



ACE Insurance Limited

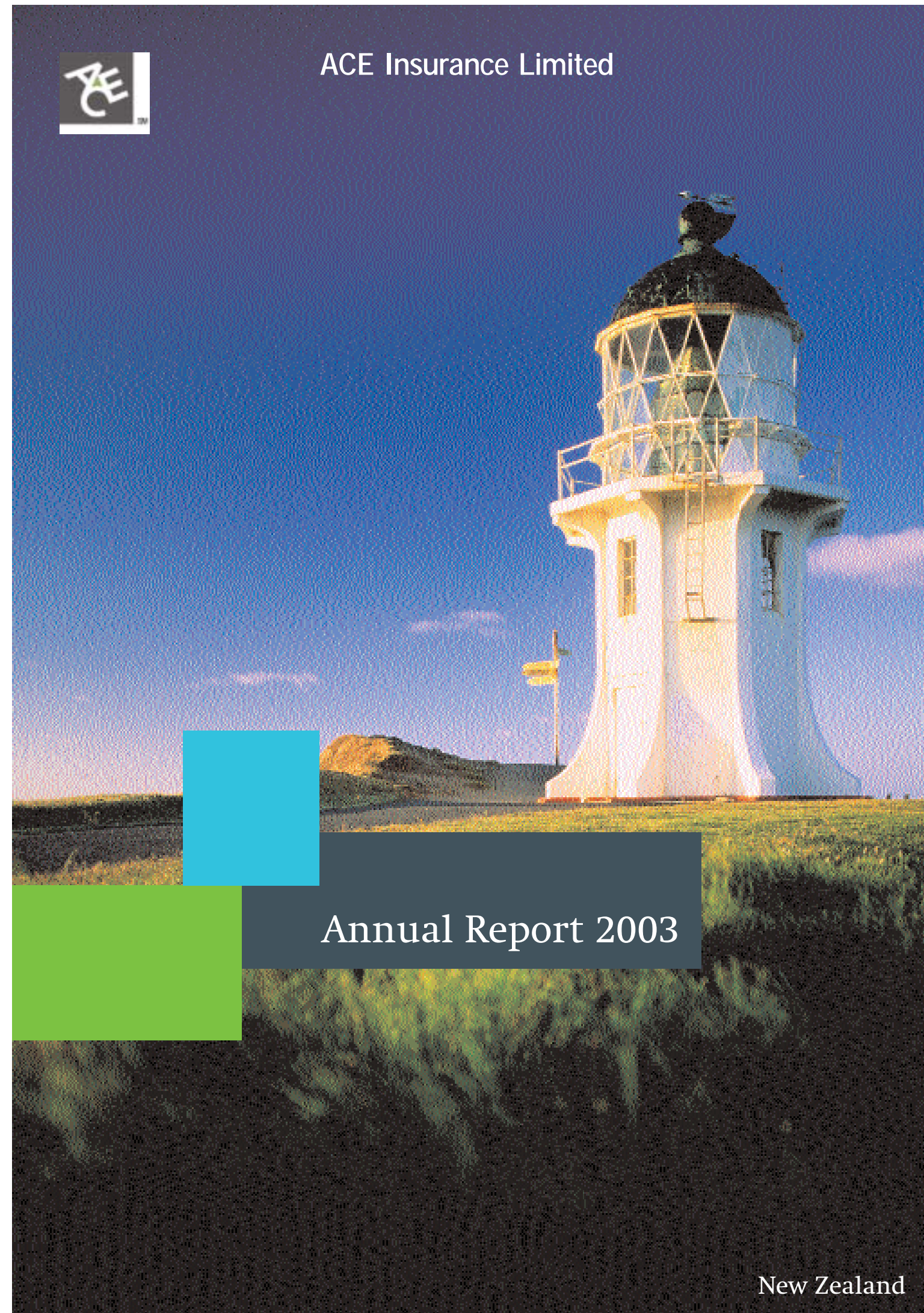


ace insurance limited

ACE Insurance Limited

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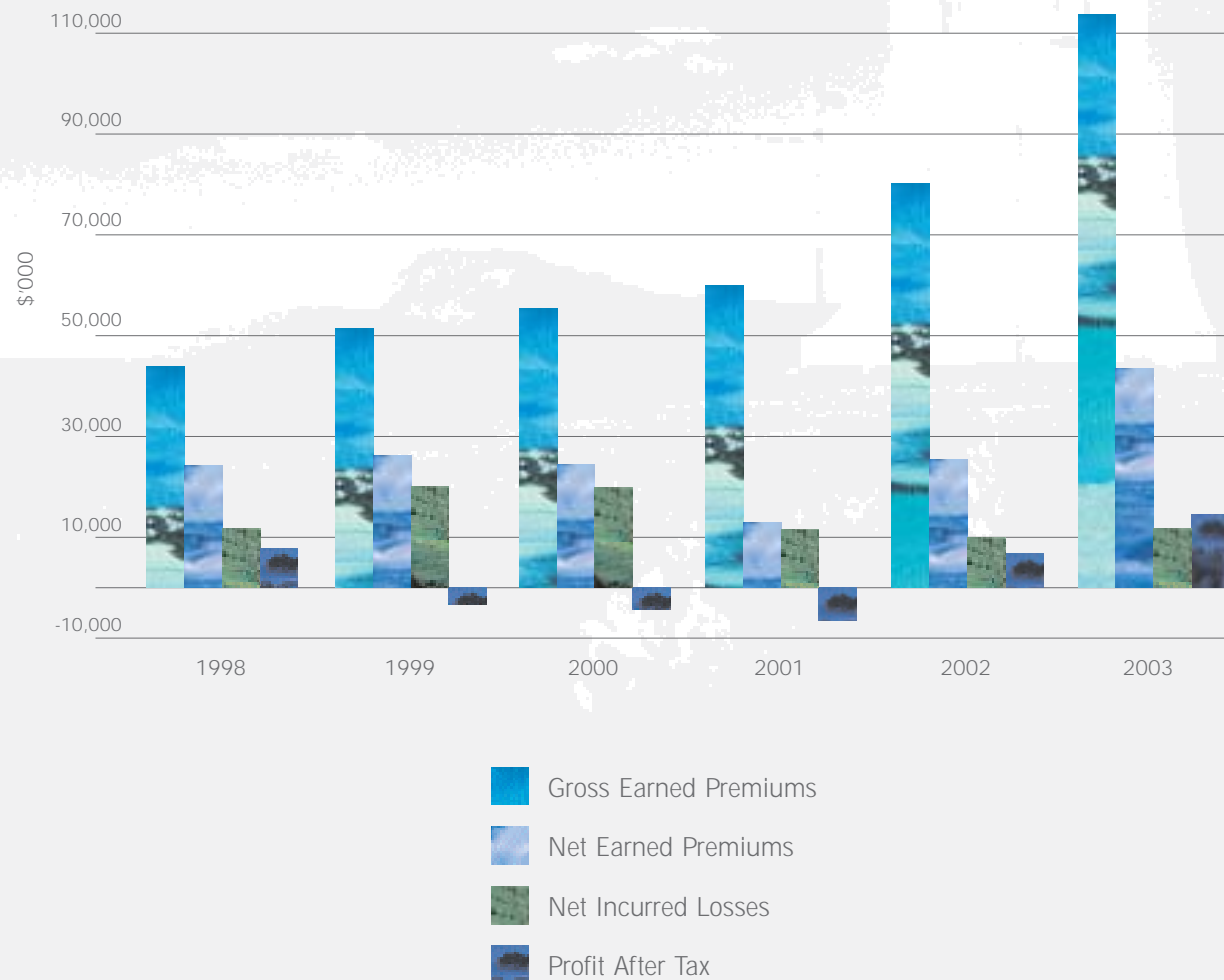
Annual Report 2003

New Zealand

ACE Insurance Limited

ACE New Zealand is one of the ACE Group of Companies, a major global provider of insurance and reinsurance protection, with US\$50 billion in assets and gross premiums of US\$14.6 billion. In a wide range of traditional and specialty lines, ACE uses its strong analytical skills, breadth of resources and global reach to deliver quality products and exceptional service.

ACE Insurance Limited Financial Highlights



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Directors' Responsibility Statement

For The Year Ended 31 December 2003

The Directors are responsible for ensuring that the financial statements give a true and fair view of the financial position of the Company as at 31 December 2003 and its financial performance and cashflows for the year ended on that date.

The Directors consider that the financial statements of the Company have been prepared using appropriate accounting policies, consistently applied and supported by reasonable judgments and estimates and that all relevant financial reporting and accounting standards have been followed.

The Directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Company and facilitate compliance of the financial statements with the Financial Reporting Act 1993.

The Directors have taken adequate steps to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Directors have pleasure in presenting the financial statements of ACE Insurance Limited for the year ended 31 December 2003.

Shareholders' Resolution

In accordance with section 211(3) of the Companies Act 1993, the shareholders have passed a unanimous resolution that the annual report of the Company include only the signed financial statements for the accounting period completed and an Auditors' report where applicable.

For and on behalf of the Board of Directors



Director
31 March 2004



Director
31 March 2004

Managing Director's Report

For The Year Ended 31 December 2003

The Directors are pleased to present the annual report to its shareholders and other interested parties. The report displays a superior financial result for the 2003 year with premium growth of 39% and a \$9.6 million improvement on prior year after tax surplus.

ACE continues to benefit from a market environment of stability with rate increases witnessed during the year, although at a diminishing level over the prior year. The Company's ability to provide consistent capacity through all market cycles, market leading Risk Management services, and stable Financial Rating, ensured the maximisation of opportunities this market presented. This ensured that the Company maintained the position as a leading provider of insurance capacity to the corporate business community.

One of the key growth strategies over the past two years has been to penetrate the middle market business sector. We have laid a solid platform and gained considerable momentum in 2003 and we envisage this initiative being a key contributor to growth going forward.

The Company significantly strengthened its financial position with equity now \$33.4 million compared with \$16.3 million for the prior year.

