CHUBB

CHUBB INSURANCE NEW ZEALAND LIMITED

FINANCIAL REPORT

31 DECEMBER 2018

CHUBB INSURANCE NEW ZEALAND LIMITED

FINANCIAL REPORT 2018

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Chubb Insurance New Zealand Limited

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 2018.

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 9 to 46 for issue on 9 April 2019.

For and on behalf of the Board of Directors

Graeme Evans	Carol Campbell
9 April 2019	9 April 2019

Independent auditor's report

To the shareholder of Chubb Insurance New Zealand Limited

We have audited the financial statements which comprise:

- the statement of financial position as at 31 December 2018;
- 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 the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the financial statements of Chubb Insurance New Zealand Limited (the Company), present fairly, in all material respects, the financial position of the Company as at 31 December 2018, 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.

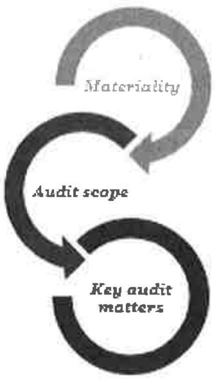
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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.

Our firm provides an assurance service over the solvency return for the Company. Subject to certain restrictions, partners and employees of our firm may deal with the Company on normal terms within the ordinary course of trading activities of the Company. The other service and relationship have not impaired our independence as auditor of the Company.

Our audit approach

Overview



An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Overall materiality: $1.67 million, which represents approximately 1% of premium revenue.

We chose premium revenue as the benchmark because, in our view, it is a key metric used in assessing the performance of the Company and is a generally accepted benchmark for insurance companies. We selected 1% based on our professional judgement, noting that it is also within the range of commonly accepted revenue-related benchmarks.

We have determined that the valuation of outstanding claims is a key audit matter.

Materiality

The scope of our audit was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Audit scope

We designed our audit by assessing the risks of material misstatement in the financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Valuation of outstanding claims *2018 $165.8 million, 2017 $200.5 million* Refer to notes 2.6, 3 (ii), 4 and 21 of the financial statements, which also describe the elements that make up the balance. We considered the valuation of outstanding claims a key audit matter because of the complexity involved in the estimation process and the significant judgements that the Company makes in determining the balance. We comment on the most judgemental aspects of these elements below. *(a) Central estimate* The estimation of outstanding claims involves significant judgement given the size of the liability and inherent uncertainty in estimating the expected future payments for claims incurred. The valuation of outstanding claims relies on the quality of the underlying data. It involves complex and subjective judgements about future events, both internal and external to the business, for which minor changes in assumptions can result in material impacts on the estimate. Claims estimates in respect of catastrophe events may involve additional uncertainty, particularly those occurring closer to the year end, given the materiality of amounts involved, and the inherent difficulty in initially assessing amounts until further evidence emerges. Judgement also arises over the estimation of payments for claims that have been incurred at the reporting date but have not yet been reported to the Company as there is generally less information available in relation to these claims. Classes of business where there is a greater length of time between the initial claim event and settlement (such as	Our procedures performed in conjunction with our in-house actuarial experts included: (a) Central estimate: • Assessed the design and tested the operating effectiveness of certain controls within the claims function • Tested claims by selecting a sample of case estimates and claim payments, and agreeing the key elements to underlying documentation • Tested the reconciliation of source data to inputs used in the actuarial models • Evaluated whether the Company's actuarial methodologies were consistent with those used in the industry and with prior periods • Assessed key actuarial assumptions used in the model, such as claims ratios, and expected frequency and severity of claims. We considered these assumptions by comparing them with our expectations based on the Company's experience, current trends and benchmarks, and our own industry knowledge. (b) Risk margin Assessed the approach to setting the risk margin in light of the requirements of New Zealand Accounting standards and our expectations based on the Company's experience, current trends and benchmarks and our own industry knowledge. (c) Discounting to present value Tested the discount rates applied for classes of business where there is a greater length of time between the initial claim event and settlement. We compared the discount rates applied to

professional indemnity and other liability classes) tend to display greater variability between initial estimates and final settlement.

(b) Risk margin

In addition to the central estimate, the outstanding claims balance includes a risk margin which relates to the inherent uncertainty in that estimate.

Management consider the Probability of Adequacy (PoA) in determining the appropriate risk margin. PoA is a measure of the estimated sufficiency of the outstanding claims including a risk margin in light of that variability.

(c) Discounting to present value

The estimate of expected future payments is discounted to present value using a risk-free rate of return in order to reflect the time value of money. Judgement is involved in estimating the period over which claims are expected to settle, particularly for those classes of business where there is a greater length of time between the initial claim event and settlement (such as professional indemnity and other liability classes).

external market data and the payment patterns to historical settlement trends.

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.

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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-2/

This description forms part of our auditor's report.

Who we report to

This report is made solely to the Company's shareholder. Our audit work has been undertaken so that we might state those matters which we are required to state to the shareholder 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 shareholder for our audit work, for this report or for the opinions we have formed.

Other matter

The financial statements of Chubb Insurance New Zealand Limited for the year ended 31 December 2017 were audited by a non licensed auditor who expressed an unmodified opinion on those financial statements on 16 April 2018.

