CHUBB INSURANCE NEW ZEALAND LIMITED

FINANCIAL REPORT

31 DECEMBER 2017

CHUBB INSURANCE NEW ZEALAND LIMITED

FINANCIAL REPORT 2017

CONTENTS

DIRECTORS' REPORT

The Board of Directors present the annual report of Chubb Insurance New Zealand Limited ("the Company") incorporating the financial statements and the Auditors' report for the year ended 31 December 2017.

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 authorised these financial statements presented on pages 7 to 45 for issue on 16 April 2018.

For and on behalf of the Board of Directors

....	....
Graeme Evans	Andrew Brooks
16 April 2018	16 April 2018

Independent auditor's report

To the shareholders of Chubb Insurance New Zealand Limited

The financial statements comprise:

- the statement of financial position as at 31 December 2017;
- the statement of profit or loss and other 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 and forming part of 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 Group as at 31 December 2017, 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.

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://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-6/

This description forms part of our auditor's report.

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.

The engagement partner on the audit resulting in this independent auditor's report is SK Fergusson.

For and on behalf of:

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants
16 April 2018

Sydney

I, SK Fergusson, am currently a member of the Chartered Accountants Australia and New Zealand 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 2017. I was responsible for the execution of the audit and delivery of our firm's audit report. The audit work completed on 16 April 2018 and an unqualified opinion was issued.

SK Fergusson
Partner

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2017

	Note	**2017** **$'000**	**2016** **$'000**
Net premium revenue	5	71,392	61,980
Net claims expense	6	(23,006)	(27,194)
Other underwriting expenses	7	(28,797)	(25,625)
Other underwriting revenue	8	10,422	10,810
Underwriting result		**30,011**	**19,971**
Investment revenue	9	3,654	3,175
Gain on sale of land and building		-	2,985
General and administration expenses		(468)	(212)
Profit before income tax		**33,197**	**25,919**
Income tax expense	10	(9,336)	(6,167)
Profit after tax attributable to equity holders		**23,861**	**19,752**
Other Comprehensive Income		-	-
Total comprehensive income for the year, net of tax attributable to equity holders		**23,861**	**19,752**

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

STATEMENT OF FINANCIAL POSITION
as at 31 December 2017

	Note	2017 $'000	2016 $'000
ASSETS			
Cash and cash equivalents	12	24,886	40,307
Financial assets at fair value through profit or loss	15	81,798	81,919
Receivables including insurance receivables	13	35,574	32,474
Reinsurance and other recoveries receivable	14	173,563	213,598
Reinsurance and other recoveries receivable – Life insurance business		25	30
Reinsurance and other recoveries receivable – Life assurance fund		758	794
Deferred insurance costs	17	26,333	21,514
Deferred tax assets	19	806	1,003
Property, plant and equipment	18	352	94
TOTAL ASSETS		**344,095**	**391,733**
LIABILITIES			
Trade and other payables	20	24,943	18,453
Current tax liabilities		1,164	414
Outstanding claims	22	200,502	247,659
Outstanding claims – Life insurance business		33	40
Outstanding claims – Life assurance fund		1,083	1,134
Provisions	23	435	245
Unearned premiums	21	71,215	58,352
Deferred tax liability	19	1,537	1,114
TOTAL LIABILITIES		**300,912**	**327,411**
NET ASSETS		**43,183**	**64,322**
EQUITY			
Contributed capital	24	16,900	16,900
Reserves		-	-
Retained profits	25	26,283	47,422
TOTAL EQUITY		**43,183**	**64,322**

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

Graeme Evans

16 April 2018

Andrew Brooks

16 April 2018

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2017

	Note	Contributed capital $'000	Reserves $'000	Retained profits $'000	Total $'000
Balance at 1 January 2016		**16,900**	**2,902**	**24,768**	**44,570**
Profit for the period		-	-	19,752	19,752
Transfer to retained earnings	25(a),25(b)	-	(2,902)	2,902	-
Total amount attributable to equity holders		16,900	-	47,422	64,322
Dividends paid		-	-	-	-
Balance at 31 December 2016	24,25	**16,900**	**-**	**47,422**	**64,322**
Profit for the period		-	-	23,861	23,861
Transfer to retained earnings		-	-	-	-
Total amount attributable to equity holders		-	-	23,861	23,861
Dividends paid		-	-	(45,000)	(45,000)
Balance at 31 December 2017		**16,900**	**-**	**26,283**	**43,183**

