

# ACS (NZ) Limited

Company Number: 115156  
Annual Financial Report for the year ended 31 December 2019



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# ACS (NZ) Limited

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## 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 2019 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, 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.

**Warren Hutcheon**  
MBA, GAICD, Fellow ANZIIF  
(CIP)  
Executive Director

Warren was appointed Chief Executive Officer on 26 February 2018 and as Executive Director on 12 November 2018. Warren is the Chief Executive Officer and Executive Director of Ansvar Insurance Limited in Australia, and Executive Director of Ansvar Risk Management Services Pty Limited in Australia. Prior to joining Ansvar Insurance Limited he was the Chief Executive Officer of the Victorian Managed Insurance Authority, the risk and insurance advisor to the Victorian Government in Australia. Warren has over 30 years' experience in risk and insurance. He has held senior management positions in underwriting, claims, operational management, strategy and organisational change. Warren is an active supporter of the Australian insurance industry and served as Chairperson of the Australian and New Zealand Institute of Insurance and Finance (ANZIIF) General Insurance Faculty Advisory Board.

**Bruce Harris**  
CA, CPA, ICSA, AGIA  
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 and Arrow Leadership Australia Limited. Bruce currently serves on several Not for Profit boards and committees. Bruce is a Director and 50% shareholder 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 direct interests in the shares and options of the Company.

### 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 operates 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, 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, provides certain management services to ACS.

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# ACS (NZ) Limited

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## Directors' Report

### Review of operations

ACS generated a profit before income taxation of \$261,582 during the financial year ended 31 December 2019 (2018: loss before income taxation of \$1,452,758). The drivers of the profit were interest income of \$342,767 and net claims incurred favourable development of \$51,684 offset by an adverse impact of \$132,869 due primarily to the discount unwind of the provision for management services fee as the Company moves closer to the end of the projected run-off period.

At 31 December 2019 ACS' RBNZ Solvency Capital was \$7,189,527 which was \$3,663,018 greater than the RBNZ Minimum Solvency Capital requirement of \$3,526,509 resulting in a Solvency Margin of 204% (2018: 162%).

### Subsequent events

The impact of COVID-19 on the Company has been assessed as not material.

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 2019 (2018: Nil).

### Auditors

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

### 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

28 April 2020

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

## Report on the Audit of the Financial Statements

### *Opinion*

We have audited the financial statements of ACS (NZ) Limited (the "Entity") which comprise the balance sheet as at 31 December 2019, 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 2019 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.

### *Key Audit Matters*

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the current year. These matters were addressed in the context our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
<p><b>Actuarial Valuations</b></p> <p>As at 31 December 2019 the Entity's gross claims liabilities were NZ\$5,249,311 calculated on the basis of recognised actuarial assumptions and methods, as disclosed in note 3 to the financial statements.</p> <p>Significant management judgement is involved, including assumptions that have been identified as having high estimation uncertainty and include:</p> <ul style="list-style-type: none"> <li>• Appropriateness of assumptions used in the valuations, especially in respect of the Entity versus market experience;</li> <li>• Appropriateness of allowances for discretions and professional judgement; and</li> <li>• Completeness and accuracy of data used for the valuation models.</li> </ul>	<p>In conjunction with our actuarial specialists our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> <li>• Evaluating the appropriateness of the valuation methodology, valuation processes and valuation models with respect to actuarial standards;</li> <li>• Comparing valuation assumptions (discount rate, number of incurred but not reported claims, average claim size, weighted average term to settlement, claims handling expense allowance and risk margin) to other sources of assumptions for reasonableness;</li> <li>• Discussing with the Appointed Actuary and management and reviewing documentation of model integrity checks and other documented data checks produced by the Entity;</li> <li>• Reviewing the rationale and impact for changes in assumptions and model changes during the year; and</li> <li>• Assessing the appropriateness of the disclosures in notes 3 and 15 to the financial statements.</li> </ul>