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
9 April 2019

Auckland

Chubb Insurance New Zealand Limited

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2018

	Note	2018 $'000	2017 $'000
Premium Revenue			
Direct		163,992	131,207
Inwards reinsurance		2,819	2,957
		166,811	134,164
Outwards reinsurance expense		(69,291)	(62,772)
Net premium revenue		97,520	71,392
Claims expense		(62,514)	(70,101)
Reinsurance and other recoveries		22,008	47,095
Net claims incurred	9	(40,506)	(23,006)
Other underwriting expenses	5	(35,007)	(28,797)
Other underwriting revenue	6	9,933	10,422
Underwriting result		**31,940**	**30,011**
Investment revenue	7	3,327	3,654
General and administration expenses		(662)	(468)
Profit before income tax		**34,605**	**33,197**
Income tax expense	8	(9,768)	(9,336)
Profit after tax attributable to equity holders		**24,837**	**23,861**
Other comprehensive income		-	-
Total comprehensive income for the year, net of tax attributable to equity holders		**24,837**	**23,861**

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

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Chubb Insurance New Zealand Limited

STATEMENT OF FINANCIAL POSITION
as at 31 December 2018

	Note	2018 $'000	2017 $'000
ASSETS			
Cash and cash equivalents	10	30,304	24,886
Financial assets at fair value through profit or loss	13	95,209	81,798
Receivables including insurance receivables	11	43,867	35,574
Reinsurance and other recoveries receivable	12	127,565	173,563
Reinsurance and other recoveries receivable – Life insurance business		9	25
Reinsurance and other recoveries receivable – Life assurance fund		752	758
Deferred insurance costs	15	35,039	26,333
Property, plant and equipment	18	442	352
Other assets		58	-
TOTAL ASSETS		**333,245**	**343,289**
LIABILITIES			
Trade and other payables	19	19,970	24,943
Current tax liabilities		1,976	1,164
Outstanding claims	21	165,792	200,502
Outstanding claims – Life insurance business		13	33
Outstanding claims – Life assurance fund		1,074	1,083
Provisions	22	429	435
Unearned premiums	20	93,959	71,215
Unexpired risk liability	16	275	-
Deferred tax liability	17	1,737	731
TOTAL LIABILITIES		**285,225**	**300,106**
NET ASSETS		**48,020**	**43,183**
EQUITY			
Contributed capital	23	16,900	16,900
Reserves		-	-
Retained profits	24	31,120	26,283
TOTAL EQUITY		**48,020**	**43,183**

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

Director — 9 April 2019

Director — 9 April 2019

Chubb Insurance New Zealand Limited

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2018

	Note	Contributed capital	Reserves	Retained profits	Total
		$'000	**$'000**	**$'000**	**$'000**
Balance at 1 January 2017		**16,900**	**-**	**47,422**	**64,322**
Total comprehensive income for the year		-	-	23,861	23,861
Total amount attributable to equity holders		16,900	-	71,283	88,183
Dividends paid		-	-	(45,000)	(45,000)
Balance at 31 December 2017	23,24	**16,900**	**-**	**26,283**	**43,183**
Total comprehensive income for the year		-	-	24,837	24,837
Total amount attributable to equity holders		16,900	-	51,120	68,020
Dividends paid		-	-	(20,000)	(20,000)
Balance at 31 December 2018	23,24	**16,900**	**-**	**31,120**	**48,020**

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

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Chubb Insurance New Zealand Limited

STATEMENT OF CASH FLOWS
for the year ended 31 December 2018

	Note	*2018* *$000*	*2017* *$000*
Cash Flows From Operating Activities:			
Premiums received		181,262	141,995
Reinsurance and other recoveries received		68,060	89,113
Interest received		4,484	4,349
Rental income received		178	99
Other underwriting revenue		9,933	10,422
Claims paid		(97,253)	(117,316)
Outwards reinsurance paid		(75,213)	(60,196)
Commission expenses paid		(24,649)	(16,633)
Other underwriting expenses		(18,452)	(13,225)
Income tax paid		(7,950)	(7,966)
Net cash inflows /(outflows) from operating activities	29	40,400	30,642
Cash Flows From Investing Activities:			
Proceeds from sale of financial assets		29,894	14,150
Purchase of financial assets		(44,672)	(14,834)
Payments for plant and equipment		(204)	(379)
Net cash inflows/(outflows) from investing activities		(14,982)	(1,063)
Cash Flows From Financing Activities:			
Dividends paid		(20,000)	(45,000)
Net cash outflows from financing activities		(20,000)	(45,000)
Net increase/(decrease) in cash and cash equivalents held		5,418	(15,421)
Cash and cash equivalents at beginning of year		24,886	40,307
Cash and cash equivalents at end of year	10	**30,304**	**24,886**

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

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Chubb Insurance New Zealand Limited

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
31 December 2018

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 incorporated and domiciled in New Zealand. The address of the registered office is: CU 1-3, Shed 24, Princes Wharf, Auckland, New Zealand.

The principal activities of the Company during the year were the underwriting of general insurance and the investment of funds. It is a for-profit entity registered under the Companies Act 1993, an FMC reporting entity under Part 7 of the Financial Markets Conduct Act 2013 and it is a Licenced Insurer under the Insurance (Prudential Supervision) Act 2010.