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

STATEMENT OF CASH FLOWS
for the year ended 31 December 2017

	Note	*2017* *$000*	*2016* *$000*
Cash Flows From Operating Activities:			
Premiums received		141,995	122,489
Reinsurance and other recoveries received		89,113	61,117
Interest received		4,349	4,012
Rental income received		99	198
Other underwriting revenue		10,422	10,810
Claims paid		(117,316)	(81,088)
Outwards reinsurance paid		(60,196)	(60,338)
Acquisition expenses paid		(5,756)	(5,859)
Other underwriting expenses		(24,102)	(17,114)
Income tax paid		(7,966)	(7,226)
Net cash inflows /(outflows) from operating activities		30,642	27,001
Cash Flows From Investing Activities:			
Proceeds from sale of financial assets		14,150	21,173
Purchase of financial assets		(14,834)	(26,442)
Payments for plant and equipment		(379)	(5)
Proceeds from disposal of land and buildings		-	7,487
Net cash inflows/(outflows) from investing activities		(1,063)	2,213
Cash Flows From Financing Activities:			
Dividends paid		(45,000)	-
Net cash outflows from financing activities		(45,000)	-
Net increase/(decrease) in cash and cash equivalents held		(15,421)	29,214
Cash and cash equivalents at beginning of year		40,307	11,093
Cash and cash equivalents at end of year	12	**24,886**	**40,307**

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
31 December 2017

Contents of the notes to the financial statements **Page**

1. GENERAL INFORMATION

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

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

These financial statements have been authorised for issue by the Board of Directors on 12 April 2018. 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 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 2017 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, unless otherwise stated, 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* – NZ IFRS 9 replaces NZ IAS 39. It addresses the classification, measurement and de-recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The new impairment model will require impairment losses to be recognised using the expected credit loss model, rather than only incurred credit losses under NZ IAS 139. The new standard is not effective until 1 January 2018 and its impact is not expected to be significant because the Company classifies its financial assets at fair value through profit and loss.

- NZ IFRS 15 *Revenue from Contracts with Customers* – NZ IFRS 15 replaces NZ IAS 18 which covers revenue arising from the sale of goods and the rendering of services and NZ IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to the customer. The new standard is not effective until 1 January 2018 and its impact is not expected to be significant for the Company.

- NZ IFRS 16 *Leases* – NZ IFRS 16 replaces IAS 17 *Leases*. Assets and liabilities arising from lease contracts are recognised on the balance sheet. All leases will be brought onto the balance sheet at the present value of future lease payments where a lease payable is recognised representing the liability to make payments to the lessor and a corresponding lease receivable is recognised representing the right to use the asset. The new standard is not effective until 1 January 2019 and will impact the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- NZ IFRS 17 *Insurance Contracts* – NZ IFRS 17 replaces NZ IFRS 4 Insurance Contracts, which currently permits a wide variety of practices. NZ IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts. It applies to insurance contracts issued, to all reinsurance contracts and to investment contracts with discretionary participating features if an entity also issues insurance contracts. NZ IFRS 17 requires a current measurement model, where estimates are re-measured in each reporting period. The measurement is based on the building blocks of discounted, probability-weighted cash flows, a risk adjustment and a contractual service margin (CSM) representing the unearned profit on of the contract. The new standard is not effective until 1 January 2021 and will have a significant impact on the Company.

(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 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.

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.

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.

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.

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

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition 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. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

Depreciation is calculated on a straight line basis over the estimated useful life of the assets as follows:

- Leasehold improvements – over the period of lease
- Plant and equipment - over 2 to 8 years

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the year the asset is derecognised.

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.

(2.13) 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(2.14) 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.

(2.15) 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.

(2.16) 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.

(2.17) 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.

(2.18) Revenue Recognition

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

(1) Rental income is recognised when due.

(ii) Underwriting and loss control services fees are recognised when services have been performed.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(2.19) 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.

(2.20) Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are discounted using a current pre-tax discount rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Make good provision
The Company is required to restore leased premises to their original condition at the end of the respective lease terms. A provision has been recognised for the present value of the estimated expenditure required to remove any leasehold improvements. These costs have been capitalised as part of the cost of leasehold improvements and are amortised over the shorter of the term of the lease or the useful life of the assets.

(2.21) 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.

(2.22) 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.

(2.23) Comparatives

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

(2.24) 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.

(2.25) Life claims provision

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

(2.26) Life assurance fund

The liability is based on a valuation calculated using methods in accordance with requirements of the NZ actuarial standard PS3 (Determination of Life Insurance Policy Liabilities).

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.