The after tax surplus was extremely strong at \$16.8 million, comparing favourably with \$7.2 million for the prior year.

Investment revenue grew by 22% over prior year primarily as a result of increased investment holdings. The Company continues to pursue a conservative investment strategy, investing investment funds in highly rated and liquid instruments of cash deposits and fixed interest securities.

ACE implemented strong corporate governance and risk management processes during the year, which now form an integral part of our business culture. The Directors and Staff fully support the need for full and proper disclosure.

The outlook for 2004 is positive. There will be increased competition in the corporate segment, particularly from offshore competitors; however, we believe that the Company is in a unique position with competitive advantages not easily duplicated by our competitors. This will enable the Company to maintain a leading position in this sector. The Company will continue to build on the middle market strategy and continue to grow that business.

I would like to extend my thanks to our dedicated Staff for their professionalism and loyalty for without whom our achievements would be impossible.



Managing Director
Grant Simpson
31 March 2004

Auditors' Report To The Shareholders Of Ace Insurance Limited

For The Year Ended 31 December 2003

We have audited the financial statements on pages 5 to 23. The Financial Statements provide information about the past financial performance and cash flows of the Company for the year ended 31 December 2003 and its financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 9 to 11.

DIRECTORS' RESPONSIBILITIES

The Company's Directors are responsible for the preparation and presentation of the financial statements which give a true and fair view of the financial position of the Company as at 31 December 2003 and its financial performance and cash flows for the year ended on that date.

AUDITORS' RESPONSIBILITIES

We are responsible for expressing an independent opinion on the financial statements presented by the Directors and reporting our opinion to you.

BASIS OF OPINION

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- (a) the significant estimates and judgements made by the Directors in the preparation of the financial statements; and
- (b) whether the accounting policies are appropriate to the circumstances of the Company, consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

We have no relationship with or interests in the Company other than in our capacity as auditors and tax advisers.

Auditors' Report To The Shareholders Of Ace Insurance Limited (continued)

For The Year Ended 31 December 2003

UNQUALIFIED OPINION

We have obtained all the information and explanations we have required.

In our opinion:

- (a) proper accounting records have been kept by the Company as far as appears from our examination of those records; and
- (b) the financial statements on pages 5 to 23:
 - i comply with generally accepted accounting practice in New Zealand; and
 - ii give a true and fair view of the financial position of the Company as at 31 December 2003 and its financial performance and cash flows for the year ended on that date.

Our audit was completed on 1 April 2004 and our unqualified opinion is expressed as at that date.



Chartered Accountants
Auckland, 1 April 2004

Statement Of Financial Performance

For The Year Ended 31 December 2003

	NOTE	2003 \$'000	2002 \$'000
Premium revenue		112,008	80,318
Outwards reinsurance expense		67,013	56,248
Net premium income		44,995	24,070
Claims expense		37,044	19,609
Reinsurance and other recoveries revenue	23	21,630	9,063
Net claims incurred	22	15,414	10,546
Acquisition costs expense		3,856	1,683
Other expenses		11,089	8,599
Total expenses		14,945	10,282
Other income		191	505
UNDERWRITING RESULT		14,827	3,747
Investment revenue		4,281	3,516
OPERATING SURPLUS BEFORE TAX	2	19,108	7,263
Income tax expense	3	2,331	70
OPERATING SURPLUS AFTER TAX		16,777	7,193
NET SURPLUS ATTRIBUTABLE TO MEMBERS OF THE HOLDING COMPANY		16,777	7,193

The attached notes form an integral part of these financial statements.

Statement Of Movements In Equity

For The Year Ended 31 December 2003

	2003 \$'000	2002 \$'000
Equity at beginning of the year	16,299	9,102
Net surplus for the year	16,777	7,193
Revaluation of building	287	4
TOTAL RECOGNISED REVENUES AND EXPENSES FOR THE YEAR	17,064	7,197
EQUITY AT END OF THE YEAR	33,363	16,299

The attached notes form an integral part of these financial statements.

Statement Of Financial Position

As At 31 December 2003

	NOTE	2003 \$'000	2002 \$'000
EQUITY			
Share capital	4	16,900	16,900
Reserves	5	343	56
Retained earnings/(accumulated losses)	5	16,120	(657)
Total equity		33,363	16,299
Represented by			
CURRENT ASSETS			
Cash and bank deposits	14	21,862	11,637
Premiums receivable		32,061	35,198
Prepayments and other receivables		1,224	841
Income tax receivable		-	84
Deferred acquisition costs		4,386	3,994
		59,533	51,754
NON-CURRENT ASSETS			
Investments	6	66,271	45,039
Fixed assets	7	3,413	2,913
		69,684	47,952
Total assets		129,217	99,706
CURRENT LIABILITIES			
Accounts payable	21	10,451	11,392
Intercompany payables	10	3,016	3,100
Income tax payable		1,398	-
Deferred income tax liability		848	-
Insurance provisions	8	78,407	67,386
		94,120	81,878
NON-CURRENT LIABILITIES			
Accounts payable		1,734	1,529
Total liabilities		95,854	83,407
NET ASSETS		33,363	16,299

The attached notes form an integral part of these financial statements.

