CHUBB INSURANCE COMPANY OF AUSTRALIA LIMITED

ABN 69 003 710 647

ANNUAL FINANCIAL REPORT

For the year ended 31 December 2014

CHUBB INSURANCE COMPANY OF AUSTRALIA LIMITED

CONTENTS TO FINANCIAL REPORT

CHUBB INSURANCE COMPANY OF AUSTRALIA LIMITED

ABN 69 003 710 647

(Incorporated in New South Wales, Australia)

CORPORATE INFORMATION

Directors
B. R. Bollom (Chairman)
J.P. Bronner
P.V. D'Souza
A.R. Gourley
R. L. Hick
M.T. Lingafelter
G.M Seymour

Company Secretary
V. Webster

Registered Office
Citigroup Centre
Level 29
2 Park Street
Sydney NSW 2000

Banker
National Australia Bank

Auditors
Ernst & Young

DIRECTORS' REPORT

The directors submit their report for the year ended 31 December 2014.

DIRECTORS

The names and details of the directors in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Names, qualifications and experience

Bruce R Bollom

Independent Director. Bachelor of Arts (Accounting and Economics) Macquarie University, Certified Practising Accountant, former Chief Executive Officer, Australia and New Zealand, Willis Australia Ltd. Over 30 years experience in the insurance industry.

James P Bronner

Senior Vice President of Federal Insurance Company, Manager of Asia Pacific Zone Chubb Group of Insurance Companies, Director of Chubb Pacific Underwriting Management Services (PTE) Ltd. Bachelor degree in Finance and Accounting (Manhattan College). Over 30 years experience in the insurance industry.

Paul V D'Souza

Senior Vice President of Federal Insurance Company, Director of Chubb Pacific Underwriting Management Services (PTE) Ltd, Chief Financial Officer Asia Pacific Zone Chubb Group of Insurance Companies. Bachelor of Commerce (Calcutta University), Chartered Accountant, MBA (London Business School).

Andrew R Gourley

Vice President of Chubb Insurance Company of Australia Limited, Chief Financial Officer and Chief Operating Officer of Chubb Insurance Company of Australia Limited, Bachelor of Commerce (UNSW), Chartered Accountant. Over 25 years experience in the insurance industry.

Raymond L Hick

Independent Director. AAII, London Business School Senior Executive Programme, Asian Marketing UCLA. Retired former Director QBE Insurance Hong Kong, Sashin QBE Thailand, QBE Insurance Berhad Malaysia, QBE Pool Indonesia, QI PNG, QI Fiji. Former Chairman Hongkong & Shanghai Insurance Co. Over 30 years experience in the insurance industry.

Mark T Lingafelter

Senior Vice President of Chubb Insurance Company of Australia Limited, Managing Director and Country Manager of Chubb Insurance Company of Australia Limited. Bachelor of Arts (Colby College Maine USA). Over 30 years experience in the insurance industry.

Gary M Seymour

Independent Director. GAICD, ANZIIF Snr Associate, Diploma of Fin Serv (Insurance Broking). Over 35 years in the insurance industry.

PRINCIPAL ACTIVITIES

The principal continuing activities of Chubb Insurance Company of Australia Limited ('The Company') are general insurance underwriting and the investment of related funds.

OPERATING RESULT

	2014 $'000	2013 $'000
Operating profit for the year after income tax	65,983	38,804

DIVIDENDS

An interim dividend of $30,000,000 was proposed and paid out of current year earnings during the year ended 31 December 2014 (2013: $30M).

A final dividend of $20,000,000 has been proposed.

REVIEW OF OPERATIONS

The Company made a profit in 2014 primarily due to the increase in market value of our investment portfolio. The Company made an underwriting loss of $20.6M in 2014 primarily due to the reduction in outstanding claims discount rates during the year.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

On 29 May 2014 the Company was granted a licence by the Reserve Bank of New Zealand enabling it to write insurance in New Zealand. The Company is writing this business predominantly through agency networks. With the exception of this, there have been no significant changes in the state of affairs of the Company during the financial year.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Company plans to continue to operate in the general insurance market, predominantly in Australia.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The operations of the Company are not subject to any particular or significant environmental regulations under a law of the Commonwealth, or of a State or Territory. There have been no known breaches of any environmental requirements applicable to the Company.

SIGNIFICANT EVENTS AFTER THE REPORTING DATE

There has not been any matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations, or the state of affairs of the Company in financial years subsequent to 31 December 2014.

DIRECTORS' MEETINGS

For directors holding office during the year, details of the number of directors' meetings held and attended are as follows:

	Board Meetings		Audit, Risk and Compliance		Remuneration	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
B.R. Bollom	4	4	4	4	2	2
A.R. Gourley	4	4				
R.L. Hick	4	4	4	4	2	2
M.T. Lingafelter	4	4				
J.P. Bronner	4	3				
P.V. D'Souza	4	3	4	3	2	2
G.M. Seymour	4	4	4	4	2	2

At the date of this report the Company has an Audit Committee, Risk and Compliance Committee and a Remuneration Committee of the Board of Directors, having separated the Audit Committee and the Risk and Compliance Committee on 1 January 2015.

Members acting on the Audit, Risk and Compliance Committee and the Remuneration Committee of the Board during the year were R.L. Hick (Chairman of the Audit, Risk and Compliance Committee), G.M. Seymour (Chairman of the Remuneration Committee), B.R. Bollom and P.V. D'Souza.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During or since the financial year end Chubb Corporation Inc has paid premiums in respect of a contract insuring the directors of the Company against legal costs incurred in defending proceedings and for damages for breach of duty. The terms of the policy prohibit disclosure of details of the insurance cover and premiums paid.

AUDITOR INDEPENDENCE

The directors received a declaration of independence from the auditor of Chubb Insurance Company of Australia Limited which is attached to the independent audit report on page 48.

NON-AUDIT SERVICES

Details of non-audit services provided by the Company's auditor, Ernst and Young are outlined in note 36. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

ROUNDING

All values within the financial report are rounded to the nearest thousand dollars ($'000) unless otherwise stated under the option available to the Company under ASIC Class Order 98/100. The Company is an entity to which the class order applies.

Signed in accordance with a resolution of directors

A.R. Gourley
Director
Sydney 28 April 2015

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	2014 $'000	2013 $'000
Premium revenue	7	406,105	420,060
Outwards reinsurance premium expense		(66,424)	(69,949)
		339,681	350,111
Claims expense	8	(303,094)	(212,733)
Reinsurance and other recoveries revenue	9	76,669	23,315
	30	(226,425)	(189,418)
Other underwriting expenses	10	(133,899)	(133,526)
Underwriting result		(20,643)	27,167
Net investment revenue	11	116,353	29,355
General and administration expenses		(992)	(725)
		115,361	28,630
Net profit before tax		94,718	55,797
Income tax expense	13	(28,735)	(16,993)
Net profit after tax attributable to equity holders		65,983	38,804
Other comprehensive income		-	-
Total comprehensive income for the year, net of tax, attributable to equity holders		65,983	38,804

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

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2014

	Notes	2014 $'000	2013 $'000
ASSETS			
Current assets			
Cash and cash equivalents	15	28,190	41,459
Receivables including insurance receivables	16	125,740	128,727
Financial assets at fair value through profit or loss	17	51,348	57,360
Reinsurance and other recoveries receivable	18	58,384	43,046
Prepaid reinsurance premiums	19	11,198	13,470
Deferred acquisition costs	20	43,667	47,868
Other assets	21	8,966	7,389
Total current assets		327,493	339,319
Non-current assets			
Financial assets at fair value through profit or loss	17	1,166,320	1,087,413
Reinsurance and other recoveries receivable	18	71,376	74,457
Prepaid reinsurance premiums	19	767	885
Deferred tax asset	13	30,886	27,664
Property, plant and equipment	22	1,393	1,660
Total non-current assets		1,270,742	1,192,079
Total assets		**1,598,235**	**1,531,398**
LIABILITIES			
Current liabilities			
Payables	23	56,087	57,760
Outstanding claims liability	24	243,530	214,335
Unearned premium liability	25	211,946	206,783
Current tax liability	13	1,715	20,373
Provisions	26	3,567	2,619
Total current liabilities		516,845	501,870
Non-current liabilities			
Outstanding claims liability	24	436,265	433,003
Unearned premium liability	25	36,210	37,757
Deferred tax liability	13	37,328	23,237
Provisions	26	719	1,364
Total non-current liabilities		510,522	495,361
Total liabilities		**1,027,367**	**997,231**
Net assets		**570,868**	**534,167**
EQUITY			
Equity attributable to the Company's equity holders			
Contributed capital	27	10,000	10,000
Share based payment reserve		5,103	4,385
Retained earnings		555,765	519,782
Total equity		**570,868**	**534,167**

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

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

	Contributed capital $'000	Share based payment reserve $'000	Retained earnings $'000	Total $'000
At 1 January 2013	10,000	3,796	510,978	524,774
Issue of share capital	-	-	-	-
Grant of share based payments in Chubb Corporation	-	589	-	589
Net profit for the period	-	-	38,804	38,804
Total attributable to equity holders	10,000	4,385	549,782	564,167
Dividend for 2013	-	-	(30,000)	(30,000)
At 31 December 2013	**10,000**	**4,385**	**519,782**	**534,167**
Issue of share capital	-	-	-	-
Grant of share based payments in Chubb Corporation	-	718	-	718
Net profit for the period	-	-	65,983	65,983
Total attributable to equity holders	10,000	5,103	585,765	600,868
Dividend for 2014	-	-	(30,000)	(30,000)
At 31 December 2014	**10,000**	**5,103**	**555,765**	**570,868**
Notes	27			

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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	2014 $'000	2013 $'000
Cash flows from operating activities			
Premiums received		447,822	454,167
Outwards reinsurance paid		(63,920)	(72,359)
Other underwriting receipts		35,000	33,675
Claims paid		(253,152)	(216,713)
Reinsurance and other recoveries received		54,102	28,649
Underwriting expense payments		(105,582)	(112,179)
Net cash flows from underwriting activities		114,270	115,240
Purchase of investments		(208,478)	(213,496)
Proceeds from sale of investments		190,386	158,020
Investment fees paid		(914)	(814)
Interest received		61,888	60,476
Net cash flows from integral investing activities		42,882	4,186
Payments to suppliers and employees		(83,329)	(74,846)
GST paid		(20,199)	(19,871)
Interest paid		(21)	(2)
Income tax paid		(36,524)	(15,272)
Net cash flows from other operating activities		(140,073)	(109,991)
Net cash flows from operating activities	15	17,079	9,435
Cash flows from other investing activities			
Acquisition of property, plant and equipment		(348)	(478)
Proceeds from sale of property, plant and equipment		-	19
Net cash flows from other investing activities		(348)	(459)
Dividends paid		(30,000)	(30,000)
Net cash flows from financing activities		(30,000)	(30,000)
Net increase/(decrease) in cash and cash equivalents		(13,269)	(21,024)
Cash and cash equivalents at the beginning of the period		41,459	62,483
Cash and cash equivalents at the end of the period	15	28,190	41,459

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

Note 1 CORPORATE INFORMATION

The financial report of Chubb Insurance Company of Australia Limited (the Company) for the year ended 31 December 2014 was authorised for issue in accordance with a resolution of the directors on 28 April 2015.

Chubb Insurance Company of Australia Limited is a for profit company incorporated in Australia.

The nature of the operations and principal activities of the Company are outlined in the Directors' Report. Information on related party relationships is provided in Note 35.

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation
This financial report is a general purpose financial report, which has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board (AASB), interpretations approved by the International Accounting Standards Board (IASB) and the Corporations Act 2001.

The financial report is prepared in accordance with the fair value basis of accounting with certain exceptions as described in the accounting policies below.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($'000), unless otherwise stated, under the option available to the Company under ASIC Class Order 98/100. The Company is an entity to which the class order applies.

a) Statement of compliance with International Financial Reporting Standards (IFRS)
The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with the Australian equivalents to IFRS ensures that the financial report of the Company, comprising the financial statements and notes thereto, complies with IFRS.

b) Changes in accounting policy, accounting standards and interpretations

i) Changes in accounting policy, accounting standards and interpretations
The accounting policies adopted are consistent with those of the previous year with the exception of the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 January 2014:

Title of standard	Application date
AASB 1053 "Application of Tier of Australian Accounting Standards" - Tier 1: Australian Accounting Standards - Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements	1 January 2014
AASB 2012-3 Amendments to Australian Accounting Standards- Offsetting Financial Assets and Financial Liabilities- This standard adds application guidance to AASB 132 "Financial Instruments: Presentation", to address inconsistencies identified in applying some of the offsetting criteria of AASB 132	1 January 2014
Interpretation 21 "Levies"- This interpretation confirms that a liability to pay a levy is only recognised when the activity that triggers the payment occurs. Applying the going concern assumption does not create a construction obligation	1 January 2014
AASB 2013-3 "Amendments to AASB136 – Recoverable Amount Disclosures for Non-Financial Assets"	1 January 2014
AASB 1031 "Materiality"- This is an interim standard which will be withdrawn when references to AASB 1031 in all Standards and Interpretations have been removed.	1 January 2014
AASB 2013-9 "Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments" - Part B: makes amendments to particular Australian Accounting Standards to delete references to AASB 1031 and also makes minor editorial amendments to various other standards.	1 January 2014

ii) Accounting Standards and Interpretations issued but not yet effective

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Company for the reporting period ending 31 December 2014. These are outlined below. These amended standards are not expected to have a material impact on the Company's financial report.

Title of standard	Application date
AASB 9 "Financial Instruments" – A new principal standard which replaces AASB 139, it includes a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting.	1 January 2018
AASB 2013-9 "Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments" - Part C: makes amendments to a number of Australian Accounting Standards, including incorporating Chapter 6 Hedge Accounting into AASB 9 Financial Instruments	1 January 2015
AASB 2014-1 "Amendments to Australian Accounting Standards- Part A"- Annual Improvements to IFRS's 2010-2012 Cycle	1 January 2015
AASB 2014-1 "Amendments to Australian Accounting Standards- Part A"- Annual Improvements to IFRS's 2011-2013 Cycle	1 January 2015
AASB 2014-2 " Amendments to AASB 1053- Transition to and between tiers, and related Tier 2 Disclosure Requirements	1 January 2015
Disclosure Initiative "Amendments to IAS 1"- The amendments are designed to further encourage companies to apply professional judgment in determining what information to disclose in the financial statements.	1 January 2016

c) Foreign currency translation

i) *Functional and presentation currency*

Both the functional and presentation currency of the Company is Australian dollars ($).

ii) *Transactions and balances*

Transactions in foreign currencies are initially recorded in Australian currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at reporting date. All exchange differences are taken to the statement of profit or loss and other comprehensive income.

d) Premium revenue

Premium revenue comprises premiums from direct business.

Premium revenue includes amounts charged to the policyholders, including fire service levies but excluding stamp duties, GST and other amounts collected on behalf of third parties.

Premium revenue, including that on unclosed business, is recognised in the statement of profit or loss and other comprehensive income when it has been earned. Premium revenue is recognised in the statement of profit or loss and other comprehensive income from the attachment date evenly over the period of the contract. Where time does not approximate the pattern of risk, previous claims experience is used to derive the incidence of risk.

The proportion of premium received or receivable not earned in the statement of profit or loss and other comprehensive income at the reporting date is recognised in the statement of financial position as an unearned premium liability. The portion of this liability which relates to premium which will be earned within the next twelve months is disclosed as a current liability.

Premiums on unclosed business are brought to account using estimates based on the previous year's actual unclosed business with due allowance for any changes in the pattern of new business and renewals.

e) Unexpired risk liability

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 relating to future claims covered by current insurance contracts.

If the present value of the expected future cash flows relating to future claims plus an additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned premium liability less the related deferred acquisition costs, future reinsurance premium and prepaid reinsurance expense, then the unearned premium liability is deemed to be deficient.

The entire deficiency for a class of business is recognised immediately in the statement of profit or loss and other comprehensive income. The deficiency is recognised first by writing down any related deferred acquisition costs, with any excess being recorded in the statement of financial position as an unexpired risk liability.

f) Outwards reinsurance

Amounts paid to reinsurers under reinsurance contracts held by the Company are recorded as an outwards reinsurance expense and recognised in the statement of profit or loss and other comprehensive income from the attachment date over the period of indemnity of the reinsurance contracts in accordance with the expected pattern of the incidence of risk ceded.

g) Outstanding claims liability

The liability for outstanding claims is measured as the central estimate of the present value of expected future payments against claims incurred at the reporting date under general insurance contracts issued by the Company, with an additional risk margin to allow for the inherent uncertainty in the central estimate.

The expected future payments include those in relation to claims reported but not yet paid, claims incurred but not reported (IBNR), claims incurred but not enough reported (IBNER) and anticipated claims handling costs.