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

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 reporting 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 which are based on numerous factors. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposure, however, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of claims incurred but not reported (IBNR) is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about the claim event is generally available. IBNR claims may often not be apparent to the insured until many years after the events giving rise to the claims have happened. Liability and other long tail classes of business will typically display greater variations between initial estimates and final outcomes because there is a greater degree of difficulty in estimating IBNR reserves. Claims in respect of property and other short tail classes are typically reported soon after the claim event, and hence tend to display lower levels of volatility. The estimation techniques and assumptions used in determining the outstanding claims provision and the associated reinsurance and other recoveries are described below.

(a) Valuation approach

Outstanding claims provisions are 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 these results are used 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 judgements 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.

Central estimate

The central estimate represents the best estimate of the present value of expected future net claims cost, including allowance for claims incurred but not reported (IBNR) and the development of reported claims (incurred but not enough reported, or IBNER). The central estimate represents the best estimate of the mean of the distribution of possible outcomes for the outstanding claim liabilities and hence contains no deliberate bias towards over or under estimation.

Central estimates for each class of business are determined by reference to a variety of estimation techniques, generally based on a statistical analysis of historical experience which assumes an underlying pattern of claims development and payment. The final selected central estimates are based on a judgmental consideration of the results of each method and qualitative information, including the factors referred to above. Projections are based on both historical experience and external benchmarks where relevant.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

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

Central estimates are first calculated gross of any reinsurance and other recoveries. Then a separate estimate is made of the amount recoverable from reinsurers based on the gross outstanding claims provision.

The outstanding claim provision is discounted at risk free rates of return to reflect the time value of money. An allowance for future claim handling expenses is also incorporated in the central estimate of outstanding claims.

Risk margin
As it is impossible to predict future claims outcomes with certainty, a value judgement has to be made as to the level of reserves that offers a reasonable assurance of adequacy. Setting this level is the responsibility of the Directors. The additional probability of adequacy is provided by the addition of a risk margin. The overall risk margin was determined allowing for uncertainty of the central estimate. Uncertainty was analysed for all classes of business combined taking into account potential uncertainties relating to the actuarial models and assumptions, the quality of the underlying data used in the models and the general insurance environment. The estimate of uncertainty is greater for long tail classes when compared to short tail classes due to the longer time until settlement of outstanding claims. The assumptions regarding uncertainty for each class are applied to the gross and net central estimates, and the results are aggregated to arrive at an overall provision which is intended to have a 75% (2016: 75%) probability of sufficiency.

(b) Assumptions

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

	2017	2016
Discounted average weighted term to settlement	1.09 years	1.03 years
Indirect claims handling expense rate	2.3%	2.9%
Discount rate	2.0%	2.5%

The processes used to determine these assumptions are as follows:

Discounted average weighted term to settlement
The discounted average weighted term to settlement is calculated separately by class of business based on historical payment patterns.

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
To reflect future claim payments, allowance must be made, either implicitly or explicitly, for future claim inflation. The inflation rate is implicit in the valuation models used so no explicit inflation rate is required. Superimposed inflation is that component of claims inflation which is over and above economic inflation, for example it may be caused by changes in legislation or judicial attitudes to the size of liability awards. This is also implicitly allowed for in the valuation models, where it is assumed future superimposed inflation will be at the average level experienced in the past.

Discount rate
Projected inflated claims payments are discounted for future investment income. The rationale for this is that the provision for outstanding claims is able to earn investment income. The future investment earnings assumptions are estimates of the future annual risk free rates of return. The rate is derived from market yields of New Zealand Government securities at the balance date.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(c) Sensitivity Analysis

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.

Impact of changes in key variables

		2017		2016	
	Movement in variable	**Net of Reinsurance $'000 increase/ (decrease)**	**Equity $'000 increase/ (decrease)**	**Net of Reinsurance $'000 increase/ (decrease)**	**Equity $'000 increase/ (decrease)**
Variables:					
Discounted average weighted term to settlement	+0.5 years	(324)	233	(439)	316
	-0.5 years	327	(235)	444	(320)
Indirect claims handling expense rate	+1%	1,959	(1,410)	2,405	(1,731)
	-1%	(1,959)	1,410	(2,405)	1,731
Discount rate	+1%	(353)	254	(352)	254
	-1%	360	(259)	409	(295)

(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.

