

ACS (NZ) Limited

Company Number: 115156
Unaudited Interim Financial Statements
for the six months ended 30 June 2018

ACS (NZ) Limited

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ACS (NZ) Limited

Directors' Report

The Directors of ACS (NZ) Limited (ACS) (the Company) submit the unaudited interim Financial Statements for the six months ended 30 June 2018.

Directors

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

David Harrison, Chairperson.

Ian Campbell, Non-executive Director.

Bruce Harris, Non-executive Director.

As at the date of this report, the Directors held no interests in the shares and options of the Company. David Harrison and Bruce Harris are Directors and each hold 50% of the ordinary share capital of ACS' holding company, Canterbury Earthquake Church and Heritage Trustee Limited, a company domiciled in New Zealand, as trustee for the Canterbury Earthquake Church and Heritage Trust.

Principal activities

ACS' principal activity is the run-off of claims which primarily relate to the devastating earthquakes in New Zealand in 2010 and 2011. ACS continues to operate under its provisional license as permitted by the Reserve Bank of New Zealand (RBNZ).

As part of ensuring a fair, managed process for finalising all outstanding claims, ACS began operating under a Contingent Scheme of Arrangement (the Scheme) with effect from 20 June 2012. The Scheme was implemented 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. The Board of Directors holds the view that this will result in better outcomes for claimants, who are called Creditors under the Scheme, than the alternative, which would be to go into liquidation. The Company is currently in an Initial Scheme Period, meaning it is continuing normal day to day operations. If the Scheme is triggered, ACS will write to creditors to advise them of the implications.

Canterbury Earthquake Church and Heritage Trustee Limited as Trustee became the sole ordinary shareholder of ACS on 15 May 2012. From that date, ACS' former holding 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 provides certain management services to ACS.

Subsequent events

There has not been any matter or circumstance that has occurred between the balance sheet date and the date of this report 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.

Dividends

The Board of Directors has resolved that no dividend be declared or paid for the six months ended 30 June 2018 (31 December 2017: Nil).

Auditors

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

Financial results

ACS' unaudited loss after income taxation for the six months ended 30 June 2018 was \$974,610 (2017: profit after income taxation \$150,244).

On behalf of the Board of Directors:



D J Harrison
Chairperson



B G Harris
Director

28 August 2018

ACS (NZ) Limited

Unaudited Comprehensive Operating Statement For the six months ended 30 June 2018

	Note	30/06/2018 Unaudited \$	30/06/2017 Unaudited \$
Gross claims incurred	3	(1,362,279)	(1,043)
Reinsurance recoveries	3	(39,126)	134
Unallocated claims expenses	3	82,721	25,842
Net claims incurred	3	(1,318,684)	24,933
Management services fee	8	147,625	(54,924)
Underwriting result		(1,171,059)	(29,991)
Interest income		196,449	180,235
(Loss)/profit before income taxation		(974,610)	150,244
Income taxation		-	-
(Loss)/profit after income taxation		(974,610)	150,244
Other comprehensive income		-	-
Comprehensive result		(974,610)	150,244

The unaudited Comprehensive Operating Statement should be read in conjunction with the accompanying Notes to the unaudited interim Financial Statements.

ACS (NZ) Limited

Unaudited Balance Sheet As at 30 June 2018

	Note	30/06/2018 Unaudited \$	31/12/2017 Audited \$
Assets			
Cash and cash equivalents	4	16,084,663	17,090,342
Trade and other receivables	5	1,085,837	127,223
Reinsurers' share of gross claims liabilities	6, 9	1,955,792	2,890,882
Total assets		19,126,292	20,108,447
Liabilities			
Trade and other payables	7	92,885	81,482
Provisions	8	2,752,069	2,900,542
Gross claims liabilities	9	8,875,245	8,745,720
Total liabilities		11,720,199	11,727,744
Net assets		7,406,093	8,380,703
Equity			
Share capital	10	33,000,001	33,000,001
Accumulated loss		(25,593,908)	(24,619,298)
Total equity		7,406,093	8,380,703

The unaudited Balance Sheet should be read in conjunction with the accompanying Notes to the unaudited interim Financial Statements.