The expected future payments are discounted to present value using the risk free rate.

A risk margin is applied to the outstanding claims liability and reinsurance and other recoveries, to reflect the inherent uncertainty of the central estimate. This risk margin increases the probability that the net liability is adequately provided for to a 75% confidence level.

The portion of the outstanding claims provision relating to claims which are expected to be settled within the next twelve months is disclosed as a current liability.

h) Reinsurance and other recoveries receivable

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid, IBNR, IBNER and unexpired risk liabilities are recognised as revenue.

Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims. Recoveries are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

The portion of recoveries receivable which is expected to be settled within the next twelve months is disclosed as a current asset.

i) Acquisition costs

Acquisition costs incurred in obtaining general insurance contracts are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the statement of profit or loss and other comprehensive income in subsequent reporting periods.

Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the general insurance contracts to which they relate. This pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue.

j) Assets backing general insurance liabilities

As part of its investment strategy, the Company monitors the maturity dates of its investment portfolio in comparison with the expected pattern of future cash flows arising from general insurance liabilities.

The Company has determined that all financial assets are held to back general insurance liabilities and therefore all assets are valued at fair value in the statement of financial position.

The following policies apply to assets held to back general insurance liabilities.

i) Financial assets

Financial assets are designated at fair value through profit or loss. Initial recognition is at cost in the statement of financial position and subsequent measurement is at fair value with any resultant unrealised profits and losses recognised in the statement of profit or loss and other comprehensive income.

Purchases and sales of financial assets that require delivery of assets within a time frame established by regulation or market place convention are recognised on the trade date, which is the date that the Company commits to purchase or sell the asset. Details of fair value for the different types of financial assets are listed below:

- Cash assets are carried at face value of the amounts deposited. The carrying amounts approximate their fair value. Cash and short-term deposits in the statement of financial position comprise cash at bank and short-term deposits with an original maturity of one month or less. For the purposes of the statement of cash flows, cash includes deposits held at call with banks and investments in money market instruments;
- Fixed interest bonds are initially recognised at cost and the subsequent fair value is taken as the market value at the statement of financial position date.

ii) Derecognition of financial assets and financial liabilities

A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset

iii) Receivables

Amounts due from policyholders are initially recognised at fair value, being the amounts due. They are subsequently measured at the fair value which is approximated by taking the initially recognised amount and reducing it for impairment as appropriate.

Premiums are due for payment 90 days following inception of the insurance policy. Receivables from related parties are generally due and payable on a quarterly basis.

A provision for impairment of receivables is established where there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of expected future cash flows. The discount is calculated using the risk free rate. The impairment charge is recognised in the statement of profit or loss and other comprehensive income.

k) Fire brigade levy and other charges

A liability for fire brigade levy and other charges is recognised on business written to the reporting date. Fire brigade levy is expensed on the same basis as the recognition of premium revenue, with the portion relating to unearned premium being recorded as a prepayment.

l) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the notional income tax rate adjusted by 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.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the reporting date.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the reporting date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the statement of profit or loss and other comprehensive income.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities.

The Taxation of Financial Arrangements (TOFA) rules in Division 230 of the Income Tax Assessment Act 1997 apply mandatorily to the Company from 1 January 2011. These rules apply to determine the income tax consequences of gains and losses arising from financial arrangements. The Company made a transitional election, which requires the Company to bring financial arrangements held as at 1 January 2011 within the scope of the TOFA rules. This resulted in a net deductible balancing adjustment of $12,490,783, which is broadly the difference between the tax value of the financial arrangements that would have been brought to account under the TOFA rules and the tax value already brought to account. This balancing adjustment is required to be spread equally over the four years from 31 December 2011 to 31 December 2014.

m) Investment revenue

Investment revenue is measured to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

Interest revenue is recognised for all financial assets using the effective interest rate method.

n) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST, except where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.

The amount of GST recoverable from, or payable to, the taxation authority is included as part of the receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as operating cash flow.

o) Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses.

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 3 to 10 years

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

i) *Impairment*
The carrying values of plant and equipment are reviewed for impairment at each reporting date, with the recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

An impairment exists when the carrying value of an asset or cash-generating unit is then written down to its recoverable amount.

For plant and equipment, impairment losses are recognised in the statement of profit or loss and other comprehensive income.

ii) *Derecognition*
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.

p) Impairment of assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss and other comprehensive income. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

q) Trade and other payables

Trade and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Company prior to the end of the financial year that are unpaid and arise when the Company becomes obliged to make future payments in respect of the purchase of these goods and services.

Trade payables are normally settled between 7 days and 120 days. Payables to related parties are generally due and payable on a quarterly basis.

r) 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.

s) Employee entitlements

i) Short term

Short term entitlements are those which are expected to be wholly settled within twelve months of the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled.

ii) Long term

Long term entitlements are those which are not expected to be wholly settled within twelve months of the reporting date. These are measured as the present value of the estimated future payments to be made in respect of services provided by employees up to the reporting date. Expected future payments are discounted using market yields at the reporting date on government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

t) Share-based payment transactions

Chubb Corporation, the Company's ultimate holding company, has a stock-based compensation plan, the Long-Term Incentive Plan, under which it provides benefits to employees of the Company in the form of share based payments.

The Long-Term Incentive Plan provides for the granting of restricted stock units, restricted stock, performance units, stock options and other stock-based awards to key employees worldwide, including employees of the Company.

During 2004, Chubb Corporation changed the emphasis of its equity compensation program from stock options to other equity awards. In 2003 key employees of the Company received stock options. Since that time restricted stock units and performance awards have been granted.

The compensation expense in relation to these share-based compensation plans has been determined using the fair value method of accounting, whereby the expense has been measured based on the fair value of the award at grant date and recognised over the vesting or restriction period.

Restricted stock and performance awards

Restricted stock units are payable in cash, in shares of Chubb Corporation's common stock or a combination of both at no cost to the employee. Restricted stock units are not considered to be outstanding shares of common stock, have no voting rights and are subject to forfeiture during the restriction period. Holders of restricted stock unit awards may receive dividend equivalents, the cost being borne by Chubb Corporation. Performance awards are based on the achievement of performance goals over three year performance periods. These are payable in shares of Chubb Corporation's common stock or a combination of both. The employee is not permitted to sell or transfer ownership during the restriction period, typically 3 years. If an employee terminates within the restriction period, in circumstances other than a qualifying termination, stock is forfeited. A qualifying termination occurs where a participant terminates service due to death, disability or retirement. In these circumstances a pro-rata entitlement from grant date to date of termination vests and the remainder of the units are forfeited.

Stock Options

Stock options are granted at exercise prices not less than the fair market value of Chubb Corporation's common stock on the date of grant. The options vest over a two year period, with 50% vesting 1 year after grant date, and the remaining 50% 2 years after grant date. Options expire 10 years from the date of grant or upon termination of employment other than for retirement at normal retirement age, death or disability. All remaining options were exercised during the previous year.

u) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Operating lease payments, where the lessors effectively retain substantially all of the risks and benefits of ownership of the leased items, are recognised as an expense in the statement of profit or loss and other comprehensive income in accordance with the patterns of benefits derived from the leased items.

The cost of improvements to or on leasehold property is capitalised, disclosed as leasehold improvements, and amortised over the unexpired period of the lease.

Note 3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

(a) The ultimate liability arising from claims made under 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, including the cost of claims incurred but not yet reported to the Company.

The estimated cost of claims includes direct expenses to be incurred in settling claims. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

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

i) Valuation approach

The general approach to actuarial estimation of outstanding claims is to analyse all available past experience with respect to numbers of reported and finalised claims, claim payments and changes in any case estimates. This allows patterns to be identified in past experience. Based on this, development patterns associated with the run-off of outstanding claims at the current reporting date can be estimated.

Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- Changes in patterns in claim incidence, reporting, finalisation and payment
- Changes in policy coverage and conditions
- Changes in the legal environment
- Impact of inflation
- Impact of large losses
- Medical and technological developments
- Claim management procedures, and
- Changes in the mix of business.

The methods used to analyse past claim experience and to project future claim experience are largely determined by the available data and the nature of the portfolio.

The outstanding claims liability comprises the central estimate and a risk margin which is added to the central estimate to achieve a desired probability of adequacy.

ii) Central estimates

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

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

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.

iii) ***Risk margins***
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 of the Company. It is usual for the Directors to require a higher probability of adequacy than the central estimate provides. APRA's Prudential Standard GPS 320 requires at least a 75% probability of sufficiency. The additional probability of adequacy is provided by the addition of a risk margin.

The determination of the appropriate level of risk margin takes into account the uncertainty or variability of each class of business and the diversification benefits achieved by writing a number of classes of business. The setting of a risk margin involves subjective assessment. The risk margin should take into account at least the following factors.

- The variability of claims experience of the portfolio
- The extent of reinsurance
- The quality and quantity of historical data
- The risk appetite of the Company Directors
- Any statutory or regulatory requirements
- Consistency between different years of account

The measurement of variability by class of business has been based on a blend of industry benchmarks and the analysis of the Company's own claims experience. The relevant variability statistics are referred to as the standard deviation or the coefficient of variation.

The risk margin required to provide a given probability of adequacy for two or more classes of business is likely to be less than the sum of the risk margins for the individual classes. This reflects the benefits of diversification in general insurance. The statistical measure used to determine diversification is called the correlation or covariance. The higher the correlation between two classes of business, the more likely it is that a negative outcome in one class will correspond to a negative outcome in the other class.

Whilst there are estimation techniques for determining correlations, they are difficult to apply and the results from the analysis are often difficult to interpret. The correlations adopted by the Company in assessing the adequacy of the risk margins are normally derived from industry analysis and benchmarks, the Company's historical experience and the Company's Appointed Actuary.

The allowance for diversification benefits is very subjective. The research presented by various industry analyses is strongly dependent on a number of subjective assumptions regarding the correlation of estimates of liabilities between classes of business and between outstanding claim liabilities and premium liabilities.

(b) Assets arising from reinsurance contracts
Assets arising from reinsurance contracts are also computed using the above methods. In addition, the recoverability of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as counterparty and credit risk. Impairment is recognised where there is objective evidence that the Company may not receive amounts due to it and these amounts can be reliably measured.

(c) Make good provisions
A provision has been made for the present value of anticipated costs of future restoration of leased office premises. The provision includes future cost estimates associated with office dismantling and requires assumptions as to engineering and building costs involved. These uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision recognised for each location is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs are recognised in the statement of financial position by adjusting both the asset and provision. The related carrying amounts are disclosed in note 26.

(d) Long service leave
A provision has been made for the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Expected future payments are discounted using market yields at the reporting date on government bonds with terms to maturity that match, as closely as possible, the estimated future outflows. In determining expected future payments, consideration is given to expected future salary levels, experience of employee departures and periods of service. These uncertainties may result in future actual expenditure differing from the amounts currently provided. The carrying amounts are disclosed in note 26.

Note 4 ACTUARIAL ASSUMPTIONS AND METHODS - OUTSTANDING CLAIMS

a) Outstanding claim valuation methodology

The outstanding claim valuation methodology adopted is the same as that adopted in prior years. Four different methods of analysis and projection of the claims experience have been relied upon. The methods of analysis performed are:

- Reported Loss Development Method (RLD)
- Paid Loss Development Method (PLD)
- Reported Bornhuetter Ferguson Method (RBF)
- Paid Bornhuetter Ferguson Method (PBF)

As per prior valuations, the RBF method has been given complete weight over the other methods but the final selection can be subject to further judgements. This method gradually blends an assumed loss ratio applied to earned premium with the portfolio's reported claims experience to arrive at an estimate of the outstanding claims liability.

Large claims

Large claims occur infrequently, but by definition, have a large impact when they do occur. Because they occur infrequently, assessment of an appropriate provision to hold to protect against them does not lend itself to extensive statistical analysis.

For the purpose of analysis, large claims are generally retained in the main body of data, except where the existence of a large claim distorts the valuation model. Due to the nature of the Company's business, the occurrence or non-occurrence of a small number of large claims can have a significant impact on whether the estimates of the outstanding claim liability and recommended provisions ultimately prove to be inadequate or sufficient.

The allowance for large claims is provided for in the selection of loss ratio assumptions for the RBF method plus further adjustments where required.

b) Assumptions

i) Economic inflation

To project future claim payments, allowance must be made, either implicitly or explicitly, for future claim inflation. For the purpose of the analysis, past claim payments and case estimates have not been explicitly inflated to current (31 December 2014) values. The valuation methods used implicitly allow for economic inflation. It is implicitly assumed that future economic inflation will be at the average level experienced in the past.

ii) Superimposed / judicial inflation

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.

The valuation methods used in the determination of outstanding claims implicitly allow for superimposed inflation. It is implicitly assumed that future superimposed inflation will be at the average level experienced in the past.

iii) Discounting

The projected inflated claim payments are then 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. They have been derived from the yield curve on Australian Government Bonds as at 31 December 2014 as provided by the Reserve Bank of Australia. This is consistent with the requirements of the accounting standard AASB 1023 as well as APRA's GPS 320 Actuarial and Related Matters. The following average discount rates were used in measuring the liability for outstanding claims.

Claims expected to be paid:	2014	2013
Not later than one year:		
Discount rate	2.3%	2.4%
Later than one year:		
Discount rate	2.3%	3.6%

iv) Weighted average term to settlement

The assumed weighted average term to settlement of the net outstanding claim liabilities at the reporting date is 2.2 years (2013: 2.3 years)

v) Allowance for claims handling expenses

Allowance for indirect claim handling expenses is required for outstanding claim provisions under APRA's prudential standard GPS 320 and the Australian accounting standard AASB 1023. The provisions adopted by the Company include allowance for claim handling expenses. An analysis of claim handling expenses, both past and forecast, by class of business has been performed. The adopted claim handling expense assumption increased from 4.9% to 6.0% of gross outstanding claims as at December 2014.

Sensitivity analysis – insurance contracts

i) Summary

The Company conducts sensitivity analyses to quantify the exposure to risk of 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 variable will impact the performance and equity of the Company. The tables below describe how a change in each assumption will affect the insurance liabilities and show an analysis of the sensitivity of the profit/(loss) and equity to changes in these assumptions both gross and net of reinsurance.

Variable	Impact of movement in variable
Assumptions underlying the central estimate	The central estimate is based on the RBF method, however there are uncertainties in the selection of assumptions for use in this method. An increase or decrease in one or more of the key assumptions would have a corresponding decrease or increase in the central estimate.
Average weighted term to settlement	A decrease in the average term to settlement rates would lead to more claims being paid sooner than anticipated. Expected payment patterns are used in determining the outstanding claims liability. An increase or decrease in the average weighted term would have a corresponding decrease or increase on claims expense.
Claim handling expense rate	An estimate for the internal costs of handling claims is included in the outstanding claims liability. An increase or decrease in the expense rate assumption would have a corresponding impact on claims expense.
Discount rate	The outstanding claims liability is calculated by reference to expected future payments. These payments are discounted to adjust for the time value of money. An increase or decrease in the assumed discount rate would have a corresponding decrease or increase on claims expense.

ii) Impact of changes in key variables

2014

Variable	Movement in variable	Net outstanding claims liabilities Increase/(decrease) $'000	Profit after tax Increase/(decrease) $'000	Equity Increase/(decrease) $'000
Assumptions underlying the central estimate	+ 5.0%	28,350	(19,845)	(19,845)
	- 5.0%	(28,350)	19,845	19,845
Average weighted term to settlement	+ 0.5 years	(6,388)	4,471	4,471
	- 0.5 years	6,460	(4,522)	(4,522)
Discount rate	+ 1.0%	(11,912)	8,339	8,339
	- 1.0%	12,490	(8,743)	(8,743)
Claim handling expense ratio	+ 1.0%	5,426	(3,798)	(3,798)
	- 1.0%	(5,426)	3,798	3,798

2013

Variable	Movement in variable	Net outstanding claims liabilities Increase/(decrease) $'000	Profit after tax Increase/(decrease) $'000	Equity Increase/(decrease) $'000
Assumptions underlying the central estimate	+ 5.0%	26,819	(18,773)	(18,773)
	- 5.0%	(26,819)	18,773	18,773
Average weighted term to settlement	+ 0.5 years	(8,420)	5,894	5,894
	- 0.5 years	8,555	(5,988)	(5,988)
Discount rate	+ 1.0%	(11,919)	8,343	8,343
	- 1.0%	12,514	(8,760)	(8,760)
Claim handling expense ratio	+ 1.0%	5,200	(3,640)	(3,640)
	- 1.0%	(5,200)	3,640	3,640

Note 5 INSURANCE CONTRACTS – RISK MANAGEMENT POLICIES AND PROCEDURES

The financial condition and operation of the Company are affected by a number of key risks including insurance risk, interest rate risk, currency risk, credit risk, market risk, liquidity risk, financial risk, compliance risk, fiscal risk and operational risk. Notes on the Company's policies and procedures in respect of managing these risks are set out below.

