

New Zealand

**CHUBB INSURANCE NEW ZEALAND LIMITED
(formerly ACE INSURANCE LIMITED)**

FINANCIAL REPORT

31 DECEMBER 2016

CHUBB INSURANCE NEW ZEALAND LIMITED
(formerly ACE INSURANCE LIMITED)

FINANCIAL REPORT 2016

CONTENTS

<i>Directors' Report</i>	<u>3</u>
<i>Auditors' Report</i>	<u>4</u>
<i>Statement of Comprehensive Income</i>	<u>7</u>
<i>Statement of Financial Position</i>	<u>8</u>
<i>Statement of Changes in Equity</i>	<u>9</u>
<i>Statement of Cash Flows</i>	<u>10</u>
<i>Notes to the Financial Statements</i>	<u>11</u>

CHUBB INSURANCE NEW ZEALAND LIMITED (formerly ACE INSURANCE LIMITED)

DIRECTORS' REPORT

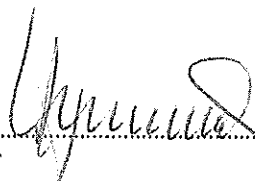
FOR THE YEAR ENDED 31 DECEMBER 2016

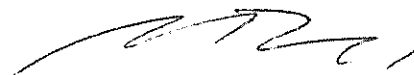
The Board of Directors present the annual report of Chubb Insurance New Zealand Limited (formerly ACE Insurance Limited) ("the Company") incorporating the financial statements and the Auditors' report for the year ended 31 December 2016.

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 Chubb Insurance New Zealand Limited (formerly ACE Insurance Limited) authorised these financial statements presented on pages 7 to 45 for issue on 24 March 2017.

For and on behalf of the Board of Directors


.....
Director


.....
Director

Date 24 March 2017

Date 24 March 2017



Independent auditor's report

To the shareholders of Chubb Insurance New Zealand Limited

Chubb Insurance New Zealand's financial statements comprise:

- the statement of financial position as at 31 December 2016;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion the financial statements of Chubb Insurance New Zealand Limited (the Company), present fairly, in all material respects, the financial position of the Company as at 31 December 2016, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

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

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

We are independent of the Company in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

PricewaterhouseCoopers, ABN 52 780 433 757

One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au



Information other than the financial statements and auditor's report

The Directors are responsible for the annual report. Our opinion on the financial statements does not cover the other information included in the annual report and we do not express any form of assurance conclusion on the other information.

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

Responsibilities of the Directors for the financial statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

https://xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page6.aspx



Who we report to

This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's 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, SK Fergusson, am currently a member of the Institute of Chartered Accountants in Australia and my membership number is 88036.

PricewaterhouseCoopers was the audit firm appointed to undertake the audit of Chubb Insurance New Zealand Limited for the year ended 31 December 2016. I was responsible for the execution of the audit and delivery of our firm's audit report. The audit work completed on 24 March 2017 and an unqualified opinion was issued.

A handwritten signature of SK Fergusson.

SK Fergusson
Partner

Sydney
24 March 2017

CHUBB INSURANCE NEW ZEALAND LIMITED (formerly ACE INSURANCE LIMITED)

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

	NOTE	2016 \$'000	2015 \$'000
Net premium revenue		61,980	47,845
Net claims incurred	9	(27,194)	(19,227)
Other underwriting expenses	7	(25,625)	(25,933)
Other underwriting revenue	5	10,810	12,681
Underwriting profit		19,971	15,366
Net Investment Income	6	2,963	3,010
Gain on sale of Land and Building	16	2,985	-
Profit before income tax		25,919	18,376
Income tax expense	8	(6,167)	(5,180)
Profit after income tax		19,752	13,196
<i>Profit for the year attributable to owners of the Company</i>		19,752	13,196
Other Comprehensive Income			
Gain on revaluation of land and buildings	23(a)	-	550
Other comprehensive income for the year, net of tax		-	550
Total comprehensive income for the year, net of tax attributable to owners of the Company		19,752	13,746

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

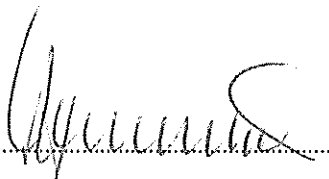
CHUBB INSURANCE NEW ZEALAND LIMITED (formerly ACE INSURANCE LIMITED)

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

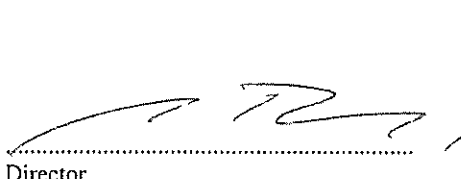
	Note	2016 \$000	2015 \$000
ASSETS			
Cash and cash equivalents	10	40,307	11,093
Financial assets at fair value through profit or loss	13	81,919	77,800
Trade and other receivables	11	32,474	33,660
Reinsurance and other recoveries receivable	12	213,598	81,420
Reinsurance and other recoveries receivable – Life insurance business		30	34
Reinsurance and other recoveries receivable – Life assurance fund		794	842
Deferred insurance costs	15	21,514	22,034
Deferred tax assets	17	1,003	622
Property, plant and equipment	16	94	4,727
TOTAL ASSETS		391,733	232,232
LIABILITIES			
Trade and other payables	18	18,453	18,253
Current tax liabilities		414	820
Outstanding claims	20	247,659	107,003
Outstanding claims – Life insurance business		40	47
Outstanding claims – Life assurance fund		1,134	1,202
Provisions	21	245	327
Unearned premiums	19	58,352	58,622
Deferred tax liability	17	1,114	1,388
TOTAL LIABILITIES		327,411	187,662
NET ASSETS		64,322	44,570
EQUITY			
Share capital	22	16,900	16,900
Reserves	23(a)	-	2,902
Retained earnings	23(b)	47,422	24,768
TOTAL EQUITY		64,322	44,570