These financial statements have been authorised for issue by the Board of Directors on 9 April 2019. 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 New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable financial reporting standards, as appropriate for for-profit entities. The financial statements are prepared in accordance with the requirements of Part 7 of the Financial Markets Conduct Act 2013. The financial statements of the Company also comply with International Financial Reporting Standards (IFRS).

These financial statements have been prepared under the historical cost convention, as modified by certain exceptions noted in the financial statements, with the principal exceptions being the measurement of financial assets at fair value and the measurement of the outstanding claims liability and related reinsurance and other recoveries at present value.

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions or estimates are significant, are disclosed in note 4.

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) New and amended standards adopted by the Company

The Company mandatorily adopted the following accounting policies which became effective for annual reporting periods commencing 1 January 2018. The adoption of the following amendments did not have any material impact on the amounts recognised in prior periods and will also not materially affect the current or future periods.

- 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 requires impairment losses to be recognised using the expected credit loss model, rather than only incurred credit losses under NZ IAS 39. The company has adopted the standard and its effect is not 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 company has adopted the standard and it does not have a material impact on the company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The amendments listed below are not effective for the annual reporting year ended 31 December 2018 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 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.

  As at reporting date, the Company has non-cancellable operating lease commitments of $2,456k, see note 26(b). On transition, the Company intends to use the cumulative catch-up option available in the standard. As such, a restatement of comparatives will not be required. The Company has performed an assessment of adjustments that will be required as a result of changes in definitions and accounting treatment of these leases. The estimated right-of-use asset and additional lease liability that will be recognised on adoption of the standard will be $1,855k and $1,643k respectively. It is expected that an adjustment to opening retained earnings of $212k will be required.

- 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 (the IASB have proposed to defer the effective date to 1 January 2022) 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(2.4) Outwards Reinsurance

Premiums ceded to reinsurers are recorded as an outwards reinsurance expense and are recognised in the statement of profit or loss and other 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.

(2.5) 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 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. The components of acquisition costs are outlined in note 5.

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, International Personal 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 and note 4).

The entire deficiency, if any, is recognised immediately in the statement of profit or loss and other 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 (claims 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 profit or loss and other 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 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 the statement of profit or loss and other comprehensive income, 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.

(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 statement of profit or loss and other comprehensive income 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

An asset's residual value, useful life and amortisation method is 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 statement of profit or loss and other comprehensive income in the year the asset is derecognised.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(2.12) Financial Assets

From 1 January 2018, the company classifies its financial assets in the following measurement categories:
- Those to be measured subsequently at fair value through profit and loss, and
- Those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

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

The Company's investment strategy is to invest in debt securities and to manage and evaluate the portfolio on a fair value basis. The company is primarily focussed on fair value information and uses that information to assess the assets' performance and to make decisions. Financial asset are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to realise proceeds from sale. As required by NZ IFRS 9 Financial Instruments, the Company's portfolio of financial assets is categorised as fair value through profit or loss on initial recognition. There was no change to this categorisation as a result of the transition to NZ IFRS 9. Assets that are part of these portfolios are designated upon initial recognition at fair value through profit or loss.

Investments are initially recorded at fair value being the cost of acquisition excluding transaction costs and are subsequently measured to fair value at each reporting date. Assets that are subsequently measured at fair value through profit or loss are not subject to impairment considerations under the expected credit losses model. Debt securities are valued using independently sourced valuations as described in note 13.

All purchases and sales of investments that require delivery of the asset within the time frame established by regulation or market convention ('regular way' transactions) are recognised at trade date, being the date on which the Company commits to buy or sell the asset. Investments are derecognised when the right to receive future cash flows from the asset has expired or has been transferred and the Company has transferred substantially all the risks and rewards of ownership.

(ii) Trade and other receivables

All receivables at 31 December 2017 and from 1 January 2018 being receivables reflecting rights arising under an insurance contract as defined in NZ IFRS 4 Insurance Contracts are recognised at amount receivable less a provision for impairment. A provision for impairment is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original term of the receivable.

Receivables within the scope of NZ IFRS 9 from 1 January 2018 are managed to collect contractual cash flows and their contractual terms generate cash flows that are solely payments of principal (and interest thereon, if any). Receivables are initially recognised at fair value and are subsequently measured at amortised cost less a provision for impairment.

Impairment is calculated as a provision for expected credit losses (ECLs). The provision for ECLs is based on the difference between the cash flows due in accordance with the contract and the cash flows that the Company expect to receive. Any shortfall is discounted at an approximation to the asset's original effective interest rate. The assessment of ECLs reflect judgements and assumptions that take into account prior credit risk and loss history, current and expected future market conditions and individual debtor circumstances.

The Company adopts the simplified approach permitted by NZ IFRS 9 with regard to non-insurance trade receivables and calculates the provision with reference to lifetime ECLs. For all other receivables, the provision is based on the portion of lifetime ECLs that result from possible defaults events within 12 months from reporting date unless there has been a significant increase in credit risk since initial recognition in which case the provision is based on lifetime ECLs.

The transition to NZ IFRS 9 had no impact on the amounts recorded in respect of these receivables.

Any increase or decrease in the provision for impairment is recognised in the statement of profit or loss and other comprehensive income. When a receivable is uncollectable, it is written off against the provision for impairment account. Subsequent recoveries of amounts previously written off are credits against expenses.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(2.14) 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 profit or loss and other 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.