5. NET PREMIUM REVENUE

	Note	*2017* *$'000*	*2016* *$'000*
Premium revenue:			
Direct		131,207	117,416
Inwards reinsurance		2,957	2,908
		134,164	120,324
Outward reinsurance expense		62,772	58,344
		71,392	61,980

6. NET CLAIMS EXPENSE

Claims expense	70,101	221,668
Reinsurance recoveries	47,095	194,474
	23,006	27,194

7. OTHER UNDERWRITING EXPENSES

Acquisition expense	4,248	5,884
Underwriting expense	7,916	7,774
Commission expense	16,633	11,967
	28,797	25,625

8. OTHER UNDERWRITING INCOME

Commission Revenue	10,422	10,810
	10,422	10,810

9. NET INVESTMENT REVENUE

Interest	4,360	4,126
Rentals	99	199
Investment and other income before fair value losses	4,459	4,325
Net losses on financial assets held at fair value through profit or loss	(805)	(1,150)
	3,654	3,175

10. TAXATION

	Note	*2017* *$'000*	*2016* *$'000*
Profit before income tax		33,197	25,919
Prima facie tax payable at 28% (2016: 28%)		9,295	7,257
Expenditure not deductible for tax purposes		20	11
Income not assessable for tax purposes		-	(1,101)
Under provision in prior year – current tax		21	-
Income tax recognised in statement of comprehensive income		9,336	6,167
Comprising:			
Estimated current year tax assessment		8,716	6,822
Net movement in deferred tax		620	(655)
		9,336	6,167
Imputation credits			
Balance at the beginning of the year		29,017	23,443
Tax payments (net of refunds)		7,890	5,160
Movement in current tax provison		750	414
		37,657	29,017

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

a) Imputation credits that will arise from the payment of the amount of the provision for income tax;

b) Imputation debits that will arise from the payment of dividends recognized as a liability at the reporting date; and

c) Imputation credits that will arise from the receipt of dividends recognized as receivables at the reporting date.

11. NET CLAIMS INCURRED

	2017			2016		
	Current Year $'000	Prior Year $'000	Total $'000	Current Year $'000	Prior Year $'000	Total $'000
Gross claims expense						
Direct	69,188	(809)	68,379	221,816	2,027	223,843
Discount movement	(1,154)	2,876	1,722	(5,570)	3,395	(2,175)
Discounted gross claims expense	68,034	2,067	70,101	216,246	5,422	221,668
Reinsurance and other recoveries revenue						
Reinsurance and other recoveries revenue – undiscounted	(36,766)	(8,812)	(45,578)	(191,013)	(5,516)	(196,529)
Discount movement	703	(2,220)	(1,517)	4,638	(2,583)	2,055
Discounted reinsurance and other recoveries revenue	(36,063)	(11,032)	(47,095)	(186,375)	(8,099)	(194,474)
Net claims incurred	31,971	(8,965)	23,006	29,871	(2,677)	27,194

12. CASH AND CASH EQUIVALENTS

	2017 *$'000*	*2016* *$'000*
Cash at bank and on hand	21,460	39,653
Short-term deposits	3,426	654
	24,886	40,307

(a) Cash at bank and on hand

These are interest bearing. Restricted cash balance of $888,095 as at 31 December 2017 (2016: $876,270).

(b) Deposits at call

Short term deposits are bearing floating interest rates averaging 1.75% (2016: 2.14%). These deposits are at call.

13. TRADE AND OTHER RECEIVABLES

	2017 $'000	2016 $'000
Premiums and other trade debtors:		
Premiums and other trade debtors receivable – direct insurance	33,926	28,279
Less impairment	(200)	(200)
	33,726	28,079
Premiums and other trade debtors receivable – inwards reinsurance	810	1,425
Other receivables	1,038	2,970
Total trade and other receivables	35,574	32,474
Receivable within 12 months	35,574	32,474
Receivable in greater than 12 months	-	-
Total	35,574	32,474

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

	2017 $'000	2016 $'000
Opening balance as at 1 January	200	200
Provision for impairment recognised/(released) during the year	-	-
Total	200	200

14. REINSURANCE AND OTHER RECOVERIES RECEIVABLE

	2017 $'000	2016 $'000
Reinsurance recoveries on claims paid	6,536	1,371
Expected future reinsurance recoveries on outstanding claims	170,123	216,840
Discount to present value	(3,096)	(4,613)
Total reinsurance and other recoveries	173,563	213,598
Receivable within 12 months	129,311	168,320
Receivable in greater than 12 months	44,252	45,278
Total	173,563	213,598

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017 $'000	***2016 $'000***
Government bonds	56,604	55,125
Corporate bonds	25,057	26,655
Life insurance policy loans	137	139
Total financial assets at fair value through profit or loss	81,798	81,919
Amounts maturing within 12 months	5,881	14,538
Amounts maturing in greater than 12 months	75,917	67,381
	81,798	81,919

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.

