

ACS (NZ) Limited

ABN: 115156

Annual Report for the financial year ended 31 December 2016

ACS (NZ) LIMITED

ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2016

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ACS (NZ) LIMITED

DIRECTORS' REPORT

The directors of ACS (NZ) Limited ("ACS" or "the Company") submit herewith their Annual Report including the financial statements for the financial year ended 31 December 2016 and the auditors' report thereon. In order to comply with the provisions of the Companies Act 1993, the directors report as follows:

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

David Harrison
FNZIM
Chairman

David has extensive experience in insurance. He is the former Chairman and Chief Executive of Marsh Ltd in New Zealand and the Pacific Islands and a member of the international team of Managing Directors, Chairman of Aviation Co-operating Underwriters Pacific Ltd and has extensive interest at board level in the Charitable and Not for Profit sectors. David is a trustee of the Canterbury Earthquake Church and Heritage Trust which owns 100% of the ordinary share capital of the Company.

Bruce Harris
CA, CPA, ACIS
Director

Bruce was appointed to the Board in 2011. He is a former insurance Executive Director with experience in financial management, strategy, governance, compliance and risk management. He is also the Executive Officer of Ridley Melbourne Mission & Ministry College and a former Director of Ansvar Insurance Limited, Australia and Arrow Leadership Australia Limited. Bruce is the Chairman of the Audit Risk and Compliance Committee.

Ian Campbell
BSc (Econ) Hons, ACA
Director

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

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

ACS (NZ) LIMITED

DIRECTORS' REPORT

Principal activities

ACS's principal activity continues to be the settlement of claims which primarily relate to the devastating earthquakes in New Zealand in 2010 and 2011. In the year ended 31 December 2016, the gross claims expenses for the February 2011 earthquake event in Lyttelton were higher than expected. This was mainly due to receiving more over-cap claims than anticipated from the Earthquake Commission in New Zealand. As a result, the total claims for the February 2011 earthquake event are now expected to exceed the reinsurance event limit. This was reflected in the valuation of ACS's outstanding claims liabilities at 31 December 2016.

In the year ended 31 December 2016 ACS incurred a loss before tax of \$3,290,737. The main driver of the loss was the increase in the net claims incurred for the February 2011 earthquake event. At 31 December 2016, ACS's RBNZ Solvency Capital was \$9,291,384 which was \$5,072,155 greater than its RBNZ Minimum Solvency Capital of \$4,219,229.

As permitted by the Reserve Bank of New Zealand ('RBNZ'), ACS has continued to operate under its provisional license.

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

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

Subsequent Events

Subsequent to balance date in the period from 1 January to 31 March 2017, ACS made gross claim payments of \$580,896 which represented a significant portion of its outstanding claims liabilities at 31 December 2016. The quantum of the claim payments and associated reinsurance recoveries were relatively consistent with the outstanding claims liabilities at 31 December 2016.

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

ACS (NZ) LIMITED

DIRECTORS' REPORT

Dividends

In respect of the financial year ended 31 December 2016, the directors have resolved that no dividend be paid or payable (2015: nil).

Auditors

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

Results

ACS's loss after tax for the year was \$3,290,737 (2015: loss of \$1,365,239).

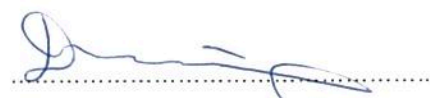
Appropriations

Loss after tax for the year	(\$3,290,737)
Accumulated losses brought forward	(\$20,417,880)
Accumulated losses carried forward	(\$23,708,617)

S211 disclosures

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

On behalf of the Directors



D J Harrison
Chairman



B G Harris
Director

28 April 2017

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

Opinion

We have audited the financial statements of ACS (NZ) Limited ('the Company') which comprise the statement of financial position as at 31 December 2016, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies as set out on pages 8 to 33.

In our opinion, the accompanying financial statements present fairly, in all material respects, the Company's financial position as at 31 December 2016 and its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

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 Company 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 Company. These services have not impaired our independence as auditor of the Company.

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

Other Information

The directors are responsible on behalf of the Company for the other information. The other information comprises the information included in the Company's Directors Report for the year ended 31 December 2016, 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 the 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 are responsible on behalf of the Company for the preparation and fair presentation of the financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards, 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 Company for assessing the ability of the Company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Company 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 Company'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 Company'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 Company 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.

A handwritten signature in black ink, appearing to read "Deloitte Touche Tohmatsu".

DELOITTE TOUCHE TOHMATSU

A handwritten signature in black ink, appearing to read "Neil Brown".

