(33,173,865)
Claims handling costs	4,826,928	2,511,968
Risk margin	27,085,285	40,744,000
Gross outstanding claims liabilities	**233,522,582**	**676,692,968**
Current	118,348,943	192,597,229
Non-current	115,173,639	484,095,739
	233,522,582	**676,692,968**

18. Outstanding claims liabilities (Cont'd)

Claim provisions

	2012 $	2011 $
Estimated expected future payments for claims reported including		
Reported claims	206,182,588	601,153,660
Indirect claims settlement costs	4,826,928	2,511,968
Incurred but not yet reported	33,618,846	106,201,205
Discount adjustment	(11,105,780)	(33,173,865)
Gross outstanding claims liabilities	**233,522,582**	**676,692,968**

Reconciliation of movement in outstanding claims liabilities

2012	Gross $	Reinsurance $	Net $
At 1 January	676,692,968	(667,151,707)	9,541,261
Increase due to claims incurred in the current accident year	-	-	-
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**

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**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

19. Unearned premium and deferred acquisition costs

(a) Unearned premium

2012	Gross $	Reinsurance $	Net $
At 1 January	-	-	-
Premiums on contracts written	-	-	-
Earning of premiums written	-	-	-
At 31 December	**-**	**-**	**-**

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 / policy cancellations	(29,531,854)	19,582,079	(9,949,775)
At 31 December	**-**	**-**	**-**

(b) Deferred acquisition costs

	2012 $	2011 $
At 1 January	-	2,017,597
Cost deferred in the year	-	-
Amortisation charged to income	-	(6,481,219)
Write down for premium deficiency	-	4,463,622
At 31 December	**-**	**-**

20. Reinsurance ceded

	2012 $	2011 $
Reinsurance premium written	8,053,853	14,000,888
Deferred reinsurance premium	-	6,972,449
Reinsurance commissions	-	(2,866,331)
Reinsurance rebates	-	(273,839)
	8,053,853	**17,833,167**

Reinsurance premiums written in the year ended 31 December 2012 include an updated estimate of reinstatement premiums payable on the 2010 and 2011 reinsurance programmes based on the latest estimate of expected reinsurance recoveries on claims payments.

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

21. Unexpired risk liability

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

22. Commitments

Operating lease commitments:	2012 $	2011 $
Not later than one year	200,847	233,250
Later than one year and not later than five years	51,851	137,582
	252,698	**370,832**

23. Issued capital

	2012 Number of shares	2011 Number of shares	2012 $	2011 $
Ordinary share capital	33,200,000	1,600,000	33,000,000	1,400,000
Special share capital	1	-	1	-
Total issued share capital	**33,200,001**	**1,600,000**	**33,000,001**	**1,400,000**

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

- On 29 March 2012, ACS issued 100,000 new shares at NZ$1 per share to the ultimate parent company, Ecclesiastical;
- On 14 May 2012, ACS issued 10,000,000 ordinary shares to the Canterbury Earthquake Church and Heritage Trust (CECH) for consideration of NZ$ 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.

24. Accumulated losses

	2012 $	2011 $
Balance at beginning of financial year	(407,922)	9,978,353
Net loss	(17,932,342)	(9,876,136)
Dividend paid	-	(510,139)
Balance at end of financial year	**(18,340,264)**	**(407,922)**

No dividend was paid during the year (a dividend of $31.88 per 100 shares relating to 2010 was paid in the prior year on 23 February 2011).

25. Insurer financial strength rating

At 31 December 2011, ACS (NZ) Limited had an AM Best financial strength rating of B++ (Good). AM Best downgraded the financial strength rating to B+ (on 26 March 2012) and B- (on 17 July 2012). On 31 January 2013, AM Best upgraded the financial strength rating to B (Fair).

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.

