

New Zealand

ACE INSURANCE LIMITED

FINANCIAL REPORT

31 DECEMBER 2014

ACE INSURANCE LIMITED

FINANCIAL REPORT 2014

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ACE INSURANCE LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2014

The Board of Directors present the annual report of ACE Insurance Limited ("the Company") incorporating the financial statements and the auditor's report for the year ended 31 December 2014.

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, the Directors' report for the accounting period completed and an Auditors' report.

The Board of ACE Insurance Limited authorised these financial statements presented on pages 6 to 45 for issue on 29 April 2015.

..... 29th of April 2015

For and on behalf of the Board of Directors

.....
Director

.....
Director

Date 29 April 2015

Date 29 April 2015



Independent Auditors' Report to the shareholders of ACE Insurance Limited

Report on the Financial Statements

We have audited the financial statements of ACE Insurance Limited on pages 6 to 45, which comprise the statement of financial position as at 31 December 2014, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation of these financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal controls relevant to the Company's preparation of financial statements that give a true and fair view of the matters to which they relate, 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

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

We are independent of the Company. Other than in our capacity as auditors and providers of taxation and other related assurance services, we have no relationship with, or interests in, the Company.

Opinion

In our opinion, the financial statements on pages 6 to 45:

- (i) comply with generally accepted accounting practice in New Zealand;
- (ii) comply with International Financial Reporting Standards; and
- (iii) give a true and fair view of the financial position of the Company as at 31 December 2014, and its financial performance and cash flows for the year then ended.

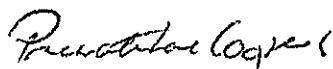
Report on Other Legal and Regulatory Requirements

We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 31 December 2014:

- (i) we have obtained all the information and explanations that we have required; and
- (ii) in our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records.

Restriction on Use of our Report

This report is made solely to the Company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

A stylized, handwritten signature of PricewaterhouseCoopers.

PricewaterhouseCoopers
Chartered Accountants

I, R Balding, am currently a member of the Institute of Chartered Accountants in Australia and my membership number is 45745.

PricewaterhouseCoopers was the audit firm appointed to undertake the audit of ACE Insurance Limited for the year ended 31 December 2014. I was responsible for the execution of the audit and delivery of our firm's audit report. The audit work completed on 29 April 2015 and an unqualified opinion was issued.

A handwritten signature of R Balding.

R Balding
Partner

Sydney
29 April 2015

ACE INSURANCE LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2014

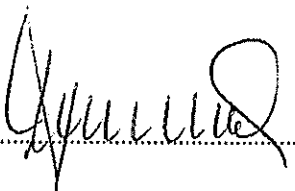
	<i>NOTE</i>	<i>2014</i> <i>\$'000</i>	<i>2013</i> <i>\$'000</i>
Net premium revenue		52,842	47,948
Net claims incurred	9	(17,115)	(17,211)
Other underwriting expenses	7	(26,966)	(28,213)
Other underwriting revenue	5	14,822	16,381
Underwriting profit		23,583	18,905
Net investment income	6	3,896	912
Profit before income tax		27,479	19,817
Income tax expense	8	(7,840)	(5,549)
Profit after income tax		19,639	14,268
<i>Profit for the year attributable to owners of the Company</i>		<i>19,639</i>	<i>14,268</i>
Other Comprehensive Income			
Gain on revaluation of land and buildings	24(a)	710	400
Other comprehensive income for the year, net of tax		710	400
Total comprehensive income for the year, net of tax attributable to owners of the Company		20,349	14,668

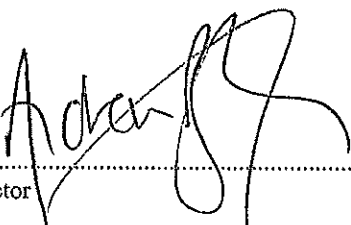
The above statement of comprehensive income should be read in conjunction with the accompanying notes.

ACE INSURANCE LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2014

	Note	2014 \$000	2013 \$000
ASSETS			
Cash and cash equivalents	10	13,697	23,962
Financial assets at fair value through profit or loss	13	74,223	69,808
Trade and other receivables	11	31,226	32,892
Reinsurance and other recoveries receivable	12	114,989	160,484
Reinsurance and other recoveries receivable – Life insurance business	16	19	33
Reinsurance and other recoveries receivable – Life assurance fund	16	877	914
Deferred insurance costs	15	21,416	22,757
Deferred tax assets	18	594	642
Property, plant and equipment	17	4,151	3,463
TOTAL ASSETS		261,192	314,955
LIABILITIES			
Trade and other payables	19	16,672	17,765
Current tax liabilities		3,787	2,504
Outstanding claims	21	136,976	183,685
Outstanding claims – Life insurance business	16	28	47
Outstanding claims – Life assurance fund	16	1,253	1,305
Provisions	22	337	332
Unearned premiums	20	55,262	57,949
Deferred tax liability	18	1,053	893
TOTAL LIABILITIES		215,368	264,480
NET ASSETS		45,824	50,475
EQUITY			
Share capital	23	16,900	16,900
Reserves	24(a)	2,352	1,642
Retained earnings	24(b)	26,572	31,933
TOTAL EQUITY		45,824	50,475

The above statement of financial position should be read in conjunction with the accompanying notes.


 Director
 Date 29 April 2015


 Director
 Date 29 April 2015

ACE INSURANCE LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2014

	NOTE	CONTRIBUTED EQUITY \$000	RESERVES \$000	RETAINED EARNINGS \$000	TOTAL \$000
At 1 January 2013		16,900	1,242	27,665	45,807
Profit for the year		-	-	14,268	14,268
Revaluation gain on land and buildings	24(a)	-	400	-	400
Total comprehensive income for the year		-	400	14,268	14,668
Transaction with owners:					
Ordinary dividends		-	-	(10,000)	(10,000)
Total transactions with owners		-	-	(10,000)	(10,000)
At 31 December 2013	23, 24	16,900	1,642	31,933	50,475
At 1 January 2014		16,900	1,642	31,933	50,475
Profit for the year		-	-	19,639	19,639
Revaluation gain on land and buildings	24(a)	-	710	-	710
Total comprehensive income for the year		-	710	19,639	20,349
Transaction with owners:					
Ordinary dividends		-	-	(25,000)	(25,000)
Total transactions with owners		-	-	(25,000)	(25,000)
At 31 December 2014	23, 24	16,900	2,352	26,572	45,824

The above statement of changes in equity should be read in conjunction with the accompanying notes.

ACE INSURANCE LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2014

	NOTE	2014 \$000	2013 \$000
Cash Flows From Operating Activities:			
Premiums received		119,368	125,769
Reinsurance and other recoveries received		76,440	59,929
Interest received		4,104	4,194
Rental income received		359	373
Other underwriting revenue		14,822	16,381
Claims paid		(94,716)	(73,750)
Outwards reinsurance paid		(66,579)	(75,045)
Acquisition expenses paid		(7,587)	(8,000)
Other underwriting expenses		(20,648)	(16,177)
Income tax paid		(6,349)	(2,420)
Net cash inflows from operating activities	29	19,214	31,254
Cash Flows From Investing Activities:			
Proceeds from sale of financial assets		38,926	22,160
Purchase of financial assets		(43,315)	(27,107)
Payments for property, plant & equipment		(90)	(216)
Net cash outflows from investing activities		(4,479)	(5,163)
Cash Flows From Financing Activities:			
Dividends paid		(25,000)	(10,000)
Net cash outflows from financing activities		(25,000)	(10,000)
Net (decrease) / increase in cash and cash equivalents held		(10,265)	16,091
Cash and cash equivalents at beginning of year		23,962	7,871
Cash and cash equivalents at end of year	10	13,697	23,962

The above statement of cash flows should be read in conjunction with the accompanying notes.

ACE INSURANCE LIMITED
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

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ACE INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

1. GENERAL INFORMATION

The financial statements are for the reporting entity ACE Insurance Limited. The Company is registered under the Companies Act 1993 and is incorporated and domiciled in New Zealand. The address of the registered office is: CU 1-3, Shed 24, Princes Wharf, Auckland, New Zealand.

The Company is a for-profit entity. The principal activities of the Company during the year were the underwriting of general insurance and the investment of funds.

These financial statements have been authorised for issue by the Board of Directors on 29 April 2015. The Directors have the power to amend the financial statements after issue.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(2.1) Basis of preparation

The financial statements have been prepared in accordance with the Companies Act 1993, the Financial Reporting Act 1993 and with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS). They are also in compliance with International Financial Reporting Standards. They have been prepared under the historical cost convention, as modified by the revaluation of certain assets as identified in specific accounting policies below. The financial statements are presented in New Zealand dollars, and values are rounded to the nearest thousand dollars, or in certain cases, the nearest dollar.