For and on behalf of the Board of Directors, who authorised the issue of these unaudited interim Financial Statements on 28 August 2018:



D J Harrison
Chairperson
28 August 2018



B G Harris
Director
28 August 2018

ACS (NZ) Limited

Unaudited Statement of Changes in Equity For the six months ended 30 June 2018

	Share capital \$	Accumulated loss \$	Total \$
Balance at 31 December 2016	33,000,001	(23,708,617)	9,291,384
Comprehensive result for the period	-	150,244	150,244
Balance at 30 June 2017	33,000,001	(23,558,373)	9,441,628
Comprehensive result for the period	-	(1,060,925)	(1,060,925)
Balance at 31 December 2017	33,000,001	(24,619,298)	8,380,703
Comprehensive result for the period	-	(974,610)	(974,610)
Balance at 30 June 2018	33,000,001	(25,593,908)	7,406,093

The unaudited Statement of Changes in Equity should be read in conjunction with the accompanying Notes to the unaudited interim Financial Statements.

ACS (NZ) Limited

Unaudited Cash Flow Statement For the six months ended 30 June 2018

		30/06/2018	30/06/2017
	Note	Unaudited	Unaudited
		\$	\$
Cash flows from operating activities			
Reinsurance recoveries received		35,433	4,449,441
Interest received		196,449	180,235
Gross claims paid		(1,237,561)	(2,019,569)
Net cash (outflow)/inflow from operating activities		(1,005,679)	2,610,107
Cash and cash equivalents at beginning of period	4	17,090,342	13,811,794
Cash and cash equivalents at end of period	4	16,084,663	16,421,901

The unaudited Cash Flow Statement should be read in conjunction with the accompanying Notes to the unaudited interim Financial Statements.

ACS (NZ) Limited

Notes to the Unaudited Interim Financial Statements For the six months ended 30 June 2018

1. Basis of preparation and significant accounting policies

Corporate information

ACS (NZ) Limited is a limited company incorporated and domiciled in New Zealand. The principal activity of the Company is to run-off claims which primarily relate to the devastating earthquakes in New Zealand in 2010 and 2011.

The Company cancelled all insurance policies and ceased writing new business with effect from 31 December 2011. From 1 January 2012 the Company has operated as a claims run-off company and changed its name to ACS (NZ) Limited on 1 February 2012. ACS has continued to operate under its provisional license as permitted by the Reserve Bank of New Zealand (RBNZ).

The unaudited interim Financial Statements of ACS (NZ) Limited for the six months ended 30 June 2018 were authorised for issue by the Board of Directors on 28 August 2018.

Basis of preparation

The unaudited interim Financial Statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice and NZ IAS 34 Interim Financial Reporting. The unaudited interim Financial Statements also comply with New Zealand equivalents to international Financial Reporting Standards and other authoritative pronouncements of the New Zealand Accounting Standards Board, as appropriate for profit oriented entities. The unaudited interim Financial Statements also comply with International Financial Reporting Standards.

On 1 January 2013 the Company became an issuer as required by the *Insurance (Prudential Supervision) Act 2010*. On 1 April 2014 the Company became a Financial Markets Conduct reporting entity under the *Financial Markets Conduct Act 2013* and its first balance sheet date as a Financial Markets Conduct reporting entity was 31 December 2015.

The unaudited interim Financial Statements do not include all the information and disclosure required in the Annual Financial Statements and should be read in conjunction with ACS (NZ) Limited's Annual Financial Statements for the year ended 31 December 2017.

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. Assets and liabilities are presented in a decreasing order of liquidity on the face of the Balance Sheet.

The unaudited interim Financial Statements are prepared on a going concern basis as the Company expects to be able to pay its debts as they fall due. The Company's level of capital exceeds RBNZ's requirements.

