

# ACS (NZ) Limited

Company Number: 115156  
Annual Financial Report for the year ended 31 December 2017



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# ACS (NZ) Limited

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# ACS (NZ) Limited

## Directors' Report

The Directors of ACS (NZ) Limited (ACS) (the Company) submit their Annual Report including the Annual Financial Statements for the year ended 31 December 2017 and the Independent Auditor's Report thereon. In order to comply with the provisions of the *Companies Act 1993*, the Directors report as follows:

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

**David Harrison**  
FNZIM  
Chairperson and  
non-executive Director

David has extensive experience in insurance. He is the former Chairperson and Chief Executive of Marsh Limited in New Zealand and the Pacific Islands and a member of the international team of Managing Directors, Chairperson of Aviation and Marine Underwriting Agency Limited, Chairperson of Concordia Underwriting Agency Limited and has extensive interest at board level in the Charitable and Not for Profit sectors. David is a Director and 50% shareholder of Canterbury Earthquake Church and Heritage Trustee Limited which as Trustee owns 100% of the ordinary share capital of the Company.

**Ian Campbell**  
BSc (Econ) Hons, ACA  
Non-executive Director

Ian was appointed to the Board in June 2013. He is the Group Chief Financial Officer of the Ecclesiastical Insurance Group Plc. Ian is a Chartered Accountant with more than 25 years' experience in financial services. Ian started his career at KPMG in its Insurance and Consulting Practice covering a wide range of projects for Lloyd's of London market and life insurance companies. Since then, Ian has held senior finance roles at Cox Insurance, Aspen Insurance and Torus Insurance focusing on property and casualty reinsurance and insurance acquisitions, finance, investment and taxation management, Solvency II, capital management, capital raising, actuarial and reinsurance. He is also a Director of Ansvar Insurance Limited and Ansvar Risk Management Services Pty Limited, both domiciled in Australia.

**Bruce Harris**  
CA, CPA, ICSA, AGIA, MAICD  
Non-executive Director

Bruce was appointed to the Board in 2011. He is a former Executive Director of CGU Insurance Limited with experience in financial management, strategy, governance, compliance and risk management. He is also a former Executive Officer of Ridley College and a former Director of Ansvar Insurance Limited, Australia and Arrow Leadership Australia Limited. Bruce currently serves on several Not for Profit boards and committees. Bruce is a Director of Canterbury Earthquake Church and Heritage Trustee Limited. Bruce is the Chairperson of the Audit, Risk and Compliance Committee.

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

### Principal activities

ACS's principal activity continues to be the settlement of claims which primarily relate to the devastating earthquakes in New Zealand in 2010 and 2011.

ACS incurred a loss before income taxation of \$910,681 during the financial year ended 31 December 2017 (2016: \$3,290,737). The main driver of the loss was the increase in the net claims incurred for the February 2011 earthquake event due to receiving advice from the Earthquake Commission of a higher level of claims than expected. At 31 December 2017 ACS's Reserve Bank of New Zealand (RBNZ) Solvency Capital was \$8,380,703 which was \$4,097,602 greater than the RBNZ Minimum Solvency Capital requirement of \$4,283,101. ACS has continued to operate under its provisional license as permitted by 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, a company domiciled in New Zealand, as Trustee became the sole ordinary shareholder of ACS on 15 May 2012. From that date, its 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.

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# ACS (NZ) Limited

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## Directors' Report

### 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 paid or payable in respect of the financial year ended 31 December 2017 (2016: 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's loss after income taxation for the financial year ended 31 December 2017 was \$910,681 (2016: \$3,290,737).

### Section 211 disclosure

The shareholder of the Company has exercised its right under section 211(3) of the *Companies Act 1993* and agreed that this Annual Report need not comply with paragraphs (a) and (e) to (h) of section 211(1) of the *Companies Act 1993*.

On behalf of the Board of Directors:



**D J Harrison**  
Chairperson



**B G Harris**  
Director

24 April 2018

## Independent Auditor's Report to the Shareholders of ACS (NZ) Limited

### Report on the Audit of the Financial Report

#### *Opinion*

We have audited the financial statements of ACS (NZ) Limited (the "Entity") which comprise the balance sheet as at 31 December 2017, and the comprehensive operating statement, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies as set out on pages 6 to 24.

In our opinion, the accompanying financial statements present fairly, in all material respects, the Entity's financial position as at 31 December 2017 and its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

#### *Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the Entity in accordance with the ethical requirements of Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board (the Code) that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with the Code.

Other than in our capacity as auditor and the provision of assurance services relating to the solvency return, we have no relationship with or interests in the Entity. These services have not impaired our independence as auditor of the Entity.