(i) Interpretations to published standards which became effective for annual reporting periods commencing 1 January 2014

The Company mandatorily adopted the following accounting policies which became effective for annual reporting periods commencing 1 January 2014. These standards did not materially affect the amounts recognised in the financial statements.

- NZ IAS 32: Amendments to NZ IAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities (Application date: 1 January 2014)

(ii) Interpretations to published standards that are not yet effective and have not been early adopted by the Company

The following new interpretations to existing standards have been published that are mandatory for the Company's accounting periods beginning on or after 1 January 2015, or later periods, but that the Company has not early adopted. When applied in future periods, these amended standards are not expected to have a material impact on the Company's results or financial position, however they may have an impact on disclosures.

- NZ IFRS 9: Financial Instruments (Application date: 1 January 2015)

ACE INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(2.2) *Foreign Currency Translations*

(i) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in New Zealand dollars, which is ACE Insurance Limited's functional currency and presentation currency.

(ii) Transactions and balances

Foreign currency transactions during the year are recorded in New Zealand dollars using the rate of exchange prevailing at the date of the transaction. At balance date, amounts receivable and payable in foreign currency are translated at the exchange rate prevailing at that date. Exchange gains and losses are brought to account in determining the profit or loss for the year.

(2.3) *Premium Revenue*

Direct premium and inwards reinsurance premiums comprise amounts charged to the policyholders or other insurers, including government levies but excluding amounts collected on behalf of third parties, principally GST. The earned portion of premiums received and receivable, including unclosed business is recognised as revenue. 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.

Premiums where there is a deposit component are not unbundled where the deposit component can be reliably measured. The rights and obligations arising from any deposit component are immediately recorded as assets and liabilities in the balance sheet.

The pattern of recognition of income over the policy or indemnity periods is based on time, which is considered to closely approximate the pattern of risks underwritten. Unearned premium is determined by apportioning the premium written in the year on a daily pro rata basis.

(2.4) *Outwards Reinsurance*

Premiums ceded to reinsurers are recorded as an outwards reinsurance expense and are recognised in the Statement of Comprehensive Income from the attachment date over the period of indemnity of the reinsurance contract in accordance with the expected pattern of the incidence of risk ceded.

Reinsurance and other recoveries are recognised as revenue within net claims incurred. Recoveries receivable on outstanding claims are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

ACE INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(2.5) *Receivables and Creditors*

All debtors are recognised at the amounts receivable as trade debtors. The fair value of trade receivables is deemed to approximate the original amount less any impairment. The impairment is determined by assessing the likelihood of collectability of all trade debtors on a regular basis. Debts that are known to be uncollectible are written off.

Trade and other creditors represent liabilities for goods and services provided to the Company prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition for unrelated creditors and within 90 days for related parties.

(2.6) *Claims*

Claims incurred expense and liabilities for outstanding claims are recognised in respect of the direct and inwards reinsurance business. The liability covers claims incurred but not yet paid, incurred but not yet reported (IBNR), incurred but not enough reported claims (IBNER) and the anticipated direct and indirect costs of settling those claims. Claims outstanding are assessed by reviewing individual claim files and estimating unnotified claims and settlement costs using statistics based on past experience and trends.

The liability for outstanding claims is measured as the present value of the expected future payments reflecting the fact that all the claims do not have to be paid out in the immediate future. The expected future payments are estimated on the basis of the ultimate cost of settling claims which is affected by factors arising during the period to settlement such as normal inflation and "superimposed inflation". The expected future payments are then discounted to present value at the balance date using a risk free rate. The details of rates applied are included in Note 4.

A risk margin is added to the outstanding claims provision net of reinsurance and other recoveries to increase the probability that the net liability is adequate at a sufficiency level deemed appropriate by the Directors.

(2.7) *Acquisition costs*

A portion of acquisition costs relating to unearned premium is deferred where it represents future benefits to the Company and can be reliably measured. Deferred acquisition costs are amortised over the period expected to benefit from the expenditure and are stated at the lower of cost and recoverable value.

ACE INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(2.8) *Unexpired Risk Liability*

At each reporting date the Company is required to perform a liability adequacy test and immediately recognise any deficiencies if the carrying amount of unearned premium less any related deferred acquisition costs does not meet estimated future claims costs including risk margins. The liability adequacy test is calculated using 4 portfolios of broadly similar risk based on the clients and product offerings, being Property and Casualty, Accident and Health, Personal Business, and Combined.

The adequacy of the unearned premium liability in respect of each class of business is assessed by considering current estimates of all expected future cash flows to future claims covered by current insurance contracts.

If the present value of the expected future cash flow relating to future claims plus the additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned premium liability less related deferred costs then the unearned premium liability is deemed to be deficient. The Company applies a risk margin to achieve the same probability of sufficiency for future claims as is applied to the outstanding claims liability (note (2.6)).

The entire deficiency, if any, is recognised immediately in the statement of comprehensive income. The deficiency is recognised first by writing down the related deferred acquisition costs with any excess being recorded in the balance sheet as an unexpired risk liability.

(2.9) *Financial Assets Backing Insurance Contract Liabilities*

All financial assets are deemed to back insurance contract liabilities and are measured at fair value through profit or loss at each balance date. All financial assets are managed and evaluated on a fair value basis which is consistent with the Company's documented investment strategy. They are initially recorded at fair value and are subsequently remeasured at fair value at each balance date. Changes in the fair value of financial assets at the balance date from their fair values at the previous balance date (or cost of acquisition, if acquired during the financial year) are recognised as revenue or expense in the statement of comprehensive income. Fair value is determined for listed equities and quoted debt securities by reference to market quotations.

Regular purchases and sales of investments are recognised on trade-date – the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

Investment income is brought to account on an accruals basis and dividends are taken into account when received.

ACE INSURANCE LIMITED
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(2.10) Income Tax

The income tax expense or revenue for the year is the tax payable on the current year's taxable income adjusted for changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements and changes in unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled. The relevant tax rates are applied to the cumulative amounts of deductibles and assessable temporary differences to measure the deferred tax assets or liability. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred income tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(2.11) Property, Plant and Equipment

The Company has taken the option to measure owner occupied freehold land and buildings at fair value at each balance date. Changes in the fair value of owner occupied freehold land and buildings are recognised directly to a revaluation reserve in the balance sheet.

Fair values for freehold land and buildings are at directors' valuation by reference to an independent valuation and are performed annually. Buildings are depreciated and any adjustments are carried out as part of the revaluation increment or decrement. Any remaining balance in the revaluation reserve is credited to retained earnings when the corresponding property is sold.

Plant and equipment are measured at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisitions of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation is calculated on a 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	4%
Computer equipment	20% to 36%
Furniture and fittings	7% to 13%
Office equipment	25%

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

ACE INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(2.12) Financial Assets

The Company classifies its investments as financial assets at fair value through profit or loss. All other financial assets are classified as loans and receivables.

(i) Financial assets at fair value through profit or loss

A financial asset is classified into the “financial assets at fair value through profit or loss” category at inception if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short term profit making, or if so designated by management.

Financial assets designated as at fair value through profit or loss at inception are those that are managed and whose performance is evaluated on a fair value basis. Information about these financial assets is provided internally on a fair value basis to the Company’s key management personnel. The Company’s investment strategy is to invest in debt securities and to evaluate them with reference to their fair values. Assets that are part of these portfolios are designated upon initial recognition at fair value through profit or loss.

Financial assets that are designated as at fair value through profit or loss are subsequently carried at fair value. Realised and unrealised gains and losses arising from changes in the fair value of the “financial assets at fair value through profit or loss” category are included in the Statement of Comprehensive Income in the period in which they arise.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active, the Company establishes fair value by using valuation techniques. These include the use of recent arm’s length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Gains or losses arising from changes in the fair value of the “financial assets at fair value through profit or loss” category are presented in the Statement of Comprehensive Income within net fair value gains on financial assets at fair value through income in the period in which they arise.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Company intends to sell in the short term or that it has designated as at fair value through profit or loss or available for sale. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables.

ACE INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(2.13) Impairment of Non Financial Assets

Assets, other than financial assets, that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

(2.14) Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

(2.15) Share Capital

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax.

(2.16) Operating Leases

Leases under which all the risks and benefits of ownership are substantially retained by the lessor are classified as operating leases. Payments made under operating leases (net of incentives) are charged to the Statement of Comprehensive Income on a straight line basis over the period of the lease.

(2.17) Revenue Recognition

Revenue other than premium and investment income is recognised as follows:

- (i) Rental income is recognised when due.
- (ii) Underwriting and loss control services fees are recognised when services have been performed.