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

The Company has an objective to control insurance risk thus reducing the volatility of operating profits. In addition to the inherent uncertainty of insurance risk, which can lead to significant variability in the loss experience, profits from insurance business are affected by market factors, particularly competition and movements in asset values. Short-term variability is, to some extent, a feature of insurance business.

In accordance with Prudential Standards GPS 220 *Risk Management for General Insurers* and GPS 230 *Reinsurance Management for General Insurers* issued by the Australian Prudential Regulation Authority (APRA), the Board and senior management of the Company have developed, implemented and maintained a sound and prudent Risk Management Strategy (RMS) and a Reinsurance Management Strategy (REMS).

The RMS and REMS identify the Company's policies and procedures, processes and controls that comprise its risk management and control systems. These systems address all material risks, financial and non-financial, likely to be faced by the Company. Annually, the Board certifies to APRA that adequate strategies have been put in place to monitor those risks, that the Company has systems in place to ensure compliance with legislative and prudential requirements and that the Board has satisfied itself as to the Company's compliance with the RMS and REMS.

The RMS and REMS have been approved by the Board and submitted to APRA. Key aspects of the processes established in the RMS to mitigate risks include:

- The maintenance and use of sophisticated management information systems, which provide up to date, reliable data on the risks to which the business is exposed at any point in time.
- Actuarial models, using information from the management information systems, are used to analyse premiums and monitor claims patterns. Past experience and statistical methods are used as part of the process.
- Documented procedures are followed for underwriting and accepting insurance risks.
- Natural disasters such as bushfires are generally managed through a Company policy which involves the avoidance of providing coverage to areas identified as a high risk in relation to such disasters.
- Reinsurance is used to limit the Company's exposure to large single claims and catastrophes. When selecting a reinsurer only those companies that provide high security are considered. In order to assess this, rating information from the public domain or gathered through internal investigations is used.
- In order to limit concentrations of credit risk in purchasing reinsurance, the Company has regard to existing reinsurance assets and seeks to limit excess exposure to any single reinsurer or group of related reinsurers.
- The mix of assets in which the Company invests is driven by the nature and term of the insurance liabilities. The Company monitors the maturity dates of assets compared to the expected pattern of claim payments, and the impact of any mismatch on the results of the Company.
- The diversification of business over four strategic business units and large numbers of uncorrelated individual risks seeks to reduce variability in loss experience.

(b) Terms and conditions of insurance 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.

(c) Concentration of insurance risk

The Company's exposure to concentrations of insurance risk is mitigated by a portfolio diversified into four strategic business units. Specific processes for monitoring identified key concentrations are set out below.

Risk	Source of concentration	Risk management measures
Natural catastrophes	Properties concentrated in regions that are subject to: • Earthquakes • Windstorm • Flood	The Company's underwriting strategy requires individual risk premiums to be differentiated in order to reflect the higher loss frequency in particular geographical areas. The Company has modelled aggregated risk by postcode using commercially available catastrophe models. The Company's exposure data across the Australian portfolio encompasses all property risks. Based on the probable maximum loss per the models, the Company ensures that adequate catastrophe reinsurance cover is put in place to limit exposure to any single event.

(d) Development of claims

There is a possibility that changes may occur in the estimate of obligations at the end of a contract period. The tables in note 24 show estimates of total claims outstanding for each underwriting year at successive year ends.

(e) Interest rate risk

The company's exposure to interest rate risk is set out in note 6 and the effective interest rates of financial assets and financial liabilities are set out in note 31.

(f) Credit risk

The company's exposure to credit risk is set out in note 6.

Note 6 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's principal financial instruments comprise cash and cash equivalents, premiums receivable, interest receivable, reinsurance recoveries on paid claims, sundry debtors, financial assets at fair value through profit or loss, trade creditors, other creditors and amounts payable to related entities.

The Company manages its exposure to key financial risks, including interest rate and currency risk in accordance with the Company's Risk Management Strategy. The objective of the strategy is to support the delivery of the Company's financial targets whilst protecting future financial security.

The main risks arising from the Company's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Company uses different methods to measure and manage different types of risk to which it is exposed. These include adopting an investment strategy which minimises exposure to interest rate and foreign exchange risk. Ageing analyses and credit approval controls are undertaken to manage credit risk, while liquidity risk is monitored through cash flow forecasts and analysis.

The Board reviews and agrees the policies for managing each of these risks as outlined in the Company's Risk Management Strategy as summarised below.

a) Risk exposures and responses

i) Interest rate risk

The Company's exposure to market interest rates relates primarily to their impact on market values of financial assets at fair value through profit or loss and on interest earned on cash and cash equivalents and these financial assets.

At reporting date, The Company has the following financial assets exposed to Australian variable interest rate risk that are not designated as cash flow hedges.

	2014 $'000	2013 $'000
Cash and cash equivalents	28,190	41,459
Interest receivable	15,393	15,730
Financial assets at fair value through profit or loss	1,217,668	1,144,773
	1,261,251	1,201,962

The Company manages its exposure to interest rate risk through adopting a conservative investment philosophy and only investing in fixed interest products, predominately government, semi government and corporate bonds.

The following sensitivity analysis is based on interest rate risk exposures in existence at 31 December 2014.

At 31 December 2014, if interest rates had moved, as illustrated in the table below, with all other variables held constant, profit after tax and equity would have been affected as follows:

Judgements of reasonably possible movements:	Profit after tax higher/(lower)		Equity higher/(lower)	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Cash at bank				
+ 25 bp	45	25	45	25
+ 100 bp	179	99	179	99
+ 200 bp	359	198	359	198
- 25 bp	(45)	(25)	(45)	(25)
- 100 bp	(179)	(99)	(179)	(99)
- 200 bp	(359)	(198)	(359)	(198)
Financial assets at fair value through profit or loss, interest receivable and short-term deposits				
+ 25 bp	(9,451)	(8,541)	(9,451)	(8,541)
+ 100 bp	(36,918)	(33,381)	(36,918)	(33,381)
+ 200 bp	(71,567)	(64,766)	(71,567)	(64,766)
- 25 bp	9,605	8,675	9,605	8,675
- 100 bp	39,369	35,532	39,369	35,532
- 200 bp	81,390	73,386	81,390	73,386

The movements in profit after tax in relation to cash at bank are due to expected higher/lower interest on bank account balances as a result of the possible movements in interest rates.

In preparing the above sensitivity analysis for financial assets at fair value through profit or loss, interest receivable and short-term deposits, a Bloomberg portfolio scenario facility was utilised which identifies individual securities within the portfolio that have the greatest exposure to changing interest rates. The model then forecasts the impact on returns for the Company's portfolio based on these assumptions.

The movements in profit after tax in relation to financial assets at fair value through profit or loss, interest receivable and short-term deposits are due predominantly to higher/lower market values of bonds in the Company's portfolio as a result of movements in interest rates. The sensitivity is not significantly different between 2013 and 2014.

ii) Foreign currency risk

The Company's only significant exposure to foreign currency risk is in relation to premiums receivable, reinsurance recoveries receivable, management fees payable and reinsurance premiums payable to the parent, other related entities and other entities at reporting date. These transactions are not hedged.

At reporting date, the Company has the following financial assets and liabilities exposed to movements in foreign currency rates that are not designated as cash flow hedges.

	2014 $A'000	2013 $A'000
Premiums receivable:		
United States dollars	1,884	1,424
	1,884	1,424
Reinsurance recoveries receivable:		
United States dollars	22,072	3,957
	22,072	3,957
Amounts payable to related parties:		
United States dollars	8,583	7,981
Singapore dollars	7,246	7,041
	15,829	15,022
Outstanding Claims:		
United States dollars	9,854	10,148
New Zealand dollars	1,114	1,025
	10,968	11,173
Payables:		
United States dollars	298	1,474
	298	1,474

Where necessary the prior year figures have been restated for comparative purposes.

The Company manages its exposure to foreign currency risk through adopting a policy of settling all payable balances on a quarterly basis and monitoring and follow up of receivable balances to ensure settlement within credit terms.

The following sensitivity analysis is based on foreign currency risk exposures in existence at year end. At year end, had the Australian dollar moved, as illustrated in the table below, with all other variables held constant, profit after tax and equity would have been affected as follows:

Judgements of reasonably possible movements:	Profit after tax higher/(lower)		Equity higher/(lower)	
	2014	2013	2014	2013
	$A'000	$A'000	$A'000	$A'000
AUD/USD + 10%	(365)	998	(365)	998
AUD/USD - 10%	365	(998)	365	(998)
AUD/SGD + 10%	508	493	508	493
AUD/SGD - 10%	(508)	(493)	(508)	(493)
AUD/NZD +10%	78	72	78	72
AUD/NZD - 10%	(78)	(72)	(78)	(72)

The increase in the impact on profit after tax between 2013 and 2014 reflects the net increase in the receivable and payable balances at each year end date.

iii) Credit risk

Credit risk arises from the financial assets of the Company, which comprise cash and cash equivalents, premiums receivable, interest receivable, reinsurance recoveries on paid and outstanding claims, sundry debtors and financial assets at fair value through profit or loss. The Company's exposure to credit risk arises from potential default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

The Company minimises credit risk in relation to premiums receivable by incorporating a credit approval process for Broker appointments and including a credit risk assessment of insureds in its underwriting guidelines. Similarly, reinsurance recoveries on paid and outstanding claims are controlled through the majority of reinsurance arrangements being placed with the parent company, along with the requirement that reinsurance be placed with reinsurers on a parent approved list of authorised companies.

Receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant. There is no significant concentration of risk with the exception of reinsurance recoveries due from related parties, principally Federal Insurance Company.

Credit risk in relation to cash and cash equivalents and financial assets at fair value through profit or loss is minimised by the Company's conservative investment philosophy where only highly rated and marketable bonds are held. These are spread amongst a number of financial institutions, government and semi-government corporations to minimise the risk of default of counterparties.

The Company's exposure to credit risk at reporting date is outlined in the applicable notes.

iv) Liquidity risk

The Company controls liquidity risk by maintaining sufficient cash and overdraft facilities in at call bank accounts to ensure that claims can be paid on demand. Excess cash is invested in fixed interest marketable bonds. The Company monitors the maturity dates of its investment portfolio in comparison with the expected pattern of future cash flows. In addition, these bonds can be sold and converted to cash as required.

A maturity analysis of the Company's financial assets and financial liabilities is included in note 31.

(b) Net fair values

The net fair value of financial assets at fair value through profit or loss has been estimated by utilising one of the following methods:

Level 1 – the fair value is calculated using quoted prices in an active market.
Level 2 – the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset, either directly (as prices) or indirectly (derived from prices).
Level 3 – the fair value is estimated using inputs for the asset that are not based on observable market data.

The fair value of the financial instruments as well as the methods used to estimate the fair value are summarised in the table below.

	2014 $'000				2013 $'000			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Government and semi-government bonds	-	838,654	-	838,654	-	816,988	-	816,988
Mortgage backed securities	-	-	539	539	-	-	681	681
Corporate bonds	-	378,475	-	378,475	-	327,104	-	327,104
	-	1,217,129	539	1,217,668	-	1,144,092	681	1,144,773

The majority of bonds are valued utilising Interactive Data Services which uses a valuation model based on observable inputs and are therefore classified within Level 2. Where liquidity is lower, or the portfolio manager considers that an independent price from a broker is more accurate, this form of valuation is used and the assets are classified as Level 3. There have not been any transfers between Level 1 and Level 2, or between Level 2 and 3, during the year.

The following is a reconciliation of Level 3 fair value movements.

	2014 $'000	2013 $'000
Opening balance	681	8,251
Gain/(loss) for the period recognised in net investment revenue	5	101
Sales	(147)	(7,671)
Purchases	-	-
Closing balance	539	681
The gain/(loss) for the period recognised in net investment revenue in the statement of profit or loss and other comprehensive income attributable to assets held at the end of the period	5	(3)

Changes to one or more inputs to other reasonably possible alternative assumptions would not result in significant changes to the fair value of level 3 assets of the Company.

The net fair value of other financial assets and financial liabilities at the reporting date is equal to the carrying value of those financial assets and financial liabilities in the statement of financial position.

The method of estimating fair value at reporting date is outlined in the relevant notes.

		2014 $'000	2013 $'000
Note 7	**PREMIUM REVENUE**		
	Direct	406,105	420,060
Note 8	**CLAIMS EXPENSE**		
	Direct	303,094	212,733
Note 9	**REINSURANCE AND OTHER RECOVERIES REVENUE**		
	Reinsurance recoveries	65,555	22,672
	Other recoveries	11,114	643
		76,669	23,315
Note 10	**OTHER UNDERWRITING EXPENSES**		
	Acquisition costs	93,273	86,153
	Write down of deferred acquisition costs for premium deficiency	19,185	13,827
	Levies and charges	9,726	18,392
	Administration expenses	11,715	15,154
		133,899	133,526
Note 11	**NET INVESTMENT REVENUE**		
	Interest	61,551	61,677
	Changes in net fair value of investments:		
	- unrealised gains/(losses)	56,712	(30,579)
	- realised gains /(losses)	(1,910)	(1,743)
		116,353	29,355

Note 12 **REVENUE AND EXPENSES**

The net profit before tax for the year is arrived at after charging/(crediting) the following items:

	2014 $'000	2013 $'000
Depreciation		
- plant and equipment	365	397
- leasehold improvements	191	280
Rental - operating leases	2,117	2,232
Employee costs (excluding superannuation)	43,225	43,128
Defined contribution superannuation	2,953	2,868
Provision for employee entitlements	303	271
Net foreign exchange losses	1,106	2,374
Bad and doubtful debts – premiums receivable	97	(186)
Bad and doubtful debts – net reinsurance recoveries/payables	61	105

		2014 $'000	2013 $'000
Note 13	INCOME TAX		

The major components of income tax expense are:

a) Statement of profit or loss and other comprehensive income

	2014 $'000	2013 $'000
Current income tax		
Current income tax charge	17,814	28,745
Adjustments in respect of current income tax of previous years	52	132
Deferred income tax		
Relating to origination and reversal of temporary differences	10,893	(11,751)
Adjustments in respect of deferred income tax of previous years	(24)	(133)
Income tax expense reported in the statement of profit or loss and other comprehensive income	28,735	16,993

A reconciliation between tax expense and net profit before tax multiplied by the applicable tax rate is as follows:

	2014 $'000	2013 $'000
Net profit before tax	94,718	55,797
Tax at the standard rate of 30%	28,415	16,739
At the Company's statutory income tax rate of 30% (2013: 30%)		
Adjustments in respect of current and deferred income tax of previous years	28	(1)
Expenditure not allowable for income tax purposes	292	255
Income tax expense reported in the statement of profit or loss and other comprehensive income	28,735	16,993

	Current income tax		Deferred income tax	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
b) Recognised deferred tax assets and liabilities				
Opening balance	20,373	6,768	4,427	(7,457)
Charged to income	17,866	28,877	(10,869)	11,884
Payments	(36,524)	(15,272)	-	-
Closing balance	1,715	20,373	(6,442)	4,427
Tax expense in the statement of profit or loss and other comprehensive income			28,735	16,993
Amounts recognised in the statement of financial position:				
Deferred tax asset			30,886	27,664
Deferred tax liability			(37,328)	(23,237)
			(6,442)	4,427

	Statement of financial position		Statement of profit or loss and other comprehensive income	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
c) Deferred income tax				
Deferred income tax at 31 December relates to the following:				
i) Deferred tax assets				
Doubtful debts	400	503	103	(16)
Employee entitlements	3,054	3,323	269	(617)
Property, plant and equipment	368	302	(66)	(53)
Accrued expenses	539	307	(232)	58
Claims handling costs on outstanding claims provisions	11,334	8,865	(2,469)	(693)
Fringe benefits tax	23	19	(4)	(8)
Accrued interest on purchase of investments	1,883	2,007	124	(19)
Deferred acquisition costs	13,224	12,257	(967)	2,749
Unrealised foreign exchange losses	19	35	16	(24)
Other	42	46	4	18
	30,886	27,664		
ii) Deferred tax liabilities				
Restatement of financial assets to market value	(30,315)	(15,093)	15,221	(10,417)
Prepaid expenses	(49)	(83)	(34)	50
Deferred fire brigade charges	(1,351)	(1,536)	(185)	(1,828)
Unearned premium reserve	(5,613)	(5,588)	26	(147)
TOFA balancing adjustment	-	(937)	(937)	(937)
Deferred tax income	(37,328)	(23,237)	(10,869)	(11,884)

Note 14 FRANKING ACCOUNT

	2014	2013
	$'000	$'000
The amount of franking credits available for the subsequent financial year are:		
Franking account balance as at the end of the financial year at 30%	243,277	219,650
Franking credits that will arise from payment of income tax payable as at the end of the financial year	1,715	20,373
	244,992	240,023

Note 15 CASH AND CASH EQUIVALENTS

	2014 $'000	2013 $'000
Cash at bank	24,911	12,900
Short-term deposits	3,279	28,559
	28,190	41,459

Cash at bank earns interest at floating rates based on daily deposit rates.
Short term deposits are made for varying periods of between one day and one month and earn interest at the respective short-term deposit rates.
The Company has a financing facility designated in USD in the nature of a bank overdraft. The available facility is USD 9.2M or $11,277,176 at 31 December 2014 (2013: USD 9.2M).