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

#### *Other Information*

The directors on behalf of the Entity are responsible for the other information. The other information comprises the information included in the Entity's annual report for the year ended 31 December 2017, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Liability limited by a scheme approved under Professional Standards Legislation.

## *Responsibilities of the Directors for the Financial Statements*

The directors of the Entity are responsible on behalf of the Entity for the preparation and fair presentation of the financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), International Financial Reporting Standards (IFRS), and for such internal control as the directors determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible on behalf of the Entity for assessing the ability of the Entity to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

## *Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (NZ), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



DELOITTE TOUCHE TOHMATSU



Neil Brown  
Partner  
Chartered Accountants

Melbourne, 24 April 2018



# ACS (NZ) Limited

## Comprehensive Operating Statement For the financial year ended 31 December 2017

	Note	2017 \$	2016 \$
<b>Reinsurance premium incurred</b>		-	(701)
Gross claims incurred	6	(1,228,208)	(5,093,928)
Reinsurance recoveries	6	9,824	1,732,308
Unallocated claims expenses	6	(62,762)	(153,068)
<b>Net claims incurred</b>	6	<b>(1,281,146)</b>	<b>(3,514,688)</b>
Management services fee	14	(10,086)	(116,968)
<b>Underwriting result</b>		<b>(1,291,232)</b>	<b>(3,632,357)</b>
Interest income		380,551	341,620
<b>Loss before income taxation</b>	5	<b>(910,681)</b>	<b>(3,290,737)</b>
Income taxation	9	-	-
<b>Loss after income taxation</b>		<b>(910,681)</b>	<b>(3,290,737)</b>
Other comprehensive income		-	-
<b>Comprehensive result</b>		<b>(910,681)</b>	<b>(3,290,737)</b>

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

# ACS (NZ) Limited

## Balance Sheet As at 31 December 2017

	Note	2017 \$	2016 \$
<b>Assets</b>			
Cash and cash equivalents	10	17,090,342	13,811,794
Trade and other receivables	11	127,223	3,461,396
Reinsurers' share of gross claims liabilities	12	2,890,882	4,772,425
<b>Total assets</b>		<b>20,108,447</b>	<b>22,045,615</b>
<b>Liabilities</b>			
Trade and other payables	13	81,482	70,523
Provisions	14	2,900,542	2,894,658
Gross claims liabilities	15	8,745,720	9,789,050
<b>Total liabilities</b>		<b>11,727,744</b>	<b>12,754,231</b>
<b>Net assets</b>		<b>8,380,703</b>	<b>9,291,384</b>
<b>Equity</b>			
Share capital	16	33,000,001	33,000,001
Accumulated loss		(24,619,298)	(23,708,617)
<b>Total equity</b>		<b>8,380,703</b>	<b>9,291,384</b>

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

For and on behalf of the Board of Directors, who authorised the issue of these Financial Statements on 24 April 2018:

  
D J Harrison  
Chairperson  
24 April 2018

  
B G Harris  
Director  
24 April 2018

# ACS (NZ) Limited

## Statement of Changes in Equity For the financial year ended 31 December 2017

	Share capital \$	Accumulated loss \$	Total \$
<b>Balance at 31 December 2015</b>	<b>33,000,001</b>	<b>(20,417,880)</b>	<b>12,582,121</b>
Comprehensive result for the year	-	(3,290,737)	(3,290,737)
<b>Balance at 31 December 2016</b>	<b>33,000,001</b>	<b>(23,708,617)</b>	<b>9,291,384</b>
Comprehensive result for the year	-	(910,681)	(910,681)
<b>Balance at 31 December 2017</b>	<b>33,000,001</b>	<b>(24,619,298)</b>	<b>8,380,703</b>

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

# ACS (NZ) Limited

## Cash Flow Statement For the financial year ended 31 December 2017

		2017	2016
	Note	\$	\$
<b>Cash flows from operating activities</b>			
Reinsurance recoveries received		5,140,194	7,925,625
Interest received		380,551	341,620
Reinsurance premium paid		-	(701)
Gross claims paid		(2,242,197)	(8,161,732)
<b>Net cash inflow from operating activities</b>	22	<b>3,278,548</b>	<b>104,812</b>
Cash and cash equivalents at beginning of year		13,811,794	13,706,982
<b>Cash and cash equivalents at end of year</b>	10	<b>17,090,342</b>	<b>13,811,794</b>

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

## Notes to the Financial Statements For the financial year ended 31 December 2017

### 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 2013* and the *Financial Markets Conduct Act 2013*. 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 financial report has been prepared in accordance with New Zealand Generally Accepted Accounting Practice. The financial report also complies 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 financial report also complies with International Financial Reporting Standards.

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 management business and changed its name to ACS (NZ) Limited on 1 February 2012.

The financial statements of the Company for the year ended 31 December 2017 were authorised for issue by the Board of Directors on 24 April 2018.