## *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 2019, 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.

## *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.

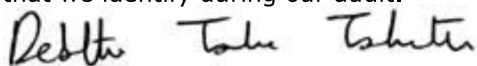
## *Auditor's Responsibilities for the Audit of the Financial Statements*

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, 28 April 2020



# ACS (NZ) Limited

## Comprehensive Operating Statement For the financial year ended 31 December 2019

	Note	2019 \$	2018 \$
Gross claims incurred	6	266,821	(1,168,837)
Reinsurance recoveries	6	183,677	(6,434)
Unallocated claims expenses	6	(398,814)	(888,888)
<b>Net claims incurred</b>	6	<b>51,684</b>	<b>(2,064,159)</b>
Management services fee	14	(132,869)	225,062
<b>Underwriting result</b>		<b>(81,185)</b>	<b>(1,839,097)</b>
Interest income		342,767	386,339
<b>Profit/(loss) before income taxation</b>	5	<b>261,582</b>	<b>(1,452,758)</b>
Income taxation	9	-	-
<b>Profit/(loss) after income taxation</b>		<b>261,582</b>	<b>(1,452,758)</b>
Other comprehensive income		-	-
<b>Comprehensive result</b>		<b>261,582</b>	<b>(1,452,758)</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 2019

	Note	2019 \$	2018 \$
<b>Assets</b>			
Cash and cash equivalents	10	14,745,263	16,079,527
Trade and other receivables	11	57,178	170,708
Reinsurers' share of gross claims liabilities	12,15	601,392	422,585
<b>Total assets</b>		<b>15,403,833</b>	<b>16,672,820</b>
<b>Liabilities</b>			
Trade and other payables	13	198,081	60,842
Provisions	14	2,766,914	2,631,027
Gross claims liabilities	15	5,249,311	7,053,006
<b>Total liabilities</b>		<b>8,214,306</b>	<b>9,744,875</b>
<b>Net assets</b>		<b>7,189,527</b>	<b>6,927,945</b>
<b>Equity</b>			
Share capital	16	33,000,001	33,000,001
Accumulated loss		(25,810,474)	(26,072,056)
<b>Total equity</b>		<b>7,189,527</b>	<b>6,927,945</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 28 April 2020:



**D J Harrison**  
Chairperson

28 April 2020



**B G Harris**  
Director

# ACS (NZ) Limited

## Statement of Changes in Equity For the financial year ended 31 December 2019

	Share capital \$	Accumulated loss \$	Total \$
<b>Balance at 31 December 2017</b>	<b>33,000,001</b>	<b>(24,619,298)</b>	<b>8,380,703</b>
Comprehensive result for the year	-	(1,452,758)	(1,452,758)
<b>Balance at 31 December 2018</b>	<b>33,000,001</b>	<b>(26,072,056)</b>	<b>6,927,945</b>
Comprehensive result for the year	-	261,582	261,582
<b>Balance at 31 December 2019</b>	<b>33,000,001</b>	<b>(25,810,474)</b>	<b>7,189,527</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 2019

	Note	2019 \$	2018 \$
<b>Cash flows from operating activities</b>			
Reinsurance recoveries received		24,506	2,487,052
Interest received		342,767	386,339
Gross claims paid		(1,701,537)	(3,926,383)
<b>Net cash outflow from operating activities</b>	22	<b>(1,334,264)</b>	<b>(1,052,992)</b>
Cash and cash equivalents at beginning of year		16,079,527	17,132,519
<b>Cash and cash equivalents at end of year</b>	10	<b>14,745,263</b>	<b>16,079,527</b>

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

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# ACS (NZ) Limited

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## Notes to the Financial Statements For the financial year ended 31 December 2019

### 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 2019 were authorised for issue by the Board of Directors on 28 April 2020.

#### Basis of preparation

The financial report has been prepared on a historical cost basis, except for 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, 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 2019

### 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) 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 2019

### 1. Significant accounting policies (continued)

#### (h) 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 from 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.

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

##### Debt and equity instruments

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

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

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

##### Interest and dividends

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

#### (j) Impairment of non-financial 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.

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.