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	2012 $	2011 $
Financial assets			
Fair value through profit or loss	10	558,329	551,678
Premium receivables		-	5,873,741
Reinsurance receivables		7,839,357	1,165,347
Reinsurance recoveries receivable	11	226,305,719	667,151,707
Cash and cash equivalents		26,099,245	5,993,372
Total financial assets		**260,802,650**	**680,735,845**
Non-financial assets		2,705,139	11,659,918
Total assets		**263,507,789**	**692,395,763**
Financial liabilities			
Trade, claims and other payables		248,608,221	614,964,638
Total financial liabilities		**248,608,221**	**614,964,638**
Non-financial liabilities		239,831	76,439,048
Total liabilities		**248,848,052**	**691,403,686**

(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 2012, 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%
AA-	23.4%
A+	49.5%
A	4.3%
A-	10.3%
A- (AM Best)	1.3%
BBB+	11.1%

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	2012 $	2011 $
Cash	26,099,245	5,993,372
Government securities	538,329	551,678
Loans	20,000	-
Premium and reinsurance receivables	7,839,357	7,039,088
Reinsurance recoveries receivable	226,305,719	667,151,707
	260,802,650	**680,735,845**

(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.

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

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**

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 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.

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.

2012	**Weighted average interest rate %**	**Less than 1 year $**	**1 - 5 years $**	**5 + years $**	**Total $**
Non interest bearing:					
Net trade debtors	-	7,839,357	-	-	7,839,357
Variable interest rate instruments:					
Cash	-	26,099,245	-	-	26,099,245
Fixed interest rate instruments:					
Short term bills and notes	-	-	-	-	-
Government securities	2.53%	538,329	-	-	538,329
Loans	-	20,000	-	-	20,000
		34,496,931	**-**	**-**	**34,496,931**

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
Fixed interest rate instruments:					
Government securities	3.27%	551,678	-	-	551,678
		13,584,138	**-**	**-**	**13,584,138**

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

Related party transactions

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

	2012 $	2011 $
Computer services	24,053	63,640
Intercompany travel expenses	53,317	23,485
Telecommunications	12,286	-
Reinsurance paid via Australia	-	4,513,412
Marketing and branding	82	19,029
Audit fees	36,326	-
Interest on loans	158,985	-
Others	59,272	42,468
	344,321	**4,662,034**

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 2012, 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 Insurance Office plc ("Ecclesiastical"), whereby Ecclesiastical provided a fixed maximum upper limit Property Catastrophe Excess of Loss Reinsurance Contract in respect of the February 2011 earthquake.

As at 31 December 2011, the company owed Ecclesiastical $746,104 and Ansvar $51,129.

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.

In October 2012, ACS provided a loan of $20,000 to CECH by settling certain expenses on behalf of the Trust. The loan is non-interest bearing and has no specified repayment date.

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:

	2012 $	2011 $
Cash	26,099,245	5,993,372

b. Reconciliation of net surplus after taxation

	2012 $	2011 $
Net (loss)/profit for the year	**(17,932,342)**	**(9,876,136)**
Depreciation, amortization and impairment charged	-	325,744
Changes in fair value of investments	12,581	2,770
Increase / (decrease) in deferred tax balances	-	(170,766)
Increase / (decrease) in taxation payable	-	(48,500)
(Increase) / decrease in debtors and prepayments	8,153,608	(1,882,525)
(Increase) / decrease in investments	-	(286,808)
Increase / (decrease) in creditors and provisions	(1,288,334)	10,853,317
(Increase) / decrease in net general insurance technical reserves	(2,324,137)	(5,483,516)
Increase / (decrease) in reinsurance payable	2,700,321	(948,211)
Increase / (decrease) in intercompany payable	(797,232)	(14,183)
	(11,475,535)	**(7,528,814)**

29. 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 2012, 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.

30. Subsequent events

There has been no 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

31. Imputation credit account

	2012 $	2011 $
The amount of imputation credits available for use in subsequent reporting periods	-	3,790,338

Due to the change in ACS's shareholder from Ansvar Insurance Limited to the Canterbury Earthquake Church and Heritage Trust during the year, 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 as ACS made a taxable loss in this period.

32. Solvency margin

	2012
Solvency margin	1.06

33. 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.

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