ACE INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(2.18) *Employee Benefits*

(i) *Wages, Salaries and Annual Leave*

Liabilities for employees' entitlements to wages and salaries, annual leave and other current employee entitlements expected to be paid within one year are measured as the amount unpaid at the reporting date at current pay rates in respect of employees' services up to that date. Payments of non-accumulating sick leave are recognised when the leave is taken.

(ii) *Long Service Leave*

A liability for long service leave is recognised, and is measured as the present value of expected future payments to be made 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 period of service. Expected future payments are discounted using interest rates at the reporting date on national government guaranteed securities with terms to maturity that match, as closely as possible, the estimated future cash flows.

(iii) *Pension obligations*

The Company operates a defined contribution pension plan. The scheme is funded through payments to a trust administered fund. A defined contribution plan is a pension plan under which the Company pays fixed contributions to a separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits to employee service in the current and prior periods.

The Company pays contributions to a privately administered insurance plan on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

(iv) *Share based compensation*

The Company operates a long term incentive plan under which restricted stock awards are granted. Shares granted are for shares in ACE Limited (the Ultimate Parent Entity). For restricted share awards the value of shares on the grant date is expensed over the period that the shares vest.

The fair value of the share options at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

(v) *Termination benefits*

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without the possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to present value.

(vi) *Bonus plans*

The Company recognises an expense for bonuses. A provision is recognised where contractually obliged or where there is a past practice that has created a constructive obligation.

ACE INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(2.19) Fair Values of Financial Assets and Liabilities

The fair value of cash and cash equivalents and non-interest bearing monetary financial assets and financial liabilities of the entity approximates their carrying amounts.

The fair value of other monetary financial assets and financial liabilities is based upon market prices where a market exists or by discounting the expected future cash flows by the current interest rates for assets and liabilities with similar risk profiles.

(2.20) Statement of Cash Flows

The following are the definitions of the terms used in the Statement 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; and
- (d) Cash is considered to be cash on hand, current accounts in banks, and deposits on call, net of bank overdrafts.

(2.21) Goods and Services Tax

Revenue, expenses and certain assets are recognised net of the amount of GST, except where the GST is not recoverable. In these circumstances, the GST is included in the related asset or expense. Receivables and payables are stated inclusive of GST. The net amount of GST recoverable from, or payable to, the Inland Revenue Department is included as receivable or a payable in the Statement of Financial Position.

(2.22) Comparatives

Comparative figures are, where appropriate, reclassified so as to be comparable with the figures in the current year.

(2.23) Changes in accounting policies

There have been no significant changes in accounting policies during the current period. Accounting policies have been applied on a basis consistent with the prior year, where applicable.

(2.24) Life claims provision

The Life Claims provision comprises the estimated cost of reported Life claims at balance sheet date.

(2.25) Life assurance fund

The liability is based on a valuation undertaken by Jeff Uhl FSA, MAAA where he completed the 6th schedule and schedule II in terms of section 18 of the Life Assurance Act 1908.

The net liability is derived using values by the 1958 CSO table and the 1952 Disability study tables at 3%.

ACE INSURANCE LIMITED
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

3. RISK MANAGEMENT POLICIES AND PROCEDURES

The Company's operations are exposed to a number of key risks including insurance risk and financial risk. The Company's policies and procedures in respect of managing these risks are set out below.

(i) Financial risk

The Company's operations are exposed to a variety of financial risks including market risk (including currency and interest rate risks), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Company.

The Company's principal investment objective is to ensure that funds will be available to meet its primary insurance and reinsurance obligations. Within this broad liquidity constraint, the investment portfolio's structure seeks to maximise return subject to specifically-approved guidelines of overall asset classes, credit quality, liquidity and volatility of expected returns. As such, the investment portfolio is invested primarily in investment-grade fixed income securities as measured by the major rating agencies. The Investment Committee conducts quarterly reviews with funds managers on the portfolio's performance and ensures investment mandates as set by the Company are adhered to.

(a) Market risk

Market risk represents the potential for loss due to adverse changes in the fair value of financial instruments. The Company is exposed to various market risks, including changes in interest rates and foreign currency exchange rates. The investment portfolio consists mainly of fixed income securities, which are sensitive to changes in interest rates.

(b) Credit risk

The significant areas exposed to credit risk are premium collections and reinsurance recoveries on outstanding claims from related parties.

Most premium revenue is derived from brokers operating in the New Zealand insurance market who are subject to industry credit terms. Credit risk arising from reinsurance recoveries is managed by settling the majority of reinsurance recoveries in the month following payment by the Company of the direct claim and monitoring the credit rating of reinsurers on a continual basis. It is also Company policy that all reinsurers are required to be approved by the ACE Global Reinsurance Security Committee.

The investment portfolio is managed following prudent standards of diversification. Specific provisions in the investment mandate limit the allowable holdings of a single issue and issuers.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities to meet the Company's insurance and reinsurance obligations. The Company's cash position is monitored daily and funding requirements are managed through a structured investment portfolio that allows flexibility in funding.

Liquidity risk controls include quarterly actuarial reviews of insurance reserves, matching asset and liability duration and cash flow monitoring.

ACE INSURANCE LIMITED
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

3. RISK MANAGEMENT POLICIES AND PROCEDURES (continued)

(ii) Insurance risk

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

Risk management forms part of management's responsibilities and is integrated into the Company's planning process.

The Company's policies and procedures, processes and controls are designed to manage risk. These systems address all material risks, financial and non-financial, likely to be faced by the Company. The Board, aided by the Board Audit Committee and the Enterprise Risk Committee directs and monitors implementation, practice and performance throughout the organisation. Key processes and controls include:

- employment of consistent, disciplined pricing and risk selection in order to maintain a profitable book of business;
- a formal underwriting review process to periodically test compliance standards and guidelines;
- employment of catastrophe loss and risk modeling techniques to ensure that risks are well distributed and those loss potentials are contained within our financial capacity;
- centrally coordinated reinsurance management facilitates appropriate risk transfer and efficient cost-effective use of external reinsurance markets. Reinsurance is placed with a select group of only the most financially secure and experienced companies in the reinsurance industry;
- the maintenance and use of information systems provide up to date and reliable data, thus ensuring integrity of data to management and financial models;
- claims management team ensures there is consistent approach to reserving practices and the settlement of claims;
- all operating units and functional areas are subject to review by a corporate audit team that regularly carries out operational audits; and
- specific guidelines and mandates with respect to investment assets including an independent Investment Committee.

(b) Terms and conditions of insurance and inwards reinsurance business

The terms and conditions attaching to insurance contracts affect the level of insurance risk accepted by the Company. The majority of direct insurance contracts written are entered into on a standard form basis. Inwards reinsurance contracts are subject to substantially the same conditions. There are no special terms and conditions in any non standard contracts that have a material impact on the financial statements.

(c) Concentration of insurance risks

The Company's exposure to concentrations of insurance risk is mitigated by a diverse portfolio of business written across a broad range of locations and industries.

The Company has a specific concentration risk associated with natural catastrophes. This risk is mitigated through a combination of underwriting strategy, management of risk accumulations and reinsurance.

(d) Development of claims

There is a possibility that changes may occur in the estimate of our obligations at the end of a contract period. The tables in note 21(d) show our estimates of total claims outstanding for each underwriting year at successive year ends.

ACE INSURANCE LIMITED
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Company makes estimates and judgements in respect of certain key assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) The ultimate liability arising from claims made under non-life insurance contracts

Provision is made at the end of the year for the estimated cost of claims incurred but not settled at the balance date. These reserves include estimates for both claims that have been reported and those that have been incurred but not reported (IBNR), incurred but not enough reported (IBNER) and include estimates of expenses associated with processing and settling these claims.

The process of establishing reserves is subject to considerable variability as it requires the use of informed estimates and judgements. These estimates and judgements are based on numerous factors, and may be revised as additional experience and other data become available or as regulations change.

Outstanding claims provision is estimated by class of business. Historical experience and other statistical information are used to estimate the ultimate claim costs. To determine outstanding claims provisions for a particular line of business, more than one method may be used to estimate ultimate losses and loss expenses and use the results to select a single point estimate. These methods may include, but are not necessarily limited to, extrapolations of historical reported and paid loss data, application of industry loss development patterns to the reported or paid losses, expected loss ratios developed by management, or historical industry loss ratios. Underlying judgments and assumptions that may be incorporated into these actuarial methods include, but are not necessarily limited to, adjustments to historical data used in models to exclude aberrations in claims data such as catastrophes that are typically analysed separately, adjustments to actuarial models and related data for known business changes, such as changes in claims covered under insurance contracts, and the effect of recent or pending litigation on future claims settlements.

Provisions are calculated gross of any reinsurance recoveries and a separate estimate is made of the amounts that will be recoverable from reinsurers.