#### (k) 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.

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# ACS (NZ) Limited

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## Notes to the Financial Statements For the financial year ended 31 December 2019

### 1. Significant accounting policies (continued)

#### (l) Receivables

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

Receivables are stated at the amounts to be received in the future, less any allowance for expected credit losses. The amounts are discounted where the effect of the time value of money is material. The measurement of expected credit losses is a function of the probability of default, loss given default and the exposure at default. The assessment of the probability of default and loss given default 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.

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.

#### (m) 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.

#### (n) 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.

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.

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

The accounting policies adopted are consistent with those of the previous financial year. No new Accounting Standards, Amendments and Interpretations have been adopted.

#### 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 adoption of these Accounting Standards when they are effective is not expected to impact the financial statements.



# ACS (NZ) Limited

## Notes to the Financial Statements For the financial year ended 31 December 2019

### 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 reviewed 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 2019 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 2019 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:

	2019	2018
Discount rate	1.14%	1.75%
Number of incurred but not reported claims – new claims	16	14
Average claim size – new claims	\$100,000	\$125,000
Number of incurred but not reported claims – reopened claims	10	-
Average claims size – reopened claims	\$10,000	-
Weighted average term to settlement (years)	0.85	1.09
Discounted mean term (years)	0.85	1.09
Claim handling expense rate as a % of gross claims liabilities	39.03%	29.19%
Risk margin as a % of net claims liabilities	39.81%	24.82%

# ACS (NZ) Limited

## Notes to the Financial Statements For the financial year ended 31 December 2019

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

#### (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 assumptions for future reported claims have 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 31 December 2019. To reflect this expense an allowance has been added to 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 2019 (2018: 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/(loss) before income taxation and equity to key actuarial valuation assumptions is disclosed in the table below:

Variable	Movement in variable	Impact net of recoveries	
		2019	2018
		\$	\$
Discount rate	+1.0%	(45,166)	(79,872)
	-1.0%	46,170	81,853
Number of incurred but not reported claims – new claims	+5	691,574	762,752
	-5	(691,713)	(762,855)
Average claim size – new claims	+\$30,000	663,913	512,578
	-\$30,000	(664,040)	(512,624)
Claims handling expense rate	+1.0%	28,520	45,284
	-1.0%	(28,520)	(45,284)
Risk margin	+1.0%	22,231	40,210
	-1.0%	(22,231)	(40,210)

## Notes to the Financial Statements For the financial year ended 31 December 2019

### 4. Risk management

The financial condition and operation of the Company are affected by a range of governance, financial and operational risk exposures.

The Board of Directors and management recognise the importance of contemporary risk management in ensuring the Company's financial position is maintained.

The Company has embedded a Risk Management Programme in accordance with the *Insurance (Prudential Supervision) Act 2010*. The Risk Management Programme supports the achievement of strategic and operational goals through the early identification and management of risks. It comprises three core components:

- Risk Management Policy – sets out roles and responsibilities, risk appetite and governance arrangements.
- Risk Management Procedure – details the processes for assessing, mitigating, monitoring and reporting financial and non-financial risk exposures.
- Risk Profile and Risk Management Strategy – defines key risk exposures and associated mitigation strategies.

The overarching strategy for mitigating risks includes:

- Maintaining robust information systems to provide timely access to business information for monitoring the Company's performance and risk exposures.
- Close monitoring of claims movement and management, including regular engagement with the Earthquake Commission.
- Actuarial modelling and analysis to provide early warning of changes in risk exposures.
- Ongoing monitoring, management and reporting of the Company's cash flow position and capital adequacy.
- A framework for ensuring compliance obligations are met.

The Board of Directors sets the tone by leading a culture of risk awareness, transparency and accountability. This commitment is reflected in the active oversight of and engagement in the Risk Management Programme. Progress in the management of governance, financial and operational risks is reported at each Audit, Risk and Compliance Committee meeting where Directors have the opportunity to challenge management's approach to assessing and mitigating risks.