Statement Of Cash Flows

For The Year Ended 31 December 2003

	NOTE	2003 \$'000	2002 \$'000
OPERATING ACTIVITIES			
Cash was provided from			
Receipts of premium revenue		118,689	88,834
Receipts from reinsurance recoveries		9,720	6,393
Interest received		3,924	2,873
		132,333	98,100
Cash was applied to			
Payment of claims and claims expenses		(19,873)	(16,472)
Payment of outward reinsurance		(64,797)	(61,761)
Commission paid		(4,403)	(2,281)
Payment to suppliers and employees		(11,352)	(3,372)
		(100,425)	(83,886)
Net cash inflow/(outflows) from operating activities	13	31,908	14,214
INVESTMENT ACTIVITIES			
Cash was provided from			
Proceeds from sale of investments		11,420	116,042
Proceeds from sale of fixed assets		21	-
		11,441	116,042
Cash was applied to			
Purchase of investments		32,681	138,659
Purchase of fixed assets		443	198
		33,124	138,857
Net cash (outflows)/inflows from investing activities		(21,683)	(22,815)
FINANCING ACTIVITIES			
Cash was provided from			
Increase in paid up capital		-	10,000
		-	10,000
Cash was applied to			
Dividends paid to parent company		-	-
Net cash inflows from financing activities		-	10,000
Net increase/(decrease) in cash held		10,225	1,399
Cash at beginning of year	14	11,637	10,238
Cash at end of year	14	21,862	11,637

Notes To Financial Statements

For The Year Ended 31 December 2003

1. STATEMENT OF ACCOUNTING POLICIES

(i) Reporting entity and basis of reporting

The financial statements are for the reporting entity ACE Insurance Limited. The Company is registered under the Companies Act 1993.

The financial statements have been prepared in accordance with the Companies Act 1993 and the Financial Reporting Act 1993.

The financial statements have been prepared on the basis of historical cost with the exception of certain items for which specific accounting policies are identified.

(ii) Income recognition

General insurance

Premiums comprise of amounts charged to policyholders and brought into account from the date of attachment of risk. The earned portion of premiums received/receivable, including unclosed business, is recognised as revenue.

Unearned premiums have been determined from the date of attachment of risk based on the number of days of unexpired cover for each policy.

Outward reinsurance premiums are expensed in accordance with the pattern of benefits received. Accordingly, proportional reinsurance is expensed on a daily pro rated basis over the period of cover and excess of loss treaty reinsurance protection charges are treated as fully expensed from the recognition date.

Investment income

Investment income is recognised on an accrual basis.

(iii) Claims

Claims expense represents claims paid, cost of handling the claims, and changes in amounts for provision for outstanding claims. Reinsurance and other recoveries are recognised in deriving the net claims expense.

Claims outstanding represent estimates of payments to be made on individual claims which have been incurred and reported, estimates of losses which have occurred but have not yet been reported and the anticipated direct and indirect costs of settling these claims. Reinsurance recoverable is considered in such estimates, other recoveries are recognised when the amount to be recovered can be reliably measured. The provision for outstanding claims, reinsurance and other recoveries are discounted to the net present value.

(iv) Deferred acquisition costs

Costs directly associated with obtaining policies of general insurance business, and which can be reliably measured, are deferred and recorded as assets where they give rise to premium revenue in subsequent periods. Deferred acquisition costs are measured at the lower of cost and recoverable amount and are amortised over the period expected to benefit from the expenditure.

Notes To Financial Statements

For The Year Ended 31 December 2003

1. ACCOUNTING POLICIES (CONTINUED)

(v) Taxation

Income tax expense/(credit) recognises the current obligations and amounts arising from timing differences between the accounting results and assessable income for the year. This is the liability method applied on a comprehensive basis.

A deferred tax asset or the effect of losses carried forward that exceed the deferred tax liability, is recognised in the financial statements only where there is virtual certainty that the benefit of timing differences, or losses, will be utilised.

(vi) Fixed assets

All fixed assets are initially recorded at cost. Freehold land and buildings are subsequently revalued to net market value by an independent valuer on an annual basis.

Depreciation of fixed assets, other than freehold land, is calculated using straight line basis, so as to allocate the cost of the assets or the revalued amounts less their residual value over their useful lives. The rates are as follows:

Buildings	1.0%
Computer equipment	13.5% to 36.0%
Furniture and fittings	6.5% to 48.0%
Motor vehicles	18.0% to 21.6%

Gains and losses on disposal of fixed assets are taken into account in determining the operating result for the year.

(vii) Goods and services tax (GST)

The Statements of Financial Performance and Statements of Cash Flows have been prepared so that all components are stated exclusive of GST. All items in the Statements of Financial Position are stated net of GST, with the exception of receivables and payables, which include GST, invoiced.

(viii) Investments

Investments are recorded on the following bases:

- debentures, local authority and government stock and offshore fixed interest securities are valued at market or yield to maturity.
- a statutory deposit, comprising government stock, is held in accordance with the Insurance Companies Deposit Act 1953 and is recorded at market value.

