ZURICH AUSTRALIAN INSURANCE LIMITED
NEW ZEALAND BRANCH

ANNUAL FINANCIAL REPORT

For the year ended 31 December 2009

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This annual financial report covers Zurich Australian Insurance Limited New Zealand branch as an individual entity only.

Zurich Australian Insurance Limited New Zealand Branch is a branch domiciled in New Zealand. Its registered office is:

55-65 Shortland Street
Auckland 1010

ZURICH AUSTRALIAN INSURANCE LIMITED
NEW ZEALAND BRANCH

Statement of Comprehensive Income
For the year ended 31 December 2009

	Notes	2009 $	2008 $
Premium revenue			
Direct premium revenue		73,623,996	41,237,159
Outwards reinsurance expense		(15,634,657)	(8,286,663)
Net premium revenue		57,989,339	32,950,496
Claims expense	8	(63,837,646)	(31,487,868)
Reinsurance and other recoveries revenue		14,778,251	1,873,259
Net claims incurred		(49,059,395)	(29,614,609)
Gross movement in unexpired risk liability		(10,157,080)	-
Reinsurance recoveries on unexpired risk liability		6,143,024	-
Net movement in unexpired risk liability		(4,014,056)	-
Acquisition costs		(13,164,583)	(4,053,305)
Other underwriting expenses		(15,498,001)	(11,099,636)
Total underwriting expenses		(28,662,584)	(15,152,941)
Underwriting result		(23,746,696)	(11,817,054)
Investment income		807,574	500,589
Other income		39,114	51,662
Net foreign exchange losses		(22,518)	-
Loss from operating activities		(22,922,526)	(11,264,803)
Finance costs		-	(18,910)
Loss before income tax		(22,922,526)	(11,283,713)
Income tax benefit	7 (a)	4,831,509	3,367,140
Total comprehensive expense for the year		**(18,091,017)**	**(7,916,573)**

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

The Board of Directors of Zurich Australian Insurance Limited authorised this Annual Financial Report for issue on 24 March 2010.

T J Paradine
Director

R O Dolk
Director

ZURICH AUSTRALIAN INSURANCE LIMITED
NEW ZEALAND BRANCH

Balance Sheet
For the year ended 31 December 2009

	Notes	2009	2008	1 January 2008*
		$	$	$
Head Office Account		(2,071,618)	(9,469,556)	(1,552,983)
Represented by:				
Assets				
Cash and equivalents	9	25,421,280	17,487,360	3,833,673
Receivables	10	29,462,020	21,589,045	9,891,659
Financial assets at fair value through profit or loss		533,598	507,810	-
Reinsurance and other recoveries	11	15,686,514	1,034,988	1,087,250
Deferred acquisition costs	12	521,048	4,383,976	1,426,732
Other assets	14	8,225,926	8,814,513	1,057,741
Deferred tax asset	13	9,315,017	4,483,508	1,116,368
Total Assets		89,165,404	58,301,200	18,413,423
Liabilities				
Payables	15	9,381,259	15,578,333	2,655,453
Provisions	16	872,339	1,312,251	104,330
Unearned premium	17	41,070,139	33,654,947	10,516,183
Unexpired risk liability	18	10,157,080	-	-
Outstanding claims	19	29,756,204	17,225,225	6,690,440
Total Liabilities		91,237,022	67,770,756	19,966,406
Net Liabilities		(2,071,618)	(9,469,556)	(1,552,983)

**see Note 2 Financial statement presentation for details regarding the change in accounting policy.*

The above Balance Sheet should be read in conjunction with the accompanying notes

ZURICH AUSTRALIAN INSURANCE LIMITED
NEW ZEALAND BRANCH

Statement of Changes in Head Office Account
For the year ended 31 December 2009

	Head Office Current Account $	Accumulated Losses $	Total $
Balance at 1 January 2008	-	(1,552,983)	(1,552,983)
Total comprehensive expense for the year	-	(7,916,573)	(7,916,573)
Balance as at 31 December 2008	-	(9,469,556)	(9,469,556)
Total comprehensive expense for the year	-	(18,091,017)	(18,091,017)
Transactions with head office:			
Contributions from head office, net of transaction costs	25,488,955	-	25,488,955
Balance as at 31 December 2009	25,488,955	(27,560,573)	(2,071,618)

The above Statement of Changes in Head Office Account should be read in conjunction with the accompanying notes.