The following assumptions were made in determining the outstanding claims liabilities:

	2014	2013
Discounted average weighted term to settlement from reporting date	1.72	1.36
Ultimate claim numbers - current accident year	4,631	4,469
Average claims size – current accident year	8,135	10,380
Indirect claims handling expense rate	2.6%	1.4%
Discount rate	3.5%	3.4%

ACE INSURANCE LIMITED
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(i) The ultimate liability arising from claims made under non-life insurance contracts (continued)

The processes used to determine these assumptions are as follows:

Discounted average weighted term to settlement from reporting date

The discounted average weighted term to settlement is calculated separately by class of business based on historical payment patterns. The average term of payment for all short tail classes is relatively small and therefore future inflation of the payment pattern is implicit in the ultimate loss development assumptions. Inflation costs between one accident year and the next is reflected in the average claim size.

Ultimate claim number current year

The ultimate claim number for the current accident year is estimated separately by class of business by projecting the number of claims reported to date based on historical reporting patterns.

Average claims size - current year

The average claim size for the current accident year is estimated separately by class of business by projecting the ultimate claims costs based on historical claim development patterns and dividing by the estimated ultimate claim number.

Indirect claims handling expense rate

The indirect claims handling expense rate is calculated separately by class of business based on historical indirect claims handling expenses as a percentage of historical payments.

Inflation rate

The inflation rate is implicit in the valuation models used so no explicit inflation rate is used in the valuation. Movement in average claim size provides a de facto estimate of the inflation rate implied in the valuation.

Discount rate

The discount rate is derived from market yields of New Zealand Government securities at the balance date.

Risk margin

The overall risk margin is determined allowing for uncertainty of the outstanding claim estimates. Uncertainty is analysed at a total portfolio level which includes an implicit assumption for diversification between individual classes of business.

The assumptions regarding uncertainty are applied to the gross and net central estimates to arrive at an overall provision which is intended to have a 75% (2013: 75%) probability of sufficiency.

The Company conducts sensitivity analysis to quantify the exposure to changes in the key underlying variables. The valuations included in the reported results are calculated using certain assumptions about these variables as disclosed above. The movement in any key variables will impact the performance and equity of the Company. The below table shows how a change in each assumption will affect the outstanding claims liabilities both gross and net of reinsurance and shows an analysis of the sensitivity of the profit/(loss) and equity to changes in these assumptions. As no explicit inflation rate is used in the valuation no sensitivity analysis is able to be carried out for a change in the inflation rate.

ACE INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Risk margin (continued)

Impact of changes in key variables

		Gross of Reinsurance \$'000	Net of Reinsurance \$'000	Equity \$'000
Claims incurred per the statement of comprehensive income		47,935	17,115	-
Total equity per balance sheet		-	-	45,824
Variables:				
Discounted average weighted term to settlement	+0.5 years	45,609	16,718	46,110
	-0.5 years	50,301	17,519	45,533
Ultimate claim number	+10%	51,913	19,065	44,420
	-10%	43,956	15,165	47,228
Average claims size	+10%	51,913	19,065	44,420
	-10%	43,956	15,165	47,228
Indirect claims handling expense rate	+1%	49,270	18,450	44,863
	-1%	46,600	15,781	46,785
Discount rate	+1%	46,719	16,731	46,100
	-1%	49,174	17,521	45,532

(ii) Assets arising from reinsurance contracts

Reinsurance recoverable includes the balances due to the Company from reinsurance companies for paid and unpaid losses and loss expenses based on contracts in force, net of uncollectible reinsurance - determined based upon a review of the financial condition of the reinsurers and other factors.

The recognition of reinsurance recoverable requires two key judgements. The first involves the estimation of the gross IBNR to be ceded to reinsurers. Ceded IBNR is developed as part of the loss reserving process and consequently, its estimation is subject to similar risks and uncertainties as the estimation for gross IBNR. The second judgement involves the estimation of the amount of the reinsurance balance that ultimately will not be recovered from reinsurers due to insolvency, contractual dispute, or for other reasons. Amounts estimated to be uncollectible on unpaid losses are reflected in the reinsurance IBNR.

(iii) Unclosed business

Due to insufficient information available at the end of a reporting period to accurately identify the business written with date of attachment of risk prior to the reporting date, provision is made at the end of the financial year to estimate the Company's unclosed business. Unclosed business is estimated using historical data which measures effective date of the transaction against processing date. From this data patterns are modeled and ultimate written premium projected for months where the full amount of the effective premium is yet to be processed. This estimation is adjusted for the impact of recent trends and events and consistency checks are made against historical written premium.

ACE INSURANCE LIMITED
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

5. REVENUE

	NOTE	2014 \$'000	2013 \$'000
Revenue from ordinary activities			
Premium revenue:			
Direct		118,787	121,952
Inwards reinsurance		1,433	1,365
		120,220	123,317
Reinsurance and other recoveries revenue	9	30,820	38,452
Investment revenue:			
Investment income	6	3,873	4,245
Commission revenue		14,822	16,381
Total revenue from ordinary activities		169,735	182,395

6. INVESTMENT INCOME

Interest		4,348	4,090
Rental and other		359	373
Foreign exchange losses		(834)	(218)
Investment and other income before fair value gains	5	3,873	4,245
Net realised and unrealised gains on financial assets held at fair value through profit or loss		23	(3,333)
Net investment income		3,896	912

ACE INSURANCE LIMITED
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

7. EXPENSES

	NOTE	2014 \$'000	2013 \$'000
Claims expense	9	47,935	55,663
Outwards reinsurance expense		67,378	75,369
Acquisition expenses		7,223	8,033
Underwriting expenses		8,321	9,807
Commission expense		11,422	10,373
Total expenses		142,279	159,245

8. TAXATION

Profit before income tax		27,479	19,817
Permanent difference:			
Expenditure not deductible for tax purposes		268	2
Profit subject to tax		27,747	19,819
Prima facie tax payable at 28% (2013: 28%)		7,769	5,549
Over provision in prior year – current tax		71	-
Income tax recognised in statement of comprehensive income		7,840	5,549
Comprising:			
Estimated current year tax assessment		7,561	5,692
Over provision in prior year		71	-
Net movement in deferred tax	18	208	(143)
		7,840	5,549
Imputation credits			
Balance at the beginning of the year		8,986	5,320
Tax payments (net of refunds)		9,637	3,666
Imputations credits available for use in subsequent reporting periods		18,623	8,986

The above amounts represent the balance of the imputation account as at the end of the reporting period, adjusted for:

- a) Imputation credits that will arise from the payment of the amount of the provision for income tax;
- b) Imputation debits that will arise from the payment of dividends recognized as a liability at the reporting date; and
- c) Imputation credits that will arise from the receipt of dividends recognized as receivables at the reporting date.

ACE INSURANCE LIMITED
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

9. NET CLAIMS INCURRED

	2014			2013		
	Current Year \$'000	Prior Year \$'000	Total \$'000	Current Year \$'000	Prior Year \$'000	Total \$'000
Gross claims expense						
Direct	43,969	4,259	48,228	53,592	1,803	55,395
Discount movement	910	(617)	293	(1,090)	1,358	268
Discounted gross claims expense	43,059	4,876	47,935	52,502	3,161	55,663
Reinsurance and other recoveries revenue						
Reinsurance and other recoveries revenue – undiscounted	(23,694)	(7,190)	(30,884)	(33,394)	(4,549)	(37,943)
Discount movement	414	(478)	(64)	191	(700)	(509)
Discounted reinsurance and other recoveries revenue	(24,108)	(6,712)	30,820	(33,203)	(5,249)	(38,452)
Net claims incurred	18,951	(1,836)	17,115	19,299	(2,088)	17,211

10. CASH AND CASH EQUIVALENTS

	2014	2013
	\$000	\$000
Cash on hand and at bank	12,597	21,030
Deposits at call	1,100	2,932
Total	13,697	23,962

(a) Cash at bank and on hand

These are interest bearing. Restricted cash balance of \$704,918 as at 31 December 2014 (2013: \$700,430).

(b) Deposits at call

Short term deposits are bearing floating interest rates averaging 3.50% (2013: 2.40%). These deposits are at call.