#### Basis of preparation

The financial report has been prepared on a historical cost basis, except for financial instruments which have been measured at fair value and net claims liabilities which have been measured in accordance with *NZ IFRS 4 Insurance Contracts*.

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. For assets and liabilities that comprise both current and non-current amounts, information with regard to the non-current amount is included in the relevant note to the financial statements.

These 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 the requirements of the Reserve Bank of New Zealand.

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) Reinsurance premium incurred

Premium ceded to reinsurers is recognised as an expense in accordance with the indemnity period of the corresponding reinsurance contract.

#### (c) Gross claims incurred and gross claims liabilities

Gross claims incurred and gross claims liabilities are recognised in respect of all business written. Gross claims liabilities comprise claims reported but not yet paid, claims incurred but not reported (IBNR), claims incurred but not enough reported, the anticipated direct and indirect claims handling expenses of settling those claims and a risk margin. Gross claims liabilities are assessed by reviewing individual claim files and estimating changes in the ultimate cost of settling claims using actuarial methods based on past experience and trends.

Gross claims liabilities are measured as the present value of the expected future claim payments. These payments are estimated on the basis of the ultimate cost of settling claims, which is affected by factors arising during the period to settlement such as inflation. The expected future payments are discounted to present value at the balance sheet date using risk free discount rates.

## Notes to the Financial Statements For the financial year ended 31 December 2017

### 1. Significant accounting policies (continued)

#### (d) Reinsurance recoveries

Reinsurance recoveries received or receivable in respect of gross claims paid and movements in reinsurance recovery assets in respect of claims reported but not yet paid, claims incurred but not reported and claims incurred but not enough reported are recognised in the Comprehensive Operating Statement in the year they occur.

The reinsurers' share of gross claims liabilities is actuarially assessed in a manner similar to the assessment of gross claims liabilities and is measured as the present value of the expected future receipts, calculated on the same basis as the gross claims liabilities [refer to Note 1(c)].

#### (e) Interest income

Interest income is recognised when it is probable that the economic benefits will flow to the Company and the income can be reliably measured. Interest income is accrued on a time proportionate basis with reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

#### (f) Foreign currency translation

All foreign currency transactions are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at the balance sheet date are translated at the exchange rate existing at the balance sheet 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.

#### (g) 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 payments are recognised as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

#### (h) Income taxation

##### Current taxation

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

##### Deferred taxation

Deferred taxation 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 taxation base of those items.

In principle deferred taxation liabilities are recognised for all taxable temporary differences. Deferred taxation assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused taxation losses and taxation offsets can be utilised. However, deferred taxation 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 does not affect either taxable income or accounting profit before income taxation.

Deferred taxation assets and liabilities are measured at the taxation rates that are expected to apply to the periods when the asset and liability giving rise to them are realised or settled, based on taxation rates and laws that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred taxation assets and liabilities reflects the taxation consequences that would follow from the manner in which the Company expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities.

##### Current and deferred taxation for the period

Current and deferred taxation is recognised as an expense or benefit in the Comprehensive Operating Statement, except when it relates to items credited or debited directly to equity, in which case the deferred taxation is also recognised directly in equity.

## Notes to the Financial Statements For the financial year ended 31 December 2017

### 1. Significant accounting policies (continued)

#### (i) Goods and Services Taxation

Income, expenses, assets and liabilities are recognised net of Goods and Services Taxation (GST) except:

- Where the amount of GST incurred is not recoverable Inland Revenue.
- For receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from or payable to Inland Revenue is included as part of receivables or payables.

Cash flows are included in the Cash Flow Statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from or payable to Inland Revenue is classified as cash flows from operating activities.

#### (j) Financial assets

Investments are recognised and derecognised on the 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 net claims liabilities are designated as at fair value through profit or loss upon initial recognition as permitted by *NZ IAS 39 Financial Instruments: Recognition and Measurement* and *NZ IFRS 4 Insurance Contracts*.

##### Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss 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 asset. Fair value is determined by reference to the quoted prices of the instruments at the balance sheet date.

##### Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet 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.

#### (k) Financial instruments issued by the Company

##### Debt and equity instruments

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

##### Transaction costs on the issue of equity instruments

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

##### Interest and dividends

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

#### (l) Impairment of assets

At each balance sheet 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.

## Notes to the Financial Statements For the financial year ended 31 December 2017

### 1. Significant accounting policies (continued)

#### (l) Impairment of assets (continued)

The 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 taxation 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 reduces the revaluation amount.

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 increases the revaluation amount.

#### (m) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the Balance Sheet.

Cash equivalents are held for the purpose of meeting short term cash commitments rather than for investment purposes and include 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.

#### (n) Receivables

Trade receivables represent receivables associated with claims and reinsurance recoveries. All other receivables are classified as non-trade receivables.