(2.19) Trade and other payables

Trade and other payables are initially recognised at fair value and are subsequently measured at cost. There was no change to this categorisation as a result of the transition to NZ IFRS 9.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(2.20) 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.

(2.21) 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.

(2.22) 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.

(2.23) 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.

(2.24) Comparatives

Comparative figures are, where appropriate, reclassified so as to be comparable with the figures in the current year. Changes to comparative figures were not material.

(2.25) Changes in accounting policies

Other than the items described in 2.1 (i), 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.

(2.26) Life claims provision

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

(2.27) Life assurance fund

The liability is based on a valuation calculated using methods in accordance with requirements of NZ IFRS.

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 the fund manager 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 receivables 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.

(ii) Insurance risk

Insurance risk is the risk of fluctuations in the timing, frequency and severity of insured events and claims settlements, relative to the expectations at the time of underwriting. This includes underwriting, catastrophe, claims concentration and claims estimation risks. The risks inherent in any single insurance contract are the possibility of the insured event occurring and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, these risks are random and unpredictable. In relation to the pricing of individual insurance contracts and the determination of the level of the outstanding claims provision in relation to a portfolio of insurance contracts, the principal risk is that the ultimate claims payments will exceed the carrying amount of the provision established.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability around the expected outcome will be. In addition, a more diversified insurance company is less likely to be affected by a change in any one specific portfolio.

3. RISK MANAGEMENT POLICIES AND PROCEDURES (continued)

(ii) Insurance risk (continued)

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

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

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

(c) Concentration of insurance risks

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

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

(d) Development of claims

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

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 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 IBNR and the development of reported claims 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% (2017: 75%) probability of sufficiency.

(b) Assumptions

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

	2018	2017
Discounted average weighted term to settlement	0.91 years	1.09 years
Indirect claims handling expense rate	3.3%	2.3%
Discount rate	1.8%	2.0%

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 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

		2018		2017	
	Movement in variable	**P&L Net of Reinsurance $'000 increase/ (decrease)**	**Equity $'000 increase/ (decrease)**	**P&L Net of Reinsurance $'000 increase/ (decrease)**	**Equity $'000 increase/ (decrease)**
Variables:					
Discounted average weighted term to settlement	+0.5 years	(354)	255	(324)	233
	-0.5 years	357	(257)	327	(235)
Indirect claims handling expense rate	+1%	1,620	(1,166)	1,959	(1,410)
	-1%	(1,620)	1,166	(1,959)	1,410
Discount rate	+1%	(361)	260	(353)	254
	-1%	368	(265)	360	(259)

(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 modelled 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. OTHER UNDERWRITING EXPENSES

	2018 *$'000*	*2017* *$'000*
Acquisition expense	3,019	4,248
Underwriting expense	7,064	7,916
Commission expense	24,649	16,633
Unexpired risk liability	275	-
	35,007	28,797

6. OTHER UNDERWRITING INCOME

Commission Revenue	9,933	10,422
	9,933	10,422

7. NET INVESTMENT REVENUE

Interest	4,516	4,360
Rentals	178	99
Investment and other income before fair value losses	4,694	4,459
Net losses on financial assets held at fair value through profit or loss	(1,367)	(805)
	3,327	3,654

8. TAXATION

	2018 $'000	2017 $'000
Profit before income tax	34,605	33,197
Prima facie tax payable at 28% (2017: 28%)	9,689	9,295
Expenditure not deductible for tax purposes	24	20
Under provision in prior year – current tax	55	21
Income tax recognised in statement of profit or loss and other comprehensive income	9,768	9,336
Comprising:		
Estimated current year tax assessment	8,707	8,716
Net movement in deferred tax	1,006	620
Under provision in prior year	55	-
	9,768	9,336
Imputation credits		
Balance at the beginning of the year	37,657	29,017
Tax payments (net of refunds)	7,835	7,890
Movement in current tax provision	812	750
	46,304	37,657

The above amounts represent the balance of the imputation account as at the end of the reporting period, adjusted for imputation credits that will arise from the payment of the amount of the provision for income tax.

9. NET CLAIMS INCURRED

	2018			2017		
	Current Year $'000	Prior Year $'000	Total $'000	Current Year $'000	Prior Year $'000	Total $'000
Gross claims expense						
Direct	93,143	(31,507)	61,636	69,188	(809)	68,379
Discount movement	(878)	1,756	878	(1,154)	2,876	1,722
Discounted gross claims expense	92,265	(29,751)	62,514	68,034	2,067	70,101
Reinsurance and other recoveries revenue						
Reinsurance and other recoveries revenue – undiscounted	(58,802)	37,626	(21,176)	(36,766)	(8,812)	(45,578)
Discount movement	10,700	(11,532)	(832)	703	(2,220)	(1,517)
Discounted reinsurance and other recoveries revenue	(48,102)	26,094	(22,008)	(36,063)	(11,032)	(47,095)
Net claims incurred	44,163	(3,657)	40,506	31,971	(8,965)	23,006

A significant portion of the prior year movement relates to claims arising from the Kaikoura earthquake event which occurred on 14 November 2016. Additional information obtained in 2018 supported a reduction in the estimated Gross Claims Incurred relating to that event.