S&P rating		
AAA	11%	12%
AA	80%	81%
A	6%	5%
BBB	2%	1%
Unrated[1]	1%	1%
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 2016 and 2017 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:

	Upgraded Impact on Investments ($)	Downgraded Impact on Investments ($)	Upgraded Impact on Equity ($)	Downgraded Impact on Equity ($)
2017	593,074	(593,074)	427,013	(427,013)
2016	786,812	(786,812)	566,505	(566,505)

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:

	Upward Impact on Investments ($)	Downward Impact on Investments ($)	Upward Impact on Equity ($)	Downward Impact on Equity ($)
2017	(1,762,031)	1,762,031	(1,268,663)	1,268,663
2016	(2,053,993)	2,053,993	(1,478,875)	1,478,875

16. 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.

2017	Notes	Floating interest rate $'000	Fixed interest maturing in: 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	12	24,886	-	-	-	-	-	-	-	24,886
Receivables	13,14	-	-	-	-	-	-	-	42,110	42,110
Financial assets at fair value through profit or loss	15	-	5,881	29,537	14,505	29,185	-	2,690	-	81,798
		24,886	5,881	29,537	14,505	29,185	-	2,690	42,110	148,794
Weighted average interest rate		2.21%	2.25%	2.17%	2.41%	2.19%	-	2.30%	-	

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	12	40,307	-	-	-	-	-	-	-	40,307
Receivables	13,14	-	-	-	-	-	-	-	33,845	33,845
Financial assets at fair value through profit or loss	15	-	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%	-	

(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 16(a).

16. 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			
	Level 1 $’000	Level 2 $’000	Level 3 $’000	Total Fair value $’000
As at 31 December 2017:				
Government bonds	-	56,604	-	56,604
Corporate bonds	-	25,057	-	25,057
Life insurance policy loans	-	137	-	137
	-	81,798	-	81,798
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

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 2017. There were no Level 1 and Level 3 financial assets holdings during the year ended 31 December 2017.

17. DEFERRED INSURANCE COSTS

	2017 ***$'000***	***2016*** ***$'000***
Deferred acquisition costs as at 1 January	3,980	4,006
Acquisition costs deferred	5,489	3,980
Amortisation charged to income	(3,980)	(4,006)
Deferred acquisition costs as at 31 December	5,489	3,980
Deferred reinsurance premiums at 1 January	17,534	18,028
Deferral of reinsurance premiums on contracts entered into in the period	19,906	16,570
Earning of reinsurance premiums on contracts entered into in previous periods	(16,596)	(17,064)
Deferred reinsurance premiums at 31 December	20,844	17,534
Total deferred insurance costs	26,333	21,514

18. PROPERTY, PLANT AND EQUIPMENT

Office equipment and fittings

At 31 December:		
Opening net book value	94	177
Additions	348	7
Disposal	-	(2)
Depreciation charge for year	(122)	(116)
Work in progress	32	-
Other	-	28
Closing net book value	352	94
At 31 December:		
Cost	2,441	2,064
Accumulated depreciation	(2,089)	(1,970)
Net book value	352	94
Total property, plant and equipment	352	94

19. DEFERRED TAX

	2017 $'000	2016 $'000
Total deferred tax assets	806	1,003
Total deferred tax liabilities	(1,537)	(1,114)
Net deferred tax liability	(731)	(111)
Movements:		
Opening balance 1 January	(111)	(766)
Credited/(Charged) to Statement of Comprehensive Income	(620)	655
Closing balance at 31 December	(731)	(111)
Deferred tax assets		
At 1 January	1,003	622
Depreciation	11	(18)
Accrued expenses	(214)	393
Employee benefits	6	6
At 31 December	806	1,003
Deferred tax liabilities		
At 1 January	1,114	1,388
Building revaluation	-	(267)
Deferred acquisition costs	423	(7)
At 31 December	1,537	1,114
Deferred tax assets		
Recoverable within 12 months	799	991
Recoverable in greater than 12 months	7	12
Total	806	1,003
Deferred tax liabilities		
To be settled within 12 months	1,537	1,114
To be settled in greater than 12 months	-	-
Total	1,537	1,114

20. TRADE AND OTHER PAYABLES

	2017 $000	2016 $000
Outwards reinsurance expense liability – balance due to reinsurers:		
Related companies	4,565	2,186
Non related companies	5,989	2,481
Other creditors and accruals	14,389	13,786
Total trade and other payables	24,943	18,453
Payable within 12 months	24,943	18,453
Payable in greater than 12 months	-	-
	24,943	18,453

21. UNEARNED PREMIUMS

	2017 $000	2016 $000
Unearned premium liability as at 1 January	58,352	58,622
Movement in unearned premium:		
Deferral of premiums on contracts written at year end	67,561	55,408
Earning of premiums deferred in prior years	(54,698)	(55,678)
Unearned premium liability as at 31 December	71,215	58,352
To be earned within 12 months	67,577	54,982
To be earned in greater than 12 months	3,638	3,370
	71,215	58,352

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 2017 (2016: Surplus).