Receivables are measured initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest method. The recoverability of receivables is assessed on an ongoing basis and provision for impairment is made based on objective evidence and with regard to past default experience. The impairment charge is recognised in the Comprehensive Operating Statement. Receivables which are known to be uncollectible are written off.

The recoverability of reinsurance receivables is assessed with reference to the financial strength rating of each reinsurer. An impairment charge is recognised in the Comprehensive Operating Statement when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the respective reinsurance contract.

Receivables are non-interest bearing and are normally settled between 30 days and 12 months. The net carrying amount of receivables is a reasonable approximation of the fair value of the assets due to the short term nature of the assets.

#### (o) Trade and other payables

Trade payables represent payables associated with reinsurance premium and claims. All other payables are classified as non-trade payables.

Trade and other payables are measured at amortised cost using the effective interest method. Payables are recognised when the Company becomes obliged to make these payments. The amounts are discounted where the effect of the time value of money is material.

Trade and other payables are non-interest bearing and normally settled within 12 months.

#### (p) Employee benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave for services rendered to the balance sheet date when it is probable that settlement will be required and the amounts can be reliably measured.

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



# ACS (NZ) Limited

## Notes to the Financial Statements For the financial year ended 31 December 2017

### 1. Significant accounting policies (continued)

#### (p) Employee benefits (continued)

Provisions made in respect of employee benefits that are not expected to be settled within 12 months are measured at the present value of the expected future cash outflows to be made by the Company in respect of services provided by employees up to the balance sheet date. Consideration is given to the expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using interest rates on high quality corporate bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

#### Defined contribution funds

Contributions to defined contribution superannuation funds are expensed when incurred.

#### (q) New Accounting Standards and Interpretations

The accounting policies adopted are consistent with those of the previous financial year. New Accounting Standards that were applicable from 1 January 2017 were adopted by the Company and had no impact on these financial statements.

#### Accounting Standards not yet effective

At the date of authorisation of these financial statements, certain new Accounting Standards, Amendments and Interpretations to existing Accounting Standards have been published but are not yet effective and have not been early adopted by the Company. The only Accounting Standard considered relevant for the Company is *NZ IFRS 9 Financial Instruments* which improves and simplifies the approach for the classification and measurement of financial assets in *NZ IAS 39 Financial Instruments: Recognition and Measurement*. The Accounting Standard is not expected to have a significant financial impact on the Company. The Company expects to adopt the Accounting Standard on 1 January 2018, which is the effective date of the Accounting Standard.

#### (r) Comparative information

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted for the current financial year. Management holds the view that these changes in the financial statement presentation provide information in a format that is more relevant to users of the annual financial statements. In view of this, certain line items in the comparative 31 December 2016 Balance Sheet have been reclassified as follows:

	As previously reported \$	Reclassification \$	As reported in current year annual financial statements \$
<b>Balance Sheet</b>			
Reinsurers' share of gross claims liabilities <sup>(i)</sup>	4,872,917	(100,492)	4,772,425
<b>Total assets</b>	<b>22,146,107</b>	<b>(100,492)</b>	<b>22,045,615</b>
Gross claims liabilities <sup>(i)</sup>	(9,889,542)	100,492	(9,789,050)
<b>Total liabilities</b>	<b>(12,854,723)</b>	<b>100,492</b>	<b>(12,754,231)</b>
<b>Total equity</b>	<b>9,291,384</b>	<b>-</b>	<b>9,291,384</b>

#### Note:

(i) The net risk margin is applied to gross claims liabilities including the risk margin pertaining to reinsurers' share of gross claims liabilities of \$100,492.

# ACS (NZ) Limited

## Notes to the Financial Statements For the financial year ended 31 December 2017

### 2. Critical accounting judgements, assumptions and estimates

In the application of the Company's accounting policies outlined in Note 1 management is required to make judgements, assumptions and estimates about carrying values of assets and liabilities that are not readily apparent from other sources. The assumptions and estimates are based on historical experience and various other factors that are viewed as reasonable under the circumstances and are renewed on a regular basis.

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. Refer to Note 3 for details of the actuarial assumptions used in determining the net claims liabilities.

The assessment of the recovery of reinsurance assets is a critical accounting estimate. There have been no defaults or non-recoverable reinsurance receivables to date. The Company reviews the carrying amounts of its reinsurance assets for impairment at each balance sheet date.

The estimate of the fee payable to Ansvar Insurance Limited in relation to the provision of management services is a critical accounting estimate. The management services fee is only payable once the Company has settled all claims against it and to the extent it has surplus capital in excess of \$5 million. Refer to Note 14 for further details.