The estimation of the ultimate liability arising from claims made under general insurance contracts is a critical accounting estimate. There are various sources of uncertainty as to how much the Company will ultimately pay with regard to such contracts. There is uncertainty as to the total number of claims made on each class of insurance, the amounts that such claims will be settled for and the timing of any claim payments. Revisions to accounting estimates are recognised in the financial period in which the estimate is revised.

New Accounting Standards, Amendments and Interpretations

The accounting policies adopted in the preparation of the unaudited interim Financial Statements are consistent with those adopted in the preparation of the Company's Annual Financial Statements for the year ended 31 December 2017. No new Accounting Standards, Amendments and Interpretations have been adopted.

2. Actuarial assumptions and methods

Actuarial information

Mr Ashish Ahluwalia, Fellow of the Institute of Actuaries of Australia and Fellow of the New Zealand Society of Actuaries, of Finity Consulting Pty Limited is the Appointed Actuary of the Company. Mr Ahluwalia was satisfied with the nature, sufficiency and accuracy of the data used in the actuarial valuation of the net claims liabilities at 30 June 2018 and there were no qualifications contained in the Insurance Liabilities Valuation letter.

ACS (NZ) Limited

Notes to the Unaudited Interim Financial Statements For the six months ended 30 June 2018

2. Actuarial assumptions and methods (continued)

(a) Assumptions

The following assumptions have been made or are implied in determining the net claims liabilities which are short tail in nature:

	30/06/2018	31/12/2017
Discount rate	1.92%	1.92%
Number of incurred but not reported claims	16	20
Average claim size	\$125,000	\$100,000
Weighted average term to settlement (years)	1.06	1.39
Discounted mean term (years)	1.05	1.37
Claim handling expense rate as a % of gross claims liabilities	10.57%	15.47%
Risk margin as a % of net claims liabilities	25.49%	29.92%

(b) Processes used to determine assumptions

The net claims liabilities are calculated using assumptions including the following:

Claims inflation rate and superimposed inflation rate

No explicit allowance has been made for inflation or superimposed inflation. The average claim size assumption for future reported claims has been set at a level above the settlement costs of recently reported claims.

Discount rate

The discount rate is appropriate for the mean term of expected future claims payments.

Number of incurred but not reported claims

The number of incurred but not reported claims is calculated based on past experience of claim notification patterns and information on the changes in the profile of risk over time.

Average claim size

The estimated average claim size is based primarily on historical experience.

Weighted average term to settlement

The weighted average term to settlement is calculated based on recent settlement patterns of historic and recently reported claims.

Claims handling expense allowance

The Company is responsible for the ongoing management of all claims incurred on or before 30 June 2018. To reflect this expense an allowance is included in the central estimate of the gross claims liabilities. This claims handling expense allowance has been calculated using projected claims handling expenses discounted back to present value at the same discount rate as the gross claims liabilities.

Risk margin

A risk margin at a 75% probability of sufficiency has been used to determine the net claims liabilities at 30 June 2018 (31 December 2017: 75%). For the actuarial valuation at 31 December 2017 an analysis of the variability of individual claim sizes was used as a basis for calculating the risk margin for earthquake claims while a standard methodology analysing valuation class variability was used for non-earthquake claims. The risk margin percentage applied to gross claims liabilities of 20% has not changed since 31 December 2017.

(c) Sensitivity analysis

The Company conducts sensitivity analysis to quantify the exposure to the risk of changes in the underlying assumptions used in the unaudited interim Financial Statements.