10. CASH AND CASH EQUIVALENTS

	2018 *$'000*	*2017* *$'000*
Cash at bank and on hand	27,541	21,460
Deposits at call	2,763	3,426
	30,304	24,886

(a) Cash at bank and on hand

These are interest bearing. There is restricted cash balance of $899,260 as at 31 December 2018 (2017: $888,095).

(b) Deposits at call

Deposits at call are bearing floating interest rates averaging 1.75% (2017: 1.75%).

11. TRADE AND OTHER RECEIVABLES

	2018 $'000	2017 $'000
Premiums and other trade debtors:		
Premiums and other trade debtors receivable – direct insurance	42,296	33,926
Less Provision for impairment	(200)	(200)
	42,096	33,726
Premiums and other trade debtors receivable – inwards reinsurance	730	810
Other receivables	1,041	1,038
Total trade and other receivables	43,867	35,574
Receivable within 12 months	43,867	35,574
Receivable in greater than 12 months	-	-
Total	43,867	35,574

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

	2018 $'000	2017 $'000
Opening balance as at 1 January	200	200
Provision for impairment recognised/(released) during the year	-	-
Total	200	200

a) Fair value

Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value.

b) Risk

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables.

c) Past due but not impaired

Other than the provision raised for impaired receivables, there were no past due but not impaired receivables to disclose.

12. REINSURANCE AND OTHER RECOVERIES RECEIVABLE

	2018 $'000	2017 $'000
Reinsurance recoveries on claims paid	2,379	6,536
Expected future reinsurance recoveries on outstanding claims	127,449	170,123
Discount to present value	(2,263)	(3,096)
Total reinsurance and other recoveries	127,565	173,563
Receivable within 12 months	101,891	129,311
Receivable in greater than 12 months	25,674	44,252
Total	127,565	173,563

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 $'000	*2017 $'000*
Government bonds	62,013	56,604
Corporate bonds	33,056	25,057
Life insurance policy loans	140	137
Total financial assets at fair value through profit or loss	95,209	81,798
Amounts maturing within 12 months	23,966	5,881
Amounts maturing in greater than 12 months	71,243	75,917
	95,209	81,798

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%	11%
AA	76%	80%
A	7%	6%
BBB	4%	2%
Unrated[1]	2%	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 2017 and 2018 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 ($)	Downgraded Impact on Equity ($)
2018	701,030	(701,030)	504,742	(504,742)
2017	593,074	(593,074)	427,013	(427,013)

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 ($)	Downward Impact on Equity ($)
2018	(1,846,374)	1,846,374	(1,329,390)	1,329,390
2017	(1,762,031)	1,762,031	(1,268,663)	1,268,663

14. FINANCIAL INSTRUMENTS

(a) Interest rate risk exposures

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

			Fixed interest maturing in:							
2018	**Notes**	**Floating interest rate $'000**	**1 year or less $'000**	**Over 1 to 2 years $'000**	**Over 2 to 3 years $'000**	**Over 3 to 4 years $'000**	**Over 4 to 5 years $'000**	**More than 5 years $'000**	**Non-interest bearing $'000**	**Total $'000**
Financial assets										
Cash and cash equivalents	10	30,304	-	-	-	-	-	-	-	30,304
Receivables	11,12	-	-	-	-	-	-	-	46,246	46,246
Financial assets at fair value through profit or loss	13	-	23,967	19,765	30,148	-	18,638	2,691	-	95,209
		30,304	23,967	19,765	30,148	-	18,638	2,691	46,246	171,759
Weighted average interest rate		1.91%	2.16%	2.24%	1.95%	-	2.04%	2.84%	-	

2017	**Notes**	**Floating interest rate $'000**	**1 year or less $'000**	**Over 1 to 2 years $'000**	**Over 2 to 3 years $'000**	**Over 3 to 4 years $'000**	**Over 4 to 5 years $'000**	**More than 5 years $'000**	**Non-interest bearing $'000**	**Total $'000**
Financial assets										
Cash and cash equivalents	10	24,886	-	-	-	-	-	-	-	24,886
Receivables	11,12	-	-	-	-	-	-	-	42,110	42,110
Financial assets at fair value through profit or loss	13	-	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%	-	

(b) Credit risk exposure

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

(c) Liquidity risk exposure

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

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

14. FINANCIAL INSTRUMENTS (continued)

(d) Fair value measurement of financial assets and liabilities

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

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities,
Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly, and
Level 3: inputs that are not based on observable market data.

The following table presents information about assets carried at fair value and indicates the level of fair value measurement based on the levels of the input used. The fair value of investments has been determined based on quoted prices in active markets for similar assets or liabilities.

	Fair value hierarchy			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total Fair value $'000
As at 31 December 2018:				
Government bonds	-	62,013	-	62,013
Corporate bonds	-	33,056	-	33,056
Life insurance policy loans	-	140	-	140
	-	95,209	-	95,209
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

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

15. DEFERRED INSURANCE COSTS

	2018 $'000	*2017 $'000*
Deferred acquisition costs as at 1 January	5,489	3,980
Acquisition costs deferred	11,076	5,489
Amortisation charged to income	(5,489)	(3,980)
Write down for premium deficiency	(288)	-
Deferred acquisition costs as at 31 December	10,788	5,489
Deferred reinsurance premiums at 1 January	20,844	17,534
Deferral of reinsurance premiums on contracts entered into in the period	23,185	19,906
Earning of reinsurance premiums on contracts entered into in previous periods	(19,778)	(16,596)
Deferred reinsurance premiums at 31 December	24,251	20,844
Total deferred insurance costs	35,039	26,333

Following a periodic review of costs attributable to acquisition, the deferred acquisition cost basis has been updated leading to more costs being delivered in the current paper.