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

### 3. 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. The actuarial valuation of the net claims liabilities at 31 December 2017 is compliant with the New Zealand Society of Actuaries *Professional Standard 30 Valuation of General Insurance Claims*. Mr Ahluwalia was satisfied with the nature, sufficiency and accuracy of the data used in the actuarial valuation of the net claims liabilities at 31 December 2017 and there were no qualifications contained in the Insurance Liabilities Valuation Report.

#### (a) Assumptions

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

	2017	2016
Discount rate	1.92%	1.73%
Number of incurred but not reported claims	20	15
Average claim size	\$100,000	\$160,000
Weighted average term to settlement (years)	1.39	1.00
Discounted mean term (years)	1.37	0.98
Claim handling expense rate as a % of gross claims liabilities	15.47%	19.34%
Risk margin as a % of net claims liabilities	29.92%	37.91%

#### (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.

# ACS (NZ) Limited

## Notes to the Financial Statements

For the financial year ended 31 December 2017

### 3. Actuarial assumptions and methods (continued)

#### (b) Processes used to determine assumptions (continued)

##### 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 31 December 2017. 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 31 December 2017 (2016: 75%). For earthquake claims an analysis of the variability of individual claim sizes was used as a basis for calculating the risk margin while for non-earthquake claims a standard methodology analysing valuation class variability was used.

#### (c) Sensitivity analysis

The Company conducts sensitivity analysis to quantify the exposure to the risk of changes in the underlying assumptions used in the annual financial statements.

The sensitivity of the Company's net claims liabilities, 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	
		2017 \$	2016 \$
Discount rate	+1.0%	(73,331)	(88,715)
	-1.0%	75,047	90,897
Number of incurred but not reported claims	+5	580,525	1,090,492
	-5	(579,563)	(1,090,492)
Average claim size	+\$30,000	696,593	613,402
	-\$30,000	(697,115)	(613,402)
Claims handling expense rate	+1.0%	65,704	73,052
	-1.0%	(65,704)	(73,052)
Risk margin	+1.0%	57,685	65,476
	-1.0%	(57,685)	(65,476)

### 4. Risk management

The financial condition and operation of the Company are affected by a number of key risks including strategic risk, insurance risk, compliance risk, operational risk and financial risk including market risk (interest rate risk; currency risk; price risk), liquidity risk and credit risk.

The Board of Directors and management are focused on managing the Company's key risk exposures. Quarterly risk reporting is provided to the Audit, Risk and Compliance Committee where Directors have the opportunity to challenge management's approach to identifying and mitigating risk.

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

The Company has an objective to control insurance risk and therefore minimise substantial unexpected losses that would expose it to financial loss.

The Company has developed, implemented and proactively maintains a Risk Management Strategy. The Risk Management Strategy identifies the Company's policies and procedures, processes and controls that comprise its risk management and control framework to address all material financial and non-financial risks.

# ACS (NZ) Limited

## Notes to the Financial Statements For the financial year ended 31 December 2017

### 4. Risk management (continued)

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

The key processes established in the Risk Management Strategy to mitigate risks include:

- The maintenance and use of management information systems which provide reliable up to date data on the risks to which the business is exposed at any point in time.
- Actuarial models, using data from the management information systems, are used to monitor claims patterns. Past experience and statistical methods are used as part of the process.
- Reinsurance is used to limit the Company's exposure to large single claims and catastrophes.
- The management of assets and liabilities is closely monitored to ensure that the Company has sufficient liquidity to fund future claim payments.

#### (b) Terms and conditions of general insurance contracts

The terms and conditions of the Company's general insurance contracts affect the level of insurance risk accepted by the Company. There are no special terms and conditions in any non-standard general insurance contracts that have a material impact on the financial statements.

#### (c) Terms and conditions of reinsurance contracts

The Company reinsured a portion of the risks it underwrote in order to control exposure to losses, stabilise earnings, protect capital resources and ensure efficient control and spread of the underwriting risk.

The Company's reinsurance programme was structured to protect the Company's solvency and capital position. It covers per risk and event losses assessed as the reasonable worst case scenario. Reinsurance was placed to cover losses in excess of the Company's retention for each class of insurance. No inwards reinsurance has been underwritten by the Company.

#### (d) Interest rate risk and currency risk

None of the financial assets or financial liabilities arising from insurance or reinsurance contracts entered into by the Company is directly exposed to interest rate risk. Exposure is closely monitored and assets and liabilities are appropriately matched in terms of currency.

#### (e) Credit risk

The Company is exposed to credit risk mainly through its holding of cash and cash equivalents and reinsurance receivables. The Company actively monitors the credit ratings and payment history of its reinsurers to ensure there are no significant exposures that require immediate attention and action. There have been no defaults or non-recoverable reinsurance receivables to date.