Neil Brown
Partner
Chartered Accountants

Melbourne, 28 April 2017

ACS (NZ) LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	Note	2016 \$	2015 \$
Direct premium revenue		-	-
Outwards reinsurance premium income/(expense)		(701)	119,724
Net premium revenue		(701)	119,724
Direct claims expenses	12	(3,776,282)	(218,114)
Reinsurance and other recoveries revenue	12	261,594	1,139,073
Net claims incurred		(3,514,688)	920,959
Other expenses	11	(116,968)	(2,726,799)
Underwriting profit/(loss)		(3,632,357)	(1,686,116)
Interest revenue		341,620	324,376
Changes in fair value of investments		-	(3,499)
Profit/(Loss) for the year before income tax	5	(3,290,737)	(1,365,239)
Income tax expense	6	-	-
Profit/(Loss) for the year		(3,290,737)	(1,365,239)
Other comprehensive income		-	-
Total comprehensive Profit/(Loss) for the year		(3,290,737)	(1,365,239)

The above Statement of Profit or Loss and Other Comprehensive Income is to be read in conjunction with the notes to the financial statements.

ACS (NZ) LIMITED

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

	Note	2016 \$	2015 \$
Assets			
Cash and cash equivalents	19 (a)	13,811,794	13,706,982
Trade and other receivables	8	3,461,396	3,413,107
Reinsurers' share of outstanding claims liabilities	9	4,872,917	12,517,647
Total assets		22,146,107	29,637,736
Liabilities			
Trade and other payables	10	70,523	172,425
Provisions	11	2,894,658	2,798,344
Outstanding claims liabilities	13	9,889,542	14,084,846
Total liabilities		12,854,723	17,055,615
Net assets		9,291,384	12,582,121
Equity			
Issued capital	16	33,000,001	33,000,001
Accumulated losses		(23,708,617)	(20,417,880)
Total equity		9,291,384	12,582,121

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

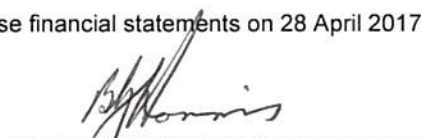
For and on behalf of the Board, who authorise the issue of these financial statements on 28 April 2017:



D J Harrison

Chairman

28 April 2017



B G Harris

Director

28 April 2017

ACS (NZ) LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	Issued capital \$	Retained Earnings \$	Total \$
Balance at 1 January 2015	33,000,001	(19,052,641)	13,947,360
Loss for the year	-	(1,365,239)	(1,365,239)
Total comprehensive loss for the year	-	(1,365,239)	(1,365,239)
Balance at 1 January 2016	33,000,001	(20,417,880)	12,582,121
Loss for the year	-	(3,290,737)	(3,290,737)
Total comprehensive loss for the year	-	(3,290,737)	(3,290,737)
Balance at 31 December 2016	33,000,001	(23,708,617)	9,291,384

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

ACS (NZ) LIMITED

STATEMENT OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	Note	2016 \$	2015 \$
Cash flows from operating activities			
Outwards reinsurance paid		(701)	(56,436)
Claims expenses paid		(9,306,521)	(22,283,700)
Reinsurance and other recoveries received		7,925,625	27,522,452
GST received/(paid)		1,144,789	3,263,893
Interest received		341,620	324,376
Net cash from/(used in) operating activities	19b	104,812	8,770,585
Cash flows from investing activities			
Proceeds from sale of investments		-	500,000
Net cash from/(used in) investing activities		-	500,000
Net increase/(decrease) in cash and cash equivalents		104,812	9,270,585
Cash and cash equivalents at the beginning of the financial year		13,706,982	4,436,397
Cash and cash equivalents at the end of the financial year	19a	13,811,794	13,706,982

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

ACS (NZ) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

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 (FMC) reporting entity under the Financial Markets Conduct Act 2013 and its first FMC balance date was 31 December 2015.

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

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

The financial statements of the Company were authorised for issue by the directors on 28 April 2017.

Basis of Preparation

The financial report has been prepared on a historical cost basis, except for the revaluation of certain assets and financial instruments and outstanding claims liabilities and reinsurance receivables 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. The statement of financial position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity. For assets and liabilities that comprise both current and non-current amounts, information regarding the non-current amount is included in the relevant note of the financial statements.

The GST received and paid in the periods has been shown on a separate line to other cash flows within the statement of cash flows.

These financial statements are prepared on a going concern basis as the Company is expected to be able to pay its debts as they fall due and payable. The Company's level of capital is in excess of the Reserve Bank of New Zealand's requirements.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Principles of general insurance business

An insurance contract is defined as a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

(b) Premium revenue

Direct premium comprises amounts charged to the policyholder or insurers including fire service levies, but excluding stamp duties collected on behalf of third parties. The earned portion of premiums received and receivable, including unclosed business, is recognised as revenue. Premium is treated as earned from the date of attachment of risk. Premiums on unclosed business are brought to account by reference to the previous year's premium processing delays with due allowance for any changes in the pattern of new business and renewals.