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



 Director

Date 24 March 2017



 Director

Date 24 March 2017

CHUBB INSURANCE NEW ZEALAND LIMITED (formerly ACE INSURANCE LIMITED)

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

	NOTE	CONTRIBUTED EQUITY \$000	RESERVES \$000	RETAINED EARNINGS \$000	TOTAL \$000
At 1 January 2015		16,900	2,352	26,572	45,824
Profit for the year		-	-	13,196	13,196
Revaluation gain on land and buildings	23(a)	-	550	-	550
Total comprehensive income for the year		-	550	13,196	13,746
Transaction with owners:					
Ordinary dividends		-	-	(15,000)	(15,000)
Total transactions with owners		-	-	(15,000)	(15,000)
At 31 December 2015	22, 23	16,900	2,902	24,768	44,570
 At 1 January 2016		 16,900	 2,902	 24,768	 44,570
Profit for the year		-	-	19,752	19,752
Transfer from Reserves to Retained Earnings	23(a), 23(b)	-	(2,902)	2,902	-
Total comprehensive income for the year		-	(2,902)	22,654	19,752
Transaction with owners:					
Ordinary dividends		-	-	-	-
Total transactions with owners		-	-	-	-
At 31 December 2016	22, 23	16,900	-	47,422	64,322

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

CHUBB INSURANCE NEW ZEALAND LIMITED (formerly ACE INSURANCE LIMITED)

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016

	NOTE	2016 \$000	2015 \$000
Cash Flows From Operating Activities:			
Premiums received		122,489	117,303
Reinsurance and other recoveries received		61,117	62,233
Interest received		4,012	4,027
Rental income received		198	386
Other underwriting revenue		10,810	12,681
Claims paid		(81,088)	(78,453)
Outwards reinsurance paid		(60,338)	(65,684)
Acquisition expenses paid		(5,859)	(7,383)
Other underwriting expenses		(17,114)	(21,371)
Income tax paid		(7,226)	(7,840)
Net cash inflows from operating activities	28	27,001	15,899
Cash Flows From Investing Activities:			
Proceeds from sale of financial assets		21,173	18,215
Purchase of financial assets		(26,442)	(21,707)
Proceeds/Payments for property, plant & equipment		(5)	(11)
Proceeds from sale of land and building		7,487	-
Net cash inflows/(outflows) from investing activities		2,213	(3,503)
Cash Flows From Financing Activities:			
Dividends paid		-	(15,000)
Net cash outflows from financing activities		-	(15,000)
Net increase/(decrease) in cash and cash equivalents held		29,214	(2,604)
Cash and cash equivalents at beginning of year		11,093	13,697
Cash and cash equivalents at end of year	10	40,307	11,093

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

CHUBB INSURANCE NEW ZEALAND LIMITED (formerly ACE INSURANCE LIMITED)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

Contents of the notes to the financial statements	Page
1. General information	12
2. Summary of significant accounting policies	12
3. Risk management policies and procedures	21
4. Critical accounting estimates and judgments	23
5. Revenue	26
6. Investment income	26
7. Expenses	27
8. Taxation	27
9. Net claims incurred	28
10. Cash and cash equivalents	28
11. Trade and other receivables	29
12. Reinsurance and other recoveries receivable	29
13. Financial assets at fair value through profit or loss	30
14. Financial instruments	31
15. Deferred insurance costs	33
16. Property, plant and equipment	33
17. Deferred tax	34
18. Trade and other payables	35
19. Unearned premiums	35
20. Outstanding claims	36
21. Provisions	38
22. Share capital	39
23. Reserves and retained earnings	39
24. Solvency capital requirements	40
25. Commitments and contingent liabilities	40
26. Remuneration of auditors	41
27. Related parties	41
28. Reconciliation of profit after income tax to net cash inflows from operating activities	43
29. Events occurring after reporting date	43
30. Credit rating	43
31. Cash Collateral	43
32. Shared based payment transactions	44

CHUBB INSURANCE NEW ZEALAND LIMITED (formerly ACE INSURANCE LIMITED)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

1. GENERAL INFORMATION

The financial statements are for the reporting entity Chubb Insurance New Zealand Limited (formerly 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.

With effect from 1 July 2016, the name of the Company was changed from ACE Insurance Limited to Chubb Insurance New Zealand Limited.

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 24 March 2017. 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 Markets Conduct Act 2013 (FMC Act) 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 2016

The Company mandatorily adopted the following accounting policies which became effective for annual reporting periods commencing 1 January 2016. These standards did not materially affect the amounts recognised in the financial statements.

- Annual Improvements to IFRSs 2012 - 2014 Cycle (Application date: 1 January 2016)

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

The amendments listed below are not effective for the annual reporting year ended 31 December 2016 and have not been applied in preparing the Company's financial statements. 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. The Company will apply these standards for the annual reporting period beginning on or after the operative dates set out below.