Unrealised gains or losses on revaluation of investments are included in or charged against investment income in the Statements of Financial Performance.

Notes To Financial Statements

For The Year Ended 31 December 2003

1. ACCOUNTING POLICIES (CONTINUED)

(ix) Operating leases

Leases under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Operating lease payments are recognised as an expense in the periods the amounts are payable.

(x) Statements of cash flows

The following are the definitions of the terms used in the Statements of Cash Flows

- (a) Operating activities include all transactions and other events that are not investing or financing activities.
- (b) Investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment and of investments. Investments include securities not falling within the definition of cash.
- (c) Financing activities are those activities that result in changes in size and composition of the capital structure. This includes both equity and debt not falling within the definition of cash. Dividends paid in relation to capital structure are included in financing activities.
- (d) Cash is considered to be cash on hand, current accounts in banks, and deposits on call, net of bank overdrafts.

(xi) Financial instruments

Recognised

Financial instruments carried on the Statements of Financial Position include cash and bank balances, investments, receivables, trade creditors and borrowings. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Unrecognised

There were no unrecognised financial instruments at the balance date.

(xii) Foreign currencies transactions

Transactions denominated in a foreign currency are converted to New Zealand dollars at the exchange rates in effect at the date of the transaction. Monetary assets and liabilities arising from trading transactions or overseas borrowings are translated at closing rates. Gains and losses due to currency fluctuations on these items are included in the Statements of Financial Performance.

(xiii) Changes in Accounting Policy

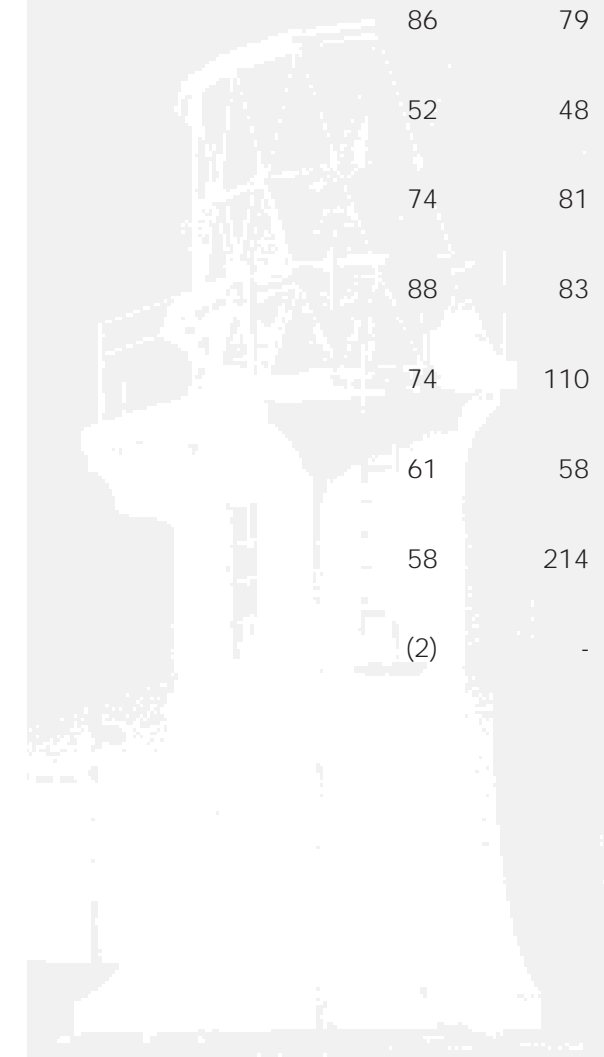
There have been no changes in accounting policy during the current year.

Notes To Financial Statements

For The Year Ended 31 December 2003

2. OPERATING SURPLUS/(DEFICIT)

	2003 \$'000	2002 \$'000
The operating surplus for the year is after charging/(crediting):		
Interest received	(4,308)	(2,930)
(Increase) in valuation of investments	(31)	(799)
Loss on foreign exchange translation	1,127	863
Depreciation		
– Furniture and equipment	86	79
– Motor vehicles	52	48
– Office equipment	74	81
Audit fees	88	83
Other fees paid to auditors	74	110
Rent and lease expenses	61	58
Loss on sale of investments	58	214
Profit on sale of fixed assets	(2)	-



Notes To Financial Statements

For The Year Ended 31 December 2003

3. TAXATION

INCOME TAX EXPENSE	2003 \$'000	2002 \$'000
Operating surplus before income tax	19,108	7,263
Permanent differences		
Expenditure not deductible for tax	(100)	86
	19,008	7,349
Timing differences not recognised		
Movement in provisions	-	(14,062)
Unrealised (gain) on revaluation of investments	-	(799)
Deferred acquisition costs	-	(584)
Surplus/(deficit) subject to tax	19,008	(8,096)
Tax at 33%	6,273	(2,672)
Benefit of tax losses not recognized	-	2,672
Recognition of prior year tax losses	(4,883)	-
Recognition of prior year timing differences	941	-
Income tax recognised in statements of financial performance	2,331	70
Comprising		
Estimated current year tax assessment	1,390	-
Underestimation in prior years	-	70
Recognition of prior year timing differences	941	-
	2,331	70