The pattern of recognition of income over the policy period is based on time, which closely approximates the pattern of risks underwritten. Unearned premium is determined by apportioning the premiums written in the year, after deducting reinsurance.

ACS (NZ) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

1. Significant accounting policies (Cont'd)

(c) Claims

Claims expense and a liability for outstanding claims are recognised in respect of all business written. The liability covers claims reported but not yet paid, incurred but not enough reported claims (IBNER), incurred but not reported claims (IBNR) and the anticipated direct and indirect costs of settling those claims. Claims outstanding are assessed by reviewing individual claim files and estimating changes in the ultimate cost of settling claims. IBNRs and settlement costs are calculated based on statistical methods which consider past experience and trends.

The liability for outstanding claims is measured as the present value of the expected future payments. These payments are estimated on the basis of the ultimate cost of settling claims, which is affected by factors arising during the period to settlement.

(d) Outwards reinsurance

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

(e) Reinsurance and other recoveries receivable

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid and IBNRs are recognised as revenue. The reinsurers' share of outstanding claims liabilities is assessed in a manner similar to the assessment of outstanding claims liabilities.

(f) Acquisition costs

Acquisition costs incurred in obtaining insurance contracts are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to revenue that will be recognised in profit or loss in subsequent reporting periods. Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the general insurance contracts to which they relate. This pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue.

(g) Unearned premium liabilities

The unearned premium liability is determined by apportioning the premium written over the period from date of attachment of risk to the expiry of the policy term. Liability adequacy testing is performed in order to recognise any deficiencies in profit or loss arising from the carrying amount of the unearned premium liability less any related deferred acquisition costs and intangible assets not meeting the estimated future claims under current insurance contracts.

The estimated future claims under current insurance contracts are measured using the present value of the expected cash flows relating to future claims and associated expenses (discounted using a risk free discount rate) plus an additional fair value risk margin to reflect the inherent uncertainty of those estimated cash flows. Liability adequacy testing is performed at the level of a portfolio of contracts that are subject to broadly similar risks and are managed together as a single portfolio.

In 2011, following the cancellation of all insurance policies as at 31 December 2011, there was no longer a requirement to defer any premiums.

ACS (NZ) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

1. Significant accounting policies (Cont'd)

(h) Financial Assets

Investments are recognised and derecognised on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets that back the insurance provisions of the entity are designated as at fair value through profit or loss (FVTPL) on initial recognition as permitted by NZ IAS 39 and NZ IFRS 4.

Financial Assets at FVTPL

Financial Assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets. Fair value is determined by reference to the quoted prices of the instruments at balance date.

Loans and receivables

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

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

All debtors exceeding 90 days overdue are provided for and any movements in the resultant provision are recognised in profit or loss.

Recoverability of reinsurance debtors is assessed with reference to the financial strength rating of each Reinsurer. A provision for impairment is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivable. The provision for impairment is recognised in the profit or loss.

If, in a subsequent period, the amount of the impairment provision changes and the change can be related objectively to an event occurring after the impairment provision was recognised, the previously recognised impairment provision is reversed.

(i) Financial instruments issued by the Company

Debt and equity instruments

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

Transaction costs on the issue of equity instruments

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

Interest and dividends

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

ACS (NZ) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

1. Significant accounting policies (Cont'd)

(j) Employee benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

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

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

Defined contribution plans

Contributions to defined contribution superannuation plans are expensed when incurred.

(k) Foreign currency

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at reporting date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks and current accounts in banks, net of outstanding bank overdrafts, short term deposits and commercial bills. Bank overdrafts are shown within borrowings in current liabilities in the Statement of financial position.

Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment purposes; these are money market instruments with short maturities (three months or less from the date of acquisition) which are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

(m) Goods and Services Tax

Revenues, expenses, assets and liabilities are recognised net of the amount of goods and services tax (GST), except:

- a. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- b. for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

ACS (NZ) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

1. Significant accounting policies (Cont'd)

(n) Impairment of Assets

At each reporting date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

(o) Income Tax

Current tax

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

Deferred tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in profit or loss, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity.

ACS (NZ) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

1. Significant accounting policies (Cont'd)

(p) Payables

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

(q) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Operating lease rentals are recognized evenly over the expected period of benefit.

(r) Cash flows

The following are the definitions of the terms used in the statement of cash flow:

- Cash and cash equivalents are considered to be cash on hand and current accounts in the banks, net of bank overdrafts, short term deposits and commercial bills.
- Investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment and of other non-current investments. Investments can include securities not falling within the definition of cash.
- Financing activities are those activities which result in changes in the size and composition of the capital structure of the Company. This includes both equity and debt not falling within the definition of cash. Dividends paid in relation to the capital structure are included in financing activities.
- Operating activities include all transaction and other events that are not investing or financing activities.