22. OUTSTANDING CLAIMS

	2017 $000	2016 $000
(a) Outstanding claims liability		
Central estimate of outstanding claims liability	176,356	217,291
Risk margin	23,887	29,559
Claim handling expenses	4,135	6,407
Total undiscounted claims liability	204,378	253,257
Discount to present value	(3,876)	(5,598)
Total discounted claims liability	200,502	247,659
Less than 12 months	145,984	192,369
Greater than 12 months	54,518	55,290
	200,502	247,659
(b) Gross risk margins applied	13.2%	13.2%

(c) Reconciliation of movement in discounted outstanding claims liability

	2017 Gross $'000	2017 Reinsurance $'000	2017 Net $'000	2016 Gross $'000	2016 Reinsurance $'000	2016 Net $'000
Brought forward	247,659	212,227	35,432	107,003	80,073	26,930
Portfolio Transfer from Chubb Insurance Company of Australia Limited	-	-	-	465	62	403
Effect of changes in foreign exchange rates	49	24	25	(238)	45	(283)
Claims incurred – Life fund	(42)	(50)	8	(43)	31	(74)
Effect of changes in assumptions	227	4,364	(4,137)	11,534	12,023	(489)
Increase in claims incurred/recoveries anticipated over the year	69,867	42,757	27,110	209,950	182,313	27,637
Incurred claims recognised in statement of comprehensive income	70,101	47,095	23,006	221,668	194,474	27,194
Claims payments/recoveries during the year	117,258	92,295	24,963	81,012	62,320	18,692
Carried forward	200,502	167,027	33,475	247,659	212,227	35,432

22. 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.

(i) Gross

Accident year	2011 & Prior $000	2012 $000	2013 $000	2014 $000	2015 $000	2016 $000	2017 $000	Total $000
Estimate of ultimate claims cost:								
At end of accident year	-	8,434	7,384	7,008	8,689	8,230	9,549	
One year later	-	5,149	7,059	8,326	8,397	6,901	-	
Two years later	-	5,729	6,953	6,189	6,842	-	-	
Three years later	-	7,485	6,688	4,551	-	-	-	
Four years later	-	7,408	5,894	-	-	-	-	
Five years later	-	7,510	-	-	-	-	-	
Six years later	-	-	-	-	-	-	-	
Current estimate of cumulative claims cost	-	7,510	5,894	4,551	6,842	6,901	9,549	
Cumulative payments	-	6,550	4,785	979	2,480	1,339	228	
Outstanding claims undiscounted	9,123	960	1,109	3,572	4,362	5,562	9,321	34,009
Discount	216	41	45	111	179	220	341	1,153
Outstanding claims								32,856
Short tail outstanding claims								140,209
Claims handling expenses								4,012
Total gross central estimate								177,077
Risk margin								23,425
Total gross outstanding claims per statement of financial position								**200,502**

22. OUTSTANDING CLAIMS (continued)

(ii) Net

Accident year	**2011 & Prior $000**	**2012 $000**	**2013 $000**	**2014 $000**	**2015 $000**	**2016 $000**	**2017 $000**	**Total $000**
Estimate of ultimate claims cost:								
At end of accident year	-	3,125	3,482	3,732	4,074	3,225	5,294	
One year later	-	2,386	3,284	3,461	4,358	2,840	-	
Two years later	-	2,705	3,095	3,155	4,244	-	-	
Three years later	-	3,282	3,259	2,960	-	-	-	
Four years later	-	3,169	3,260	-	-	-	-	
Five years later	-	3,129	-	-	-	-	-	
Six years later	-	-	-	-	-	-	-	
Current estimate of cumulative claims cost	-	3,129	3,260	2,960	4,244	2,840	5,294	
Cumulative payments	-	2,971	2,754	875	2,062	1,051	206	
Outstanding claims undiscounted	1,688	158	506	2,085	2,182	1,789	5,088	13,496
Discount	323	8	75	221	241	476	842	2,186
Outstanding claims								11,310
Short tail outstanding claims								14,245
Claims handling expenses								4,012
Total net central estimate								29,567
Risk margin								3,908
Total net outstanding claims per statement of financial position								**33,475**

23. PROVISIONS

	Note	***2017 $'000***	***2016 $'000***
Employee benefits	(a)	280	245
Leasehold make good	(b)	155	-
		435	245
Current		274	219
Non-Current		161	26
		435	245

(a) Employee benefits

The provision for employee benefits includes accrued annual leave and long service leave.