An analysis of the adequacy of the unearned premium as described in note 2.8 has been performed. A deficiency was identified resulting in a deferred acquisition cost write down of $288k for Accident and Health (A&H) and International Personal Lines (IPL) class off business and an additional unexpired risk liability of $275k for A&H.

	A&H	*IPL*
Unearned Premium Liability	8,772	740
Deferred reinsurance premium	(6,185)	(21)
Deferred acquisition costs (DAC)	(276)	(284)
	2,311	435
Gross central estimate of the present value of expected future cash flows	4,658	345
Reinsurance central estimate of the present value of expected future cash flows	(3,285)	(10)
Net central estimate of the present value of expected future cash flows	1,373	335
Claims and policy expenses	1,117	45
Risk margin - 18.1%	372	67
Net present value of expected future cash flows for future claims	2,862	447
Surplus/(Deficiency)	(551)	(12)

The components of the deficiency are:

Write down of DAC for premium deficiency	(276)	(12)
Unexpired Risk Liability	(275)	-
	(551)	(12)

16. UNEXPIRED RISK LIABILITY

	2018 $'000	2017 $'000
At 1 January	-	-
Movement in unexpired risk liability	275	-
At 31 December	275	-

17. DEFERRED TAX

	2018 $'000	2017 $'000
Total deferred tax assets	1,283	806
Total deferred tax liabilities	(3,020)	(1,537)
Deferred tax liabilities, net	(1,737)	(731)
Movements:		
Opening balance 1 January	(731)	(111)
Credited/(Charged) to statement of profit or loss and other comprehensive income	(1,006)	(620)
Closing balance at 31 December	(1,737)	(731)
Deferred tax assets		
At 1 January	806	1,003
Depreciation	79	11
Accrued expenses	400	(214)
Employee benefits	(2)	6
At 31 December	1,283	806
Deferred tax liabilities		
At 1 January	1,537	1,114
Deferred acquisition costs	1,483	423
At 31 December	3,020	1,537
Deferred tax assets		
Recoverable within 12 months	1,276	799
Recoverable in greater than 12 months	7	7
Total	1,283	806
Deferred tax liabilities		
To be settled within 12 months	3,020	1,537
To be settled in greater than 12 months	-	-
Total	3,020	1,537

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18. PROPERTY, PLANT AND EQUIPMENT

	2018 $000	2017 $000
Office equipment and fittings		
At 31 December:		
Opening net book value	352	94
Additions	155	348
Disposal	-	-
Depreciation charge for year	(114)	(122)
Work in progress	49	32
Closing net book value	442	352
At 31 December:		
Cost	2,644	2,441
Accumulated depreciation	(2,202)	(2,089)
Net book value	442	352
Total property, plant and equipment	442	352

19. TRADE AND OTHER PAYABLES

Outwards reinsurance expense liability – balance due to reinsurers:		
Related companies	3,790	4,565
Non related companies	4,249	5,989
Other creditors and accruals	11,931	14,389
Total trade and other payables	19,970	24,943
Payable within 12 months	19,970	24,943
Payable in greater than 12 months	-	-
	19,970	24,943

20. UNEARNED PREMIUMS

Unearned premium liability as at 1 January	71,215	58,352
Movement in unearned premium:		
Deferral of premiums on contracts written at year end	90,144	67,561
Earning of premiums deferred in prior years	(67,400)	(54,698)
Unearned premium liability as at 31 December	93,959	71,215
To be earned within 12 months	90,257	67,577
To be earned in greater than 12 months	3,702	3,638
	93,959	71,215

21. OUTSTANDING CLAIMS

	Note	2018 $000	2017 $000
(a) Outstanding claims liability			
Central estimate of outstanding claims liability		147,712	176,356
Risk margin	21(b)	16,109	23,887
Claim handling expenses		4,968	4,135
Total undiscounted claims liability		168,789	204,378
Discount to present value		(2,997)	(3,876)
Total discounted claims liability		165,792	200,502
Less than 12 months		131,357	145,984
Greater than 12 months		34,435	54,518
		165,792	200,502

		2018	2017
(b) Gross risk margins applied		10.5%	13.2%

(c) Reconciliation of movement in discounted outstanding claims liability

	2018 Gross $'000	2018 Reinsurance $'000	2018 Net $'000	2017 Gross $'000	2017 Reinsurance $'000	2017 Net $'000
Brought forward	200,502	167,027	33,475	247,659	212,227	35,432
Effect of changes in assumptions	(14,738)	(11,476)	(3,262)	227	4,364	(4,137)
Increase in claims incurred/recoveries anticipated over the year	77,186	33,442	43,744	69,790	42,630	27,160
Incurred claims recognised in statement of profit or loss and other comprehensive income [1]	62,448	21,966	40,482	70,017	46,994	23,023
Claims payments/recoveries during the year	97,158	63,807	33,351	117,174	92,194	24,980
Carried forward	165,792	125,186	40,606	200,502	167,027	33,475

[1] This balance is the non-Life business only.