ACE INSURANCE LIMITED
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

11. TRADE AND OTHER RECEIVABLES

	<i>2014</i> <i>\$'000</i>	<i>2013</i> <i>\$'000</i>
Premiums and other trade debtors:		
Premiums and other trade debtors receivable – direct insurance	30,107	31,928
Less impairment	(200)	(200)
	29,907	31,728
 Premiums and other trade debtors receivable – inwards reinsurance	 219	 233
Other receivables	1,100	931
Total trade and other receivables	31,226	32,892
 Receivable within 12 months	 31,226	 32,892
Receivable in greater than 12 months	-	-
Total	31,226	32,892

Movements in the provision for impairment of receivables are as follows:

Opening balance as at 1 January	200	250
Provision for impairment recognised/(released) during the year	-	(50)
Total	200	200

12. REINSURANCE AND OTHER RECOVERIES RECEIVABLE

Reinsurance recoveries on claims paid	1,396	1,415
Expected future reinsurance recoveries on outstanding claims	116,835	162,246
Discount to present value	(3,242)	(3,177)
Total reinsurance and other recoveries	114,989	160,484
 Receivable within 12 months	 96,776	 147,662
Receivable in greater than 12 months	18,213	12,822
Total	114,989	160,484

ACE INSURANCE LIMITED
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<i>2014</i> <i>\$'000</i>	<i>2013</i> <i>\$'000</i>
Government bonds	51,693	52,214
Corporate bonds	22,393	17,454
Life insurance policy loans	137	140
Total financial assets at fair value through profit or loss	74,223	69,808
Amounts maturing within 12 months	14,877	6,033
Amounts maturing in greater than 12 months	59,346	63,775
	74,223	69,808

The fair value of investments has been determined based on quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data (Level 2).

The following analysis illustrates the credit rating of financial assets as at the end of the reporting period. This includes deposits at call in Note 10.

<u>S&P rating</u>		
AAA	9%	3%
AA	84%	91%
A	7%	4%
Unrated ¹	0%	2%
Total	100%	100%

¹ This represents financial assets rated by Moodys as Baa3.

A sensitivity analysis has been carried out on the portfolio as at the end of the 2013 and 2014 reporting periods. The sensitivity analysis has been performed on the portfolio using a movement in credit spreads. The table below shows the following increases/decreases of an increase in the spread rates of 100 bps on the portfolio:

	<u>Upgraded Impact</u> <u>on Investments (\$)</u>	<u>Downgraded Impact</u> <u>on Investments (\$)</u>	<u>Upgraded Impact</u> <u>on Equity (\$)</u>	<u>Downgraded Impact</u> <u>on Equity (\$)</u>
2014	486,425	(486,425)	350,226	(350,226)
2013	325,093	(325,093)	234,067	(234,067)

Using portfolio duration as a measure, an upward/downward parallel shift in the yield curve of 1% would result in the following decreases/increases to the portfolio:

	<u>Upward Impact</u> <u>on Investments (\$)</u>	<u>Downward Impact</u> <u>on Investments (\$)</u>	<u>Upward Impact</u> <u>on Equity (\$)</u>	<u>Downward Impact</u> <u>on Equity (\$)</u>
2014	(1,952,096)	1,952,096	(1,405,509)	1,405,509
2013	(1,719,391)	1,719,391	(1,237,962)	1,237,962

ACE INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

14. FINANCIAL INSTRUMENTS

(a) Interest rate risk exposures

The Company's exposure to interest rate risk is managed primarily through investments in interest rate futures and adjustments to existing investment portfolios. The Company's exposure to interest rate risk and the effective weighted average interest rate by maturity periods is set out in the following table.

		<u>Fixed interest maturing in:</u>									
		Floating interest rate	1 year or less	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 4 years	Over 4 to 5 years	More than 5 years	Non- interest bearing	Total	
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
		Notes									
2014											
Financial assets											
Cash and cash equivalents	10	13,697	-	-	-	-	-	-	-	13,697	
Receivables	11,12	-	-	-	-	-	-	-	32,622	32,622	
Financial assets at fair value through profit or loss	13	-	14,877	3,261	21,724	4,349	29,356	656	-	74,223	
		13,697	14,877	3,261	21,724	4,349	29,356	656	32,622	120,542	
Weighted average interest rate		2.97%	4.31%	4.26%	3.65%	4.30%	3.65%	4.68%			
2013											
Financial assets											
Cash and Cash equivalents	10	23,962	-	-	-	-	-	-	-	23,962	
Receivables	11,12	-	-	-	-	-	-	-	34,307	34,307	
Financial assets at fair value through profit or loss	13	-	6,033	22,730	2,526	35,648	2,731	140	-	69,808	
		23,962	6,033	22,730	2,526	35,648	2,731	140	34,307	128,077	
Weighted average interest rate		2.30%	3.56%	3.43%	4.55%	4.00%	5.13%	6.00%	-		

(b) Credit risk exposure

The credit risk on financial assets in the balance sheet is generally the carrying amount, net of any impairment.

(c) Liquidity risk exposure

The Company is exposed to liquidity risk mainly through its obligations to make payments in relation to insurance activities.

In addition to cash held for working capital requirements, a minimum percentage of investments and cash is held in liquid, short-term money market securities to ensure that there are sufficient liquid funds available to meet insurance obligations. The maturity of the Company's interest-bearing financial assets is included in table in Note 14(a).

ACE INSURANCE LIMITED
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

14. FINANCIAL INSTRUMENTS (continued)

(d) Fair value measurement of financial assets and liabilities

Assets and liabilities recorded at fair value in the statement of financial position are measured and classified in a hierarchy for disclosure purposes consisting of three "levels" based on the observability of inputs available in the market place used to measure the fair values as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities,

Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly, and

Level 3: inputs that are not based on observable market data.

The following table presents information about assets carried at fair value and indicates the level of fair value measurement based on the levels of the input used. The fair value of investments has been determined based on quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data (Level 2).

	Fair value hierarchy			Total Fair value \$'000
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	
As at 31 December 2014:				
Government bonds	-	51,693	-	51,693
Corporate bonds	-	22,393	-	22,393
Life insurance policy loans	-	137	-	137
	-	74,223	-	74,223
<i>Non-financial assets</i>				
Land and building	-	-	4,000	4,000
	-	-	4,000	4,000
As at 31 December 2013:				
Government bonds	-	52,214	-	52,214
Corporate bonds	-	17,454	-	17,454
Life insurance policy loans	-	140	-	140
	-	69,808	-	69,808
<i>Non-financial assets</i>				
Land and building	-	-	3,290	3,290
	-	-	3,290	3,290

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

The Company had no transfers between Level 1 and Level 3 during the year ended 31 December 2014. There were no Level 3 financial assets holdings during the year ended 31 December 2014.

ACE INSURANCE LIMITED
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

15. DEFERRED INSURANCE COSTS

	<i>2014</i> <i>\$'000</i>	<i>2013</i> <i>\$'000</i>
Deferred acquisition costs as at 1 January	2,498	3,029
Acquisition costs deferred	2,862	2,498
Amortisation charged to income	(2,498)	(3,029)
Deferred acquisition costs as at 31 December	2,862	2,498
Deferred reinsurance premiums at 1 January	20,259	22,101
Deferral of reinsurance premiums on contracts entered into in the period	17,795	20,643
Earning of reinsurance premiums on contracts entered into in previous periods	(19,500)	(22,485)
Deferred reinsurance premiums at 31 December	18,554	20,259
Total deferred insurance costs	21,416	22,757

16. LIFE INSURANCE BUSINESS

Net outstanding claims liability

Outstanding claims liability	28	47
Reinsurance and other recoveries receivable	(19)	(33)

Asset and liability included in Statement of Financial Position

9	14
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Life assurance fund

Life assurance fund as at 1 January	391	428
Renewal premiums received	56	67
Less:		
Net claims paid/incurred	(6)	(83)
Surrender of policies	(27)	(37)
	414	375

Outstanding claims liability – Life assurance fund	1,253	1,305
Reinsurance and other recoveries receivable – Life assurance fund	(877)	(914)
Net Life assurance fund as at 31 December	376	391

Income/(loss) included in Statement of Comprehensive Income

38	(16)
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ACE INSURANCE LIMITED
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

17. PROPERTY, PLANT AND EQUIPMENT

	<i>2014</i> <i>\$'000</i>	<i>2013</i> <i>\$'000</i>
Land and building		
Valuation at 1 January	3,290	2,890
Revaluation	710	400
Valuation at 31 December	4,000	3,290
Office equipment and fittings		
At 31 December:		
Opening net book value	173	51
Additions	90	187
Disposals	-	(4)
Accumulated depreciation on disposal	-	2
Depreciation charge for year	(112)	(92)
Work in progress	-	29
Closing net book value	151	173
At 31 December:		
Cost	2,366	2,276
Accumulated depreciation	(2,215)	(2,103)
Net book value	151	173
Total property, plant and equipment	4,151	3,463

Valuation of land and building

The valuation basis of the land and building is fair value being the amounts for which the assets could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition. The 2014 and 2013 valuations were based on independent assessments by qualified valuers. The revaluation surplus was credited to the property revaluation reserve (Note 24(a)).