Notes to the Financial Statements
31 December 2009

1. General information

This financial report includes the financial statements of Zurich Australian Insurance Limited New Zealand Branch ("the Branch"), as at 31 December 2009. The Branch results represent the general insurance activities in New Zealand that are underwritten by Zurich Australian Insurance Limited (ZAIL).

The Branch is domiciled in New Zealand. The financial statements of the Branch are presented in New Zealand dollars, which is the functional and presentation currency.

This financial report has been approved for issue by the Board of Directors on 24 March 2010. The Broad has the power to amend and reissue the report.

2. Summary of significant accounting policies

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZGAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable New Zealand Financial Reporting Standards, as appropriate for profit-oriented entities.

(a) Basis of preparation

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Statutory base
Zurich Australian Insurance Limited New Zealand Branch is a branch which is domiciled in New Zealand. It is registered under the Companies Act 1993.

The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 1993 and the New Zealand Companies Act 1993.

Critical accounting estimates
The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Branch's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

It is prepared in accordance with the historical cost convention.

Financial statement presentation
The Branch has applied the revised NZ IAS 1 *Presentation of Financial Statements* which became effective on 1 January 2009. The revised standard requires the separate presentation of a Statement of Comprehensive Income and a Statement of Changes in Head Office Account. All non-owner changes in head office account must now be presented in the Statement of Comprehensive Income. As a consequence, the Branch had to change the presentation of its financial statements. Comparative information has been re-presented so that it is also in conformity with the revised standard. If the Branch has made a prior period adjustment or has reclassified items in the financial statements, it will need to disclose a third balance sheet, this one being as at the beginning of the comparative period.

The Branch has changed its accounting policy to present assets and liabilities in increasing order of liquidity as this presentation provides information that is reliable and more relevant than a current/non-current presentation. Previously, the Branch presented current and non-current assets, and current and non-current liabilities, as separate classifications in its balance sheet. The new liquidity presentation of assets and liabilities has been applied retrospectively and therefore, reclassifications have been made to amounts previously recognised in the financial statements.

2. Summary of significant accounting policies (*continued*)

Differential reporting
The Branch is qualified within the Framework for Differential Reporting. The Branch qualifies on the basis that it is not publicly accountable and there is no separation between the owners and governing body of Zurich Australian Insurance Limited (ZAIL). The Branch has taken advantage of all differential reporting exemptions available to it except for NZIAS 12 Income Taxes with which it has complied fully.

(b) Principles of general insurance contracts
The general insurance operations of the Branch comprise the underwriting of various classes of direct insurance contracts. These contracts transfer significant insurance risk by agreeing to compensate the insured on the occurrence of a specified insured event, such as damage to property or the crystallisation of a third party liability within a given timeframe.

These contracts are defined as general insurance contracts.

(c) Insurance premium and related revenue

Direct premium comprises amounts charged to the policyholders or other insurers, excluding fire service levies and earthquake levies, and other amounts collected on behalf of third parties. The earned portion of premiums received and receivable, including bound but not incepted and unclosed business, is recognised as revenue. Premium is treated as earned from the date of attachment of risk. Premiums on unclosed business are brought to account by reference to the previous year's premium processing delays, with due allowance for any changes in the pattern of new business and renewals.

The pattern of recognition of income over the policy or indemnity periods is based on time, which closely approximates the pattern of risks underwritten. The proportion of premiums received and receivable but not earned in the Statement of Comprehensive Income at the reporting date is recognised in the Balance Sheet as an unearned premium liability. The unearned portion of commissions and other acquisition costs are also deferred and shown as deferred acquisition costs in the Balance Sheet.