Notes To Financial Statements

For The Year Ended 31 December 2003

3. TAXATION (CONTINUED)

IMPUTATION BALANCES	2003 \$'000	2002 \$'000
Balance at the beginning of the year	-	46
Tax payment	-	(46)
Balance at the end of the year	-	-

4. SHARE CAPITAL

	2003 \$'000	2002 \$'000
Balance at beginning of year	16,900	16,900
Balance at end of year – 16,899,558 ordinary fully paid	16,900	16,900

All ordinary shares rank equally with one vote attached to each fully paid ordinary share.

5. RESERVES

	2003 \$'000	2002 \$'000
Revaluation reserve:		
Balance at beginning of year	56	52
Revaluation of building	287	4
Balance at end of year	343	56
Retained earnings/(accumulated losses):		
Balance at beginning of year	(657)	(7,850)
Net surplus for the year	16,777	7,193
Balance at end of year	16,120	(657)

Notes To Financial Statements

For The Year Ended 31 December 2003

6. INVESTMENTS

	2003 \$'000	2002 \$'000
Statutory deposit	530	537
Government and local authority securities	62,041	40,156
Offshore fixed interest securities	3,700	4,346
	66,271	45,039

7. OPERATING ASSETS

	Cost/ valuation \$'000	Accumulated depreciation \$'000	Net book value \$'000
2003			
Land – valuation	1,200	-	1,200
Buildings – valuation	1,365	-	1,365
Furniture & equipment – cost	1,431	735	696
Motor vehicles – cost	285	133	152
	4,281	868	3,413

	Cost/ valuation \$'000	Accumulated depreciation \$'000	Net book value \$'000
2002			
Land – valuation	1,066	-	1,066
Buildings – valuation	1,212	-	1,212
Furniture & equipment – cost	1,640	1,121	519
Motor vehicles – cost	257	141	116
	4,175	1,262	2,913

An independent valuation of freehold land and buildings was made as at 10 December 2003 by an independent registered valuer, Colliers International. The total net market valuation is \$2,565,000 (2002: \$2,277,800). The valuation reflects the building being fully leased.

8. INSURANCE PROVISIONS

	2003 \$'000	2002 \$'000
Claims outstanding	31,109	25,848
Unearned premiums	47,298	41,538
	78,407	67,386

Notes To Financial Statements

For The Year Ended 31 December 2003

8(a) OUTSTANDING CLAIMS

	2003 \$'000	2002 \$'000
Gross outstanding claims reserve	64,957	46,919
Discount to present value	(6,817)	(5,267)
	58,140	41,652
Gross reinsurance and other recoveries on outstanding claims	(29,947)	(16,627)
Discount to present value	2,916	823
	(27,031)	(15,804)
Outstanding claims	31,109	25,848

NET OUTSTANDING CLAIMS RESERVE

The following inflation rates and discount rates were used in the measurement of outstanding claims, reinsurance and other recoveries:

	2003 %	2002 %
For the succeeding year		
Inflation rate	4.00	4.00
Discount rate	5.60	6.00
For the subsequent years		
Inflation rate	4.00	4.00
Discount rate	5.60	6.00

The weighted average term to settlement is 1.70 years (2002: 2.47 years).

8(b) UNEARNED PREMIUMS

	2003 \$'000	2002 \$'000
Gross unearned premium reserve	61,631	58,087
Reinsurance on unearned premium reserve	(14,333)	(16,549)
Total unearned premium reserve	47,298	41,538

Notes To Financial Statements

For The Year Ended 31 December 2003

9. ULTIMATE HOLDING COMPANY

ACE Insurance Limited is a wholly owned subsidiary of ACE INA International Holdings Ltd, registered in Delaware, United States of America. The ultimate holding Company is ACE Limited, whose principal office is located in Hamilton, Bermuda.

10. RELATED PARTIES TRANSACTIONS

The Company has transactions in the normal course of business with fellow subsidiaries. These comprise of insurance and reinsurance transactions, and management and support services. The significant transactions are as follows:

Related party	Relationship	Type of Transaction	2003 Transaction \$'000	2003 Balances \$'000	2002 Transaction \$'000	2002 Balances \$'000
Tempest Reinsurance Company Limited, Bermuda	Fellow Subsidiary	Reinsurance placements /claims	47,497	(2,988)	44,436	(2,781)
Other ACE entities	Fellow Subsidiary	Reinsurance placements /claims	4,881	(97)	1,950	(345)
Other ACE entities	Fellow Subsidiary	Premiums & other recharges	227	65	443	15
Safire Pte Ltd, Singapore	Fellow Subsidiary	Management charges	494	-	597	-
Cover Direct Ltd, USA	Fellow Subsidiary	Management charges	607	-	-	-
ACE UK Services Ltd, UK	Fellow Subsidiary	EDP support service charges	431	-	429	5
ACE Insurance Limited, Australia	Fellow Subsidiary	Management /IT service charges	863	4	896	6
			55,000	(3,016)	48,751	(3,100)

Other ACE entities comprises transactions with fellow subsidiary entities which are not individually material to disclose separately.