Reconciliation of comprehensive income after tax to net cash flows from operating activities

	2014 $'000	2013 $'000
Comprehensive income, net of tax	65,983	38,804
Adjustments for		
Depreciation	556	677
Net loss on sale of property, plant and equipment	59	1
Write-back/(addition) to make good provision on leasehold improvements	-	52
Share based payments expensed	718	589
Changes in assets and liabilities		
(Increase)/decrease in receivables	(9,270)	22,781
(Increase)/decrease in financial assets	(72,895)	(23,154)
(Increase)/decrease in current tax assets	-	-
(Increase)/decrease in deferred tax assets	(3,222)	1,395
(Increase)/decrease in deferred acquisition costs	4,201	(6,934)
(Increase)/decrease in prepaid reinsurance premiums	2,390	5,207
(Increase)/decrease in other assets	(1,577)	7,531
(Decrease)/increase in payables	(1,673)	(7,834)
(Decrease)/increase in unearned premium reserve	3,616	(15,702)
(Decrease)/increase in outstanding claims liability	32,457	(14,523)
(Decrease)/increase in current tax liabilities	(18,658)	13,605
(Decrease)/increase in deferred tax liabilities	14,091	(13,279)
(Decrease)/increase in provisions	303	219
Net cash flows from operating activities	17,079	9,435

Note 16 RECEIVABLES INCLUDING INSURANCE RECEIVABLES

	2014 $'000	2013 $'000
Premiums receivable	109,852	112,431
Interest receivable	15,393	15,730
Sundry debtors	495	566
	125,740	128,727
Sundry debtors comprises:		
- parent	-	-
- related corporations	15	30
- other	480	536
	495	566

a) Allowance for impairment loss

Premiums receivable are non-interest bearing and are generally on 90 day terms. A provision for impairment loss is recognised when there is objective evidence that an individual premium receivable is impaired. An impairment loss written off of $357,000 has been recognised in the current year (2013: $45,000). These amounts have been included in the statement of profit or loss and other comprehensive income.

Movements in the provision for impairment loss were as follows:	2014 $'000	2013 $'000
Opening balance	875	1,106
(Recovery)/charge for year	97	(186)
Amounts written off	(357)	(45)
Closing balance	615	875

At 31 December, the ageing analysis of premiums receivable (gross of provision for impairment loss) is as follows:

	Total	0-90 days	91-120 days	+ 121 days past effective date not impaired	+ 121 days considered impaired
	$'000	$'000	$'000	$'000	$'000
2014	110,467	101,399	4,799	3,654	615
2013	113,306	104,073	5,688	2,670	875

Receivables past due but not considered impaired are being actively followed up with the relevant brokers and the Company is satisfied that payment will be received in full.

Other balances within trade and other receivables do not contain impaired assets and are not past due. It is expected that these other balances will be received when due.

b) Related party receivables

For terms and conditions of related party receivables refer to note 35.

c) Fair value and credit risk

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

The maximum exposure to credit risk is the fair value of receivables. Further discussion on credit risk is included in note 6.

d) Foreign exchange and interest rate risk

The Company does not charge interest on receivables. The impact of foreign exchange risk is outlined in note 6.

	2014 $'000	2013 $'000

Note 17 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2014 $'000	2013 $'000
Government and semi-government bonds	838,654	816,988
Mortgage backed securities	539	681
Corporate bonds	378,475	327,104
	1,217,668	1,144,773
Current	51,348	57,360
Non-current	1,166,320	1,087,413
	1,217,668	1,144,773

Note 18 REINSURANCE AND OTHER RECOVERIES RECEIVABLE

	2014 $'000	2013 $'000
Expected future reinsurance recoveries and other recoveries undiscounted		
- on paid claims	16,972	6,541
- on outstanding claims	118,337	119,352
	135,309	125,893
Discount to present value	(5,549)	(8,390)
	129,760	117,503
Current	58,384	43,046
Non-current	71,376	74,457
	129,760	117,503
Reinsurance and other recoveries receivable comprises:		
- parent	108,418	90,429
- related corporations	227	380
- other	21,115	26,694
	129,760	117,503

Note 19 PREPAID REINSURANCE PREMIUMS

	2014 $'000	2013 $'000
Prepaid reinsurance premium asset as at the start of the period	14,355	19,562
Deferral of reinsurance premiums on contracts entered into during the period	11,080	13,527
Earning of reinsurance premiums on contracts entered into in previous periods	(13,470)	(18,734)
Prepaid reinsurance premium asset as at the end of the period	11,965	14,355
Current	11,198	13,470
Non-current	767	885
	11,965	14,355

		2014 $'000	2013 $'000
Note 20	**DEFERRED ACQUISITION COSTS**		
	Deferred acquisition costs as at the start of the period	47,868	40,934
	Acquisition costs deferred	108,257	106,914
	Amortisation charged to income	(93,273)	(86,153)
	Write down for premium deficiency	(19,185)	(13,827)
	Deferred acquisition costs as at the end of the period	43,667	47,868

An analysis of the adequacy of the unearned premium as at 31 December 2014 indicated that the unearned premium liability was deficient and as a result deferred acquisition costs were written down. This has been determined as follows:

	2014 $'000	2013 $'000
Gross central estimate of the present value of expected future cash flows	137,938	131,279
Reinsurance central estimate of the present value of expected future cash flows	(18,615)	(19,757)
Net central estimate of the present value of expected future cash flows	119,323	111,522
Claims and policy expenses	16,360	19,381
Risk margin – 16.1% (2013: 16.1%)	21,818	21,139
Present value of expected future cash flows for future claims	157,501	152,042
Future reinsurance premium	25,912	25,102
Net present value of expected future cash flows for future claims	183,413	177,144
Unearned premium reserve (exclusive of unearned fire service levy)	243,654	239,420
Prepaid reinsurance premiums	(11,965)	(14,355)
Net unearned premium reserve	231,689	225,065
Deferred acquisition costs	(62,852)	(61,695)
	168,837	163,370
Surplus/(deficit)	(14,576)	(13,774)
Write down of deferred acquisition costs due to deficiency in 7 (2013: 7) classes of business	19,185	13,827

		2014 $'000	2013 $'000
Note 21	**OTHER ASSETS**		
	Prepaid expenses	348	458
	Deferred fire brigade charges	4,502	5,120
	Other	4,116	1,811
		8,966	7,389
	Current	8,966	7,389
	Non-current	-	-
		8,966	7,389

Note 22 PROPERTY, PLANT AND EQUIPMENT

	2014 $'000	2013 $'000
Plant and equipment		
At cost	3,668	3,724
Accumulated depreciation	(2,701)	(2,518)
	967	1,206
Leasehold improvements		
At cost	1,796	1,633
Accumulated depreciation	(1,370)	(1,179)
	426	454
Total property, plant and equipment		
At cost	5,464	5,357
Accumulated depreciation	(4,071)	(3,697)
Written down value	1,393	1,660

Reconciliations

	2014 $'000	2013 $'000
Plant and equipment		
Carrying amount at the beginning of the year	1,206	1,188
Additions	147	432
Reclassification	38	-
Disposals	(59)	(17)
Depreciation expense	(365)	(397)
Carrying amount at the end of the year	967	1,206
Leasehold Improvements		
Carrying amount at the beginning of the year	454	743
Additions	201	46
Reclassification	(38)	-
Disposals	-	(55)
Depreciation expense	(191)	(280)
Carrying amount at the end of the year	426	454
Total carrying amount at the end of the year	1,393	1,660

Note 23 PAYABLES

	2014 $'000	2013 $'000
Trade payables	11,511	12,834
Amounts payable to related corporations	27,961	28,319
Fringe benefits taxation	175	151
Non-admitted premium taxation	1,672	1,710
GST	2,224	2,694
Employee entitlements	7,275	8,214
Other creditors	5,269	3,838
	56,087	57,760
Amounts payable to related companies comprises:		
- parent	19,630	20,225
- related corporations	8,331	8,094
	27,961	28,319

Note 24 OUTSTANDING CLAIMS LIABILITY

(a) Outstanding claims liability

	2014 $'000	2013 $'000
Undiscounted central estimate	582,383	573,314
Discount to present value	(28,432)	(41,635)
Discounted central estimate	553,951	531,679
Risk margin	93,286	90,185
Claims handling costs	32,558	25,474
Gross outstanding claims liability	679,795	647,338
Current	243,530	214,335
Non-current	436,265	433,003
	679,795	647,338

(b) Risk margins

	2014	2013
Short tail classes	7.4%	6.8%
Long tail classes	17.3%	17.2%
Overall	15.7%	15.9%

(c) Reconciliation of movement in discounted outstanding claims liability

The table below sets out the comparison between the net outstanding claims provision (excluding claims handling expenses) as at 31 December 2014 with the provision based on a 'roll forward' of the valuation basis adopted at 31 December 2013, excluding the 2014 accident year.

		Net $'000
Net central estimate as at 31 December 2013	i	437,188
Less actual net claim payments during 2014	ii	(115,339)
Plus expected "unwind of discount" during 2014	iii	8,852
Expected net central estimate as at December 2014 – claims incurred prior to 2014	ii	**330,701**
Less actual versus expected reported experience		(43,691)
Plus change in valuation basis		1,326
Less release of unclosed business adjustment		(1,149)
Plus change in discount rates		9,200
	ii	**(34,314)**
Net central estimate as at 31 December 2014 – claims incurred during 2014		**161,010**
Net central estimate as at 31 December 2014		**457,397**

Notes:
i. Excludes claims handling expenses.
ii. Excludes claims incurred in the 2014 accident year.
iii. Based on previous valuation discount rates.

The net outstanding claims liability central estimate at 31 December 2013 of $437.1 million is rolled forward by deducting actual payments for claims incurred before 31 December 2013 of $115.3 million. The roll forward also unwinds 12 months of discount assumed at the previous valuation and adds $8.9 million to the estimate. The expected net central estimate at December 2014 in respect of claims incurred before 31 December 2013 is therefore $330.7 million.

There has been a release during 2014 of $43.7 million from undiscounted actual versus expected incurred claim experience and a $1.3 million increase in the net outstanding claims liability valuation basis. The net impact is a release of $42.4 million from the expected discounted central estimate of ultimate cost in respect of claims incurred before 31 December 2013. There is a further reduction of $1.1 million arising from the release of the prior year unclosed business adjustment.

The $42.4 million net release from the net of reinsurance central estimate, after excluding the unclosed business adjustment, can be attributed to the following:

- Increase of $5.7 million from E&O due to higher than expected incurred development during 2014 and increase to the valuation basis
- Release of $6.0 million from Commercial Liability lines from lower than expected incurred development during 2014 as well as from reductions to the valuation basis
- Release of $7.6 million from Commercial E&O from lower than expected incurred development during 2014 and lower valuation assumptions
- Release of $9.5 million from D&O due lower than expected incurred development during 2014 offset by increases to the valuation basis.
- Release of $14.2 million from other Specialty lines, mainly from lower than expected incurred development during 2014.
- Release of $3.1 million in Commercial short tail lines, primarily due to lower than expected incurred development during 2014.
- Release of $7.7 million from Personal Lines (including Accident & Health) from lower than expected incurred claim development and reduction to the valuation basis.

The change in discount rates from the previous valuation increased the net central estimate by $9.2 million.

The net estimate in respect of claims incurred after 31 December 2013 of $159.8 million and the current year unclosed business adjustment of $1.2 million are included to bring the final net outstanding claim liabilities central estimate at 31 December 2014 to $457.4 million.

(d) Claims development tables

The following tables show the development of gross, net of non-reinsurance recoveries and excluding claims handling costs, and net discounted central estimate of outstanding claims relative to the ultimate expected claims for the ten most recent accident years.

i) Gross ($'000)

Accident Year	2005 & prior	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total
Estimate of ultimate claims cost:											
At end of accident year	542,114	83,088	83,912	112,810	145,426	115,722	121,994	135,020	128,836	125,801	
One year later	566,729	82,301	86,164	132,778	203,342	117,838	131,412	126,254	136,660		
Two years later	562,929	70,505	76,843	133,923	199,321	116,080	119,633	113,960			
Three years later	536,450	77,249	56,405	131,152	206,745	109,140	116,811				
Four years later	518,295	60,534	40,468	118,306	195,533	95,858					
Five years later	474,352	55,374	33,420	127,575	169,802						
Six years later	462,419	50,874	31,666	149,152							
Seven years later	454,387	53,123	29,638								
Eight years later	449,204	48,176									
Nine years later	446,813										
Current estimate of ultimate claims cost	**446,813**	**48,176**	**29,638**	**149,152**	**169,802**	**95,858**	**116,811**	**113,960**	**136,660**	**125,801**	**1,432,671**
Cumulative payments	(444,693)	(41,413)	(23,573)	(108,098)	(127,907)	(63,048)	(63,202)	(40,778)	(25,687)	(7,799)	(946,198)
Outstanding claims - undiscounted	**2,120**	**6,763**	**6,065**	**41,054**	**41,895**	**32,810**	**53,609**	**73,182**	**110,973**	**118,002**	**486,473**
Discount	(39)	(194)	(193)	(1,400)	(1,497)	(1,387)	(2,409)	(3,899)	(7,001)	(8,551)	(26,570)
Outstanding claims	**2,081**	**6,569**	**5,872**	**39,654**	**40,398**	**31,423**	**51,200**	**69,283**	**103,972**	**109,451**	**459,903**
Short tail outstanding claims											82,729
Total gross outstanding claims central estimate											**542,632**

ii) Net ($'000)

Accident Year	2005 & prior	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total
Estimate of ultimate claims cost:											
At end of accident year	364,579	75,287	74,947	90,885	120,923	105,247	110,602	123,221	116,040	111,792	
One year later	364,839	75,045	78,995	109,867	158,182	108,846	117,519	116,770	121,212		
Two years later	354,958	65,423	71,793	113,818	156,111	108,346	109,159	108,000			
Three years later	336,864	71,900	53,923	111,658	157,591	102,091	104,252				
Four years later	304,729	57,082	39,374	99,760	141,897	91,072					
Five years later	264,580	52,543	33,008	97,812	125,826						
Six years later	253,573	48,300	31,515	107,049							
Seven years later	246,601	48,171	29,610								
Eight years later	242,405	45,724									
Nine years later	240,014										
Current estimate of ultimate claims cost	**240,014**	**45,724**	**29,610**	**107,049**	**125,826**	**91,072**	**104,252**	**108,000**	**121,212**	**111,792**	**1,084,551**
Cumulative payments	(237,992)	(39,046)	(23,545)	(81,946)	(102,427)	(60,604)	(56,837)	(40,766)	(25,680)	(7,799)	(676,642)
Outstanding claims - undiscounted	**2,022**	**6,678**	**6,065**	**25,103**	**23,399**	**30,468**	**47,415**	**67,234**	**95,532**	**103,993**	**407,909**
Discount	(38)	(194)	(193)	(852)	(835)	(1,288)	(2,146)	(3,581)	(5,959)	(7,397)	(22,483)
Outstanding claims	**1,984**	**6,484**	**5,872**	**24,251**	**22,564**	**29,180**	**45,269**	**63,653**	**89,573**	**96,596**	**385,426**
Short tail outstanding claims											71,971
Total net outstanding claims central estimate											**457,397**

		2014 $'000	2013 $'000
Note 25	**UNEARNED PREMIUM LIABILITY**		
	Unearned premium liability as at the start of the period	244,540	260,242
	Deferral of premiums on contracts written in the period	210,399	203,421
	Earning of premiums written in previous periods	(206,783)	(219,123)
	Unearned premium liability as at the end of the period	248,156	244,540
	Current	211,946	206,783
	Non-current	36,210	37,757
		248,156	244,540
Note 26	**PROVISIONS**		
	Leasehold make good provision		
	At the start of the period	698	750
	(Writeback)/arising during the year	-	(52)
	Utilised	-	-
	At the end of the period	698	698
	Current	698	-
	Non-current	-	698
		698	698
	Long service leave		
	At the start of the period	3,285	3,014
	Arising during the year	542	450
	Utilised	(239)	(179)
	At the end of the period	3,588	3,285
	Current	2,869	2,619
	Non-current	719	666
		3,588	3,285
	Total		
	Current	3,567	2,619
	Non-current	719	1,364
		4,286	3,983

Leasehold make good provision

In accordance with lease agreements in Melbourne, Perth and Brisbane the Company must restore the leased premises to their original condition at the end of the respective leases, which range from 2015 to 2018. Under the Sydney office lease agreement a fixed amount is payable in lieu of make good obligations.