#### (a) Governance risk

Governance risks are events or circumstances that could have a material impact on the achievement of the Company's Corporate Plan and Budget. Typically these exposures arise from changes in the business environment or corporate governance arrangements.

Key controls for managing governance risks include scenario analysis, environmental scanning and ongoing engagement with regulators and other stakeholders. Identification and management of governance risks is a core component of the Board's planning and reporting cycle.

The Company maintains a Compliance Register for managing its legal and regulatory obligations which are monitored and reported on at each Audit, Risk and Compliance Committee meeting.

#### (b) Financial risk

Financial risk focuses on the movement of financial markets and the potential adverse impacts on the Company's financial performance. Financial risk is actively monitored by the Company to mitigate any material risks to its Balance Sheet.

Financial risks include:

- Market risk – a weakened financial position as a result of changes in market conditions, such as equity prices, interest rates and commodity prices. Market risk incorporates interest rate risk, currency risk and price risk.
- Liquidity risk – the Company is unable to liquidate assets to settle its financial obligations when they fall due. Refer to Note 17(e) for details on how the Company manages its liquidity risk.
- Credit risk – the Company's liquidity may be impacted by the timeliness of payments received from reinsurers or other debtors. This may arise from counterparty default risk or market concentration risk.
- Currency risk – arises from the change in price of one currency against another when transactions involve foreign currency.

#### 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.

# ACS (NZ) Limited

## Notes to the Financial Statements For the financial year ended 31 December 2019

### 4. Risk management (continued)

#### (b) Financial risk (continued)

##### 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 are 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.

##### 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 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.

##### Terms and conditions of general insurance contracts

There are no special terms and conditions in any non-standard general insurance contracts that have a material impact on the financial statements.

#### (c) Operational risk

Operational risk is the risk of losses resulting from inadequate or failed internal systems and processes or gaps in workforce capability or capacity.

The Company maintains a suite of policies and resources for managing operational activities.

### 5. Profit/(loss) before income taxation

Profit/(loss) before income taxation is stated after charging:

Employee entitlements

### 6. Net claims incurred

#### Gross claims incurred

Undiscounted

Discount movement

Unallocated claims expenses

#### Reinsurance recoveries

Undiscounted

Discount movement

#### Net claims incurred

	2019 \$	2018 \$
Profit/(loss) before income taxation is stated after charging:		
Employee entitlements	66,907	164,514
<b>Gross claims incurred</b>		
Undiscounted	(334,684)	1,067,297
Discount movement	67,863	101,540
Unallocated claims expenses	398,814	888,888
	<b>131,993</b>	<b>2,057,725</b>
<b>Reinsurance recoveries</b>		
Undiscounted	(181,467)	79,213
Discount movement	(2,210)	(72,779)
	<b>(183,677)</b>	<b>6,434</b>
<b>Net claims incurred</b>	<b>(51,684)</b>	<b>2,064,159</b>

# ACS (NZ) Limited

## Notes to the Financial Statements For the financial year ended 31 December 2019

### 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 Officers of the Company, Mr Vito Giudice until 25 February 2018 and Mr Warren Hutcheon with effect from 26 February 2018, were senior executives of Ansvar Insurance Limited and received no remuneration from the Company. Directors' fees incurred during the financial year amounted to \$112,000 (2018: \$117,000).

### 8. Remuneration of auditors

	2019 \$	2018 \$
Audit of financial statements	28,872	27,551
Other services (i)	5,575	5,507
	<b>34,447</b>	<b>33,058</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 \$22,269,727 at 31 December 2019 (2018: \$22,667,161) and unrecognised deferred taxation assets relating to income taxation losses of \$6,235,524 at 31 December 2019 (2018: \$6,346,805). 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 bank	206,797	1,237,617
Short term deposits	14,538,466	14,841,910
<b>Total cash and cash equivalents</b>	<b>14,745,263</b>	<b>16,079,527</b>

### 11. Trade and other receivables

Reinsurance receivables	7,298	26,934
Goods and Services Taxation	31,705	118,806
Prepaid expenses	18,175	24,968
<b>Total trade and other receivables</b>	<b>57,178</b>	<b>170,708</b>

Reinsurance receivables of \$2,428 were past due at 31 December 2019 (2018: \$25,399K).