21. OUTSTANDING CLAIMS (continued)

(d) Claims development tables:

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

(i) Gross

Accident year	2012 & Prior $000	2013 $000	2014 $000	2015 $000	2016 $000	2017 $000	2018 $000	Total $000
Estimate of ultimate claims cost:								
At end of accident year		7,384	7,008	8,689	8,230	14,588	11,416	
One year later		7,059	8,326	8,397	7,349	15,605	-	
Two years later		6,953	6,189	7,063	10,859	-	-	
Three years later		6,688	4,627	5,547	-	-	-	
Four years later		5,931	1,752	-	-	-	-	
Five years later		5,720	-	-	-	-	-	
Six years later		-	-	-	-	-	-	
Current estimate of cumulative claims cost		5,720	1,752	5,547	10,859	15,605	11,416	
Cumulative payments		4,824	994	2,878	2,711	7,340	743	
Outstanding claims undiscounted	8,544	896	758	2,669	8,148	8,265	10,673	39,953
Discount	283	30	25	88	270	274	525	1,495
Outstanding claims								38,458
Short tail outstanding claims								106,710
Claims handling expenses								4,840
Total gross central estimate								150,008
Risk margin								15,784
Total gross outstanding claims per statement of financial position								**165,792**

21. OUTSTANDING CLAIMS (continued)

(ii) Net

Accident year	2012 & Prior $000	2013 $000	2014 $000	2015 $000	2016 $000	2017 $000	2018 $000	Total $000
Estimate of ultimate claims cost:								
At end of accident year		3,482	3,732	4,074	3,225	6,162	6,294	
One year later		3,284	3,461	4,358	2,894	6,835	-	
Two years later		3,095	3,155	4,267	5,156	-	-	
Three years later		3,259	2,960	3,442	-	-	-	
Four years later		3,260	1,103	-	-	-	-	
Five years later		3,288	-	-	-	-	-	
Six years later		-	-	-	-	-	-	
Current estimate of cumulative claims cost		3,288	1,103	3,442	5,156	6,835	6,294	
Cumulative payments		2,794	887	2,353	(2,439)	7,252	682	
Outstanding claims undiscounted	(115)	494	216	1,089	7,595	(417)	5,612	14,474
Discount	(3)	9	4	19	136	(7)	181	339
Outstanding claims								14,135
Short tail outstanding claims								17,416
Claims handling expenses								4,840
Total net central estimate								36,391
Risk margin								4,215
Total net outstanding claims per statement of financial position								**40,606**

22. PROVISIONS

	Note	*2018 $'000*	*2017 $'000*
Employee benefits	(a)	274	280
Leasehold make good	(b)	155	155
		429	435
Current		262	274
Non-Current		167	161
		429	435

(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.

23. SHARE CAPITAL

	2018 $000	2017 $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 2018, the Company had 16,899,558 (2017: 16,899,558) ordinary shares that were issued for 100 cents per share. All issued shares are fully paid. Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. Each share is entitled to one vote.

24. RETAINED PROFITS

Balance at the beginning of year	26,283	47,422
Profit for the year	24,837	23,861
Dividends paid $1.18 per share (2017: $2.66 per share)	(20,000)	(45,000)
Balance at end of year	**31,120**	**26,283**

25. SOLVENCY CAPITAL REQUIREMENTS

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

The Minimum Solvency Capital required to be retained to meet solvency requirements are shown below. The Actual Solvency Capital exceeds the minimum requirements by $23,278,000 (2017: $21,848,000).

	2018			2017		
	Non-Life	Life	Entity Solvency	Non-Life	Life	Entity Solvency
	$000	$000	$000	$000	$000	$000
Actual Solvency Capital	47,970	50	48,020	43,134	50	43,184
Minimum Solvency Capital	24,726	16	24,742	21,319	17	21,336
Solvency Margin Excess	23,244	34	23,278	21,815	33	21,848
Solvency Coverage Multiple	1.94	3.09	1.94	2.02	2.96	2.02

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

26. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital expenditure commitments

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

(b) Operating lease commitments

	2018 *$000*	*2017* *$000*
Commitments, inclusive of GST, in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:		
Not later than one year	319	358
Later than one year but not later than five years	1,342	1,310
Later than five years	795	1,135
Non-cancellable operating leases	2,456	2,803

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.

27. REMUNERATION OF AUDITORS

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

	2018 *$000*	*2017* *$000*
- Audit and review of financial report	135,020	131,080
- Assurance procedures over regulatory return	20,000	20,000
- Taxation services	-	20,000
Total remuneration	**155,020**	**171,080**

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 and do not impair the independence of the audit.

28. 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; resigned 1 February 2018), Jarrod Hill (executive director; appointed 1 February 2018), Graeme Evans (non-executive Chairman), Scott Pickering (non-executive director) and Philippa Dunphy (non-executive director; resigned 1 June 2018) and Carol Campbell (non-executive director; appointed 1 June 2018).