(b) Leasehold make good provision

In accordance with the lease agreement of the office location, the Company must restore the leased premise to the original condition at the end of the lease, which is on 31 March 2026. An estimate of the cost that will ultimately be incurred has been provided for.

24. SHARE CAPITAL

	2017 $000	2016 $000
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 2017, the Company had 16,899,558 (2016: 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.

25. RESERVES AND RETAINED EARNINGS

(a) Reserves

Property revaluation reserve	-	-
	-	-
Movements:		
Property revaluation reserve:		
Balance at the beginning of the year	-	2,902
Revaluation	-	-
Transfer to Retained Earnings – Sale of Land and Building	-	(2,902)
Balance at end of year	-	-

(b) Retained earnings

Balance at the beginning of year	47,422	24,768
Profit for the year	23,861	19,752
Dividends paid	(45,000)	-
Transfer from Reserves – Sale of Land and Building	-	2,902
Balance at end of year	**26,283**	**47,422**

(c) Nature and purpose of reserves

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.

The Company owned building was sold on 15 September 2016.

26. 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 $21,848,000 (2016: $41,866,000).

	2017			2016		
	Non-Life	Life	Entity Solvency	Non-Life	Life	Entity Solvency
	$000	$000	$000	$000	$000	$000
Actual Solvency Capital	43,134	50	43,184	64,272	50	64,322
Minimum Solvency Capital	21,319	17	21,336	22,438	18	22,456
Solvency Margin Excess	21,815	33	21,848	41,834	32	41,866
Solvency Coverage Multiple	2.02	2.96	2.02	2.86	2.78	2.86

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.

27. 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

	2017	2016
	$000	$000
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:		
Not later than one year	311	322
Later than one year but not later than five years	1,139	398
Later than five years	987	-
Non cancellable operating leases	2,437	720

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.

28. REMUNERATION OF AUDITORS

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

Assurance services	***2017 $000***	***2016 $000***
Audit services		
Fees paid to PricewaterhouseCoopers Australian firm:		
- Audit and review of financial report	145,606	143,023
- Audit of regulatory return	5,474	5,377
Total remuneration for audit services	**151,080**	**148,400**
Taxation services		
Fees paid to PricewaterhouseCoopers New Zealand firm for Tax compliance and advisory services	20,000	20,000
Total remuneration for taxation services	**20,000**	**20,000**

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.

29. RELATED PARTIES

(a) Parent Entities

Chubb Insurance New Zealand 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 during the financial year: Andrew Brooks (executive director), John French (executive director), Gerard Sitaramayya (alternate director to John French), Graeme Evans (non-executive Chairman), Scott Pickering (non-executive director) and Philippa Dunphy (non-executive director).

(c) Key management compensation

Key management personnel include the directors and nine key roles performed by key executives during the year (2016: four 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:

	2017 $	***2016 $***
Short term employee benefits	883,431	924,484
Post-employment benefits	22,273	24,100
Other long term benefits	3,303	3,529
Termination benefits	3,347	-
Share based payments	54,624	56,558
Total	**966,978**	**1,008,671**

29. 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:

	2017	*2016*
	$	*$*
Expenses with commonly controlled entities:		
Reinsurance premiums	52,663,276	49,989,821
Management and systems support	6,692,646	1,079,137
Commissions paid	343,053	326,883
Losses paid	908,285	1,031,772
Revenue with commonly controlled entities:		
Reinsurance and other recoveries revenue	54,513,805	57,934,479
Commissions received	10,392,090	10,775,793
Premiums assumed	5,163,944	3,930,092
Dividend paid to Parent entity	45,000,000	-

(e) Outstanding balances

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

Receivables:		
Commonly controlled entities with the Ultimate Parent	173,436,721	215,456,602
Payables:		
Commonly controlled entities with the Ultimate Parent	6,023,443	5,778,716

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.