- NZ IFRS 9: Financial Instruments (Application date: 1 January 2018)
- NZ IFRS 15: Revenue from Contracts with Customers (Application date: 1 January 2018)
- NZ IFRS 16: Leases (Application date: 1 January 2019)

CHUBB INSURANCE NEW ZEALAND LIMITED (formerly ACE INSURANCE LIMITED)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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 Chubb Insurance New Zealand Limited's (formerly ACE Insurance Limited) 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.

CHUBB INSURANCE NEW ZEALAND LIMITED (formerly ACE INSURANCE LIMITED)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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.

CHUBB INSURANCE NEW ZEALAND LIMITED (formerly ACE INSURANCE LIMITED)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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 International Lines, and Combined Division.

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.

CHUBB INSURANCE NEW ZEALAND LIMITED (formerly ACE INSURANCE LIMITED)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

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	9% to 17%
Office equipment	25%

Gains and losses on disposal of fixed assets are taken into account in determining the operating profit for the year. The Company owned building was sold on 15 September 2016 and settlement took place on 15 December 2016.

CHUBB INSURANCE NEW ZEALAND LIMITED (formerly ACE INSURANCE LIMITED)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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.

CHUBB INSURANCE NEW ZEALAND LIMITED (formerly ACE INSURANCE LIMITED)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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.

CHUBB INSURANCE NEW ZEALAND LIMITED (formerly ACE INSURANCE LIMITED)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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 Chubb 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.

CHUBB INSURANCE NEW ZEALAND LIMITED (formerly ACE INSURANCE LIMITED)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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%.

CHUBB INSURANCE NEW ZEALAND LIMITED (formerly ACE INSURANCE LIMITED)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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 fund 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 Chubb 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.

CHUBB INSURANCE NEW ZEALAND LIMITED (formerly ACE INSURANCE LIMITED)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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 20(d) show our estimates of total claims outstanding for each underwriting year at successive year ends.

CHUBB INSURANCE NEW ZEALAND LIMITED (formerly ACE INSURANCE LIMITED)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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:

	2016	2015
Discounted average weighted term to settlement from reporting date	1.03	1.09
Ultimate claim numbers - current accident year	5,752	5,288
Average claims size – current accident year	33,612	7,545
Indirect claims handling expense rate	2.9%	3.7%
Discount rate	2.5%	2.7%

CHUBB INSURANCE NEW ZEALAND LIMITED (formerly ACE INSURANCE LIMITED)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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% (2015: 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 accompanying 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.

CHUBB INSURANCE NEW ZEALAND LIMITED (formerly ACE INSURANCE LIMITED)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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		221,668	27,194	-
Total equity per balance sheet		-	-	64,322
Variables:				
Discounted average weighted term to settlement	+0.5 years	218,604	26,756	64,637
	-0.5 years	224,773	27,639	64,001
Ultimate claim number	+10%	243,586	30,329	62,064
	-10%	199,753	24,060	66,577
Average claims size	+10%	243,586	30,329	62,064
	-10%	199,753	24,060	66,577
Indirect claims handling expense rate	+1%	224,075	29,599	62,589
	-1%	219,263	24,790	66,052
Discount rate	+1%	219,559	26,842	64,574
	-1%	223,819	27,604	64,026

(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.

CHUBB INSURANCE NEW ZEALAND LIMITED (formerly ACE INSURANCE LIMITED)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

5. REVENUE

	NOTE	<i>2016</i> \$'000	<i>2015</i> \$'000
Revenue from ordinary activities			
Premium revenue:			
Direct		117,416	114,402
Inwards reinsurance		2,908	1,398
		<u>120,324</u>	<u>115,800</u>
Reinsurance and other recoveries revenue	9	194,474	29,221
Investment revenue:			
Investment income	6	4,113	2,800
Commission revenue		10,810	12,681
Total revenue from ordinary activities		<u>329,721</u>	<u>160,502</u>

6. INVESTMENT INCOME

Interest		4,029	4,026
Rental and other		199	386
Foreign exchange losses		(115)	(1,612)
Investment and other income before fair value gains	5	4,113	2,800
Net realised and unrealised gains on financial assets held at fair value through profit or loss		(1,150)	210
Net investment income		<u>2,963</u>	<u>3,010</u>

CHUBB INSURANCE NEW ZEALAND LIMITED (formerly ACE INSURANCE LIMITED)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

7. EXPENSES

	NOTE	2016 \$'000	2015 \$'000
Claims expense	9	221,668	48,448
Outwards reinsurance expense		58,344	67,955
Other underwriting expenses:			
Acquisition expenses		5,884	6,239
Underwriting expenses		7,774	8,380
Commission expenses		11,967	11,314
		<u>25,625</u>	<u>25,933</u>
Total expenses		<u>305,637</u>	<u>142,336</u>

8. TAXATION

Profit before income tax		25,919	18,376
Prima facie tax payable at 28% (2015: 28%)		7,257	5,145
Expenditure not deductible for tax purposes		11	33
Income not assessable for tax purposes		(1,101)	-
Over provision in prior year – current tax		-	2
Income tax recognised in statement of comprehensive income		<u>6,167</u>	<u>5,180</u>
Comprising:			
Estimated current year tax assessment		6,822	4,871
Over provision in prior year		-	2
Net movement in deferred tax	17	<u>(655)</u>	<u>307</u>
		<u>6,167</u>	<u>5,180</u>
Imputation credits			
Balance at the beginning of the year		23,443	18,623
Tax payments (net of refunds)		5,574	4,820
Imputations credits available for use in subsequent reporting periods		<u>29,017</u>	<u>23,443</u>