(s) New standard and interpretations

At the date of authorisation of these financial statements, certain new 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 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. The standard is not expected to have a significant financial impact on the Company. The Company expects to adopt the standard on 1 January 2018, which is the effective date of the standard.

(t) Capital structure

The capital structure of the Company solely consists of issued share capital and accumulated losses as disclosed in Note 16.

ACS (NZ) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

2. Risk management

The financial condition and operation of the Company are affected by a number of key risks including insurance risk, regulatory risk, operational risk and financial risk including interest rate risk, credit risk, market risk and liquidity risk.

The Company's Board and senior management are focused on managing its key risk exposures. Quarterly risk reporting is escalated to the Audit, Risk & Compliance Committee where the Board has the opportunity to challenge management's approach to identifying and mitigating risk.

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

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

The Board and senior management of the Company have developed, implemented and proactively maintained a Risk Management Strategy (RMS).

The RMS identifies the Company's policies and procedures, processes and controls that comprise its risk management and control framework. These systems address all material risks, financial and non-financial, likely to be faced by the Company.

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

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

(b) Interest rate risk

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

(c) Credit risk

ACS is exposed to credit risk mainly through its holding of cash and cash equivalents and reinsurance assets. The Company actively monitors the credit ratings and payment history of reinsurers to ensure there are no significant exposures that require immediate attention and action. For the year ended 31 December 2016, there have been no defaults or non-recoverable reinsurance amounts relating to ACS's earthquake claims.

Please refer to Note 17(d) for the composition of ACS's reinsurance asset split by credit rating.

(d) Terms and conditions of insurance business

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

The Company lays high emphasis on reinsurance counterparties with good credit standing and capacity to meet obligations under the contract. The reinsurance programmes are drawn in a way that there is no concentration which would create large exposures or detract from diversification benefits. Reinsurance arrangements were entered into with reinsurers with credit ratings ranging from A to AAA.

ACS (NZ) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

2. Risk management (Cont'd)

(e) Terms and conditions of reinsurance contracts

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

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

(f) Capital management

Capital management plays a central role in managing risk to protect the interests of policyholders/claimants and the Company's shareholder and satisfy the regulator. The Company's Board and senior 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 RBNZ minimum level and the Company's internal risk appetite limit. The Company sets its risk appetite limits and monitors key risks on a continuous basis to mitigate the risk of capital falling below target levels.

3. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in Note 1, the Directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are regularly reviewed and based on historical experience and other factors.

The estimation of the ultimate liability arising from claims made under general business insurance contracts is a critical accounting estimate. There are various sources of uncertainty as to how much the Company will ultimately pay with respect to such contracts. There is uncertainty as to the total number of claims made on each class of business, the amounts that such claims will be settled for and the timings of any payments.

The assessment of the recovery of reinsurance assets is a critical accounting estimate. To date, there have been no defaults or non-recoverable reinsurance amounts relating to ACS's earthquake claims. At each reporting date ACS reviews the carrying amounts of its reinsurance assets for impairment. The estimate of the amount paid 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 ACS has settled all claims against it and to the extent ACS has surplus capital in excess of \$5 million. Please see Note 11 for further details.

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

4. Actuarial assumptions and methods

Actuarial information

Mr. David Davies of Ansvar Insurance Limited is the Appointed Actuary of ACS under a Management Service Agreement between ACS and Ansvar Insurance Limited. He is a Fellow of the Institute of Actuaries of Australia. The valuation of insurance liabilities within the Financial Condition report prepared by Mr. Davies is compliant with the Institute of Actuaries of Australia Professional Standard 300 and the New Zealand Society of Actuaries Professional Standard 30.

Report Date: 31 December 2016

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

ACS (NZ) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

4. Actuarial assumptions and methods (Cont'd)

(a) Assumptions

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

	2016		2015	
	Short-tail	Long-tail	Short-tail	Long-tail
Weighted average term to settlement (years)	1.00	0	0.50	0
Discount rate	1.7%	n/a	2.5%	n/a
Discounted mean term (years)	0.98	0	0.93	0
Claim handling expense ratio *	19.3%	0.0%	10.2%	0.0%
Risk margin **	37.9%	30.0%	16.0%	30.0%

* The claims handling ratio is expressed as a percentage of gross outstanding claims liabilities.

** The risk margin is expressed as a percentage of net outstanding claims liabilities.

(b) Processes used to determine assumptions

The valuations included in the reported results are calculated using assumptions including:

Average weighted term to settlement

The average weighted term to payment is calculated based on recent settlement patterns of outstanding and newly reported claims.

Claims Inflation and Superimposed inflation rate

No explicit allowance has been made for inflation or super imposed inflation. The assumption of average claim size 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 the expected future claims payments. For the estimation of the non-earthquake outstanding claims no allowance has been made for future investment earnings

Claims Handling Expenses

ACS is responsible for the ongoing management of all claims incurred on or before 31 December 2016. To reflect this expense, an allowance is included in the central estimate of the outstanding claims liability. This claims handling expenses provision has been calculated by use of a budget model of current and future costs. These future costs have been discounted back to present value at the same discount rate as the claims liabilities.