ACE INSURANCE LIMITED
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

18. DEFERRED TAX

Total deferred tax assets	594	642
Total deferred tax liabilities	(1,053)	(893)
Net deferred tax liability	(459)	(251)
Movements:		
Opening balance 1 January	(251)	(394)
(Charged)/credited to Statement of Comprehensive Income	(208)	143
Closing balance at 31 December	(459)	(251)
Deferred tax assets		
At 1 January	642	678
Depreciation	(38)	(32)
Accrued expenses	(10)	42
Employee benefits	-	(46)
At 31 December	594	642
Deferred tax liabilities		
At 1 January	893	1,072
Building revaluation	58	(30)
Deferred acquisition costs	102	(149)
At 31 December	1,053	893
Deferred tax assets		
Recoverable within 12 months	573	622
Recoverable in greater than 12 months	21	20
Total	594	642
Deferred tax liabilities		
Recoverable within 12 months	801	700
Recoverable in greater than 12 months	252	193
Total	1,053	893

ACE INSURANCE LIMITED
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

19. TRADE AND OTHER PAYABLES

	<i>2014</i>	<i>2013</i>
	<i>\$000</i>	<i>\$000</i>
Outwards reinsurance expense liability – balance due to reinsurers:		
Related companies	1,248	969
Non related companies	4,162	5,347
Other creditors and accruals	11,262	11,449
Total trade and other payables	16,672	17,765
Payable within 12 months	16,672	17,765
Payable in greater than 12 months	-	-
	16,672	17,765

20. UNEARNED PREMIUMS

Unearned premium liability as at 1 January	57,949	57,640
Movement in unearned premium		
Deferral of premiums on contracts written at year end	53,736	57,775
Earning of premiums deferred in prior years	(56,423)	(57,466)
Unearned premium liability as at 31 December	55,262	57,949
To be earned within 12 months	51,150	56,483
To be earned in greater than 12 months	4,112	1,466
	55,262	57,949

The unearned premium liability is subject to a Liability Adequacy Test as described in accounting policy (2.8). The liability adequacy test identified a surplus on a total company basis as at 31 December 2014 (2013: Surplus).

ACE INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

21. OUTSTANDING CLAIMS

	<i>2014</i>	<i>2013</i>
	<i>\$000</i>	<i>\$000</i>
(a) Outstanding claims liability		
Central estimate of outstanding claims liability	121,965	163,882
Risk margin	16,505	21,858
Claim handling expenses	3,234	2,379
Total undiscounted claims liability	141,704	188,119
Discount to present value	(4,728)	(4,434)
Total discounted claims liability	136,976	183,685
Less than 12 months	108,160	161,915
Greater than 12 months	28,816	21,770
	136,976	183,685

(b) Gross risk margins applied

New Zealand	13.2%	13.1%
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(c) Reconciliation of movement in discounted outstanding claims liability

	Gross \$'000	2014 Reinsurance \$'000	Net \$'000	Gross \$'000	2013 Reinsurance \$'000	Net \$'000
Brought forward	183,685	159,069	24,616	201,743	176,372	25,371
Effect of changes in assumptions	448	3,268	(2,820)	(6,194)	(5,707)	(487)
Increase in claims incurred/recoveries anticipated over the year	47,487	27,552	19,935	61,857	44,159	17,698
Incurred claims recognised in statement of comprehensive income	47,935	30,820	17,115	55,663	38,452	17,211
Claims payments/recoveries during the year	(94,644)	(76,296)	(18,348)	(73,721)	(55,755)	(17,966)
Carried forward	136,976	113,593	23,383	183,685	159,069	24,616

ACE INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

21. OUTSTANDING CLAIMS (continued)

(d) Claims development tables:

The following table shows the development of gross and net undiscounted outstanding claims relative to the ultimate expected claims for the five most recent accident years.

Gross

Accident year	2008 & Prior \$000	2009 \$000	2010 \$000	2011 \$000	2012 \$000	2013 \$000	2014 \$000	Total \$000
Estimate of ultimate claims cost:								
At end of accident year		5,867	6,396	6,106	8,434	7,384	7,008	
One year later		5,612	5,250	5,296	5,149	7,059	-	
Two years later		4,663	4,298	4,186	5,729	-	-	
Three years later		4,264	4,372	4,075	-	-	-	
Four years later		4,989	7,212	-	-	-	-	
Five years later		4,979	-	-	-	-	-	
Current estimate of cumulative claims cost		4,979	7,212	4,075	5,729	7,059	7,008	
Cumulative payments		2,869	3,561	1,620	1,623	2,275	69	
Outstanding claims undiscounted	9,801	2,110	3,651	2,455	4,106	4,784	6,939	33,846
Discount	384	95	292	150	243	304	636	2,104
Outstanding claims								31,742
Short tail outstanding claims								86,217
Claims handling expenses								3,068
Total gross central estimate								121,027
Risk margin								15,949
Total gross outstanding claims per statement of financial position								136,976

ACE INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

21. OUTSTANDING CLAIMS (continued)

Net

Accident year	2008 & Prior \$000	2009 \$000	2010 \$000	2011 \$000	2012 \$000	2013 \$000	2014 \$000	Total \$000
Estimate of ultimate claims cost:								
At end of accident year		3,192	3,278	3,281	3,125	3,482	3,732	
One year later		2,759	2,604	2,745	2,386	3,284	-	
Two years later		2,807	2,308	2,252	2,705	-	-	
Three years later		3,124	2,769	2,617	-	-	-	
Four years later		2,814	2,754	-	-	-	-	
Five years later		2,760	-	-	-	-	-	
Current estimate of cumulative claims cost		2,760	2,754	2,617	2,705	3,284	3,732	
Cumulative payments		2,231	2,095	1,368	1,296	1,380	49	
Outstanding claims undiscounted	1,342	529	659	1,249	1,409	1,904	3,683	10,775
Discount	83	39	50	90	103	132	400	897
Outstanding claims								9,878
Short tail outstanding claims								7,727
Claims handling expenses								3,068
Total net central estimate								20,673
Risk margin								2,710
Total net outstanding claims per statement of financial position								23,383

22. PROVISIONS

	2014 \$'000	2013 \$'000
Employee benefits	337	332
	337	332
Current	262	260
Non-Current	75	72
	337	332

ACE INSURANCE LIMITED
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

23. SHARE CAPITAL

	<i>2014</i>	<i>2013</i>
	<i>\$000</i>	<i>\$000</i>
Issued share capital at 1 January	16,900	16,900
Shares issued during the year	-	-
Issued share capital at 31 December	16,900	16,900

As at 31 December 2014, the Company had 16,899,558 (2013: 16,899,558) ordinary shares that were issued for 100 cents per share. All issued shares are fully paid. Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. Each share is entitled to one vote.

24. RESERVES AND RETAINED EARNINGS

(a) Reserves

Property revaluation reserve	2,352	1,642
	2,352	1,642

Movements:

Property revaluation reserve:		
Balance at the beginning of the year	1,642	1,242
Revaluation	710	400
Balance at end of year	2,352	1,642

(b) Retained earnings

Balance at the beginning of year	31,933	27,665
Profit for the year	19,639	14,268
Dividends paid	(25,000)	(10,000)
Balance at end of year	26,572	31,933

(c) Nature and purpose of reserves

(i) Property revaluation reserve

The property, plant and equipment revaluation reserve is used to record increments and decrements on the revaluation of owner occupied freehold land and buildings. Revaluation increments and decrements are taken directly to the reserve account as described in accounting note 2.11.

ACE INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

25. SOLVENCY CAPITAL REQUIREMENTS

The Company maintains a Minimum Solvency Capital policy that provides guidance to the level of capital maintained and approved by the Board of Directors. The objective of this policy is to hold sufficient levels of capital that is commensurate with the Company's overall risk profile and to maintain a level that enables efficient use of capital.

The Minimum Solvency Capital required to be retained to meet solvency requirements are shown below. The Actual Solvency Capital exceeds the minimum requirements by \$25,446,000 (2013: \$22,645,000).

	2014			2013		
	NON-LIFE	LIFE	ENTITY SOLVENCY	NON-LIFE	LIFE	ENTITY SOLVENCY
	\$000	\$000	\$000	\$000	\$000	\$000
Actual Solvency Capital	45,774	50	45,824	50,430	45	50,475
Minimum Solvency Capital	20,355	23	20,378	27,807	23	27,830
Solvency Margin	25,419	27	25,446	22,623	22	22,645
Solvency Coverage Multiple	2.25	2.24	2.25	1.81	1.92	1.81

The methodology and bases for determining the Solvency Margin are in accordance with the requirements of the Solvency Standards for Non-life and Life Insurance Business as published by the Reserve Bank of New Zealand. The Life business is in run-off and not material to the company's overall operation.

26. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital expenditure commitments

At year end there is no estimated capital expenditure under contract but not recognised as liabilities in the financial statements of the Company.