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

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

CHUBB INSURANCE NEW ZEALAND LIMITED (formerly ACE INSURANCE LIMITED)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

9. NET CLAIMS INCURRED

	Current Year \$'000	2016 Prior Year \$'000	Total \$'000	Current Year \$'000	2015 Prior Year \$'000	Total \$'000
Gross claims expense						
Direct	221,816	2,027	223,843	49,187	(2,044)	47,143
Discount movement	(5,570)	3,395	(2,175)	(912)	2,217	1,305
Discounted gross claims expense	216,246	5,422	221,668	48,275	173	48,448
Reinsurance and other recoveries revenue						
Reinsurance and other recoveries revenue – undiscounted	(191,013)	(5,516)	(196,529)	(26,130)	(2,406)	(28,536)
Discount movement	4,638	(2,583)	2,055	(218)	(467)	(685)
Discounted reinsurance and other recoveries revenue	(186,375)	(8,099)	(194,474)	(26,348)	(2,873)	(29,221)
Net claims incurred	29,871	(2,677)	27,194	21,927	(2,700)	19,227

10. CASH AND CASH EQUIVALENTS

	2016 \$000	2015 \$000
Cash on hand and at bank	39,653	9,603
Deposits at call	654	1,490
Total	40,307	11,093

(a) Cash at bank and on hand

These are interest bearing. Restricted cash balance of \$876,270 as at 31 December 2016 (2015: \$872,223).

(b) Deposits at call

Short term deposits are bearing floating interest rates averaging 2.14% (2015: 2.20%). These deposits are at call.

CHUBB INSURANCE NEW ZEALAND LIMITED (formerly ACE INSURANCE LIMITED)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

11. TRADE AND OTHER RECEIVABLES

	<i>2016</i> <i>\$'000</i>	<i>2015</i> <i>\$'000</i>
Premiums and other trade debtors:		
Premiums and other trade debtors receivable – direct insurance	28,279	31,141
Less impairment	(200)	(200)
	<u>28,079</u>	<u>30,941</u>
Premiums and other trade debtors receivable – inwards reinsurance	1,425	997
Other receivables	2,970	1,722
Total trade and other receivables	<u>32,474</u>	<u>33,660</u>
Receivable within 12 months	32,474	33,660
Receivable in greater than 12 months	-	-
Total	<u>32,474</u>	<u>33,660</u>

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

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

12. REINSURANCE AND OTHER RECOVERIES RECEIVABLE

Reinsurance recoveries on claims paid	1,371	1,347
Expected future reinsurance recoveries on outstanding claims	216,840	82,630
Discount to present value	(4,613)	(2,557)
Total reinsurance and other recoveries	<u>213,598</u>	<u>81,420</u>
Receivable within 12 months	168,320	57,743
Receivable in greater than 12 months	45,278	23,677
Total	<u>213,598</u>	<u>81,420</u>

CHUBB INSURANCE NEW ZEALAND LIMITED (formerly ACE INSURANCE LIMITED)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<i>2016</i>	<i>2015</i>
	<i>\$'000</i>	<i>\$'000</i>
Government bonds	55,125	49,235
Corporate bonds	26,655	28,429
Life insurance policy loans	139	136
Total financial assets at fair value through profit or loss	81,919	77,800
Amounts maturing within 12 months	14,538	3,236
Amounts maturing in greater than 12 months	67,381	74,564
	81,919	77,800

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	12%	11%
AA	81%	80%
A	5%	8%
BBB	1%	1%
Unrated ¹	1%	0%
Total	100%	100%

¹ This represents financial assets rated by Moodys as Aa².

A sensitivity analysis has been carried out on the portfolio as at the end of the 2015 and 2016 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 on the portfolio from a decrease/increase in the interest rates of 100 bps:

	<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>
2016	786,812	(786,812)	566,505	(566,505)
2015	923,434	(923,434)	664,872	(664,872)

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>
2016	(2,053,993)	2,053,993	(1,478,875)	1,478,875
2015	(2,123,045)	2,123,045	(1,528,593)	1,528,593

CHUBB INSURANCE NEW ZEALAND LIMITED (formerly ACE INSURANCE LIMITED)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

14. FINANCIAL INSTRUMENTS

(a) Interest rate risk exposures

The Company's exposure to interest rate risk is managed primarily through 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.