Because of the long term nature of the liability, the greatest uncertainty in estimating the provision is the cost that will ultimately be incurred.

		2014 $'000	2013 $'000
Note 27	**CONTRIBUTED CAPITAL**		
	Issued and fully paid		
	10,000,000 ordinary shares fully paid (2013: 10,000,000)	10,000	10,000
		10,000	10,000

Shares issued during the year - Nil (2013:Nil).

Ordinary shares have the right to receive dividends as declared and, in the event of the winding up of the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company

Capital management
For the purpose of managing the Company's capital, capital includes issued capital and all other components of shareholders' equity. The primary objectives of the Company's Internal Capital Adequacy Assessment Process are to provide an appropriate level of capital to protect policyholders' interests and satisfy the regulators, while maximising value to shareholders.

The Company did not issue any shares in 2014.

		2014 $'000	2013 $'000
Note 28	**DIVIDENDS PAID OR PROPOSED**		
	Declared and paid during the year on ordinary shares:		
	Interim franked dividend for 2014: $3.00 per share (2013: $3.00 per share)	30,000	30,000
		30,000	30,000
	Proposed subsequent to year end:		
	Final franked dividend for 2014: $2.00 per share	20,000	-
		20,000	-

Proposed dividends on ordinary shares are subject to approval at the annual general meeting and not recognised as a liability as at 31 December 2014.

Note 29 **CAPITAL ADEQUACY**

The Company is subject to the capital requirements stipulated by the Australian Prudential Regulation Authority (APRA) and has at all times during the year and the prior financial year complied with these requirements. The capital adequacy multiple of the Company at reporting date is as follows:

	2014 $'000	2013 $'000
Tier 1 capital		
Paid-up ordinary shares	10,000	10,000
Reserves	5,103	4,385
Retained earnings per statutory basis	555,765	519,782
Net surplus relating to insurance liabilities	3,384	50
	574,252	534,217
Less: Excess of deferred tax assets over deferred tax liabilities	-	(4,427)
Less: Reinsurance assets receivable under reinsurance contracts that do not meet the governing law requirements	(133)	(704)
Tier 1 capital	574,119	529,086
Prescribed capital amount	226,239	222,552
Prescribed capital amount ratio	2.5	2.4

Note 30 NET CLAIMS INCURRED

	2014		
	Current year $'000	Prior years $'000	Total $'000
Gross claims incurred and related expenses - undiscounted	304,366	(17,196)	287,170
Reinsurance and other recoveries - undiscounted	(28,938)	(44,889)	(73,827)
Net claims incurred – undiscounted	275,428	(62,085)	213,343
Discount and discount movement - gross claims incurred	(12,004)	27,928	15,924
Discount and discount movement - reinsurance and other recoveries	1,512	(4,354)	(2,842)
Net discount movement	(10,492)	23,574	13,082
Net claims incurred	264,936	(38,511)	226,425

Current year claims relate to risks borne in the current financial year. Prior year claims relate to a reassessment of the risks borne in all previous financial periods.

The net credit relating to prior year incurred claims has resulted from a reassessment of gross and reinsurance forecast ultimate loss ratios based on actual claims development in the year ended 31 December 2014, offset by an unfavourable discount movement for prior years.

	2013		
	Current year $'000	Prior years $'000	Total $'000
Gross claims incurred and related expenses - undiscounted	279,099	(62,778)	216,321
Reinsurance and other recoveries – undiscounted	(17,917)	(5,952)	(23,869)
Net claims incurred – undiscounted	261,182	(68,730)	192,452
Discount and discount movement - gross claims incurred	(17,068)	13,480	(3,588)
Discount and discount movement – reinsurance and other recoveries	1,924	(1,370)	554
Net discount movement	(15,144)	12,110	(3,034)
Net claims incurred	246,038	(56,620)	189,418

Note 31 FINANCIAL INSTRUMENTS

A maturity analysis of the Company's financial assets and financial liabilities is as follows:

2014

	Note	Floating interest rate	Fixed interest maturing in:			Non interest bearing	Total	Rate
			1 year or less	over 1 year to 5 years	more than 5 years			
		$'000	$'000	$'000	$'000	$'000	$'000	
Financial assets								
Cash and cash equivalents	15	28,190					28,190	2.3%
Premiums receivable	16					109,852	109,852	N/A
Interest receivable	16					15,393	15,393	N/A
Reinsurance recoveries receivable on paid claims	18					16,972	16,972	N/A
Sundry debtors	16					495	495	N/A
Financial assets	17		51,348	508,106	658,214		1,217,668	5.0%
		28,190	51,348	508,106	658,214	142,712	1,388,570	
Financial liabilities								
Trade payables	23					11,511	11,511	N/A
Other creditors	23					5,269	5,269	N/A
Amounts payable to related parties	23					27,961	27,961	N/A
		-	-	-	-	44,741	44,741	
Net maturity		28,190	51,348	508,106	658,214	97,971	1,343,829	

Rate represents weighted average effective interest rate
N/A represents not applicable for non-interest bearing financial instruments
All non interest bearing financial assets and financial liabilities are classified as current.

2013

	Note	Floating interest rate	Fixed interest maturing in:			Non interest bearing	Total	Rate
			1 year or less	over 1 year to 5 years	More than 5 years			
		$'000	$'000	$'000	$'000	$'000	$'000	
Financial assets								
Cash and cash equivalents	15	41,459					41,459	2.5%
Premiums receivable	16					112,431	112,431	N/A
Interest receivable	16					15,730	15,730	N/A
Reinsurance recoveries receivable on paid claims	18					6,541	6,541	N/A
Sundry debtors	16					566	566	N/A
Financial assets	17		57,360	446,202	641,211		1,144,773	5.3%
		41,459	57,360	446,202	641,211	135,268	1,321,500	
Financial liabilities								
Trade payables	23					12,834	12,834	N/A
Other creditors	23					3,838	3,838	N/A
Amounts payable to related parties	23					28,319	28,319	N/A
		-	-	-	-	44,991	44,991	
Net maturity		41,459	57,360	446,202	641,211	90,277	1,276,509	

Rate represents weighted average effective interest rate
N/A represents not applicable for non-interest bearing financial instruments
All non-interest bearing financial assets and financial liabilities are classified as current.

Note 32 SHARE BASED PAYMENT PLANS

i) Restricted stock units and performance awards

Since 2004 a number of employees have been granted restricted stock units (RSU's) and performance awards in Chubb Corporation under their Long-Term Incentive Plan.

The weighted average remaining contractual life for the RSU's outstanding as at 31 December 2014 is 1.13 years (2013: 1.08 years) and performance awards is 1.13 years (2013: 1.65 years).

The statement of profit or loss and other comprehensive income includes an expense of $718,144 in respect of these RSU's and performance awards (2013: $589,010). The cost of such RSU's and performance awards is borne by Chubb Corporation and is not passed on to the Company, but is accounted for as an adjustment to the Share Based Payment Reserve.

The fair value of each RSU and performance award issued was valued as the average stock price on the date of grant.

The expected life of the RSU's and performance awards is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome.

Details of the movement of RSU's and performance awards during the period are outlined below:

	2014	2013
Outstanding at the start of the period	24,773	25,472
+ Granted during the period	7,432	8,059
- Adjustment for prior period	-	575
- Forfeited during the period	(331)	(984)
- Vested/exercised during the period	(8,826)	(8,349)
Outstanding at the end of the period	23,048	24,773
Exercisable at the end of the period	-	-

ii) Stock options

In 2003 a number of employees were granted stock options in Chubb Corporation under their Long-Term Incentive Plan.

During the period no options remained to be exercised.

The statement of profit or loss and other comprehensive income includes nil expense in respect of these stock options (2013: nil).

The fair value of each stock option issued in 2003 was estimated on the date of grant using the Black-Scholes option pricing model taking into account the terms and conditions on which the options were granted, with the following weighted average assumptions:

Risk-free interest rate	2.9%
Expected volatility	28.0%
Dividend yield	3.1%
Expected average term	5.5 years

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome.

Details of the movement of stock options during the period are outlined below:

	2014	2013
Outstanding at the start of the period	-	700
- Exercised during the period	-	(700)
Outstanding at the end of the period	-	-
Exercisable at the end of the period	-	-

Share based payment reserve
The share based payment reserve is utilised to record the value of share based payments provided to employees.

Note 33 CAPITAL EXPENDITURE COMMITMENTS

There are no amounts in relation to capital expenditure that have been contracted for at reporting date but not provided for in the financial statements.

Note 34 LEASE EXPENDITURE COMMITMENTS

The Company has entered into commercial leases on certain motor vehicles and office premises. These leases have an average life of between 3 and 10 years. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

	2014 $'000	2013 $'000
Within one year	2,795	2,864
After one year but not more than five years	8,176	8,863
More than five years	2,139	4,032
	13,110	15,759

Note 35 RELATED PARTY DISCLOSURES

The parent company of Chubb Insurance Company of Australia Limited is Federal Insurance Company, incorporated in the United States of America.

The ultimate controlling company of Chubb Insurance Company of Australia Limited (and controlling company of the wholly owned group) is Chubb Corporation Inc, incorporated in the United States of America.

The directors of Chubb Insurance Company of Australia Limited during the financial period were:

B.R. Bollom
J. P. Bronner
P.V. D'Souza
A.R. Gourley
R.L. Hick
M.T. Lingafelter
G.M. Seymour

The following significant related party transactions occurred during the financial period:

a) Part of the reinsurance arrangements of the Company are placed with Federal Insurance Company, a wholly owned controlled entity of Chubb Corporation Inc. The total expense in the statement of profit or loss and other comprehensive income in respect of this was $43,572,526 (2013: $45,658,241). At the end of the year the statement of financial position included a payable of $14,630,270 (2013: $14,496,296).

b) The Company has been charged management fees by Chubb and Son Inc, a division of Federal Insurance Company, in respect of services provided and expenses incurred on its behalf. The total expense in the statement of profit or loss and other comprehensive income in respect of this was $9,342,013 (2013: $7,411,419). At the end of the year the statement of financial position included a payable of $5,429,135 (2013: $5,213,273).

c) The Company has been charged fees for technical and management services provided by Chubb Pacific Underwriting Management Services (PTE) Ltd, a related company. The total expense in the statement of profit or loss and other comprehensive income in respect of this was $14,034,820 (2013: $15,545,858). At the end of the year the statement of financial position included a payable of $7,246,499 (2013: $7,041,429).

d) The Company has been charged investment management fees by Chubb Investment Services Limited, a related company. The total expense in the statement of profit or loss and other comprehensive income in respect of this was $873,174 (2013: $589,855). At the end of the year the statement of financial position included a payable of $365,408 (2013: $512,153).

e) Chubb Corporation has granted a number of employees options, restricted stock units and performance awards under their Long-Term Stock Incentive Plan. The total expense in the statement of profit or loss and other comprehensive income in respect of this was $718,144 (2013: $589,010). The cost of the options, restricted stock units and performance awards is funded by Chubb Corporation Inc and is not passed on to the Company.

f) In relation to Surety business, the Company has an indemnity agreement in place with Federal Insurance Company. The total expense in the statement of profit or loss and other comprehensive income in respect of this was $697,265 (2013: $1,705,964). At the end of the year the statement of financial position included a payable of $199,251 (2013: $44,804).

All transactions were under normal commercial terms and conditions and did not attract interest.

During the year the Company has paid the following compensation to key management personnel.

	2014 $'000	2013 $'000
Short term compensation	2,605	2,706
Other long term compensation	29	55
Share based compensation	374	313
	3,008	3,074

Note 36 AUDITORS' REMUNERATION

The auditor of the Company is Ernst and Young

Amounts received or due and receivable by Ernst and Young for:

	2014 $	2013 $
- audit of the financial report of the Company	422,100	423,000
- audit of the financial report of the New Zealand branch	20,000	-
- other services in relation to the Company		
- Actuarial external peer review	33,450	32,450
- NSW Fire Brigade Levy return	7,200	7,000
- VIC Fire Services return	-	8,000
- Financial Services Licence audit	7,200	7,000
	489,950	477,450

Note 37 CONTINGENCIES

The Company has exposure to surety bonds of $210M (2013: $204M). These performance related contingencies are undertakings that oblige the Company to pay third parties on demand. The Company has in place indemnity arrangements agreements such that in the event of the liability becoming payable the net impact on the statement of profit or loss and other comprehensive income is expected to be nil (2013: nil).

Note 38 EVENTS AFTER THE REPORTING DATE

The Company is not aware of any events subsequent to year end that have significantly affected, or may significantly affect, the operations of the Company, the results of those operations, or the state of affairs of the Company in financial years subsequent to 31 December 2014.

CHUBB INSURANCE COMPANY OF AUSTRALIA LIMITED

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Chubb Insurance Company of Australia Limited, I state that:

In the opinion of the directors:

(a) The financial statements and notes of Chubb Insurance Company of Australia Limited for the financial year ended 31 December 2014 are in accordance with the Corporations Act 2001, including:

   i) Giving a true and fair view of its financial position as at 31 December 2014 and performance for the year ended on that date.

   ii) Complying with Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

(b) The financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2(a).

(c) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

A.R Gourley
Director

Sydney 28 April 2015

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working world

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Independent auditor's report to the members of Chubb Insurance Company of Australia Limited

Report on the financial report

We have audited the accompanying financial report of Chubb Insurance Company of Australia Limited, which comprises the statement of financial position as at 31 December 2014, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Opinion

In our opinion:

a. the financial report of Chubb Insurance Company of Australia Limited is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the company's financial position as at 31 December 2014 and of its performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

Ernst & Young

Ernst & Young

Paul Harris

Paul Harris
Partner
Sydney
28 April 2015

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Auditor's Independence Declaration to the Directors of Chubb Insurance Company of Australia Limited

In relation to our audit of the financial report of Chubb Insurance Company of Australia Limited for the financial year ended 31 December 2014, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Paul Harris
Partner
28 April 2015

2 July 2015

To : CICA Board Audit Committee

Copy :

From : Steven Faulkes
FIAA; CICA Appointed Actuary and NZ Branch Appointed Actuary

Subject : **CICA - Section 78 Appointed Actuary report at 31 December 2014**

Introduction

I have prepared this Appointed Actuary report as at 31 December 2014 for the Board of Chubb Insurance Company of Australia ("CICA") in my capacity as CICA Appointed Actuary.

Sections 77 and 78 of the NZ Insurance (Prudential Supervision) Act 2010 require a NZ licenced insurer to ensure that actuarial information included in the financial statements has been reviewed by the insurer's Appointed Actuary. Since the CICA financial statements were submitted to the Reserve Bank of New Zealand ("RBNZ"), the RBNZ requires a section 78 report relating to these overall CICA financial statements. The RBNZ has specified that the "actuarial information" required in the report is:

- The unearned premium liability and the liability adequacy test;
- The Net Outstanding Claims Liability;
- The reinsurance and any other recovery asset(s);
- Any deferred acquisition cost or deferred fee revenue; and
- Any other information deemed by the appointed actuary to warrant actuarial review for the purpose of profit or solvency reporting.

Work undertaken for review

I reviewed the CICA financial statements to ensure that the "actuarial information" was correctly reflected.

As CICA Appointed Actuary I completed an analysis of outstanding claims and premium liabilities in the report titled "Chubb Insurance Company of Australia - Insurance Liability Valuation Report as at 31 December 2014" ("CICA ILVR"), dated 16 March 2015. In preparing this Section 78 report, I reconciled the net outstanding claims, net unearned premium and liability adequacy test results shown in the financial statements against information provided in that CICA ILVR.

I also discussed the calculation of the unearned premium and deferred acquisition costs with the CICA Finance team, and reviewed their calculation files. I was provided with all information and explanations that I requested.

No restrictions or limitations were placed upon me in the provision of this report.

Statement of Relationship

I am the Appointed Actuary for CICA including the NZ Branch. The ultimate controlling company of CICA (and controlling company of the Chubb group) is Chubb Corporation Inc, incorporated in the United States of America. I disclose that my remuneration includes a discretionary bonus which is part of a bonus pool that is dependent, amongst other factors, on the financial results of CICA and Chubb Corporation Inc.