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

	2017 $000	2016 $000
Profit for the year	23,861	19,752
Adjusted for:		
Depreciation and amortisation	121	116
Fair value change on financial assets	805	1,150
Net (gain)/loss on sale of Land and Building	-	(2,985)
Change in operating assets and liabilities:		
Increase/(Decrease) in unearned premium reserve	12,863	(270)
Increase/(Decrease) in outstanding claims	(47,215)	140,580
Increase/(Decrease) in trade and other creditors	6,490	200
(Decrease)/Increase in employee entitlements	190	(82)
Increase in deferred tax liabilities	422	(272)
(Decrease)/Increase in tax liabilities	751	(408)
(Increase)/Decrease in deferred insurance costs	(4,819)	520
(Increase) in other receivables	1,932	(1,228)
(Increase)/Decrease in policyholder debtors	(5,032)	2,435
(Increase)/Decrease in reinsurance and other recoveries	40,076	(132,126)
(Increase)/Decrease in deferred tax assets	197	(381)
Net cash inflows from operating activities	**30,642**	**27,001**

31. 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.

32. 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 27 June 2017 following S&P’s review of the local operation.

33. 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.

34. 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, 1,747 restricted ordinary shares were awarded during the year ended 31 December 2017 (2016: 1312) and nil (2016: nil) restricted ordinary shares were transferred to other Chubb entities due to employee transfers during the year ended 31 December 2017. 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 $135,232 (2016: NZD $131,801).

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 $47,482 (2016: NZD $26,815).

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

	2017		2016	
	Average exercise price in NZD per share	**Options**	**Average exercise price in NZD per share**	**Options**
At 1 January		4,330		3,523
Granted	199.57	2,328	164.13	1750
Expired	157.67	(88)	-	-
Forfeited	118.27	(375)	150.84	(262)
Exercised	122.42	(551)	81.70	(681)
Transferred in	169.97	423	-	-
At 31 December		6,067		4,330

34. SHARE BASED PAYMENT TRANSACTIONS (continued)

Out of the 6,067 outstanding options (2016: 4,330 options), 2,399 options (2016: 1,833) were exercisable. Options exercised in 2017 resulted in 551 shares (2016: 681) being issued at 122.42 NZD (2016: 81.70). The weighted average remaining life of the share options outstanding at the end of the period is 8 years (2016: 8 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 2017	Share options 2016
2017	85.53	-	110
2018	91.83	-	185
2019	58.67	310	310
2020	76.74	149	149
2021	95.43	82	82
2022	111.75	142	142
2023	130.09	338	338
2024	147.41	397	522
2025	174.86	622	742
2026	169.97	1,788	1,750
2027	199.57	2,239	-
		6,067	4,330

The weighted average fair value of options granted during the period determined using the Black-Scholes valuation model was 24.30 NZD per option (2016: 29.00 NZD). The significant inputs into the model were share price of 199.57 NZD (2016: 164.13 NZD), at the grant date, the exercise price shown above, volatility of 20.33% (2016: 24.00%), dividend yield of 2.06% (2016: 2.26%), and an expected option life of 5 years and on annual risk-free interest rate of 2.05% (2016: 1.24%). 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.

To: Andrew Brooks

CC: Juliette Rockel, Gerard Sitaramayya, Peter Chalkias

From: Stephen Wilson

Date: 16 April 2018

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 IPSA, section 144 of the RBNZ's Solvency Standard for Life Business, specifies the actuarial information as:

a) the Policy Liability;

b) the reinsurance and any other recovery asset(s) relevant to the Policy Liability, or relevant to outstanding claims reserves or incurred but not reported claims reserves held outside of the Policy Liability;

c) any deferred or other tax asset relevant to the Policy Liability;

d) any deferred acquisition cost or deferred fee revenue relevant to the Policy Liability;

e) the unvested policyholder benefits liability; and

f) any other information deemed by the appointed actuary to warrant actuarial review for the purpose of profit or solvency reporting.

Each of these items are addressed and documented in detail (to the extent relevant and material) in CINZL's Insurance Liability Valuation Report dated 12 April 2018.

Additional analysis has been performed in the preparation of my Financial Condition Report which will be finalised following the CINZL Board meeting on 12 April 2018.

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 12 April 2018, 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 2017 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 on 12 April 2018
- **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);

- The actuarial estimate of net premium liabilities comprising:
  - determination of the appropriate assessment period for Premium Liabilities;
  - central estimate of expected claims and recoveries;
  - discounting at a risk free rate;
  - allowance for policy administration and claim handling expenses;
  - allowance for the cost of any future reinsurance (i.e. that has not yet been purchased) required to cover unexpired risks; and
  - a risk margin intended to provide a 75% POS.
- Application of the Liability Adequacy Test
- The level of deferred acquisition cost in the financial statements after the application of the Liability Adequacy Test.

c) Scope and limitations of the review

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

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

There have been no limitations placed on my review.

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).

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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

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