Risk margin

A risk margin at a 75% probability of sufficiency has been used to determine the outstanding claims liability as at 31 December 2016 (2015: 75%). For earthquake claims an analysis of the variability of individual claim sizes was used as a basis for calculating the risk margins while for non-earthquake claims a standard methodology analysing valuation class variability was used.

ACS (NZ) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

4. Actuarial assumptions and methods (Cont'd)

(c) Sensitivity analysis

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

The sensitivity of the Company's profit and equity to key valuation assumptions is tabulated below:

2016

Recognised amounts in the financial statements

Net Loss	Equity
\$	\$
3,290,737	9,291,384

Variable	Movement in variable	Movement in amount	
		Net Profit \$	Equity \$
Claims handling expenses ratio	+ 1.00 %	(73,052)	(73,052)
	- 1.00 %	73,052	73,052
Risk margin	+ 1.00 %	(65,476)	(65,476)
	- 1.00 %	65,476	65,476
Discount rate	+ 1.00 %	88,715	88,715
	- 1.00 %	(90,897)	(90,897)

2015

Recognised amounts in the financial statements

Net Loss	Equity
\$	\$
1,365,239	12,582,121

Variable	Movement in variable	Movement in amount	
		Net Profit \$	Equity \$
Claims handling expenses ratio	+ 1.00 %	(125,878)	(125,878)
	- 1.00 %	125,878	125,878
Risk margin	+ 1.00 %	(13,508)	(13,508)
	- 1.00 %	13,508	13,508
Discount rate	+ 1.00 %	13,768	13,768
	- 1.00 %	(14,071)	(14,071)

ACS (NZ) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

5. Profit/(loss) for the year before income tax

Profit/(loss) from operations includes the following items:

	2016 \$	2015 \$
Rental expense relating to operating leases	14,812	23,034
Employee benefits:		
Defined contribution plans	17,991	19,843
Salaries	176,639	224,887
Other	(360)	1,648
	194,270	246,378

6. Income taxes

(a) Tax expense/benefit

	2016 \$	2015 \$
Current tax expense/(benefit)	(921,406)	(382,267)
Tax credits not recognised/(utilisation of tax credits)	921,406	382,267
	-	-

(b) Income tax recognised in profit or loss

Tax expense comprises:

Profit/(loss) before taxation	(3,290,737)	(1,365,239)
Tax charge/(credit) at 28% (2015: 28%)	(921,406)	(382,267)
Tax credits not recognised/(utilisation of tax credits)	921,406	382,267
	-	-

On 15 May 2012, ACS's tax losses relating to prior periods were forfeited due to the change in ACS's shareholder from Ansvar Insurance Limited to the Canterbury Earthquake Church and Heritage Trust. At 31 December 2016, ACS had unrecognised deferred tax assets relating to tax losses of \$5,483,163 (2015: \$4,561,757). Deferred tax assets are not recognised as the Company does not anticipate generating sufficient taxable profit in the future to allow these deferred tax assets to be utilized.

7. Remuneration of auditors

	2016 \$	2015 \$
Audit of the annual financial statements	28,105	23,810
Tax services (i)	-	-
Other assurance services (ii)	5,837	7,690
	33,942	31,500

(i) Includes tax compliance services

(ii) Includes engagements required by regulator and forensic services

ACS (NZ) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

8. Trade and other receivables

	2016 \$	2015 \$
Reinsurance receivables	3,283,742	3,906,382
Allowance for doubtful debts	-	(633,740)
	3,283,742	3,272,642
GST receivable	126,344	76,460
Other debtors and prepayments	51,310	64,005
	3,461,396	3,413,107
Allowance for doubtful debts		
Opening balance at 1 January	(633,740)	(969,788)
Additional provision recognised	-	-
Released during the year	633,740	336,048
Closing balance at 31 December	-	(633,740)

The allowance for doubtful debts is an allowance for certain reinsurance recoveries which the Company has not invoiced within 90 days of the amounts becoming due from reinsurers. It excludes such amounts where the relevant reinsurers have confirmed in writing that they will pay the reinsurance recoveries. At 31 December 2016, \$560 of receivables were past due but not impaired (31 December 2015: \$1,159).

9. Reinsurers' share of outstanding claims liabilities

	2016 \$	2015 \$
Estimated expected future reinsurance recoveries		
on reported claims	3,743,031	6,637,305
on incurred but not reported claims	1,114,670	4,719,906
Risk margin	100,492	1,571,206
Discount adjustment	(85,276)	(410,770)
	4,872,917	12,517,647
Provision for impairment of reinsurance assets	-	-
Reinsurers' share of outstanding claims liabilities	4,872,917	12,517,647
Current	4,428,419	8,163,200
Non-current	444,498	4,354,447
	4,872,917	12,517,647

Almost all of the outstanding claims within ACS are from the earthquakes that occurred from September 2010 through to the December 2011. In assessing the likely payment pattern of these claims, payments to date have been benchmarked against other earthquake events and then projected for 2016 and beyond.