Fixed interest maturing in:

2016	Notes	Floating interest rate \$'000	1 year or less \$'000	Over 1 to 2 years \$'000	Over 2 to 3 years \$'000	Over 3 to 4 years \$'000	Over 4 to 5 years \$'000	More than 5 years \$'000	Non- interest bearing \$'000	Total \$'000
Financial assets										
Cash and cash equivalents	10	40,307	-	-	-	-	-	-	-	40,307
Receivables	11,12	-	-	-	-	-	-	-	33,845	33,845
Financial assets at fair value through profit or loss	13	-	14,538	5,956	27,927	8,699	24,660	139	-	81,919
		40,307	14,538	5,956	27,927	8,699	24,660	139	33,845	156,071
Weighted average interest rate		2.35%	2.20%	3.03%	2.71%	3.36%	2.85%	2.95%	-	
2015										
	Notes	Floating interest rate \$'000	1 year or less \$'000	Over 1 to 2 years \$'000	Over 2 to 3 years \$'000	Over 3 to 4 years \$'000	Over 4 to 5 years \$'000	More than 5 years \$'000	Non- interest bearing \$'000	Total \$'000
Financial assets										
Cash and cash equivalents	10	11,093	-	-	-	-	-	-	-	11,093
Receivables	11,12	-	-	-	-	-	-	-	35,007	35,007
Financial assets at fair value through profit or loss	13	-	3,236	20,663	4,424	36,054	11,642	1,781	-	77,800
		11,093	3,236	20,663	4,424	36,054	11,642	1,781	35,007	123,900
Weighted average interest rate		2.56%	3.42%	2.92%	3.43%	3.10%	3.40%	3.40%	-	

(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).

CHUBB INSURANCE NEW ZEALAND LIMITED (formerly ACE INSURANCE LIMITED)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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 2016:				
Government bonds	-	55,126	-	55,126
Corporate bonds	-	26,654	-	26,654
Life insurance policy loans	-	139	-	139
	-	81,919	-	81,919
<i>Non-financial assets</i>				
Land and building	-	-	-	-
	-	-	-	-
As at 31 December 2015:				
Government bonds	-	49,235	-	49,235
Corporate bonds	-	28,429	-	28,429
Life insurance policy loans	-	136	-	136
	-	77,800	-	77,800
<i>Non-financial assets</i>				
Land and building	-	-	4,550	4,550
	-	-	4,550	4,550

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 2016. There were no Level 3 financial assets holdings during the year ended 31 December 2016.

CHUBB INSURANCE NEW ZEALAND LIMITED (formerly ACE INSURANCE LIMITED)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

15. DEFERRED INSURANCE COSTS

	<i>2016</i>	<i>2015</i>
	<i>\$'000</i>	<i>\$'000</i>
Deferred acquisition costs as at 1 January	4,006	2,862
Acquisition costs deferred	3,980	4,006
Amortisation charged to income	(4,006)	(2,862)
Deferred acquisition costs as at 31 December	3,980	4,006
Deferred reinsurance premiums at 1 January	18,028	18,554
Deferral of reinsurance premiums on contracts entered into in the period	16,570	16,495
Earning of reinsurance premiums on contracts entered into in previous periods	(17,064)	(17,021)
Deferred reinsurance premiums at 31 December	17,534	18,028
Total deferred insurance costs	21,514	22,034

16. PROPERTY, PLANT AND EQUIPMENT

	<i>2016</i>	<i>2015</i>
	<i>\$'000</i>	<i>\$'000</i>
Land and building		
Valuation at 1 January	4,550	4,000
Revaluation	-	550
Sale of Land and Building	(4,550)	-
Valuation at 31 December	-	4,550
Office equipment and fittings		
At 31 December:		
Opening net book value	177	151
Additions	7	11
Disposal	(2)	-
Depreciation charge for year	(116)	(115)
Other	28	130
Closing net book value	94	177
At 31 December:		
Cost	2,064	2,375
Accumulated depreciation	(1,970)	(2,198)
Net book value	94	177
Total property, plant and equipment	94	4,727

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 Company owned building was sold on 15 September 2016 for \$7,850,000 giving rise to a net gain of \$2,985,000. The settlement took place on 15 December 2016.

CHUBB INSURANCE NEW ZEALAND LIMITED (formerly ACE INSURANCE LIMITED)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

17. DEFERRED TAX

	<i>2016</i>	<i>2015</i>
	<i>\$'000</i>	<i>\$'000</i>
Total deferred tax assets	1,003	622
Total deferred tax liabilities	(1,114)	(1,388)
Net deferred tax liability	(111)	(766)
Movements:		
Opening balance 1 January	(766)	(459)
Credited/(Charged) to Statement of Comprehensive Income	655	(307)
Closing balance at 31 December	(111)	(766)
Deferred tax assets		
At 1 January	622	594
Depreciation	(18)	(35)
Accrued expenses	393	63
Employee benefits	6	-
At 31 December	1,003	622
Deferred tax liabilities		
At 1 January	1,388	1,053
Building revaluation	(267)	14
Deferred acquisition costs	(7)	321
At 31 December	1,114	1,388
Deferred tax assets		
Recoverable within 12 months	991	609
Recoverable in greater than 12 months	12	13
Total	1,003	622
Deferred tax liabilities		
To be settled within 12 months	1,114	1,122
To be settled in greater than 12 months	-	266
Total	1,114	1,388

CHUBB INSURANCE NEW ZEALAND LIMITED (formerly ACE INSURANCE LIMITED)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

18. TRADE AND OTHER PAYABLES

	<i>2016</i>	<i>2015</i>
	<i>\$000</i>	<i>\$000</i>
Outwards reinsurance expense liability – balance due to reinsurers:		
Related companies	2,186	6,020
Non related companies	2,481	1,135
Other creditors and accruals	13,786	11,098
Total trade and other payables	18,453	18,253
Payable within 12 months	18,453	18,253
Payable in greater than 12 months	-	-
	18,453	18,253

19. UNEARNED PREMIUMS

Unearned premium liability as at 1 January	58,622	55,262
Movement in unearned premium:		
Deferral of premiums on contracts written at year end	55,408	55,607
Earning of premiums deferred in prior years	(55,678)	(52,247)
Unearned premium liability as at 31 December	58,352	58,622
To be earned within 12 months	55,342	53,478
To be earned in greater than 12 months	3,010	5,144
	58,352	58,622

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 2016 (2015: Surplus).