(c) Key management compensation

Key management personnel include the directors and eight key roles performed by key executives during the year (2017: nine 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:

	2018	*2017*
	$	*$*
Short term employee benefits	986,242	883,431
Post-employment benefits	94,926	22,273
Other long term benefits	1,969	3,303
Termination benefits	894	3,347
Share based payments	109,757	54,624
Total	**1,193,788**	**966,978**

(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:

	2018	*2017*
	$	*$*
Expenses with commonly controlled entities:		
Reinsurance premiums	56,263,880	52,663,276
Management and systems support	7,372,068	6,692,646
Commissions paid	360,821	343,053
Claims paid	2,685,598	908,285
Revenue with commonly controlled entities:		
Reinsurance and other recoveries revenue	39,320,153	54,513,805
Commissions received	9,870,658	10,392,090
Premiums assumed	4,458,950	5,163,944
Dividend paid to Parent entity	20,000,000	45,000,000

(e) Outstanding balances

The Company has balances with related parties at year end in relation to reinsurance and other receivables and payables. The balances outstanding at reporting date in relation to these receivables and payables are:

Receivables:		
Commonly controlled entities with the Ultimate Parent	128,788,863	173,436,721
Payables:		
Commonly controlled entities with the Ultimate Parent	3,898,977	6,023,443

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.

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

	2018 $000	*2017 $000*
Profit for the year	24,837	23,861
Adjusted for:		
Depreciation and amortisation	114	121
Fair value change on financial assets	1,367	805
Change in operating assets and liabilities:		
Increase/(Decrease) in unearned premium reserve	22,744	12,863
Increase/(Decrease) in unexpired risk liability	275	-
Increase/(Decrease) in outstanding claims	(34,739)	(47,215)
Increase/(Decrease) in trade and other creditors	(4,973)	6,490
(Decrease)/Increase in employee entitlements	(6)	190
Increase in deferred tax liabilities	1,483	422
(Decrease)/Increase in tax liabilities	812	751
(Increase)/Decrease in deferred insurance costs	(8,706)	(4,819)
(Increase)/Decrease in receivables including insurance receivables	(8,293)	(3,100)
(Increase)/Decrease in reinsurance and other recoveries	46,020	40,076
(Increase)/Decrease in deferred tax assets	(477)	197
(Increase)/Decrease in other assets	(58)	-
Net cash inflows from operating activities	**40,400**	**30,642**

30. EVENTS OCCURRING AFTER REPORTING DATE

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

31. CREDIT RATING

The Company is classified as a highly strategically important operating subsidiary of Chubb Limited and has a counterparty credit and financial strength rating of 'AA-/Stable'. This rating was re-affirmed on 7 August 2018 following S&P's review of the local operation.

32. CASH COLLATERAL

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

33. 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, 987 restricted ordinary shares were awarded during the year ended 31 December 2018 (2017: 1,747) and nil (2017: nil) restricted ordinary shares were transferred to other Chubb entities due to employee transfers during the year ended 31 December 2018. 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 $148,755 (2017: NZD $135,232).

Restricted Share Option Plan
Under Chubb Limited's long term incentive plan, 1315 restrictive share options were granted to eligible employees of the Company (2017: 2,328). 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 $52,232 (2017: NZD $47,482).

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

	2018		2017	
	Average exercise price in NZD per share	**Options**	**Average exercise price in NZD per share**	**Options**
At 1 January		6,067		4,330
Granted	198.76	1,315	192.64	2,328
Expired	-	-	157.67	(88)
Forfeited	196.50	(298)	118.27	(375)
Exercised	81.51	(551)	122.42	(551)
Cancelled	176.12	(360)		
Transferred in	196.56	155	169.97	423
At 31 December		6,328		6,067

33. SHARE BASED PAYMENT TRANSACTIONS (continued)

Out of the 6,328 outstanding options (2017: 6,067 options), 3,037 options (2017: 2,399) were exercisable. Options exercised in 2018 resulted in 551 shares (2017: 551) being issued at 81.51 NZD (2017: 122.42). The weighted average remaining life of the share options outstanding at the end of the period is 8 years (2017: 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 2018	Share options 2017
2019	57.02	-	310
2020	74.58	-	149
2021	92.75	82	82
2022	108.60	142	142
2023	126.43	338	338
2024	143.26	326	397
2025	169.94	521	622
2026	175.29	1,566	1,788
2027	205.82	2,038	2,239
2028	211.83	1,315	-
		6,328	6,067

The weighted average fair value of options granted during the period determined using the Black-Scholes valuation model was $41.27 NZD per option (2017: $31.83 NZD). The significant inputs into the model were share price of $198.76 NZD (2017: $192.64 NZD) at the grant date, the exercise price shown above, volatility of 23.16% (2017: 19.73%), dividend yield of 2.04% (2017: 2.04%), and an expected option life of 5 years and on annual risk-free interest rate of 2.73% (2017: 1.99%). 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: 9 April 2019

Re: **Chubb Insurance NZ – Section 78 Appointed Actuary's Report**

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.

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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 9 April 2019.

Additional analysis has been performed in the preparation of my Financial Condition Report dated 9 April 2019.

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 9 April 2019, I have:
    - Reconciled the actuarial claims data with Finance claims data
    - Analysed CINZL's claims data using actuarial techniques

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- **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 2018 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 9 April 2019
- **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);

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- 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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