Opinion

In my opinion and from an actuarial perspective:

1. The actuarial information contained in the financial statements has been appropriately included in those statements
2. The actuarial information used in the preparation of the financial statements has been used appropriately.

CICA is an APRA regulated entity with APRA solvency standards that also cover the NZ branch. CICA has maintained a solvency margin above the minimum solvency margin required by the Australian Prudential Regulatory Authority.

Steven Faulkes
Fellow of the Institute of Actuaries of Australia
Appointed Actuary for CICA and CICA NZ Branch

2 July 2015

CHUBB INSURANCE COMPANY OF AUSTRALIA LIMITED
NEW ZEALAND BRANCH

ANNUAL FINANCIAL REPORT

For the period ended 31 December 2014

CHUBB INSURANCE COMPANY OF AUSTRALIA LIMITED
NEW ZEALAND BRANCH

CONTENTS TO FINANCIAL REPORT

CORPORATE INFORMATION

Directors
B. R. Bollom (Chairman)
J.P. Bronner
P.V. D'Souza
A.R. Gourley
R. L. Hick
M.T. Lingafelter
G.M Seymour

Company Secretary
V. Webster

Registered Office
88 Shortland Street
Auckland 1010
NEW ZEALAND

Banker
National Australia Bank

Auditors
Ernst & Young

These financial statements cover Chubb Insurance Company of Australia Limited New Zealand Branch as an individual entity only.

CHUBB INSURANCE COMPANY OF AUSTRALIA LIMITED
NEW ZEALAND BRANCH

DIRECTORS' REPORT

The directors of Chubb Insurance Company of Australia Limited (the Company) submit their report on the Chubb Insurance Company of Australia Limited New Zealand Branch (the Branch) for the period commencing 14 April 2014 and ending 31 December 2014. The Branch results represent the general insurance activities in New Zealand underwritten by the Company.

DIRECTORS

The names and details of the directors in office during the financial period and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Names, qualifications and experience

Bruce R Bollom

Independent Director. Bachelor of Arts (Accounting and Economics) Macquarie University, Certified Practising Accountant, former Chief Executive Officer, Australia and New Zealand, Willis Australia Ltd. Over 30 years experience in the insurance industry.

James P Bronner

Senior Vice President of Federal Insurance Company, Manager of Asia Pacific Zone Chubb Group of Insurance Companies, Director of Chubb Pacific Underwriting Management Services (PTE) Ltd, Bachelor degree in Finance and Accounting (Manhattan College). Over 30 years experience in the insurance industry.

Paul V D'Souza

Senior Vice President of Federal Insurance Company, Director of Chubb Pacific Underwriting Management Services (PTE) Ltd, Chief Financial Officer Asia Pacific Zone Chubb Group of Insurance Companies, Bachelor of Commerce (Calcutta University), Chartered Accountant, MBA (London Business School).

Andrew R Gourley

Vice President of Chubb Insurance Company of Australia Limited, Chief Financial Officer and Chief Operating Officer of Chubb Insurance Company of Australia Limited, Bachelor of Commerce (UNSW), Chartered Accountant. Over 25 years experience in the insurance industry.

Raymond L Hick

Independent Director. AAII, London Business School Senior Executive Programme, Asian Marketing UCLA. Retired former Director QBE Insurance Hong Kong, Sashin QBE Thailand, QBE Insurance Berhad Malaysia, QBE Pool Indonesia, QI PNG, QI Fiji. Former Chairman Hongkong & Shanghai Insurance Co. Over 30 years experience in the insurance industry.

Mark T Lingafelter

Senior Vice President of Chubb Insurance Company of Australia Limited, Managing Director and Country Manager of Chubb Insurance Company of Australia Limited. Bachelor of Arts (Colby College Maine USA). Over 30 years experience in the insurance industry.

Gary M Seymour

Independent Director. GAICD, ANZIIF Snr Associate, Diploma of Fin Serv (Insurance Broking). Over 35 years in the insurance industry.

PRINCIPAL ACTIVITIES

The principal continuing activity of the Branch is general insurance underwriting in New Zealand.

OPERATING RESULT

	2014 $
Operating loss for the period after income tax	(361,144)

REVIEW OF OPERATIONS

The Company was granted a licence on 29 May 2014 with the Reserve Bank of New Zealand which has enabled it to write insurance business in New Zealand. This business is written predominantly through agency networks. Since obtaining this licence the Branch has started investigating opportunities within the New Zealand market. Initial start-up costs have negatively impacted the results of the Branch during the period.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Branch plans to investigate opportunities in the general insurance market with the aim of expanding its business in New Zealand.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Branch has assessed whether there are any particular or significant environmental regulations applying to it and has determined that there are not.

SIGNIFICANT EVENTS AFTER THE REPORTING DATE

There has not been any matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may significantly affect, the operations of the Branch, the results of those operations, or the state of affairs of the Branch in financial years subsequent to 31 December 2014.

DIRECTORS' MEETINGS

The directors of the Company are also the directors of the Branch. Separate directors meetings are not held for the Branch. For directors holding office during the period, details of the number of directors' meetings held and attended are as follows:

	Board Meetings		Audit, Risk and Compliance		Remuneration	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
B.R. Bollom	3	3	3	3	1	1
A.R. Gourley	3	3				
R.L. Hick	3	3	3	3	1	1
M.T. Lingafelter	3	3				
J.P. Bronner	3	2				
P.V. D'Souza	3	2	3	2	1	1
G.M. Seymour	3	3	3	3	1	1

At the date of this report the Company has an Audit Committee, a Risk and Compliance Committee and a Remuneration Committee of the Board of Directors, having separated the Audit Committee and the Risk and Compliance Committee on 1 January 2015.

Members acting on the Audit, Risk and Compliance Committee and the Remuneration Committee of the Board during the period were R.L. Hick (Chairman of the Audit, Risk and Compliance Committee), G.M. Seymour (Chairman of the Remuneration Committee), B.R. Bollom and P.V. D'Souza

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During or since the financial period end Chubb Corporation Inc has paid premiums in respect of a contract insuring the Directors of the Company against legal costs incurred in defending proceedings and for damages for breach of duty. The terms of the policy prohibit disclosure of details of the insurance cover and premiums paid.

NON-AUDIT SERVICES

The Branch's auditor, Ernst and Young, did not provide any non-audit services to the Branch during the period.

Signed in accordance with a resolution of directors

A.R. Gourley
Director
Sydney 29 April 2015

CHUBB INSURANCE COMPANY OF AUSTRALIA LIMITED
NEW ZEALAND BRANCH

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE PERIOD ENDED 31 DECEMBER 2014

	Notes	2014 $
Premium revenue	7	334,748
Outwards reinsurance premium expense		(54,730)
		280,018
Claims expense	8	(179,259)
Reinsurance and other recoveries revenue	9	23,756
	21	(155,503)
Other underwriting expenses	10	(466,482)
Underwriting result		(341,967)
General and administration expenses		-
		-
Net profit before tax		(341,967)
Income tax expense	11	(19,177)
Net profit after tax attributable to equity holders		(361,144)
Other comprehensive income		-
Total comprehensive income for the year, net of tax, attributable to equity holders		(361,144)

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

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2014

	Notes	2014 $
ASSETS		
Current assets		
Receivables including insurance receivables	12	390,874
Reinsurance and other recoveries receivable	13	2,549
Prepaid reinsurance premiums	14	26,931
Deferred acquisition costs	15	91,582
Total current assets		511,936
Non-current assets		
Reinsurance and other recoveries receivable	13	21,207
Prepaid reinsurance premiums	14	-
Total non-current assets		21,207
Total assets		533,143
LIABILITIES		
Current liabilities		
Payables	16	88,343
Outstanding claims liability	17	33,657
Unearned premium liability	18	638,490
Current tax liability	11	8,935
Total current liabilities		769,425
Non-current liabilities		
Outstanding claims liability	17	145,602
Unearned premium liability	18	-
Deferred tax liability	11	10,242
Total non-current liabilities		155,844
Total liabilities		925,269
Net assets		(392,126)
HEAD OFFICE ACCOUNT		
Head office account	19	(30,982)
Retained earnings		(361,144)
Total head office account		(392,126)

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

STATEMENT OF CHANGES IN HEAD OFFICE ACCOUNT
FOR THE PERIOD ENDED 31 DECEMBER 2014

	Head Office current account $	Retained earnings $	Total $
At 14 April 2014	-	-	-
Contributions to/from head office	(30,982)	-	(30,982)
Net loss for the period	-	(361,144)	(361,144)
At 31 December 2014	(30,982)	(361,144)	(392,126)

The above statement of changes in head office account should be read in conjunction with the accompanying notes.

Note 1 CORPORATE INFORMATION

The financial report of Chubb Insurance Company of Australia Limited New Zealand Branch for the period commencing 14 April 2014 and ending 31 December 2014 was authorised for issue in accordance with a resolution of the directors on 28 April 2015.

Chubb Insurance Company of Australia Limited is a for profit company incorporated in Australia. The New Zealand Branch was registered with the New Zealand Companies Office on 14 April 2014. The Company was granted a licence on 29 May 2014 with the Reserve Bank of New Zealand which has enabled it to write insurance business in New Zealand.

The nature of the operations and principal activities of the Branch are outlined in the Directors' Report. Information on related party relationships is provided in Note 24.

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation
This financial report has been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). For the purposes of complying with NZ GAAP the entity is a for-profit entity.

The financial report is prepared on the historical cost basis, with the exception of outstanding claims and reinsurance and other recoveries which are stated at fair value.

This financial report is presented in New Zealand dollars.

Chubb Insurance Company of Australia Limited New Zealand Branch is a branch of Chubb Insurance Company of Australia Limited and is a separate reporting entity under the Financial Markets Conduct Act 2013. The Branch and Head Office are one legal entity, and the assets of the Company are available for the settlement of all liabilities of the Company, including those of the New Zealand branch. The financial strength of the Company has been disclosed at Note 20 (Capital adequacy). Therefore the financial statements of the Branch should be read in conjunction with those of the Company, which incorporates the Branch's financial statements. Based on this the directors are satisfied that the going concern assumption adopted for the Branch is appropriate.

a) Statement of compliance with International Financial Reporting Standards (IFRS)
The financial statements have been prepared in accordance with NZ GAAP. They comply with New Zealand Equivalents to International Financial Reporting Standards, and other applicable financial reporting standards. They comply with International Financial Reporting Standards (IFRS).

b) Changes in accounting policy, accounting standards and interpretations

Accounting Standards and Interpretations issued but not yet effective
New Zealand Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Branch for the reporting period ending 31 December 2014. These are outlined below. These amended standards are not expected to have a material impact on the Branch's financial report.

Title of standard	Application date
NZ IFRS (2014) "Financial Instruments" – This standard, which replaces NZ IAS 39 and previous versions of IFRS 9, brings together the classification and measurement, impairment and hedge accounting phases of the International Accounting Standards Board's project.	1 January 2018
NZ IFRS 2, NZ IFRS 3, NZ IFRS 8, NZ IAS 16, NZ IAS 24 and NZ IAS 38 "Amendments to NZ IFRS's arising from the Annual Improvements Project (2010-2012)".	1 January 2015
NZ IFRS 3, NZ IFRS 13 and NZ IAS 40 "Amendments to NZ IFRS's arising from the Annual Improvements Project (2011-2013)".	1 January 2015
NZ IFRS 5, NZ IFRS 7, NZ IAS 19 and NZ IAS 34 "Annual Improvements to NZ IFRS's 2012-2014 Cycle".	1 January 2016
NZ IFRS 7, NZ IAS 1, FRS-42 and FRS-43 "Amendments to Accounting Standards: Omnibus Amendments (Legislative Update)".	1 January 2015
NZ IFRS 1, FRS-44, NZ IFRS 4 and NZ IFRS 7 "2014 Omnibus Amendments to NZ IFRS".	1 January 2016

c) Foreign currency translation

i) *Functional and presentation currency*

Both the functional currency and presentation currency of the Branch is New Zealand dollars ($).

ii) *Transactions and balances*

Transactions in foreign currencies are initially recorded in New Zealand currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at reporting date. All exchange differences are taken to the statement of profit or loss and other comprehensive income.

d) Premium revenue

Premium revenue comprises premiums from direct business.

Premium revenue includes amounts charged to the policyholders, excluding fire service levies, GST and other amounts collected on behalf of third parties.

Premium revenue, including that on unclosed business, is recognised in the statement of profit or loss and other comprehensive income when it has been earned. Premium revenue is recognised in the statement of profit or loss and other comprehensive income from the attachment date evenly over the period of the contract. Where time does not approximate the pattern of risk, previous claims experience of the Company is used to derive the incidence of risk.

The proportion of premium received or receivable not earned in the statement of profit or loss and other comprehensive income at the reporting date is recognised in the statement of financial position as an unearned premium liability. The portion of this liability which relates to premium which will be earned within the next twelve months is disclosed as a current liability.

Premiums on unclosed business are brought to account using estimates based on a review of bookings after 31 December 2014.

e) Unexpired risk liability

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 relating to future claims covered by current insurance contracts.

If the present value of the expected future cash flows relating to future claims plus an additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned premium liability less the related deferred acquisition costs, future reinsurance premium and prepaid reinsurance expense, then the unearned premium liability is deemed to be deficient.

The entire deficiency for a class of business is recognised immediately in the statement of profit or loss and other comprehensive income. The deficiency is recognised first by writing down any related deferred acquisition costs, with any excess being recorded in the statement of financial position as an unexpired risk liability.

f) Outwards reinsurance

Amounts paid to reinsurers under reinsurance contracts held by the Company, covering risks in the Branch, are recorded as an outwards reinsurance expense and recognised in the statement of profit or loss and other comprehensive income from the attachment date over the period of indemnity of the reinsurance contracts in accordance with the expected pattern of the incidence of risk ceded.

g) Outstanding claims liability

The liability for outstanding claims is measured as the central estimate of the present value of expected future payments against claims incurred at the reporting date under general insurance contracts issued by the Branch, with an additional risk margin to allow for the inherent uncertainty in the central estimate.

The expected future payments include those in relation to claims reported but not yet paid, claims incurred but not reported (IBNR), claims incurred but not enough reported (IBNER) and anticipated claims handling costs.

The expected future payments are discounted to present value using the risk free rate.

A risk margin is applied to the outstanding claims liability and reinsurance and other recoveries, to reflect the inherent uncertainty of the central estimate. This risk margin increases the probability that the net liability is adequately provided for to a 75% confidence level.

The portion of the outstanding claims provision relating to claims which are expected to be settled within the next twelve months is disclosed as a current liability.

h) Reinsurance and other recoveries receivable

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid, IBNR, IBNER and unexpired risk liabilities are recognised as revenue.

Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims. Recoveries are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

The portion of recoveries receivable which is expected to be settled within the next twelve months is disclosed as a current asset.

i) Acquisition costs

Acquisition costs incurred in obtaining general insurance contracts are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the statement of profit or loss and other comprehensive income in subsequent reporting periods.

Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the general insurance contracts to which they relate. This pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue.

j) Cash

The Branch does not maintain a separate bank account, with all receipts and payments being processed through the operating bank account of the Company. These cash inflows and outflows are reflected in the head office account.

k) Assets backing general insurance liabilities

As part of its investment strategy, the Company monitors the maturity dates of its investment portfolio in comparison with the expected pattern of future cash flows arising from general insurance liabilities. This is monitored on a Company basis, inclusive of the Branch, with all investments being held within the Company.

i) Derecognition of financial assets and financial liabilities

A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Branch has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Branch has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Branch's continuing involvement in the asset

ii) Receivables

Amounts due from policyholders are initially recognised at fair value, being the amounts due. They are subsequently measured at the fair value which is approximated by taking the initially recognised amount and reducing it for impairment as appropriate.

Premiums are due for payment 60-150 days following inception of the insurance policy. Receivables from related parties are generally due and payable on a quarterly basis.

A provision for impairment of receivables is established where there is objective evidence that the Branch will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of expected future cash flows. The discount is calculated using the risk free rate. The impairment charge is recognised in the statement of profit or loss and other comprehensive income.

l) Fire brigade levy and other charges

A liability for fire brigade levy and other charges is recognised on business written to the reporting date.

m) Income tax

The Branch is a non-resident for New Zealand tax purposes. As such it is subject to income tax on 10% of the gross premiums treated as having a source in New Zealand. This is recorded as income tax expense.

Current tax liabilities are measured at the amount expected to be paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those that are enacted or substantially enacted by the reporting date.

n) Other taxes

Revenues and expenses are recognised net of the amount of GST, except where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the expense.

The amount of GST recoverable from, or payable to, the taxation authority is included as part of the receivables or payables in the statement of financial position.

o) Impairment of assets

The Branch assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Branch makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

p) Trade and other payables

Trade and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Branch prior to the end of the financial year that are unpaid and arise when the Branch becomes obliged to make future payments in respect of the purchase of these goods and services.