No related party balances have been written off or forgiven during the year. (2002: Nil)

Notes To Financial Statements

For The Year Ended 31 December 2003

11. SEGMENT INFORMATION

Throughout the year the Company operated predominantly in General Insurance business in New Zealand. The Company was registered as an insurer under Section 201 of the Accident Insurance Act 1998 on 2 June 1999.

	Accident Insurance		General Insurance		Total Insurance	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Net premium income	-	3	44,995	24,067	44,995	24,070
Net claims incurred	(111)	74	15,525	10,472	15,414	10,546
Acquisition costs expense	-	3	3,856	1,680	3,856	1,683
Other expenses	24	10	11,065	8,589	11,089	8,599
Other income	-	-	191	505	191	505
Underwriting result	87	(84)	14,740	3,831	14,827	3,747
Investment income	43	40	4,238	3,476	4,281	3,516
Operating surplus/(loss) before tax	130	(44)	18,978	7,307	19,108	7,263
Income tax expense	43	-	2,288	70	2,331	70
Operating surplus/(loss) after tax	87	(44)	16,690	7,237	16,777	7,193
Total assets	9,246	9,198	119,971	90,508	129,217	99,706

Re-nationalisation of accident insurance

In accordance with the Accident Insurance (Transitional Provisions) Act 2000, and Accident Insurance Amendment Act 2000, the Company ceased to underwrite new accident insurance business effective 1 April 2000 and all policies in existence as at 1 July 2000 were not renewed.

Notes To Financial Statements

For The Year Ended 31 December 2003

12. FINANCIAL INSTRUMENTS

The Company has financial instruments comprising cash at bank and on hand, cash on deposit, premiums receivable, intercompany receivables, other receivables, fixed interest securities, trade and other payables, and lease liabilities.

(a) Interest Rate Risk

The following table identifies the years in which interest rates are subject to review on interest bearing assets and provides the current weighted average interest rate of each item.

	Repricing Analysis:					
	Weighted Average Interest rate	Current \$'000	1 year or less \$'000	Over 1 to 5 years \$'000	More than 5 years \$'000	Total \$'000
2003 FINANCIAL ASSETS						
Cash & Deposits	4.76%	21,862	-	-	-	21,862
Fixed Interest Securities	6.71%	-	3,794	28,939	33,538	66,271
		21,862	3,794	28,939	33,538	88,133
2002 FINANCIAL ASSETS						
Cash & Deposits	5.48%	11,637	-	-	-	11,637
Fixed Interest Securities	6.93%	-	201	24,619	20,219	45,039
		11,637	201	24,619	20,219	56,676

(b) Credit risk

The Company incurs credit risk from transactions with reinsurers, trade receivables and financial institutions in the normal course of its business. The Company has a credit policy, which restricts the exposure to individual trade receivables, which are reviewed on a regular basis. The Company places a majority of its reinsurance placements with ACE Group entities. The credit risk on financial assets, which have been recognised in the financial statements, is generally the carrying amount of the assets net of any provision for doubtful debts. The Company does not have any significant concentrations of credit risk.

(c) Fair values

The carrying value of financial assets and liabilities of the Company are representative of their fair values as at balance date. The carrying amounts of all financial assets and liabilities are reviewed to ensure they equal or approximate their fair market values.

d) Currency risk

During the normal course of business the Company transacts insurance and other business with amounts denominated in foreign currencies, primarily certain reinsurance transactions are arranged in United States Dollars. As a result of these transactions exposures to fluctuations in foreign currency exchange rates arise. These foreign exchange transactions are settled on a monthly basis to minimise foreign exchange risk exposure.

Notes To Financial Statements

For The Year Ended 31 December 2003

13. RECONCILIATION OF NET OPERATING CASH FLOWS

	2003 \$'000	2002 \$'000
Operating surplus after income tax	16,777	7,193
Items not involving cash flows		
Increase/(Decrease) in unearned premium reserve	5,760	14,579
Increase/(Decrease) in outstanding claims	5,261	467
(Increase)/Decrease in deferred acquisition costs	(392)	(584)
Changes in net market value of investments	(31)	(736)
Depreciation expense	212	208
	10,810	13,934
Impact of changes in working capital items		
Decrease/(Increase) in other receivables	(384)	(57)
Decrease/(Increase) in policyholder debtors	3,137	(11,183)
Decrease/(Increase) in intercompany receivables	-	(393)
(Decrease)/Increase in accounts payable	(735)	1,514
(Decrease)/Increase in intercompany payables	(84)	2,986
(Decrease)/Increase in tax payable	2,331	70
	4,265	(7,063)
Items classified as investing activities		
(Gain)/Loss on disposal of investments	58	150
(Gain)/Loss on disposal of assets	(2)	-
	56	150
Net cash flows from operating activities	31,908	14,214

14. RECONCILIATION OF CASH

	2003 \$'000	2002 \$'000
Cash on hand and at bank	19,212	527
Deposits at call	2,650	11,110
	21,862	11,637

Notes To Financial Statements

For The Year Ended 31 December 2003

15. CHARGE

Under the Trust Deed, which governs the operation and management of the accident insurance business, the Public Trustee maintains a floating first charge over the assets of the Company.