CHUBB INSURANCE NEW ZEALAND LIMITED (formerly ACE INSURANCE LIMITED)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

20. OUTSTANDING CLAIMS

	<i>2016</i>	<i>2015</i>
	<i>\$000</i>	<i>\$000</i>
(a) Outstanding claims liability		
Central estimate of outstanding claims liability	217,291	94,013
Risk margin	29,559	12,896
Claim handling expenses	6,407	3,517
Total undiscounted claims liability	253,257	110,426
Discount to present value	(5,598)	(3,423)
Total discounted claims liability	247,659	107,003
Less than 12 months	192,369	75,488
Greater than 12 months	55,290	31,515
	247,659	107,003

(b) Gross risk margins applied

New Zealand	13.2%	13.2%
-------------	-------	-------

(c) Reconciliation of movement in discounted outstanding claims liability

	Gross	2016	Net	Gross	2015	Net
	\$'000	Reinsurance	\$'000	\$'000	Reinsurance	\$'000
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Brought forward	107,003	80,073	26,930	136,976	113,593	23,383
Portfolio Transfer from Chubb Insurance Company of Australia Limited	465	62	403	-	-	-
Effect of changes in foreign exchange rates	(238)	45	(283)	(987)	(117)	(870)
Effect of changes in assumptions	11,534	12,023	(489)	3,366	5,971	(2,605)
Increase in claims incurred/recoveries anticipated over the year	209,907	182,344	27,563	46,069	23,367	22,702
Incurred claims recognised in statement of comprehensive income	221,668	194,474	27,194	48,448	29,221	19,227
Claims payments/recoveries during the year	81,012	62,320	18,692	(78,421)	(62,741)	(15,680)
Carried forward	247,659	212,227	35,432	107,003	80,073	26,930

CHUBB INSURANCE NEW ZEALAND LIMITED (formerly ACE INSURANCE LIMITED)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

20. 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 six most recent accident years.

Gross

Accident year	2010 & Prior \$000	2011 \$000	2012 \$000	2013 \$000	2014 \$000	2015 \$000	2016 \$000	Total \$000
Estimate of ultimate claims cost:								
At end of accident year	-	6,106	8,434	7,384	7,008	8,689	8,230	
One year later	-	5,296	5,149	7,059	8,326	8,397	-	
Two years later	-	4,186	5,729	6,953	6,189	-	-	
Three years later	-	4,075	7,485	6,688	-	-	-	
Four years later	-	2,959	7,408	-	-	-	-	
Five years later	-	3,244	-	-	-	-	-	
Six years later	-	-	-	-	-	-	-	
Current estimate of cumulative claims cost	-	3,244	7,408	6,688	6,189	8,397	8,230	
Cumulative payments	-	1,676	5,509	4,349	863	1,804	394	
Outstanding claims undiscounted	10,629	1,568	1,899	2,339	5,326	6,593	7,836	36,190
Discount	336	70	98	109	228	316	559	1,716
Outstanding claims								34,474
Short tail outstanding claims								178,066
Claims handling expenses								6,216
Total gross central estimate								218,756
Risk margin								28,903
Total gross outstanding claims per statement of financial position								247,659

CHUBB INSURANCE NEW ZEALAND LIMITED (formerly ACE INSURANCE LIMITED)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

20. OUTSTANDING CLAIMS (continued)

Net

Accident year	2010 & Prior \$000	2011 \$000	2012 \$000	2013 \$000	2014 \$000	2015 \$000	2016 \$000	Total \$000
Estimate of ultimate claims cost:								
At end of accident year	-	3,281	3,125	3,482	3,732	4,074	3,225	
One year later	-	2,745	2,386	3,284	3,461	4,358	-	
Two years later	-	2,252	2,705	3,095	3,155	-	-	
Three years later	-	2,617	3,282	3,259	-	-	-	
Four years later	-	1,946	3,169	-	-	-	-	
Five years later	-	2,036	-	-	-	-	-	
Six years later	-	-	-	-	-	-	-	
Current estimate of cumulative claims cost	-	2,036	3,169	3,259	3,155	4,358	3,225	
Cumulative payments	-	1,041	2,973	2,395	774	1,452	296	
Outstanding claims undiscounted	1,768	995	196	864	2,381	2,906	2,929	12,039
Discount	55	39	(6)	22	55	76	153	394
Outstanding claims								11,645
Short tail outstanding claims								13,455
Claims handling expenses								6,217
Total net central estimate								31,317
Risk margin								4,115
Total net outstanding claims per statement of financial position								35,432

21. PROVISIONS

	2016 \$'000	2015 \$'000
Employee benefits	245	327
	245	327
Current	219	255
Non-Current	26	72
	245	327

CHUBB INSURANCE NEW ZEALAND LIMITED (formerly ACE INSURANCE LIMITED)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

22. SHARE CAPITAL

	<i>2016</i>	<i>2015</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 2016, the Company had 16,899,558 (2015: 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.