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

Undiscounted central estimate of reinsurers' share of gross claims liabilities

Reported claims	384,667	386,137
Incurred but not reported claims	222,584	44,517
Discount to present value	(5,859)	(8,069)
<b>Total reinsurers' share of gross claims liabilities</b>	<b>601,392</b>	<b>422,585</b>
Current	601,392	253,551
Non-current	-	169,034
<b>Total reinsurers' share of gross claims liabilities</b>	<b>601,392</b>	<b>422,585</b>

# ACS (NZ) Limited

## Notes to the Financial Statements For the financial year ended 31 December 2019

### 12. Reinsurers' share of gross claims liabilities (continued)

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

	2019 \$	2018 \$
Sundry creditors and accruals	114,104	60,611
Amount owing to Ansvar Insurance Limited	83,977	231
<b>Total trade and other payables</b>	<b>198,081</b>	<b>60,842</b>

### 14. Provisions

	Employee benefits \$	Management services fee \$	Other employee provisions \$	Total \$
<b>Balance at 31 December 2017</b>	<b>21,429</b>	<b>2,853,853</b>	<b>25,260</b>	<b>2,900,542</b>
Additional provision recognised	2,236	-	-	2,236
Provision utilised during the year	(21,429)	-	(25,260)	(46,689)
Discount to present value	-	(225,062)	-	(225,062)
<b>Balance at 31 December 2018</b>	<b>2,236</b>	<b>2,628,791</b>	<b>-</b>	<b>2,631,027</b>
Additional provision recognised	5,254	-	-	5,254
Provision utilised during the year	(2,236)	-	-	(2,236)
Discount to present value	-	132,869	-	132,869
<b>Balance at 31 December 2019</b>	<b>5,254</b>	<b>2,761,660</b>	<b>-</b>	<b>2,766,914</b>
Current	5,254	-	-	5,254
1-5 years	-	3,000,000	-	3,000,000
Discount to present value	-	(238,340)	-	(238,340)
<b>Balance at 31 December 2019</b>	<b>5,254</b>	<b>2,761,660</b>	<b>-</b>	<b>2,766,914</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 \$2,761,660 at 31 December 2019 (2018: \$2,628,791) representing the present value of the management services fee payable. The projected payment date of the management services fee is in line with the projected ultimate final claim payment date of 31 December 2022 which is unchanged since 31 December 2018. The resultant discount unwind is the primary reason for the adverse discount rate impact of \$132,869 at 31 December 2019 (2018: favourable \$225,062 due primarily to extending the projected ultimate final claim payment date from 30 June 2019 to 31 December 2022). 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 2019

### 15. Claims liabilities

	2019 \$	2018 \$
Undiscounted central estimate of gross claims liabilities		
Reported claims	765,684	2,405,829
Incurred but not reported claims	2,086,323	2,122,584
Discount to present value	(36,183)	(104,046)
Claims handling expenses	1,096,846	1,283,360
Risk margin	1,336,641	1,345,279
<b>Total gross claims liabilities</b>	<b>5,249,311</b>	<b>7,053,006</b>
Current	2,724,125	2,742,844
1-5 years	2,561,369	4,414,208
Discount to present value	(36,183)	(104,046)
<b>Total gross claims liabilities</b>	<b>5,249,311</b>	<b>7,053,006</b>

### Reconciliation of movement in claims liabilities

	2019			2018		
	Gross \$	Reinsurance \$	Net \$	Gross \$	Reinsurance \$	Net \$
<b>At beginning of year</b>	<b>7,053,006</b>	<b>(422,585)</b>	<b>6,630,421</b>	<b>8,745,720</b>	<b>(2,890,882)</b>	<b>5,854,838</b>
Movement in claims liabilities	(403,299)	(181,467)	(584,766)	1,473,205	83,021	1,556,226
Net claim payments during the year	(1,468,259)	4,870	(1,463,389)	(3,267,459)	2,458,055	(809,404)
Discount to present value	67,863	(2,210)	65,653	101,540	(72,779)	28,761
<b>At end of year</b>	<b>5,249,311</b>	<b>(601,392)</b>	<b>4,647,919</b>	<b>7,053,006</b>	<b>(422,585)</b>	<b>6,630,421</b>