(b) Operating lease commitments

	2014	2013
	\$000	\$000
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:		
Not later than one year	437	444
Later than one year but not later than five years	1,150	1,421
Later than five years	-	77
Non cancellable operating leases	1,587	1,942

The Company leases office premises in Wellington and Auckland. The leases are both subject to renewal rights and have varying terms. On renewal, the terms of the leases are renegotiated.

(c) Contingent liabilities

The Company is not aware of the existence of any contingent liabilities as at reporting date.

ACE INSURANCE LIMITED
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

27. REMUNERATION OF AUDITORS

During the year the auditors of the Company, PricewaterhouseCoopers, were paid or payable for the following services:

Assurance services	2014	2013
	\$	\$
Audit services		
Fees paid to PricewaterhouseCoopers Australian firm:		
- Audit and review of financial report	141,470	133,000
- Audit of regulatory return	5,000	5,000
Total remuneration for audit services	146,470	138,000
Taxation services		
Fees paid to PricewaterhouseCoopers New Zealand firm for Tax compliance and advisory services	21,800	34,725
Total remuneration for taxation services	21,800	34,725

It is the Company's policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where PricewaterhouseCoopers expertise and experience with the Company are important and these assignments are obtained on a competitive basis. These assignments are principally tax advice and other advisory services.

28. RELATED PARTIES

(a) Parent Entities

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 Zurich, Switzerland.

(b) Directors and key executives

The following persons were directors of ACE Insurance Limited during the financial year: Paul Martin, Giles Ward (until 17 March 2014) and John French (from 17 March 2014) (executive directors), Graeme Evans (non-executive Chairman) and David Kennedy (non-executive director).

(c) Key management compensation

Key management personnel include the directors and six key roles performed by key executives during the year (2013: six key roles) with the influence and authority to execute the strategic direction of the Company during the financial year. Total compensation for key management personnel is set out as follows:

	2014	2013
	\$	\$
Short term employee benefits	1,016,771	1,100,155
Post employment benefits	93,979	83,972
Other long term benefits	4,269	3,945
Termination benefits	46,976	-
Share based payments	169,112	161,173
Total	1,331,107	1,349,245

ACE INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

28. RELATED PARTIES (continued)

(d) Transactions with related parties

The Company has transactions in the normal course of business with related parties. These comprise of insurance and reinsurance transactions (based on written premiums and incurred claims), and management and support services. The significant transactions are as follows:

	2014 \$	2013 \$
Expenses with commonly controlled entities:		
Reinsurance premiums	56,414,145	64,541,053
Management and systems support	5,963,159	7,435,817
Commissions paid	179,402	169,016
Losses paid	889,645	409,707
Revenue with commonly controlled entities:		
Reinsurance and other recoveries revenue	43,036,905	47,737,853
Commissions received	13,731,066	16,354,941
Premiums assumed	2,238,739	1,832,293
Dividend paid to Parent entity	25,000,000	10,000,000

(e) Outstanding balances

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	2014 \$	2013 \$
<u>Receivables:</u>		
Commonly controlled entities with the Ultimate Parent	115,637,224	156,778,523
<u>Payables:</u>		
Commonly controlled entities with the Ultimate Parent	2,655,606	1,786,769

No impairment has been recognised in relation to any outstanding balances, and no impairment has been recognised in respect of debts due from related parties.

(f) Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates. Services are usually negotiated with related parties on a cost-plus basis, allowing a reasonable profit margin. Outstanding balances are unsecured and are repayable in cash.

ACE INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

29. RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH INFLOWS FROM OPERATING ACTIVITIES

	2014 \$000	2013 \$000
Profit for the year	19,639	14,268
Adjusted for:		
Depreciation and amortisation	112	92
Fair value change on financial assets	(23)	3,333
Change in operating assets and liabilities:		
(Decrease)/Increase in unearned premium reserve	(2,687)	309
(Decrease) in outstanding claims	(46,781)	(18,087)
(Decrease)/Increase in trade and other creditors	(1,096)	2,143
Increase/(Decrease) in employee entitlements	5	(34)
(Decrease)/Increase in deferred tax liabilities	160	(179)
Increase in tax liabilities	1,283	2,504
Decrease in deferred insurance costs	1,341	2,373
(Increase)/Decrease in other receivables	(170)	4,280
Decrease in policyholder debtors	1,836	2,144
Decrease in reinsurance and other recoveries	45,546	17,303
Decrease in deferred tax assets	49	36
Decrease in tax receivable	-	769
Net cash inflows from operating activities	19,214	31,254

30. EVENTS OCCURRING AFTER REPORTING DATE

The directors are not aware of any matter or circumstance not otherwise dealt with in this report that has significantly or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company in subsequent financial years.

31. CREDIT RATING

On 19 May 2014, the Company's financial strength rating was upgraded to 'AA/Negative' by rating agency Standard and Poor's in accordance with the Insurance Companies Rating and Inspections Act 1994. This rating was reaffirmed on 23 December 2014.

32. CASH COLLATERAL

Under the Deed of Partial Release executed on 14 June 2013, the Public Trustee maintains cash collateral of \$100,000 representing the Company's exposure in relation to workplace accident insurance for policies covering 1 July 1999 to 1 July 2000.

ACE INSURANCE LIMITED
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

33. SHARE BASED PAYMENT TRANSACTIONS

ACE Limited has a restricted share grant plan, a restricted share option plan and an employee share purchase plan.

Restricted Share Grant Plan

Under ACE Limited's long term incentive plan, 1,354 restricted ordinary shares were awarded during the year ended 31 December 2014 (2013: 1,568) and nil (2013: 221) restricted ordinary shares were transferred to other ACE entities due to employee transfers during the year ended 31 December 2014. These shares vest at various dates over a 4 year period from the grant dates and any unvested shares are cancelled on termination of the employment of the eligible employees. This plan is a group scheme with expenses incurred under the scheme charged out by ACE Limited to the Company on an annual basis. The annual expense is based on an amortised calculation that is reflective of the current year's expense portion of all restricted share grants issued in the current and prior years, and is consistent with the treatment required by NZ IFRS. There is no liability to the Company for the unamortised portion of the restrictive stock grants issued. The amortised calculation incorporates the fair market value of ACE Limited's common stock in determining the expense amount. Expected future dividend payments in relation to the restrictive stock grants issued are made directly by ACE Limited to the eligible employees. The total expense for the year was NZD \$149,739 (2013: NZD \$171,860).

Restricted Share Option Plan

Under ACE Limited's long term incentive plan, restrictive share options were granted to eligible employees of the Company. The exercisable price of these options is the fair market value at issue date. These options vest at various dates over a 3 year period from the grant date and any unvested options are cancelled on termination of employment. This plan is a group scheme with expenses incurred under the scheme charged out by ACE Limited to the Company on an annual basis. Any option not exercised or cancelled pursuant to the terms of plan will be forfeited by the tenth anniversary from the date of grant. The total value of the options granted during the year was NZD \$29,904 (2013: NZD \$33,898).

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2014		2013	
	Average exercise price in NZD per share	Options	Average exercise price in NZD per share	Options
At 1 January		7,620		8,881
Granted	125.05	1,505	103.22	1,741
Forfeited	75.85	(1,319)	54.05	(456)
Exercised	79.32	(1,226)	60.08	(2,189)
Transferred out		-		(357)
At 31 December		<u>6,580</u>		<u>7,620</u>

ACE INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

33. SHARE BASED PAYMENT TRANSACTIONS (continued)

Out of the 6,580 outstanding options (2013: 7,620 options), 4,020 options (2013: 4,372) were exercisable. Options exercised in 2014 resulted in 1,226 shares (2013: 2,189) being issued at 79.32 NZD (2013: 60.08). The weighted average remaining life of the share options outstanding at the end of the period is 6 years (2013: 6 years).

Share options outstanding at the end of the year have the following expiry date and exercise prices:

Expiry Year	Exercise price NZD per share	Share options	
		2014	2013
2014	56.30	-	481
2015	57.48	-	180
2016		-	-
2017	72.55	290	290
2018	77.90	465	465
2019	49.77	630	1,115
2020	65.10	907	907
2021	80.95	933	1,339
2022	94.80	772	1,183
2023	110.36	1,156	1,660
2024	125.05	1,427	-
		<u>6,580</u>	<u>7,620</u>

The weighted average fair value of options granted during the period determined using the Black-Scholes valuation model was 22.55 NZD per option (2013: 20.61 NZD). The significant inputs into the model were share price of 125.05 NZD (2013: 103.22 NZD), at the grant date, the exercise price shown above, volatility of 25.00% (2013: 28.00%), dividend yield of 2.69% (2013: 2.39%), and an expected option life of 5 years and on annual risk-free interest rate of 1.65% (2013: 0.89%). The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the last three years.