The Company has placed a high emphasis on only dealing with reinsurance counterparties with the appropriate credit standing and capacity to meet their obligations under the respective reinsurance contracts. The reinsurance programmes are structured so as to ensure that there is no concentrations of credit risk which would create large exposures or detract from diversification benefits.

Refer to Note 17(d) for details of the Company's credit risk exposure.

#### (f) Capital management

Capital management plays a central role in managing risk to protect the interests of the Company's policyholders and shareholder and satisfy the regulator. The Company's Board of Directors and management are committed to ensuring that capital is effectively managed. The Company monitors its capital position on a continuous basis to ensure that its level of capital remains above the Reserve Bank of New Zealand's Minimum Solvency Capital.

### 5. Loss before income taxation

Loss before income taxation is stated after charging/(crediting):

Employee entitlements  
Operating lease expenditure

2017	2016
\$	\$
164,042	226,970
(2,500)	14,812

# ACS (NZ) Limited

## Notes to the Financial Statements For the financial year ended 31 December 2017

### 6. Net claims incurred

	2017 \$	2016 \$
<b>Gross claims incurred</b>		
Undiscounted	1,289,691	4,827,261
Discount movement	(61,483)	266,667
Unallocated claims expenses	62,762	153,068
	<b>1,290,970</b>	<b>5,246,996</b>
<b>Reinsurance recoveries</b>		
Undiscounted	(5,396)	(1,406,814)
Discount movement	(4,428)	(325,494)
	<b>(9,824)</b>	<b>(1,732,308)</b>
<b>Net claims incurred</b>	<b>1,281,146</b>	<b>3,514,688</b>

### 7. Key management personnel compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any Director (whether executive or otherwise) of the Company. The Chief Executive Officer of the Company during the financial year, Mr Vito Giudice, was a senior executive of Ansvar Insurance Limited and received no remuneration from the Company. Directors' fees incurred during the financial year amounted to \$107,000 (2016: \$107,000).

### 8. Remuneration of auditors

Audit of financial statements	28,298	26,351
Other services (i)	5,658	5,270
Prior year underprovision	3,852	2,321
	<b>37,808</b>	<b>33,942</b>

(i) Includes engagements required by regulator.

### 9. Income taxation

The Company's income taxation losses relating to prior periods were forfeited on 15 May 2012 due to the change in the Company's shareholder from Ansvar Insurance Limited to Canterbury Earthquake Church and Heritage Trustee Limited. The Company had an assessable loss of \$20,977,260 at 31 December 2017 (2016: \$20,072,463) and unrecognised deferred taxation assets relating to income taxation losses of \$5,873,633 at 31 December 2017 (2016: \$5,620,290). Deferred taxation assets are not recognised as the Company does not anticipate generating sufficient taxable income in the future to allow these deferred taxation assets to be utilised.

### 10. Cash and cash equivalents

Cash at hand	1,090,342	770,517
Short term deposits	16,000,000	13,041,277
<b>Total cash and cash equivalents</b>	<b>17,090,342</b>	<b>13,811,794</b>

### 11. Trade and other receivables

Reinsurance receivables	52,123	3,283,742
Non-trade receivables	52,303	159,077
Amount owing by Ansvar Insurance Limited	-	570
Prepaid expenses	22,797	18,007
<b>Total trade and other receivables</b>	<b>127,223</b>	<b>3,461,396</b>

\$51,983 of the reinsurance receivable at 31 December 2017 was owing by Ecclesiastical Insurance Office Plc (2016: \$1,988,878). Trade and other receivables of \$140 were past due at 31 December 2017 (2016: \$11,906).

# ACS (NZ) Limited

## Notes to the Financial Statements For the financial year ended 31 December 2017

### 12. Reinsurers' share of gross claims liabilities

	2017 \$	2016 \$
Undiscounted central estimate of reinsurers' share of gross claims liabilities		
Reported claims	2,880,893	3,743,031
Incurred but not reported claims	90,837	1,114,670
Discount to present value	(80,848)	(85,276)
<b>Total reinsurers' share of gross claims liabilities</b>	<b>2,890,882</b>	<b>4,772,425</b>
Current	2,591,884	4,337,094
Non-current	298,998	435,331
<b>Total reinsurers' share of gross claims liabilities</b>	<b>2,890,882</b>	<b>4,772,425</b>

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.