ACS (NZ) Limited

Notes to the Unaudited Interim Financial Statements For the six months ended 30 June 2018

2. Actuarial assumptions and methods (continued)

(c) Sensitivity analysis (continued)

The sensitivity of the Company's net claims liabilities, (loss)/profit before income taxation and equity to key actuarial valuation assumptions is disclosed in the table below:

Variable	Movement in variable	Impact net of recoveries	
		30/06/2018	31/12/2017
		\$	\$
Discount rate	+1.0%	(67,333)	(73,331)
	-1.0%	68,688	75,047
Number of incurred but not reported claims	+5	726,600	580,525
	-5	(727,143)	(579,563)
Average claim size	+\$30,000	558,848	696,593
	-\$30,000	(559,126)	(697,115)
Claims handling expense rate	+1.0%	68,853	65,704
	-1.0%	(68,853)	(65,704)
Risk margin	+1.0%	63,246	57,685
	-1.0%	(63,246)	(57,685)

3. Net claims incurred

	30/06/2018	30/06/2017
	\$	\$
Gross claims incurred		
Undiscounted	1,319,471	1,043
Discount movement	42,808	-
Unallocated claims expenses	(82,721)	(25,842)
	1,279,558	(24,799)
Reinsurance recoveries		
Undiscounted	80,275	(134)
Discount movement	(41,149)	-
	39,126	(134)
Net claims incurred	1,318,684	(24,933)

4. Cash and cash equivalents

	30/06/2018	31/12/2017
	\$	\$
Cash at hand	84,663	1,090,342
Short term deposits	16,000,000	16,000,000
Total cash and cash equivalents	16,084,663	17,090,342

5. Trade and other receivables

Reinsurance receivables	912,655	52,123
Non-trade receivables	136,857	52,303
Prepaid expenses	36,325	22,797
Total trade and other receivables	1,085,837	127,223

ACS (NZ) Limited

Notes to the Unaudited Interim Financial Statements For the six months ended 30 June 2018

6. Reinsurers' share of gross claims liabilities

	30/06/2018	31/12/2017
	\$	\$
Undiscounted central estimate of reinsurers' share of gross claims liabilities		
Reported claims	1,950,974	2,880,893
Incurred but not reported claims	44,517	90,837
Discount to present value	(39,699)	(80,848)
Total reinsurers' share of gross claims liabilities	1,955,792	2,890,882
Current	1,933,977	2,591,884
Non-current	21,815	298,998
Total reinsurers' share of gross claims liabilities	1,955,792	2,890,882

In March 2012 the Company entered into a commercially priced arms length reinsurance arrangement with Ecclesiastical Insurance Office Plc whereby the latter provided a fixed maximum upper limit Property catastrophe excess of loss reinsurance contract in respect of the February 2011 earthquake event.

Almost all of the Company's claims liabilities are from earthquakes that occurred between September 2010 and December 2011. In assessing the projected payment pattern of these claims, payments to date have been benchmarked against other earthquake events and then projected forward.

7. Trade and other payables

Sundry creditors and accruals	92,841	56,222
Amount owing to Ansvar Insurance Limited	44	25,260
Total trade and other payables	92,885	81,482

8. Provisions

Employee benefits	24,859	21,429
Management services fee	2,706,228	2,853,853
Other employee provisions	20,982	25,260
Total provisions	2,752,069	2,900,542

The Company signed a management services agreement with Ansvar Insurance Limited with effect from 30 June 2012 under which Ansvar Insurance Limited provides certain management services to the Company. A performance based management fee of up to \$3 million may be payable to Ansvar Insurance Limited once the Company has settled all claims against it to the extent it has surplus capital in excess of \$5 million. The Company recognised a provision of \$2,706,228 at 30 June 2018 (31 December 2017: \$2,853,853) representing the present value of the management services fee payable. The movement in the provision is recognised as an expense in the Comprehensive Operating Statement.

The above items are disclosed as provisions rather than accruals because of the inherent uncertainty surrounding their ultimate value.