ACS (NZ) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

10. Trade and other payables

	2016 \$	2015 \$
Accruals	62,992	67,997
Trade payables	7,531	19,272
Other payables	-	85,156
	70,523	172,425

11. Provisions

	2016 \$	2015 \$
Management Services Fee Provision	2,843,767	2,726,799
Employee entitlements	18,191	18,584
Provision for lease make good	-	3,000
Other provisions	32,700	49,961
	2,894,658	2,798,344

	Management Services Fee Provision \$	Employee Entitlements \$	Make Good Lease \$	Other Provisions \$	Total \$
Opening balance at 1 January	2,726,799	18,584	3,000	49,961	2,798,344
Additional provision recognised	116,968	-	-	-	116,968
Released during the year	-	(393)	(3,000)	(17,261)	(20,654)
Closing balance at 31 December	2,843,767	18,191	-	32,700	2,894,658

Effective 20 June 2012, ACS signed a Management Services Agreement with Ansvar under which Ansvar performs certain management services for ACS. A performance based management fee of up to \$3 million may be payable to Ansvar once the Company has settled all claims against it to the extent ACS has surplus capital in excess of \$5 million. In the year ended 31 December 2016, ACS recognised a provision of \$2,843,767 (2015: \$2,726,799) representing the present value of the management services fee payable. The movement in the provision is recognised as other expenses in the Statement of Profit or Loss and Other Comprehensive Income.

The above items are classed as provisions rather than liabilities because of the inherent uncertainty surrounding their ultimate value. The make good provision is made based on the estimation of future costs of returning the leasehold premises on completion of lease to a condition agreed with the landlord. The amount provided is expected to be paid out at the time of renewal of the lease unless the lease is renewed.

ACS (NZ) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

12. Net claims incurred

2016	Current year \$	Prior years \$	Total \$
Gross claims expense			
Gross claims incurred	-	4,042,949	4,042,949
Discount movement	-	(266,667)	(266,667)
	-	3,776,282	3,776,282
Reinsurance and other recoveries revenue			
Reinsurance and other recoveries	-	(587,088)	(587,088)
Discount movement	-	325,494	325,494
	-	(261,594)	(261,594)
Net claims incurred	-	3,514,688	3,514,688

2015	Current year \$	Prior years \$	Total \$
Gross claims expense			
Gross claims incurred	-	1,410,072	1,410,072
Discount movement	-	(1,191,958)	(1,191,958)
	-	218,114	218,114
Reinsurance and other recoveries revenue			
Reinsurance and other recoveries	-	(2,331,031)	(2,331,031)
Discount movement	-	1,191,958	1,191,958
	-	(1,139,073)	(1,139,073)
Net claims incurred	-	(920,959)	(920,959)

Included in gross claims expense are the following claims handling costs:

	2016 \$	2015 \$
Consultant expenses	72,262	65,254
Employee expenses (excluding defined contribution superannuation)	212,529	268,302
Defined contribution superannuation	17,991	19,843
Accommodation and office expenses	29,001	122,076
Travel expenses	29,864	38,038
Directors' fees	107,000	97,000
Audit fees (refer Note 7)	33,941	31,500
Other costs	183,638	98,782
	686,226	740,795

Key management personnel of the entity are Mr Vito Giudice, a senior executive of Ansvar. Ansvar is paid a management fee as set out above. Directors are also key management personnel, their fees are disclosed above.

ACS (NZ) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

13. Outstanding claims liabilities

	2016 \$	2015 \$
Gross central estimate	7,305,224	11,427,374
Discount to present value	(144,103)	(410,770)
Claims handling expenses	1,365,679	1,280,632
Risk margin	1,362,742	1,787,610
Gross outstanding claims liabilities	9,889,542	14,084,846
Current	5,106,044	9,185,226
Non-current	4,783,498	4,899,620
	9,889,542	14,084,846
	2016 \$	2015 \$
Estimated expected future payments for claims including		
On reported claims	3,743,031	6,637,305
On incurred but not reported claims	3,562,193	4,790,069
On claims handling expenses	1,365,679	1,280,632
Risk margin	1,362,742	1,787,610
Discount adjustment	(144,103)	(410,770)
Gross outstanding claims liabilities	9,889,542	14,084,846