### 13. Trade and other payables

Reinsurance premium payable	-	701
Sundry creditors and accruals	56,222	69,822
Amount owing to Ansvar Insurance Limited	25,260	-
<b>Total trade and other payables</b>	<b>81,482</b>	<b>70,523</b>

### 14. Provisions

	Employee benefits \$	Management services fee \$	Other employee provisions \$	Provision for make good \$	Total \$
<b>Balance at 31 December 2015</b>	<b>18,584</b>	<b>2,726,799</b>	<b>49,961</b>	<b>3,000</b>	<b>2,798,344</b>
Additional provision recognised	-	116,968	32,700	-	149,668
Provision utilised during the year	-	-	(49,961)	-	(49,961)
Provision released during the year	(393)	-	-	(3,000)	(3,393)
<b>Balance at 31 December 2016</b>	<b>18,191</b>	<b>2,843,767</b>	<b>32,700</b>	<b>-</b>	<b>2,894,658</b>
Additional provision recognised	3,238	10,086	26,623	-	39,947
Provision utilised during the year	-	-	(34,063)	-	(34,063)
<b>Balance at 31 December 2017</b>	<b>21,429</b>	<b>2,853,853</b>	<b>25,260</b>	<b>-</b>	<b>2,900,542</b>

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 \$2,853,853 at 31 December 2017 (2016: \$2,843,767) 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 classed as provisions rather than accruals because of the inherent uncertainty surrounding their ultimate value.

# ACS (NZ) Limited

## Notes to the Financial Statements For the financial year ended 31 December 2017

### 15. Claims liabilities

	2017 \$	2016 \$
Undiscounted central estimate of gross claims liabilities		
Reported claims	3,525,060	3,743,031
Incurred but not reported claims	3,045,366	3,562,193
Discount to present value	(205,586)	(144,103)
Claims handling expenses	998,576	1,365,679
Risk margin	1,382,304	1,262,250
<b>Total gross claims liabilities</b>	<b>8,745,720</b>	<b>9,789,050</b>
Current	3,320,161	5,128,561
1-5 years	5,631,145	4,804,592
Discount to present value	(205,586)	(144,103)
<b>Total gross claims liabilities</b>	<b>8,745,720</b>	<b>9,789,050</b>

### Reconciliation of movement in claims liabilities

	2017			2016		
	Gross \$	Reinsurance \$	Net \$	Gross \$	Reinsurance \$	Net \$
<b>At beginning of year</b>	<b>9,789,050</b>	<b>(4,772,425)</b>	<b>5,016,625</b>	<b>12,513,640</b>	<b>(10,946,441)</b>	<b>1,567,199</b>
Movement in claims liabilities for prior policy years	910,405	(5,396)	905,009	4,927,843	(1,406,814)	3,521,029
Net claim payments during the year	(1,892,252)	1,891,367	(885)	(7,919,100)	7,906,324	(12,776)
Discount to present value	(61,483)	(4,428)	(65,911)	266,667	(325,494)	(58,827)
<b>At end of year</b>	<b>8,745,720</b>	<b>(2,890,882)</b>	<b>5,854,838</b>	<b>9,789,050</b>	<b>(4,772,425)</b>	<b>5,016,625</b>

### 16. Share capital

	2017 \$	2016 \$
Ordinary share capital – 33,200,000 shares	33,000,000	33,000,000
Special share capital – 1 share	1	1
<b>Total issued share capital</b>	<b>33,000,001</b>	<b>33,000,001</b>

Canterbury Earthquake Church and Heritage Trustee Limited as Trustee owned 100% of the ordinary share capital of the Company at 31 December 2017 (2016: 100%). Ecclesiastical Insurance Office Plc owned one special share at 31 December 2017 (2016: one). Mr Harrison owned 50% of the ordinary share capital of Canterbury Earthquake Church and Heritage Trustee Limited at 31 December 2017 (2016: 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.

### 17. 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 income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 1.

#### (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 of Directors has explicitly allocated the function of overseeing the establishment and maintenance of risk based systems and controls across the Company to the Chief Executive Officer.



# ACS (NZ) Limited

## Notes to the Financial Statements For the financial year ended 31 December 2017

### 17. Financial instruments (continued)

#### (b) Financial risk management objectives (continued)

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 Risk Appetite Statement. Both the risk policies and Risk Appetite Statement are subject to annual review to ensure that they reflect the changing risk profile of the business.

#### (c) Categories of financial instruments

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

- Receivables – measured initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest method.
- Fair value through profit or loss – financial assets are measured at fair value with movements recognised in the Comprehensive Operating Statement.

Financial liabilities are measured at amortised cost using the effective interest method.

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

	Note	2017 \$	2016 \$
<b>Financial assets</b>			
Cash and cash equivalents	10	17,090,342	13,811,794
Trade and other receivables	11	104,426	3,443,389
<b>Financial liabilities</b>			
Trade and other payables	13	81,482	70,523

#### (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 4.

The Company actively monitors the credit ratings and payment history of its reinsurers to ensure there is no significant exposure that requires immediate attention and action. There have been no defaults or non-recoverable reinsurance receivables to date.

The table below discloses the maximum exposure to credit risk for the relevant components of the financial assets and the Standard & Poor's credit rating of the respective counterparties. 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.