Trade payables are normally settled between 7 days and 120 days. Payables to related parties are generally due and payable on a quarterly basis.

Note 3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

(a) The ultimate liability arising from claims made under 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, including the cost of claims incurred but not yet reported to the Branch.

The estimated cost of claims includes direct expenses to be incurred in settling claims. The Branch takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of claims incurred but not reported (IBNR) is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Branch, 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.

Due to the small number of New Zealand branch policies there was no credible volume of New Zealand claim data to analyse, so techniques and assumptions were based on analysis conducted for the Company in total. This analysis is described further below.

i) Valuation approach

The general approach to actuarial estimation of outstanding claims is to analyse all available past experience with respect to numbers of reported and finalised claims, claim payments and changes in any case estimates. This allows patterns to be identified in past experience. Based on this, development patterns associated with the run-off of outstanding claims at the current reporting date can be estimated.

Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- Changes in patterns in claim incidence, reporting, finalisation and payment
- Changes in policy coverage and conditions
- Changes in the legal environment
- Impact of inflation
- Impact of large losses
- Medical and technological developments
- Claim management procedures, and
- Changes in the mix of business.

The methods used to analyse past claim experience and to project future claim experience are largely determined by the available data and the nature of the portfolio.

The outstanding claims liability comprises the central estimate and a risk margin which is added to the central estimate to achieve a desired probability of adequacy.

ii) Central estimates

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

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

iii) Risk margins

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 of the Company. It is usual for the Directors to require a higher probability of adequacy than the central estimate provides. APRA's Prudential Standard GPS 320 requires at least a 75% probability of sufficiency. The additional probability of adequacy is provided by the addition of a risk margin.

The determination of the appropriate level of risk margin takes into account the uncertainty or variability of each class of business and the diversification benefits achieved by writing a number of classes of business. The setting of a risk margin involves subjective assessment. The risk margin should take into account at least the following factors.

- The variability of claims experience of the portfolio
- The extent of reinsurance
- The quality and quantity of historical data
- The risk appetite of the Company Directors
- Any statutory or regulatory requirements
- Consistency between different years of account

The measurement of variability by class of business has been based on a blend of industry benchmarks and the analysis of the Company's own claims experience. The relevant variability statistics are referred to as the standard deviation or the coefficient of variation.

The risk margin required to provide a given probability of adequacy for two or more classes of business is likely to be less than the sum of the risk margins for the individual classes. This reflects the benefits of diversification in general insurance. The statistical measure used to determine diversification is called the correlation or covariance. The higher the correlation between two classes of business, the more likely it is that a negative outcome in one class will correspond to a negative outcome in the other class.

Whilst there are estimation techniques for determining correlations, they are difficult to apply and the results from the analysis are often difficult to interpret. The correlations adopted by the Company in assessing the adequacy of the risk margins are normally derived from industry analysis and benchmarks, the Company's historical experience and the Company's Appointed Actuary.

The allowance for diversification benefits is very subjective. The research presented by various industry analyses is strongly dependent on a number of subjective assumptions regarding the correlation of estimates of liabilities between classes of business and between outstanding claim liabilities and premium liabilities.

(b) Assets arising from reinsurance contracts

Assets arising from reinsurance contracts are also computed using the above methods. In addition, the recoverability of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as counterparty and credit risk. Impairment is recognised where there is objective evidence that the Branch may not receive amounts due to it and these amounts can be reliably measured.

Note 4 ACTUARIAL ASSUMPTIONS AND METHODS - OUTSTANDING CLAIMS

Steven Faulkes, FIAA, of Chubb Insurance Company of Australia Limited is the Appointed Actuary for the Company and Branch.

The Appointed Actuary is satisfied as to the nature, sufficiency and accuracy of the data used to determine the outstanding claims liability, and there were no qualifications contained in the actuarial advice. The key assumptions used in the determination of the reserves are outlined below.

a) Outstanding claim valuation methodology

The outstanding claim valuation methodology adopted relies upon four different methods of analysis and projection of the claims experience. The methods of analysis performed are:

- Reported Loss Development Method (RLD)
- Paid Loss Development Method (PLD)
- Reported Bornhuetter Ferguson Method (RBF)
- Paid Bornhuetter Ferguson Method (PBF)

The RBF method has been given complete weight over the other methods but the final selection can be subject to further judgements. This method gradually blends an assumed loss ratio applied to earned premium with the portfolio's reported claims experience to arrive at an estimate of the outstanding claims liability.

Large claims

Large claims occur infrequently, but by definition, have a large impact when they do occur. Because they occur infrequently, assessment of an appropriate provision to hold to protect against them does not lend itself to extensive statistical analysis.

For the purpose of analysis, large claims are generally retained in the main body of data, except where the existence of a large claim distorts the valuation model. Due to the nature of the Branch's business, the occurrence or non-occurrence of a small number of large claims can have a significant impact on whether the estimates of the outstanding claim liability and recommended provisions ultimately prove to be inadequate or sufficient.

The allowance for large claims is provided for in the selection of loss ratio assumptions for the RBF method plus further adjustments where required.

b) Assumptions

i) Economic inflation

To project future claim payments, allowance must be made, either implicitly or explicitly, for future claim inflation. For the purpose of the analysis, past claim payments and case estimates have not been explicitly inflated to current (31 December 2014) values. The valuation methods used implicitly allow for economic inflation. It is implicitly assumed that future economic inflation will be at the average level experienced in the past.

ii) Superimposed / judicial inflation

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.

The valuation methods used in the determination of outstanding claims implicitly allow for superimposed inflation. It is implicitly assumed that future superimposed inflation will be at the average level experienced in the past.

iii) Discounting

The projected inflated claim payments are then 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. They have been derived from the yield curve on Australian Government Bonds as at 31 December 2014 as provided by the Reserve Bank of Australia. The following average discount rates were used in measuring the liability for outstanding claims.

Claims expected to be paid:	**2014**
Not later than one year:	
Discount rate	2.3%
Later than one year:	
Discount rate	2.3%

iv) Weighted average term to settlement

The assumed weighted average term to settlement of the Branch net outstanding claim liabilities at the reporting date is 3.1 years.

v) Allowance for claims handling expenses

The provisions adopted by the Branch include allowance for claim handling expenses. An analysis of claim handling expenses, both past and forecast, by class of business has been performed at a Company level. The adopted claim handling expense assumption of the Company was 6.0% of gross outstanding claims as at December 2014.

Sensitivity analysis – insurance contracts

i) Summary

The Branch conducts sensitivity analyses to quantify the exposure to risk of 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 variable will impact the performance of the Branch. The tables below describe how a change in each assumption will affect the insurance liabilities and show an analysis of the sensitivity of the profit/(loss) and equity to changes in these assumptions both gross and net of reinsurance.

Variable	**Impact of movement in variable**
Assumptions underlying the central estimate	The central estimate is based on the RBF method, however there are uncertainties in the selection of assumptions for use in this method. An increase or decrease in one or more of the key assumptions would have a corresponding decrease or increase in the central estimate.
Average weighted term to settlement	A decrease in the average term to settlement rates would lead to more claims being paid sooner than anticipated. Expected payment patterns are used in determining the outstanding claims liability. An increase or decrease in the average weighted term would have a corresponding decrease or increase on claims expense.
Claim handling expense rate	An estimate for the internal costs of handling claims is included in the outstanding claims liability. An increase or decrease in the expense rate assumption would have a corresponding impact on claims expense.
Discount rate	The outstanding claims liability is calculated by reference to expected future payments. These payments are discounted to adjust for the time value of money. An increase or decrease in the assumed discount rate would have a corresponding decrease or increase on claims expense.

ii) Impact of changes in key variables

2014

Variable	Movement in variable	Net outstanding claims liabilities Increase/(decrease) $	Profit before tax Increase/(decrease) $	Equity Increase/(decrease) $
Assumptions underlying the central estimate	+ 5.0%	7,775	(7,775)	(7,775)
	- 5.0%	(7,775)	7,775	7,775
Average weighted term to settlement	+ 0.5 years	(1,783)	1,783	1,783
	- 0.5 years	1,803	(1,803)	(1,803)
Discount rate	+ 1.0%	(4,543)	4,543	4,543
	- 1.0%	4,801	(4,801)	(4,801)
Claim handling expense ratio	+ 1.0%	1,415	(1,415)	(1,415)
	- 1.0%	(1,415)	1415	1415

Note 5 INSURANCE CONTRACTS – RISK MANAGEMENT POLICIES AND PROCEDURES

The financial condition and operation of the Branch are affected by a number of key risks including insurance risk, currency risk, credit risk, market risk, financial risk, compliance risk, fiscal risk and operational risk. The risk management framework adopted by the Company is also applied in the Branch. Notes on the Branch's policies and procedures in respect of managing these risks are set out below.

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

The Branch has an objective to control insurance risk thus reducing the volatility of operating profits. In addition to the inherent uncertainty of insurance risk, which can lead to significant variability in the loss experience, profits from insurance business are affected by market factors, particularly competition and movements in asset values. Short-term variability is, to some extent, a feature of insurance business.

In accordance with Prudential Standards GPS 220 *Risk Management for General Insurers* and GPS 230 *Reinsurance Management for General Insurers* issued by the Australian Prudential Regulation Authority (APRA), the Board and senior management of the Company have developed, implemented and maintained a sound and prudent Risk Management Strategy (RMS) and a Reinsurance Management Strategy (REMS).

The RMS and REMS identify the Company's policies and procedures, processes and controls that comprise its risk management and control systems. These systems address all material risks, financial and non-financial, likely to be faced by the Branch. Annually, the Board certifies to APRA that adequate strategies have been put in place to monitor those risks, that the Company has systems in place to ensure compliance with legislative and prudential requirements and that the Board has satisfied itself as to the Company's compliance with the RMS and REMS.

The RMS and REMS have been approved by the Board and submitted to APRA. Key aspects of the processes established in the RMS to mitigate risks include:

- The maintenance and use of sophisticated management information systems, which provide up to date, reliable data on the risks to which the business is exposed at any point in time.
- Actuarial models, using information from the management information systems, are used to analyse premiums and monitor claims patterns. Past experience and statistical methods are used as part of the process.
- Documented procedures are followed for underwriting and accepting insurance risks.
- Natural disasters such as bushfires are generally managed through a Company policy which involves the avoidance of providing coverage to areas identified as a high risk in relation to such disasters.
- Reinsurance is used to limit the Company's exposure to large single claims and catastrophes. When selecting a reinsurer only those companies that provide high security are considered. In order to assess this, rating information from the public domain or gathered through internal investigations is used.
- In order to limit concentrations of credit risk in purchasing reinsurance, the Company has regard to existing reinsurance

assets and seeks to limit excess exposure to any single reinsurer or group of related reinsurers.

- The mix of assets in which the Company invests is driven by the nature and term of the insurance liabilities. The Company monitors the maturity dates of assets compared to the expected pattern of claim payments, and the impact of any mismatch on the results of the Company.
- The diversification of business over four strategic business units and large numbers of uncorrelated individual risks seeks to reduce variability in loss experience.

(b) Terms and conditions of insurance business

The terms and conditions attaching to insurance contracts affect the level of insurance risk accepted by the Branch. The majority of direct insurance contracts written are entered into on a standard form basis.

(c) Concentration of insurance risk

The Company's and Branch's exposure to concentrations of insurance risk is mitigated by a portfolio diversified into four strategic business units. Specific processes for monitoring identified key concentrations are set out below.

Risk	Source of concentration	Risk management measures
Natural catastrophes	Properties concentrated in regions that are subject to: • Earthquakes • Windstorm • Flood	The Branch's underwriting strategy requires individual risk premiums to be differentiated in order to reflect the higher loss frequency in particular geographical areas. The Company has modelled Australian aggregated risk by postcode using commercially available catastrophe models. The Company's exposure data across the Australian portfolio encompasses all property risks. The New Zealand branch written policies have no material exposure to natural catastrophes at December 2014. Based on the probable maximum loss per the models, the Company ensures that adequate catastrophe reinsurance cover is put in place to limit exposure to any single event.

(d) Development of claims

There is a possibility that changes may occur in the estimate of obligations at the end of a contract period. The tables in note 17 show estimates of total claims outstanding for the only underwriting year.

(e) Credit risk

The company's exposure to credit risk is set out in note 6.

Note 6 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Branch's principal financial instruments comprise premiums receivable, reinsurance recoveries on paid claims, sundry debtors, trade creditors, other creditors and amounts payable to related entities.

The Branch manages its exposure to key financial risks, including currency risk in accordance with the Company's Risk Management Strategy. The objective of the strategy is to support the delivery of the Company's financial targets whilst protecting future financial security.

The main risks arising from the Branch's financial instruments are foreign currency risk and credit risk. The Branch uses different methods to measure and manage different types of risk to which it is exposed. Ageing analyses and credit approval controls are undertaken to manage credit risk.

The Board reviews and agrees the policies for managing each of these risks as outlined in the Company's Risk Management Strategy as summarised below.

a) **Risk exposures and responses**

i) Foreign currency risk

The Branch's main exposures to foreign currency risk is in relation to premiums receivable, amounts payable to related parties and payables. These transactions are not hedged.

At reporting date, the Branch has the following financial assets and liabilities exposed to movements in foreign currency rates that are not designated as cash flow hedges.

	2014 $NZ
Premiums receivable:	
Australian dollars	160,461
	160,461
Amounts payable to related parties:	
Australian dollars	36,466
	36,466
Payables:	
Australian dollars	47,873
	47,873

The Branch manages its exposure to foreign currency risk through adopting a policy of settling all payable balances on a weekly basis and monitoring and follow-up of receivable balances to ensure settlement within credit terms.

The following sensitivity analysis is based on foreign currency risk exposures in existence at year end. At year end, had the New Zealand dollar moved, as illustrated in the table below, with all other variables held constant, loss before tax and the Head Office Account would have been affected as follows:

Judgements of reasonably possible movements:	Loss before tax higher/(lower)	Head office account higher/(lower)
	2014	2014
	$NZ	$NZ
NZD/AUD + 10%	(7,612)	(7,612)
NZD/AUD - 10%	7,612	7,612

ii) Credit risk

Credit risk arises from the financial assets of the Branch, which comprise premiums receivable, reinsurance recoveries on paid and outstanding claims and sundry debtors. The Branch's exposure to credit risk arises from potential default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

The Branch minimises credit risk in relation to premiums receivable by incorporating a credit approval process for Broker appointments and including a credit risk assessment of insureds in its underwriting guidelines. Similarly, reinsurance recoveries on paid and outstanding claims are controlled through the majority of reinsurance arrangements being placed with the parent company, along with the requirement that reinsurance be placed with reinsurers on a parent approved list of authorised companies. Receivable balances are monitored on an ongoing basis with the result that the Branch's exposure to bad debts is not significant. There is no significant concentration of risk with the exception of reinsurance recoveries due from related parties, principally Federal Insurance Company.

The Branch's exposure to credit risk at reporting date is outlined in the applicable notes.

		2014 $
Note 7	**PREMIUM REVENUE**	
	Direct	334,748
Note 8	**CLAIMS EXPENSE**	
	Direct	179,259
Note 9	**REINSURANCE AND OTHER RECOVERIES REVENUE**	
	Reinsurance recoveries	22,001
	Other recoveries	1,755
		23,756
Note 10	**OTHER UNDERWRITING EXPENSES**	
	Acquisition costs	224,666
	Write down of deferred acquisition costs for premium deficiency	82,273
	Administration expenses	159,543
		466,482

Note 11 INCOME TAX

Income tax expense comprises:

a) Statement of profit or loss and other comprehensive income

Current income tax	
Current income tax charge	19,177
Income tax expense reported in the statement of profit or loss and other comprehensive income	19,177

Tax expense has been calculated as follows:

Gross written premium subject to non-resident tax	684,888
10% premiums subject to tax	68,489
Tax at the standard rate of 28%	19,177
Income tax expense reported in the statement of profit or loss and other comprehensive income	19,177

b) Current tax payable

Opening balance	-
Charged to income	8,935
Payments	-
Closing balance	8,935

b) Deferred tax liability

Opening balance	-
Charged to income	10,242
Payments	-
Closing balance	10,242

		2014 $
Note 12	RECEIVABLES INCLUDING INSURANCE RECEIVABLES	
	Premiums receivable	389,230
	Sundry debtors	1,644
		390,874
	Sundry debtors comprises:	
	- parent	-
	- related corporations	-
	- other	1,644
		1,644

a) Allowance for impairment loss

Premiums receivable are non-interest bearing and are generally on 60-150 day terms. A provision for impairment loss is recognised when there is objective evidence that an individual premium receivable is impaired. An impairment loss written off of $nil has been recognised in the current year.