Reconciliation of movement in outstanding claims liabilities

2016	Gross \$	Reinsurance \$	Net \$
At 1 January	14,084,846	(12,517,647)	1,567,199
Movement in prior year claims provisions	3,457,129	63,900	3,573,515
Claim (payments)/recoveries	(7,919,100)	7,906,324	(65,262)
Discount adjustment	266,667	(325,494)	(58,827)
At 31 December	9,889,542	(4,872,917)	5,016,625
	Gross \$	Reinsurance \$	Net \$
2015			
At 1 January	32,958,916	(30,278,909)	2,680,007
Movement in prior year claims provisions	(973,844)	52,885	(920,959)
Claim (payments)/recoveries	(19,092,184)	18,900,335	(191,849)
Discount adjustment	1,191,958	(1,191,958)	-
At 31 December	14,084,846	(12,517,647)	1,567,199

ACS (NZ) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

14. Unexpired risk liability

ACS cancelled all policies effective 31 December 2011 and there was no unexpired risk liability as at 31 December 2015 or 31 December 2016.

15. Commitments

Operating lease commitments:

Not later than one year

Later than one year and not later than five years

	2016 \$	2015 \$
Not later than one year	-	9,900
Later than one year and not later than five years	-	-
	-	9,900

16. Issued capital

	2016 Number of shares	2015 Number of shares	2016 \$	2015 \$
Ordinary share capital	33,200,000	33,200,000	33,000,000	33,000,000
Special share capital	1	1	1	1
Total issued share capital	33,200,001	33,200,001	33,000,001	33,000,001

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

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

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

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 revenues 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 has explicitly allocated to the Chief Executive Officer, the function of overseeing the establishment and maintenance of risk-based systems and controls across the company.

ACS (NZ) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

17. Financial instruments (Cont'd)

The company has assessed the effectiveness of the controls in place to mitigate the risks and implemented appropriate policies for managing these risks. In order to establish the parameters within which risk must be managed, the company has also developed a statement of 'risk appetite', or tolerance. Both the risk policies and risk appetite are subject to an annual review to ensure that they reflect the changing risk profile of the business.

(c) Categories of financial instruments

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

- Loans and receivables - assets in this category are measured initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest method.
- Fair value through profit or loss - financial assets are measured at fair value with movements recognised in the Statement of Profit or Loss and Other Comprehensive Income.

Financial Liabilities are measured at amortised cost.

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

	2016 \$	2015 \$
Financial assets		
Cash and cash equivalents	13,811,794	13,706,982
Total financial assets	13,811,794	13,706,982
Financial liabilities		
Trade and other payables	70,523	172,425
Total financial liabilities	70,523	172,425

(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 2 of this report.

The Company actively monitors the credit ratings of its reinsurers to ensure there is no significant exposure that requires immediate attention and action. To date, there have been no defaults or non-recoverable reinsurance amounts relating to ACS's earthquake claims.

At 31 December 2016, the Company's reinsurance assets comprised of the following percentage split based on Standard & Poor's ratings:

Standard & Poor's Ratings

AA-	9.3%
A+	1.3%
A	3.0%
A-	86.4%

ACS (NZ) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

17. Financial instruments (Cont'd)

The table below shows the maximum exposure to credit risk for the relevant components of the Statement of Financial Position. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting or taking account of the value of any collateral or other security obtained.

Credit risk	2016 \$	2015 \$
Cash	13,811,794	13,706,982
Reinsurance receivables	3,283,742	3,272,642
Reinsurers' share of outstanding claims liabilities	4,872,917	12,517,647
	21,968,453	29,497,271

(e) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial instruments. Ultimate responsibility for liquidity risk management rests with the board of directors, who has built a framework for the management of the company's short, medium and long-term funding and liquidity management requirements. The company manages liquidity risk by maintaining adequate reserves and by continuously monitoring forecast and actual cash flows. The company has developed and implemented a Risk Management Strategy, which is described in Note 2.

The following tables summarise the maturity profile of the company's outstanding claims liabilities and non-interest bearing payables.

2016	Weighted average interest rate %	Less than 1 year \$	1 - 5 years \$	5 + years \$	Discount Adjustment	Total \$
Outstanding claims liabilities	1.7%	5,115,193	4,918,452	-	(144,103)	9,889,542
Non-interest bearing payables	-	70,523	-	-	-	70,523
		5,185,716	4,918,452	-	(144,103)	9,960,065

2015	Weighted average interest rate %	Less than 1 year \$	1 - 5 years \$	5 + years \$	Discount Adjustment	Total \$
Outstanding claims liabilities	2.5%	9,453,103	5,042,513	-	(410,770)	14,084,846
Non-interest bearing payables	-	172,425	-	-	-	172,425
		9,625,528	5,042,513	-	(410,770)	14,257,271

ACS (NZ) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

17. Financial instruments (Cont'd)

(f) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises two types of risk: foreign exchange (currency risk) and market interest rates (interest rate risk).

Foreign currency risk management

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of the change in foreign exchange rates. The currency risk is not considered to be significant as the company does not enter into many foreign currency transactions.