	Note	AA+/AA- \$	A+/A- \$	Not rated \$	Total \$
<b>2017</b>					
Cash and cash equivalents	10	17,090,342	-	-	17,090,342
Reinsurance receivables	11	-	52,123	-	52,123
Non-trade receivables	11	-	-	52,303	52,303
<b>Total</b>		<b>17,090,342</b>	<b>52,123</b>	<b>52,303</b>	<b>17,194,768</b>
<b>2016</b>					
Cash and cash equivalents	10	13,811,794	-	-	13,811,794
Reinsurance receivables	11	676,122	2,607,620	-	3,283,742
Non-trade receivables	11	-	-	159,077	159,077
Amount owing by Ansvar Insurance Limited	11	-	570	-	570
<b>Total</b>		<b>14,487,916</b>	<b>2,608,190</b>	<b>159,077</b>	<b>17,255,183</b>



# ACS (NZ) Limited

## Notes to the Financial Statements

For the financial year ended 31 December 2017

### 17. Financial instruments (continued)

#### (e) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its obligations associated with financial instruments. Ultimate responsibility for liquidity risk management rests with the Board of Directors which oversees the 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. The Company has developed and implemented a Risk Management Strategy which is outlined in Note 4.

The Company's trade and other payables are disclosed in Note 13 and are non-interest bearing and normally settled within 12 months.

#### (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 three types of risk: market interest rates (interest rate risk), foreign exchange (currency risk) and market prices (price risk).

##### Interest rate 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 Board of Directors monitors the Company's exposure to interest rate risk as outlined in Note 4.

The following table details the Company's expected maturity dates based on the undiscounted contractual maturity dates of the financial assets.

	Weighted average interest rate %	Under 1 year \$
<b>2017</b>		
Non-interest bearing		
Reinsurance receivables	N/A	52,123
Non-trade receivables	N/A	52,303
Variable interest rate		
Cash and cash equivalents	2.33%	17,090,342
<b>Total</b>		<b>17,194,768</b>
<b>2016</b>		
Non-interest bearing		
Reinsurance receivables	N/A	3,283,742
Non-trade receivables	N/A	159,077
Amount owing by Ansvar Insurance Limited	N/A	570
Variable interest rate		
Cash and cash equivalents	2.36%	13,811,794
<b>Total</b>		<b>17,255,183</b>

##### 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 changes in foreign exchange rates. The Company's currency risk is not considered to be significant as it does not enter into many foreign currency transactions.

##### Price risk

The Company does not hold equity investments and has no exposure to equity price risks arising from equity investments.

# ACS (NZ) Limited

## Notes to the Financial Statements For the financial year ended 31 December 2017

### 18. Imputation credits

Due to the change in the Company's shareholder from Ansvar Insurance Limited to Canterbury Earthquake Church and Heritage Trustee Limited, the imputation credits available at 31 December 2011 were forfeited on 15 May 2012. Imputation credits were not recognised at 31 December 2017 (2016: Nil) as the Company had an assessable loss of \$20,977,260 at 31 December 2017 (2016: \$20,072,463).

### 19. Related parties

Until 15 May 2012 Ansvar 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, domiciled in New Zealand, and Ansvar Insurance Limited, AllChurches Trust Limited and Ecclesiastical Insurance Office Plc ceased to be related parties.

Mr Harrison owned 50% of the ordinary share capital of Canterbury Earthquake Church and Heritage Trustee Limited at 31 December 2017 (2016: 50%).

### 20. Solvency Margin

	2017 \$	2016 \$
Actual Solvency Capital	8,380,703	9,291,384
Minimum Solvency Capital	4,306,453	4,219,229
Solvency Margin	4,074,250	5,072,155
<b>Solvency Ratio</b>	<b>195%</b>	<b>220%</b>

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 31 December 2017 the Company continued to retain all of its equity to assist with maintaining its financial soundness.

### 21. Insurer financial strength rating

The Reserve Bank of New Zealand granted the Company an exemption in 2013 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.

### 22. Reconciliation of loss after income taxation to net cash inflow from operating activities

<b>Loss after income taxation</b>	<b>(910,681)</b>	<b>(3,290,737)</b>
Decrease/(increase) in trade and other receivables	3,334,173	(48,289)
Decrease in reinsurers' share of gross claims liabilities	1,881,543	6,174,016
Increase/(decrease) in trade and other payables	10,959	(101,902)
Increase in provisions	5,884	96,314
Decrease in gross claims liabilities	(1,043,330)	(2,724,590)
<b>Net cash inflow from operating activities</b>	<b>3,278,548</b>	<b>104,812</b>

### 23. 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.

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# ACS (NZ) Limited

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## Notes to the Financial Statements For the financial year ended 31 December 2017

### 24. 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