### 16. Share capital

	2019 \$	2018 \$
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 2019 (2018: 100%). Ecclesiastical Insurance Office Plc owned one special share at 31 December 2019 (2018: one). Mr Harrison and Mr Harris each owned 50% of the ordinary share capital of Canterbury Earthquake Church and Heritage Trustee Limited at 31 December 2018 and 31 December 2019.

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 2019

### 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	2019 \$	2018 \$
<b>Financial assets</b>			
Cash and cash equivalents	10	14,745,263	16,079,527
Trade and other receivables	11	39,003	145,740
<b>Financial liabilities</b>			
Trade and other payables	13	198,081	60,842

#### (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- \$	Not rated \$	Total \$
<b>2019</b>				
Cash and cash equivalents	10	14,745,263	-	14,745,263
Reinsurance receivables	11	-	7,298	7,298
Goods and Services Taxation	11	-	31,705	31,705
<b>Total</b>		<b>14,745,263</b>	<b>39,003</b>	<b>14,784,266</b>
<b>2018</b>				
Cash and cash equivalents	10	16,079,527	-	16,079,527
Reinsurance receivables	11	-	26,934	26,934
Goods and Services Taxation	11	-	118,806	118,806
<b>Total</b>		<b>16,079,527</b>	<b>145,740</b>	<b>16,225,267</b>



# ACS (NZ) Limited

## Notes to the Financial Statements For the financial year ended 31 December 2019

### 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 actual and forecast cash flows. The Company has developed and implemented a Risk Management Programme 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>2019</b>		
Non-interest bearing		
Reinsurance receivables	N/A	7,298
Goods and Services Taxation	N/A	31,705
Variable interest rate		
Cash and cash equivalents	2.26%	14,745,263
<b>Total</b>		<b>14,784,266</b>
<b>2018</b>		
Non-interest bearing		
Reinsurance receivables	N/A	26,934
Goods and Services Taxation	N/A	118,806
Variable interest rate		
Cash and cash equivalents	2.34%	16,079,527
<b>Total</b>		<b>16,225,267</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 2019

### 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 Nil at 31 December 2019 (2018: Nil) as the Company had an assessable loss of \$22,269,727 at 31 December 2019 (2018: \$22,667,161).

### 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 and Mr Harris each owned 50% of the ordinary share capital of Canterbury Earthquake Church and Heritage Trustee Limited at 31 December 2018 and 31 December 2019.

### 20. Solvency Margin

	2019 \$	2018 \$
Actual Solvency Capital	7,189,527	6,927,945
Minimum Solvency Capital	3,526,509	4,284,397
Solvency Margin	3,663,018	2,643,548
<b>Solvency Ratio</b>	<b>204%</b>	<b>162%</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 2019 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 profit/(loss) after income taxation to net cash outflow from operating activities

<b>Profit/(loss) after income taxation</b>	<b>261,582</b>	<b>(1,452,758)</b>
Decrease/(increase) in trade and other receivables	113,530	(85,662)
(Increase)/decrease in reinsurers' share of gross claims liabilities	(178,807)	2,468,297
Increase/(decrease) in trade and other payables	137,239	(20,640)
Increase/(decrease) in provisions	135,887	(269,515)
Decrease in gross claims liabilities	(1,803,695)	(1,692,714)
<b>Net cash outflow from operating activities</b>	<b>(1,334,264)</b>	<b>(1,052,992)</b>

### 23. Subsequent events

The impact of COVID-19 on the Company has been assessed as not material.

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 2019

### **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:  
35 Benares Street  
Khandallah  
Wellington  
6035  
New Zealand