23. RESERVES AND RETAINED EARNINGS

(a) Reserves

Property revaluation reserve	-	2,902
	-	2,902

Movements:

Property revaluation reserve:

Balance at the beginning of the year	2,902	2,352
Revaluation	-	550
Transfer to Retained Earnings – Sale of Land and Building	(2,902)	-
Balance at end of year	-	2,902

(b) Retained earnings

Balance at the beginning of year	24,768	26,572
Profit for the year	19,752	13,196
Dividends paid	-	(15,000)
Transfer from Reserves – Sale of Land and Building	2,902	-
Balance at end of year	47,422	24,768

(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.

As a result of the disposal of Land and Building, the revaluation relating to the asset was transferred from Reserves to Retained Earnings.

CHUBB INSURANCE NEW ZEALAND LIMITED (formerly ACE INSURANCE LIMITED)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

24. 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 \$41,866,000 (2015: \$22,022,000).

	2016			2015		
	NON-LIFE	LIFE	ENTITY SOLVENCY	NON-LIFE	LIFE	ENTITY SOLVENCY
	\$000	\$000	\$000	\$000	\$000	\$000
Actual Solvency Capital	64,272	50	64,322	44,520	50	44,570
Minimum Solvency Capital	22,438	18	22,456	22,526	22	22,548
Solvency Margin Excess	41,834	32	41,866	21,994	28	22,022
Solvency Coverage Multiple	2.86	2.78	2.86	1.98	2.27	1.98

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.

25. 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

	2016 \$000	2015 \$000
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:		
Not later than one year	322	420
Later than one year but not later than five years	398	730
Later than five years	-	-
Non cancellable operating leases	720	1,150

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 has exposure to a surety bond of \$2,125,733. The Company has in place an indemnity arrangement agreement, such that in the event of the liability becoming payable, the net impact on the statement of profit or loss and other comprehensive income is expected to be nil.

CHUBB INSURANCE NEW ZEALAND LIMITED (formerly ACE INSURANCE LIMITED)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

26. REMUNERATION OF AUDITORS

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

Assurance services	2016	2015
	\$	\$
Audit services		
Fees paid to PricewaterhouseCoopers Australian firm:		
- Audit and review of financial report	143,023	141,470
- Audit of regulatory return	5,377	5,000
Total remuneration for audit services	148,400	146,470
Taxation services		
Fees paid to PricewaterhouseCoopers New Zealand firm for Tax compliance and advisory services	20,000	21,000
Total remuneration for taxation services	20,000	21,000

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.

27. RELATED PARTIES

(a) Parent Entities

Chubb Insurance New Zealand Limited (formerly ACE Insurance Limited) is a wholly owned subsidiary of Chubb INA International Holdings, Ltd, registered in Delaware, United States of America. The ultimate holding company is Chubb Limited, whose principal office is located in Zurich, Switzerland.

(b) Directors and key executives

The following persons were directors of Chubb Insurance New Zealand Limited (formerly ACE Insurance Limited) during the financial year: Andrew Brooks (executive director), John French (executive director), Gerard Sitaramayya (alternate director to John French), Graeme Evans (independent Chairman), David Kennedy (independent director, resigned 1 April 2016), Scott Pickering (independent director) and Philippa Dunphy (independent director, appointed 26 April 2016).

(c) Key management compensation

Key management personnel include the directors and four key roles performed by key executives during the year (2015: 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:

	2016	2015
	\$	\$
Short term employee benefits	924,484	950,481
Post employment benefits	24,100	100,535
Other long term benefits	3,529	3,043
Termination benefits	-	293,829
Share based payments	56,558	193,538
Total	1,008,671	1,541,426

CHUBB INSURANCE NEW ZEALAND LIMITED (formerly ACE INSURANCE LIMITED)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

27. 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:

	<i>2016</i>	<i>2015</i>
	\$	\$
Expenses with commonly controlled entities:		
Reinsurance premiums	49,989,821	60,143,450
Management and systems support	1,079,137	6,818,452
Commissions paid	326,883	248,685
Losses paid	1,031,772	906,247
Revenue with commonly controlled entities:		
Reinsurance and other recoveries revenue	57,934,479	28,491,838
Commissions received	10,775,793	12,625,832
Premiums assumed	3,930,092	3,344,285
Dividend paid to Parent entity	-	15,000,000

(e) Outstanding balances

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

	<i>2016</i>	<i>2015</i>
	\$	\$
<u>Receivables:</u>		
Commonly controlled entities with the Ultimate Parent	215,456,602	75,063,518
<u>Payables:</u>		
Commonly controlled entities with the Ultimate Parent	5,778,716	6,872,801

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.

CHUBB INSURANCE NEW ZEALAND LIMITED (formerly ACE INSURANCE LIMITED)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

	<i>2016</i>	<i>2015</i>
	<i>\$000</i>	<i>\$000</i>
Profit for the year	19,752	13,196
Adjusted for:		
Depreciation and amortisation	116	115
Fair value change on financial assets	1,150	(210)
Net (gain)/loss on sale of Land and Building	(2,985)	-
Change in operating assets and liabilities:		
Increase/(Decrease) in unearned premium reserve	(270)	3,360
Increase/(Decrease) in outstanding claims	140,580	(30,005)
Increase/(Decrease) in trade and other creditors	200	1,576
(Decrease)/Increase in employee entitlements	(82)	(10)
Increase in deferred tax liabilities	(272)	335
(Decrease)/Increase in tax liabilities	(408)	(2,967)
(Increase)/Decrease in deferred insurance costs	520	(618)
(Increase) in other receivables	(1,228)	(622)
(Increase)/Decrease in policyholder debtors	2,435	(1,812)
(Increase)/Decrease in reinsurance and other recoveries	(132,126)	33,589
(Increase)/Decrease in deferred tax assets	(381)	(28)
Net cash inflows from operating activities	27,001	15,899

29. 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.