ACS (NZ) Limited

Notes to the Unaudited Interim Financial Statements For the six months ended 30 June 2018

9. Claims liabilities

	30/06/2018	31/12/2017
	\$	\$
Gross claims liabilities		
Undiscounted central estimate of gross claims liabilities		
Reported claims	4,071,971	3,525,060
Incurred but not reported claims	2,813,351	3,045,366
Discount to present value	(162,778)	(205,586)
Claims handling expenses	719,680	998,576
Risk margin	1,433,021	1,382,304
Total gross claims liabilities	8,875,245	8,745,720
Current	4,237,117	3,320,161
1-5 years	4,800,906	5,631,145
Discount to present value	(162,778)	(205,586)
Total gross claims liabilities	8,875,245	8,745,720

Reconciliation of movement in claims liabilities

	30/06/2018			31/12/2017		
	Gross \$	Reinsurance \$	Net \$	Gross \$	Reinsurance \$	Net \$
At 31 December	8,745,720	(2,890,882)	5,854,838	9,789,050	(4,772,425)	5,016,625
Movement in claims liabilities	984,796	79,199	1,063,995	910,405	(5,396)	905,009
Net claim payments during the period	(898,079)	897,040	(1,039)	(1,892,252)	1,891,367	(885)
Discount to present value	42,808	(41,149)	1,659	(61,483)	(4,428)	(65,911)
At end of period	8,875,245	(1,955,792)	6,919,453	8,745,720	(2,890,882)	5,854,838

10. Share capital

	30/06/2018	31/12/2017
	\$	\$
Ordinary share capital – 33,200,000 shares	33,000,000	33,000,000
Special share capital – 1 share	1	1
Total issued share capital	33,000,001	33,000,001

Canterbury Earthquake Church and Heritage Trustee Limited as Trustee owned 100% of the ordinary share capital of the Company at 30 June 2018 (31 December 2017: 100%). Ecclesiastical Insurance Office Plc owned one special share at 30 June 2018 (31 December 2017: one). Mr Harrison and Mr Harris each owned 50% of the ordinary share capital of Canterbury Earthquake Church and Heritage Trustee Limited at 30 June 2018 (31 December 2017: Mr Harrison owned 50%).

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

11. Related parties

Until 15 May 2012 Ansvr Insurance Limited, incorporated in Australia, was the Company's immediate holding company, AllChurches Trust Limited, incorporated in the United Kingdom, was the Company's ultimate holding company and Ecclesiastical Insurance Office Plc, incorporated in the United Kingdom, was its intermediate holding company. From 15 May 2012 the Company's immediate holding company was Canterbury Earthquake Church and Heritage Trustee Limited as Trustee for the Canterbury Earthquake Church and Heritage Trust, both domiciled in New Zealand, and Ansvr Insurance Limited, AllChurches Trust Limited and Ecclesiastical Insurance Office Plc ceased to be related parties.

Mr Harrison and Mr Harris each owned 50% of the ordinary share capital of Canterbury Earthquake Church and Heritage Trustee Limited at 30 June 2018 (31 December 2017: Mr Harrison owned 50%).

ACS (NZ) Limited

Notes to the Unaudited Interim Financial Statements For the six months ended 30 June 2018

12. Solvency Margin

	30/06/2018	31/12/2017
	\$	\$
Actual Solvency Capital	7,406,093	8,380,703
Minimum Solvency Capital	4,746,325	4,306,453
Solvency Margin	2,659,768	4,074,250
Solvency Ratio	156%	195%

The Solvency Margin has been calculated in accordance with the Reserve Bank of New Zealand's *Solvency Standard for Non-life Insurance Business in Run-off*.

At 30 June 2018 the Company continued to retain all of its equity to assist with maintaining its financial soundness.

13. Insurer financial strength credit rating

In 2013 the Reserve Bank of New Zealand granted the Company an exemption from the requirement to maintain a financial strength credit rating. Following the granting of this exemption, the Company ceased to be rated by A.M. Best.

14. Subsequent events

There has not been any matter or circumstance that has occurred between the balance sheet date and the date of this report 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.

15. Additional Company information

ACS (NZ) Limited is a company incorporated and operating in New Zealand. The Company's immediate holding company is Canterbury Earthquake Church and Heritage Trustee Limited as Trustee for the Canterbury Earthquake Church and Heritage Trust.

Registered Office:
Level 11
The AIG Building
41 Shortland Street
Auckland
1010
New Zealand