16. CREDIT RATING

On 21 October 2003, the Company's financial strength rating of 'A Excellent' was reaffirmed by rating agency A.M. Best in accordance with the Insurance Companies Rating and Inspections Act 1994. A.M. Best's A rating is assigned to companies, which in their opinion have demonstrated excellence in overall performance and have a strong ability to meet their obligation to policyholders over a long period of time.

17. ACTUARIAL INFORMATION

The actuary who carried out the valuation of the Outstanding Claims Liability is Andrew Bendall BSc., FIAA of ACE Insurance Limited (Australia). The Outstanding Claims liability has been determined in accordance with the standards of the New Zealand Society of Actuaries and the actuary is satisfied as to the nature, sufficiency and accuracy of the data used in the determination. The assessment is dated 8 March 2004. Key assumptions used in the valuation:

	2003 %	2002 %
Inflation rate	4.0	4.0
Discount rate	5.6	6.0
Volatility adjustment	25.0	28.5

18. CAPITAL COMMITMENTS

As at 31 December 2003 there were no capital commitments (2002: Nil).

19. CONTINGENT LIABILITIES

As at 31 December 2003 there were no contingent liabilities outstanding (2002: Nil).

Notes To Financial Statements

For The Year Ended 31 December 2003

20. LEASE COMMITMENTS

The Company has future rental commitments on property leases as follows:

	2003 \$'000	2002 \$'000
Operating lease commitments		
Within one year	76	29
One to two years	76	-
Two to five years	38	-
Beyond five years	-	-
	190	29

21. OTHER LIABILITIES

As at 31 December 2003 the Company had employee entitlements payable of \$290,782 (2002 : \$205,291) of holiday pay and \$262,000 (2002 : \$225,000) of bonuses.

22. CLAIMS INCURRED

	2003			2002		
	Current \$'000	Prior years \$'000	Total \$'000	Current \$'000	Prior years \$'000	Total \$'000
Gross claims incurred	42,780	(4,724)	38,056	13,846	8,025	21,871
Discounted movement	(2,553)	1,003	(1,550)	(1,652)	(610)	(2,262)
Discounted gross claims incurred	40,227	(3,721)	36,506	12,194	7,415	19,609
Reinsurance and other recoveries	(21,347)	(1,838)	(23,185)	(4,826)	(4,155)	(8,981)
Discounted movement	1,068	1,025	2,093	304	(386)	(82)
Discounted reinsurance and other recoveries	(20,279)	(813)	(21,092)	(4,522)	(4,541)	(9,063)
Net claims incurred	19,948	(4,534)	15,414	7,672	2,874	10,546

Notes To Financial Statements

For The Year Ended 31 December 2003

23. REINSURANCE AND OTHER RECOVERIES

	2003 \$'000	2002 \$'000
Reinsurance recoveries	21,103	8,512
Other recoveries	527	551
	21,630	9,063

24. REINSURANCE PROGRAMME PRINCIPLES

Reinsurance is purchased to make the Company's results more predictable by reducing the effect that individual large claims, and catastrophic events that lead to multiple claims, have on results. The majority of reinsurance will be arranged on a non proportional excess of loss treaty basis. Facultative cover will only be used where the inclusion of certain risks in the treaty would have an undue effect on the treaty or where there was a specific exposure that could not be covered under the treaty.

Reinsurance is purchased by the ACE Group on a centralised basis to ensure tight control over reinsurer security, underwriting discipline and maximising economies of scale. The majority of ACE's reinsurance is on a treaty basis via Quota Share and Excess of Loss contracts. Facultative reinsurance is used on a limited basis to protect net exposures.

25. FINANCIAL SOUNDNESS

The amount of equity retained for the purpose of financial soundness as at 31 December 2003 is \$15,226,000 (2002: 11,595,000) based on the Net Written Premiums requirement. The basis that has been used for financial soundness is the Preferred Capital Requirement established by the Public Trustee in the Trust Deed entered into with the Company on 1 June 1999. The Preferred Capital Requirement is the greatest of \$2,000,000, 30% of Net Written Premiums or 25% of Net Outstanding Claims. The Company has more than met the Preferred Capital Requirements as at 31 December 2003. The total amount of equity retained in the Company as at 31 December 2003 is \$33,363,000 (2002: 16,299,000).

26. DIVIDEND DECLARED

A dividend equivalent to the New Zealand dollar value of \$US5,000,000 was declared out of the 31 December 2003 retained earnings balance by the Board of Directors on 3 March 2004.

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UNITED STATES OF AMERICA

Ultimate Parent

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AUCKLAND

Legal Advisors

Bell Gully Barristers and Solicitors
Vero Centre
48 Shortland Street
AUCKLAND

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Citibank Centre
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AUCKLAND

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