30. CREDIT RATING

The Company is classified as a highly strategically important operating subsidiary of Chubb Ltd and has a counterparty credit and financial strength rating of 'AA-/Stable'. This rating was re-affirmed on 29 November 2016 following S&P's review of the local operation.

31. 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.

CHUBB INSURANCE NEW ZEALAND LIMITED (formerly ACE INSURANCE LIMITED)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

32. SHARE BASED PAYMENT TRANSACTIONS

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

Restricted Share Grant Plan

Under Chubb Limited's long term incentive plan, 1312 restricted ordinary shares were awarded during the year ended 31 December 2016 (2015: 711) and nil (2015: nil) restricted ordinary shares were transferred to other Chubb entities due to employee transfers during the year ended 31 December 2016. 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 Chubb 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 Chubb 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 Chubb Limited to the eligible employees. The total expense for the year was NZD \$131,801 (2015: NZD \$119,819).

Restricted Share Option Plan

Under Chubb 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 Chubb 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 \$26,815 (2015: NZD \$24,377).

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

	2016		2015	
	Average exercise price in NZD per share	Options	Average exercise price in NZD per share	Options
At 1 January		3,523		6,580
Granted	164.13	1750	169.72	946
Forfeited	150.84	(262)		-
Exercised	81.70	(681)	103.57	(178)
Transferred out		-		(3,825)
At 31 December		<u>4,330</u>		<u>3,523</u>

CHUBB INSURANCE NEW ZEALAND LIMITED (formerly ACE INSURANCE LIMITED)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

32. SHARE BASED PAYMENT TRANSACTIONS (continued)

Out of the 4,330 outstanding options (2015: 3,523 options), 1,833 options (2015: 1,917) were exercisable. Options exercised in 2016 resulted in 681 shares (2015: 178) being issued at 81.70 NZD (2015: 103.57). The weighted average remaining life of the share options outstanding at the end of the period is 8 years (2015: 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	
		2016	2015
2017	77.83	110	110
2018	83.57	185	185
2019	53.39	310	470
2020	69.83	149	274
2021	86.84	82	164
2022	101.69	142	236
2023	118.38	338	404
2024	134.15	522	734
2025	159.13	742	946
2026	164.13	1,750	-
		<u>4,330</u>	<u>3,523</u>

The weighted average fair value of options granted during the period determined using the Black-Scholes valuation model was 29.00 NZD per option (2015: 25.79 NZD). The significant inputs into the model were share price of 164.13 NZD (2015: 169.72 NZD), at the grant date, the exercise price shown above, volatility of 24.00% (2015: 20.33%), dividend yield of 2.26% (2015: 2.33%), and an expected option life of 5 years and on annual risk-free interest rate of 1.24% (2015: 1.62%). 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 Chubb 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 Chubb 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 (2015: NZD \$0).

To: Andrew Brooks

CC: Fiona Eagles, Gerard Sitaramayya, Peter Chalkias

From: Stephen Wilson

Date: 22 March 2017

Re: **Chubb Insurance NZ – Treatment of Life Insurance policies**

Introduction and scope

In accordance with section 78 of the Insurance (Prudential Supervision) Act 2010 (IPSA), as the appointed actuary for Chubb Insurance New Zealand Limited (CINZL), 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.”

With respect to section 77 (4)(c) of IPSA, 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.

CHUBB®

Each of these items are addressed and documented in detail (to the extent relevant and material) in CINZL's Insurance Liability Valuation Report dated 24 March 2017.

Additional analysis has been performed in the preparation of my Financial Condition Report which will be finalised following the CINZL Board meeting on 24 March 2017.

Information required

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

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

- Information relating to an insurer's calculations:
 - **Premiums**
 - Discussions and review of written, earned and unearned premium data with CINZL Finance and PwC Auditors
 - 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 24 March 2017, I have:
 - Reconciled the actuarial claims data with Finance claims data
 - Analysed CINZL'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 CINZL'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 2016 and proposed future level of dividends in the context of CINZL's current and forecast financial condition as part of my analysis for CINZL's Financial Condition Report (FCR), which will be finalised in March 2017
- **Insurance (and annuity) rates** – Reviewed the adequacy and profitability of CINZL's premium rates as part of my analysis for CINZL'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.
 - 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);

CHUBB®

- 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 IPISA, 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.

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, Chubb Insurance Australia Limited – which is not a subsidiary of CINZL - and I am not a Director of CINZL.

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:
- 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)
 - 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).

CHUBB®

I confirm that in my opinion, and from an actuarial perspective, the actuarial information contained in CINZL'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, CINZL 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 CINZL is a non-life insurer and, despite having a small amount of life insurance business (in run-off), CINZL has been given an exemption from holding statutory funds in respect of this life insurance business.

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



Stephen Wilson

Appointed Actuary, Chubb Insurance New Zealand Limited

Email: stephenj.wilson@chubb.com

DDI: +61 2 9335 3213