At 31 December, the ageing analysis of premiums receivable (gross of provision for impairment loss) is as follows:

	Total	0-90 days	91-120 days	+ 121 days past effective date not impaired	+ 121 days considered impaired
	$	$	$	$	$
2014	389,230	321,745	28,648	38,837	-

Receivables past due but not considered impaired are being actively followed up with the relevant brokers and agents and the Branch is satisfied that payment will be received in full.

Other balances within trade and other receivables do not contain impaired assets and are not past due. It is expected that these other balances will be received when due.

b) Related party receivables

For terms and conditions of related party receivables refer to note 24.

c) Fair value and credit risk

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

The maximum exposure to credit risk is the fair value of receivables. Further discussion on credit risk is included in note 6.

d) Foreign exchange and interest rate risk

The Company does not charge interest on receivables. The impact of foreign exchange risk is outlined in note 6.

Note 13 REINSURANCE AND OTHER RECOVERIES RECEIVABLE

	2014 $
Expected future reinsurance recoveries and other recoveries undiscounted	
- on paid claims	-
- on outstanding claims	25,866
	25,866
Discount to present value	(2,110)
	23,756
Current	2,549
Non-current	21,207
	23,756
Reinsurance and other recoveries receivable comprises:	
- parent	21,706
- related corporations	-
- other	2,050
	23,756

Note 14 PREPAID REINSURANCE PREMIUMS

	2014 $
Prepaid reinsurance premium asset as at the start of the period	-
Deferral of reinsurance premiums on contracts entered into during the period	26,931
Earning of reinsurance premiums on contracts entered into in previous periods	-
Prepaid reinsurance premium asset as at the end of the period	26,931
Current	26,931
Non-current	-
	26,931

		2014 $
Note 15	**DEFERRED ACQUISITION COSTS**	
	Deferred acquisition costs as at the start of the period	-
	Acquisition costs deferred	173,855
	Amortisation charged to income	-
	Write down for premium deficiency	(82,273)
	Deferred acquisition costs as at the end of the period	91,582

An analysis of the adequacy of the unearned premium as at 31 December 2014 indicated that the unearned premium liability was deficient and as a result deferred acquisition costs were written down. This has been determined as follows:

Gross central estimate of the present value of expected future cash flows	388,720
Reinsurance central estimate of the present value of expected future cash flows	(60,080)
Net central estimate of the present value of expected future cash flows	328,640
Claims and policy expenses	44,251
Risk margin – 18.5%	69,025
Present value of expected future cash flows for future claims	441,916
Future reinsurance premium	78,008
Net present value of expected future cash flows for future claims	519,924
Unearned premium reserve	638,490
Prepaid reinsurance premiums	(26,931)
Net unearned premium reserve	611,559
Deferred acquisition costs	(173,855)
	437,704
Surplus/(deficit)	(82,220)
Write down of deferred acquisition costs due to deficiency in 4 classes of business	82,273

Note 16	**PAYABLES**	
	Trade payables	13,794
	Amounts payable to related companies	36,466
	Other creditors	38,083
		88,343
	Amounts payable to related companies comprises:	
	- parent	36,466
	- related corporations	-
		36,466

Note 17 OUTSTANDING CLAIMS LIABILITY

(a) Outstanding claims liability

	2014 $
Undiscounted central estimate	154,041
Discount to present value	(10,979)
Discounted central estimate	143,062
Risk margin	27,708
Claims handling costs	8,489
Gross outstanding claims liability	179,259
Current	33,657
Non-current	145,602
	179,259

(b) Risk margins

	2014
Short tail classes	8.4%
Long tail classes	18.6%
Overall	18.3%

(c) Claims development tables

The following tables show the development of gross, net of non-reinsurance recoveries and excluding claims handling costs, and net discounted central estimate of outstanding claims relative to the ultimate expected claims for the only accident year.

i) Gross ($)

Accident Year	2014	Total
Estimate of ultimate claims cost:		
At end of accident year	148,511	
Current estimate of ultimate claims cost	148,511	148,511
Cumulative payments	-	-
Outstanding claims - undiscounted	148,511	148,511
Discount	(10,810)	(10,810)
Outstanding claims	137,701	137,701
Short tail outstanding claims		3,776
Total gross outstanding claims central estimate		141,477

ii) Net ($)

Accident Year	2014	Total
Estimate of ultimate claims cost:		
At end of accident year	128,622	
Current estimate of ultimate claims cost	128,622	128,622
Cumulative payments	-	-
Outstanding claims - undiscounted	128,622	128,622
Discount	(9,138)	(9,138)
Outstanding claims	119,484	119,484
Short tail outstanding claims		3,503
Total net outstanding claims central estimate		122,987

Note 18 UNEARNED PREMIUM LIABILITY

	2014 $
Unearned premium liability as at the start of the period	-
Deferral of premiums on contracts written in the period	638,490
Earning of premiums written in previous periods	-
Unearned premium liability as at the end of the period	638,490
Current	638,490
Non-current	-
	638,490

Note 19 HEAD OFFICE ACCOUNT

Capital management
The Company manages capital at an entity level. The primary objectives of the Company's Internal Capital Adequacy Assessment Process are to provide an appropriate level of capital to protect policyholders' interests and satisfy the regulators, while maximising value to shareholders.

The capital of the Branch comprises the Head Office account, which consists of retained earnings and current account transactions between the Branch and Head Office. The current account transactions include premium collections, reinsurance, tax settlements, head office charges and other expenses.

Note 20 CAPITAL ADEQUACY

The Branch has a section 59 exemption under the Insurance (Prudential Supervision) Act 2010. Subject to certain conditions, this exempts it from compliance with the Solvency Standard for Non-life Business on the basis that the Company is required to comply with the standards and requirements in Australia.

In Australia, the Company is subject to the capital requirements stipulated by the Australian Prudential Regulation Authority (APRA) and has at all times during the year complied with these requirements. The capital adequacy multiple of the Company at reporting date is as follows:

	2014 $A'000
Capital base	574,119
Prescribed capital amount	226,239
Capital in excess of prescribed capital amount	347,880
Prescribed capital amount ratio	2.5

Note 21 NET CLAIMS INCURRED

	2014		
	Current year $	Prior years $	Total $
Gross claims incurred and related expenses - undiscounted	193,004	-	193,004
Reinsurance and other recoveries - undiscounted	(25,866)	-	(25,866)
Net claims incurred – undiscounted	167,138	-	167,138
Discount and discount movement - gross claims incurred	(13,745)	-	(13,745)
Discount and discount movement - reinsurance and other recoveries	2,110	-	2,110
Net discount movement	(11,635)	-	(11,635)
Net claims incurred	155,503	-	155,503

Current year claims relate to risks borne in the current financial year.

Note 22 FINANCIAL INSTRUMENTS

A maturity analysis of the Branch's financial assets and financial liabilities is as follows:

	2014			
	Note	Non interest bearing $	Total $	Rate
Financial assets				
Premiums receivable	12	389,230	389,230	N/A
Reinsurance recoveries receivable on paid claims	13	-	-	N/A
Sundry debtors	12	1,644	1,644	N/A
		390,874	390,874	
Financial liabilities				
Trade payables	16	13,794	13,794	N/A
Amounts payable to related parties	16	36,466	36,466	
Other creditors	16	38,083	38,083	N/A
		88,343	88,343	
Net maturity		302,531	302,531	

Note 23 CAPITAL EXPENDITURE COMMITMENTS

There are no amounts in relation to capital expenditure that have been contracted for at reporting date but not provided for in the financial statements.

Note 24 RELATED PARTY DISCLOSURES

Chubb Insurance Company of Australia Limited New Zealand Branch is part of Chubb Insurance Company of Australia Limited, a company incorporated in Australia. The parent company of Chubb Insurance Company of Australia Limited is Federal Insurance Company, incorporated in the United States of America.

The ultimate controlling company of Chubb Insurance Company of Australia Limited (and controlling company of the wholly owned group) is Chubb Corporation Inc, incorporated in the United States of America.

The directors of Chubb Insurance Company of Australia Limited during the financial period were:

B.R. Bollom
J. P. Bronner
P.V. D'Souza
A.R. Gourley
R.L. Hick
M.T. Lingafelter
G.M. Seymour

The following significant related party transactions occurred during the financial period:

a) Part of the reinsurance arrangements of the Branch are placed with Federal Insurance Company, a wholly owned controlled entity of Chubb Corporation Inc. The total expense in the statement of profit or loss and other comprehensive income in respect of this was $51,931. At the end of the year the statement of financial position included a payable of $36,466.

b) The Branch has been allocated costs by Chubb Insurance Company of Australia Limited, in respect of services provided and expenses incurred on its behalf. The total expense in the statement of profit or loss and other comprehensive income in respect of this was $375,283. The payable formed part of the Head Office account.

All transactions were under normal commercial terms and conditions and did not attract interest.

The key management personnel of the Branch are the key management personnel of the Company. During the year the Company has paid the following compensation to key management personnel, expressed in AUD. This represents the total compensation paid to the key management personnel in their duties as employees of the Company.

	2014 **$A'000**
Short term compensation	2,605
Other long term compensation	29
Share based compensation	374
	3,008

		2014 $
Note 25	**AUDITORS' REMUNERATION**	
	The auditor of the Branch is Ernst and Young	
	Amounts received or due and receivable by Ernst and Young for:	
	- audit of the financial report of the Branch	21,590
		21,590

Note 26 CONTINGENCIES

The Branch has no contingent liabilities as at 31 December 2014.

Note 27 EVENTS AFTER THE REPORTING DATE

The Branch is not aware of any events subsequent to year end that have significantly affected, or may significantly affect, the operations of the Branch, the results of those operations, or the state of affairs of the Branch in financial years subsequent to 31 December 2014.

Note 28 CREDIT RATING

The Branch is not rated by an external rating agency, however the Company was upgraded to a long-term issuer credit rating of aaa with AM Best effective 16 April 2015. The financial strength rating of A++ (Superior) was also affirmed on that date.

Note 29 REINSURANCE PROGRAMME

The reinsurance programme chosen to protect the Company's liabilities in New Zealand matches the Australian reinsurance strategy. It has the following characteristics:

- A maximum per risk net retention:

Property	NZD equivalent of AUD 10 million
Marine	NZD equivalent to USD 5 million
Casualty and Professional Indemnity (excluding D&O)	NZD equivalent to AUD 10 million
D&O	NZD equivalent to AUD 5 million
Cybersecurity	50% quota share limit liability of USD 20 million

- A maximum per catastrophe event retention of NZD equivalent to USD 10 million

Reinsurance is purchased through a series of treaty and facultative contracts with external reinsurers and Federal Insurance Company, the parent company of Chubb Insurance Company of Australia.

CHUBB INSURANCE COMPANY OF AUSTRALIA LIMITED
NEW ZEALAND BRANCH

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Chubb Insurance Company of Australia Limited, I state that:

In the opinion of the directors:

(a) The financial statements and notes of Chubb Insurance Company of Australia Limited New Zealand Branch for the financial period ended 31 December 2014 are in accordance with the Financial Markets Conduct Act 2013, including:

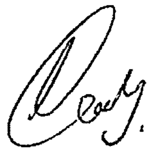
  i) Giving a true and fair view of its financial position as at 31 December 2014 and performance for the period ended on that date.

  ii) Complying with New Zealand generally accepted accounting practice.

(b) The financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2(a).

(c) There are reasonable grounds to believe that the Branch will be able to pay its debts as and when they become due and payable.

On behalf of the Board



A.R Gourley
Director

Sydney 29 April 2015

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Independent Auditor's Report
To the Shareholder of Chubb Insurance Company of Australia Limited
Report on the Financial Statements

We have audited the financial statements of the New Zealand branch of Chubb Insurance Company of Australia Limited on pages 7 to 29, which comprise the statement of financial position of the New Zealand branch of Chubb Insurance Company of Australia Limited as at 31 December 2014, and the statement of comprehensive income and the statement of changes in head office account for the period then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the company's shareholder in accordance with Section 461G(1) of the Financial Markets Conduct Act 2013. Our audit has been undertaken so that we might state to the company's shareholder those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the New Zealand branch of the company and the company's shareholder, for our audit work, for this report, or for the opinions we have formed.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand, 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.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we have considered the internal control relevant to the New Zealand branch of the company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the New Zealand branch of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

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

Other than in our capacity as auditor we have no relationship with, or interest in, the New Zealand branch of the company.

Partners and employees of our firm may deal with the New Zealand branch of the company on normal terms within the ordinary course of trading activities of the business of the New Zealand branch of the company.

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Opinion

In our opinion, the financial statements on pages 7 to 29:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- present fairly, in all material respects, the financial position of the New Zealand branch of the company as at 31 December 2014 and its financial performance for the period then ended.

Ernst & Young

Ernst & Young
29 April 2015
Sydney

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Registrar of Companies
PO Box 5771
Auckland

29 April 2015

Dear Sirs,

I, Paul Harris of Ernst & Young Australia, am a member of Chartered Accountants Australia and New Zealand and my membership number is 96160. Our Firm was responsible for the audit of the New Zealand branch of Chubb Insurance Company of Australia Limited and I was the signing partner on the engagement.

Yours faithfully

Paul Harris
Partner
Sydney

17 April 2015

To : CICA Board Audit Committee

Copy : Paul Harris (EY)

From : Steven Faulkes
FIAA; NZ Branch Appointed Actuary

Subject : **CICA NZ Branch**
Section 78 Appointed Actuary report at 31 December 2014

Introduction

I have prepared this Appointed Actuary report as at 31 December 2014 for the Board of Chubb Insurance Company of Australia ("CICA") in my capacity as Appointed Actuary to CICA's New Zealand branch ("NZ Branch").

Section 77 and 78 of the NZ Insurance (Prudential Supervision) Act 2010 ("IPSA") require a NZ licenced insurer to ensure that actuarial information included in the financial statements has been reviewed by the insurer's Appointed Actuary. The Reserve Bank of New Zealand ("RBNZ") has specified that for the NZ Branch the "actuarial information" is:

- The unearned premium liability and the liability adequacy test;
- The Net Outstanding Claims Liability;
- The reinsurance and any other recovery asset(s);
- Any deferred acquisition cost or deferred fee revenue; and
- Any other information deemed by the appointed actuary to warrant actuarial review for the purpose of profit or solvency reporting.

Work undertaken for review

I reviewed the NZ Branch financial statements to ensure that the actuarial information was correctly reflected.

As Appointed Actuary to the NZ Branch I completed an analysis of outstanding claims and premium liabilities in the report titled "Chubb Insurance Company of Australia New Zealand Branch - Insurance Liability Valuation Report as at 31 December 2014" ("NZ Branch ILVR"), dated 17 April 2015. In preparing this Section 78 report, I reconciled the net outstanding claims, net premium liabilities and liability adequacy test results shown in the financial statements against information provided in that NZ Branch ILVR.

I also discussed the calculation of the unearned premium and deferred acquisition costs with the CICA Finance team, and reviewed their calculation files. I was provided with all information and explanations that I requested.

No restrictions or limitations were placed upon me in the provision of this report.

Statement of Relationship

I am the Appointed Actuary for CICA including the NZ Branch. The ultimate controlling company of CICA (and controlling company of the Chubb group) is Chubb Corporation Inc, incorporated in the United States of America. I disclose that my remuneration includes a discretionary bonus which is part of a bonus pool that is dependent, amongst other factors, on the financial results of CICA and Chubb Corporation Inc.

Opinion

In my opinion and from an actuarial perspective:

1. The actuarial information contained in the financial statements has been appropriately included in those statements
2. The actuarial information used in the preparation of the financial statements has been used appropriately.

The NZ Branch was granted exemption from complying with the RBNZ Solvency Standards for non-life insurance business under Section 59 of the IPSA. The NZ Branch is a branch of CICA which is an APRA regulated entity with APRA solvency standards that also cover the NZ branch. The NZ Branch is therefore dependent on CICA's capital surplus to remain solvent. CICA has maintained a solvency margin above the minimum solvency margin required by the Australian Prudential Regulatory Authority.

Steven Faulkes
Fellow of the Institute of Actuaries of Australia
Appointed Actuary for CICA NZ Branch

17 April 2015

CHUBB

Chubb Insurance Company of Australia Limited
ABN 69 003 710 647 A.F.S. Licence No: 239778
Citigroup Centre, Level 29, 2 Park Street, Sydney, NSW, 2000
Telephone: 9273 0100 • Fax 9273 0101 • DX: 13031 Sydney Market Street

29 April 2015

To The Registrar,

The Chubb Insurance Company of Australia Limited New Zealand Branch Financial Statements lodged for the year ended 31 December 2014 have been prepared under the Financial Markets Conduct (Chubb Insurance Company of Australia Limited) Exemption Notice 2015 dated 29 April 2015.

Andrew Gourley
Director