Interest risk management

The company's activities expose it to the financial risk of changes in interest rates. Floating rate instruments expose the company to cash flow risk, whereas fixed interest rate instruments expose the company to fair value interest rate risk. The company's Investment Committee monitors the company's exposures to interest rate risk as described in note 2 to this financial report.

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

2016	Weighted average interest rate %	Less than 1 year \$	1 - 5 years \$	5 + years \$	Discount Adjustment	Total \$
Non-interest bearing:						
Reinsurers' share of outstanding claims liabilities	2.8%	4,428,419	529,774	-	(85,276)	4,872,917
Reinsurance receivables	-	3,283,742	-	-	-	3,283,742
Variable interest rate instruments:						
Cash and cash equivalents	2.5%	13,842,702	-	-	-	13,842,702
		21,554,863	529,774	-	(85,276)	21,999,361

ACS (NZ) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

17. Financial instruments (Cont'd)

(f) Market risk (Cont'd)

2015	Weighted average interest rate %	Less than 1 year \$	1 - 5 years \$	5 + years \$	Discount Adjustment	Total \$
Non-interest bearing:						
Reinsurers' share of outstanding claims liabilities	2.5%	8,431,077	4,497,340	-	(410,770)	12,517,647
Reinsurance receivables	-	3,272,642	-	-	-	3,272,642
Variable interest rate instruments:						
Cash and cash equivalents	2.7%	13,706,982	-	-	-	13,706,982
		25,410,701	4,497,340	-	(410,770)	29,497,271

18. Related party disclosures

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

Effective 20 June 2012, ACS signed a Management Services Agreement with Ansvar under which Ansvar performs certain management services for ACS. A performance based management fee of up to \$3 million may be payable to Ansvar once the Company has settled all claims against it to the extent ACS has surplus capital in excess of \$5 million. In the year ended 31 December 2016, ACS recognised a provision of \$2,843,767 (2015: \$2,726,799) representing the present value of the management services fee payable. The movement in the provision is recognised as other expenses in the Statement of Profit or Loss and Other Comprehensive Income.

In March 2012, the company entered into a commercially priced, arms-length reinsurance arrangement with Ecclesiastical, whereby Ecclesiastical provided a fixed maximum upper limit property catastrophe excess of loss reinsurance contract in respect of the February 2011 earthquake event.

ACS (NZ) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

19. Notes to the cash flow statement

a. Reconciliation of cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the Statement of Financial Position as follows:

	2016 \$	2015 \$
Cash	770,517	1,167,917
Add: Short term deposits (i)	13,041,277	12,539,065
	13,811,794	13,706,982

- (i) Money market instruments that qualify as cash equivalents under the Group's accounting policies have short maturities (three months or less from the date of acquisition), are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

b. Reconciliation of net surplus after taxation

	2016 \$	2015 \$
Net (loss)/profit for the year	(3,290,737)	(1,365,239)
Changes in fair value of investments and loans	-	3,499
(Increase) / decrease in trade and other receivables	(48,289)	8,903,406
Increase / (decrease) in trade and other payables and provisions	(5,588)	2,341,727
Increase / (decrease) in net outstanding claims liabilities	3,449,426	(1,112,808)
Net cash from/(used in) operating activities	104,812	8,770,585

20. Subsequent events

Subsequent to balance date in the period from 1 January to 31 March 2017, ACS made gross claim payments of \$577,578 which represented a significant portion of its outstanding claims liabilities at 31 December 2016. The quantum of the claim payments and associated reinsurance recoveries were relatively consistent with the outstanding claims liabilities at 31 December 2016.

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

ACS (NZ) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

21. Imputation credit account

	31 Dec 2016 \$	31 Dec 2015 \$
The amount of imputation credits available for use in subsequent reporting periods	-	-

Due to the change in ACS's shareholder from Ansvar Insurance Limited to the Canterbury Earthquake Church and Heritage Trust during 2012, the imputation credits available at 31 December 2011 were forfeited on 15 May 2012. Imputation credits were not recognised in the period from 16 May 2012 to 31 December 2012 or the years ended 31 December 2013 and 31 December 2016 as ACS made taxable losses during these periods. ACS generated a taxable profit in the years ended 31 December 2014 and 31 December 2015 but did not recognize any imputation credits as the taxable profits were offset by the carry forward tax losses held at 31 December 2013.

22. Solvency margin

	31 Dec 2016	31 Dec 2015
Actual Solvency Capital	9,291,384	12,582,121
Minimum Solvency Capital	4,219,229	3,000,000
Solvency Margin	5,072,155	9,582,121
Solvency Margin	220%	419%

At 31 December 2016, ACS continued to retain all of its equity to assist with maintaining its financial soundness.

23. Insurer financial strength rating

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

24. Additional company information

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

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