Employee Share Purchase Plan

The Company collects monies from local eligible employees and acquires ordinary shares in ACE Limited on behalf of the employees on a bi-annual basis. The price paid by the eligible employees is set at a discount of 15% to the fair value of the ordinary shares at the date of acquisition; this discount is incurred at the group level by ACE Limited and not charged to the Company. The total amount of discount applied to the employee share plan purchases in the current year was NZD \$0 (2013: NZD \$0).



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Company No. 104656
FSP No. 35924

To: Mr Andrew Brooks, Country President, ACE Insurance Limited

From: Stephen Wilson, Appointed Actuary for ACE Insurance Limited

Cc: Mr G Evans, Mr D Kennedy, Mr J French, Mr A Hourvardas, Ms F Eagles, Mr R Roy, Ms J Lee

Date: 28 April 2015

Re: Section 78 Appointed Actuary's Report - ACE Insurance Limited

1. Introduction and scope

In accordance with section 78 of the *Insurance (Prudential Supervision) Act 2010 (IPSA)*, as the appointed actuary for ACE Insurance Limited (AIL), this report documents my review under section 77 of IPSA.

In particular:

- Section 77 (1) of IPSA specifies that "A licensed insurer must ensure that the actuarial information contained in, or used in the preparation of, the financial statements of the insurer and any group financial statements referred to in section 81(1) (*of IPSA*) is reviewed by the appointed actuary."
- Section 77 (3) specifies that the "review must be carried out in accordance with an applicable solvency standard."
- Section 77 (4) specifies that "For the purposes of this section and section 78, actuarial information means—
 - (a) information relating to an insurer's calculations of premiums, claims, reserves, dividends, insurance and annuity rates, and technical provisions;
 - (b) information relating to assessments of the probability of uncertain future events occurring and the financial implications for the insurer if those events do occur;
 - (c) information specified in an applicable solvency standard as being actuarial information for the purposes of this section."



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With respect to section 77 (4)(c) of IPISA, section 130 of the Reserve Bank of New Zealand's (RBNZ) Solvency Standard for Non-Life Business, specifies the actuarial information as:

- a) the Premium Liabilities as defined in this solvency standard;
- b) the Net Outstanding Claims Liability as defined in this solvency standard;
- c) the reinsurance and any other recovery asset(s) relevant to the Reinsurance Recovery Risk Capital Charge;
- d) any deferred acquisition cost or deferred fee revenue relevant to the Premium Liabilities; and
- e) any other information deemed by the appointed actuary to warrant actuarial review.

With respect to section 77 (4)(c) of IPISA, section 144 of the RBNZ's Solvency Standard for Life Business, specifies the actuarial information as:

- a) the Policy Liability;
- b) the reinsurance and any other recovery asset(s) relevant to the Policy Liability, or relevant to outstanding claims reserves or incurred but not reported claims reserves held outside of the Policy Liability;
- c) any deferred or other tax asset relevant to the Policy Liability;
- d) any deferred acquisition cost or deferred fee revenue relevant to the Policy Liability;
- e) the unvested policyholder benefits liability; and
- f) any other information deemed by the appointed actuary to warrant actuarial review for the purpose of profit or solvency reporting.

Each of these items are addressed and documented in detail (to the extent relevant and material) in AIL's Insurance Liability Valuation Report dated 22 April 2015.

Additional analysis has been performed in the preparation of my Financial Condition Report which will be finalised following the AIL Board meeting on 29 April 2015.

2. Information required

- a) Name: Stephen James Wilson
- b) Work done by the actuary:

I confirm that I have reviewed the following in respect of AIL's financial statements:

- Information relating to an insurer's calculations:
 - **Premiums**
 - Discussions and review of written, earned and unearned premium data with AIL Finance and PwC Auditors



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- In addition, as part of my Insurance Liability Valuation (ILV) I have calculated an amount of unclosed written, earned and unearned premium, gross and net of reinsurance
- **Claims** – As part of my Insurance Liability Valuation Report (ILVR) dated 22 April 2015, I have:
 - Reconciled the actuarial claims data with Finance claims data
 - Analysed AIL's claims data using actuarial techniques
- **Reserves** – As part of my ILVR I have:
 - Reconciled the actuarial claim reserve data with Finance claim reserve data
 - Analysed the strength of AIL's claims reserves using actuarial techniques
 - Had detailed discussions regarding large claim reserve with underwriting and claims departments
 - Determined Insurance Liability Reserves (including both Outstanding Claim Liabilities and Premium Liabilities) in accordance with the Reserve Bank of New Zealand's (RBNZ) Solvency Standards for Non-Life Business and Life Business
- **Dividends** – Reviewed the 2014 and proposed future level of dividends in the context of AIL's current and forecast financial condition as part of my analysis for AIL's Financial Condition Report (FCR), which will be finalized in April 2015
- **Insurance (and annuity) rates** – Reviewed the adequacy and profitability of AIL's premium rates as part of my analysis for AIL's FCR
- **Technical provisions** – Determined and documented as part of my ILVR
- Information relating to assessments of the probability of uncertain future events occurring and the financial implications for the insurer if those events do occur
 - An assessment of the probability of uncertain future events has been performed and documented as part of my ILVR
- Information specified in an applicable solvency standard as being actuarial information for the purposes of this section.
 - I have reviewed the information (both actuarial and non-actuarial) required under both the RBNZ's Solvency Standard for Non-Life Business and RBNZ's Solvency Standard for Life Business.



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- I confirm that my review covered:
- Net outstanding claims as per NZ IFRS 4 including:
 - central estimate of expected claims and recoveries;
 - discounting at a risk free rate;
 - allowance for claim handling expenses; and
 - a risk margin intended to provide the specified probability of sufficiency;
 - The relevant accounting provisions (unearned premium, deferred acquisition cost, deferred reinsurance expense, deferred reinsurance commissions, and unexpired risk);
 - The actuarial estimate of net premium liabilities comprising:
 - determination of the appropriate assessment period for Premium Liabilities;
 - central estimate of expected claims and recoveries;
 - discounting at a risk free rate;
 - allowance for policy administration and claim handling expenses;
 - allowance for the cost of any future **reinsurance** (i.e. that has not yet been purchased) required to cover unexpired risks; and
 - a risk margin intended to provide a 75% POS.
 - Application of the Liability Adequacy Test
 - The level of deferred acquisition cost in the financial statements after the application of the Liability Adequacy Test.

c) Scope and limitations of the review

The scope of my review has been to review the information referred to as “actuarial information” in Section 77 (4) of IPSA, and detailed above, namely:

- information relating to an insurer’s calculations of premiums, claims, reserves, dividends, insurance and annuity rates, and technical provisions;
- information relating to assessments of the probability of uncertain future events occurring and the financial implications for the insurer if those events do occur;
- information specified in an applicable solvency standard as being actuarial information for the purposes of this section; and
- legal advice provided in conjunction with the compilation of the solvency return.

There have been no limitations placed on my review.



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- d) The existence of any relationship (other than that of actuary) that the actuary has with, or any interests that the actuary has in, the licensed insurer or any of its subsidiaries

I confirm that I am an employee of a related corporate entity, ACE Insurance Limited (Australia) – which is not a subsidiary of AIL – and I am not a Director of AIL.

- e) Whether the actuary has obtained all information and explanations that he or she has required

I confirm that I have obtained all information and explanations required to perform my review.

- f) Whether, in the actuary's opinion and from an actuarial perspective:

- i) the actuarial information contained in the financial statements and any group financial statements has been appropriately included in those statements (and if not, the respects in which it has been inappropriately included)
- ii) the actuarial information used in the preparation of the financial statements and any group financial statements has been used appropriately (and if not, the respects in which it has been used inappropriately).

I confirm that in my opinion, and from an actuarial perspective, the actuarial information contained in AIL's financial statements has been appropriately included and has been used appropriately.

- g) Whether, in the actuary's opinion and from an actuarial perspective, the licensed insurer is maintaining the solvency margin that applies under a condition imposed under section 21(2)(b) (as at the balance date of the insurer)

I confirm that in my opinion, and from an actuarial perspective, AIL has maintained the solvency margin in accordance with both the RBNZ's Solvency Standard for Non-Life Business and RBNZ's Solvency Standard for Life Business.

- h) in the case of a life insurer, whether, in the actuary's opinion and from an actuarial perspective, the life insurer is maintaining the solvency margins that apply in respect of its statutory funds under a condition imposed under section 21(2)(c) (as at the balance date of the insurer).

Not applicable as AIL is a non-life insurer and, despite having a small amount of life insurance business (in run-off), AIL has been given an exemption from holding statutory funds in respect of this life insurance business.



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Please do not hesitate to contact me if you would like to discuss any aspect of this memorandum.

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