(d) Insurance claims and related expenses

Claims expense represents payment for claims (and claims related expenses) and the movement in outstanding claims liabilities.

(e) Outwards reinsurance expense

Amounts paid to reinsurers under insurance contracts held by the Branch are recorded as outwards reinsurance expense and are recognised in the Statement of Comprehensive Income from the attachment date over the period of indemnity of the reinsurance contract in accordance with the expected pattern of the incidence of the risk ceded.

2. Summary of significant accounting policies *(continued)*

(f) 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 applicable 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, and unused tax losses.

Deferred tax assets and liabilities are recognised using the liability method for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax balances attributable to amounts recognised directly in reserve are also recognised directly in reserve.

(g) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the New Zealand Inland Revenue. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from or payable to, the New Zealand Inland Revenue is included as an asset or liability in the Balance Sheet.

(h) Foreign currency translation

Foreign currency transactions are initially translated into New Zealand currency at the rate of exchange at the date of the transaction. At balance date, amounts payable and receivable in foreign currencies are translated into New Zealand currency at rates of exchange current at that date. Resulting exchange differences are brought to account in determining the profit or loss for the year.

(i) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash which are subject to an insignificant risk of change in value, and bank overdrafts. Bank overdrafts are shown within interest bearing liabilities in liabilities on the balance sheet.

2. Summary of significant accounting policies *(continued)*

(j) Assets backing insurance liabilities

The assets of the Branch have been determined as being assets backing policy liabilities and are therefore valued at fair value through profit or loss.

It is considered that the use of fair value through profit or loss results in more relevant information because it eliminates or significantly reduces a measurement or recognition inconsistency.

(k) Reinsurance and other recoveries receivable

The benefits to which the Branch is entitled under its reinsurance contracts held are recognised as reinsurance receivable. Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid, claims incurred but not reported (IBNR), claims incurred but not enough reported and unexpired risk liabilities are recognised as reinsurance and other recoveries revenue. Insurance recoveries receivable are assessed in a manner similar to the assessment of insurance outstanding claims. Recoveries receivable in relation to long-tail classes are measured as the present value of the expected future receipts, calculated on the same basis as the liability for insurance outstanding claims to which they relate

(l) Deferred acquisition costs

The fixed and variable costs of acquiring new business, "the acquisition costs", include commission, advertising, policy issue and underwriting costs, agency expenses and other sales costs.

A portion of acquisition costs relating to unearned premium revenue is deferred and recognised as an asset, where it can be reliably measured and where it is probable that it will give rise to premium revenue that will be recognised in the Statement of Comprehensive Income in future periods. Deferred acquisition costs are measured at the lower of cost and recoverable amount and are amortised in accordance with the earning pattern of the corresponding premium revenue.

(m) Receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for subject to impairment testing. Impairment testing is based on collectibility of receivables and is reviewed on an ongoing basis. An impairment charge is recognised when there is objective evidence that the entity will not be able to collect all amounts due according to the original terms of the contracts. The impairment charge is recognised in the Statement of Comprehensive Income.

(n) Payables

These amounts represent liabilities for goods and services provided to the Branch prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(o) Provisions

Provisions are recognised when the Branch has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

2. Summary of significant accounting policies *(continued)*

(p) Outstanding claims

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.

Claims handling costs include costs that can be associated directly with individual claims, such as legal and other professional fees, and costs that can only be indirectly associated with individual claims, such as claims administration costs.

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

(q) Unexpired risk liabilities

At each reporting date the Branch assesses whether the unearned premium liability is sufficient to cover all expected future cash flows relating to future claims against current insurance contracts. This assessment is referred to as the liability adequacy test and is performed separately for each group of contracts subject to broadly similar risks and managed together as a single portfolio.

If the present value of the expected future cash flows relating to future claims plus the additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned premium liability less related intangible assets and related deferred acquisition costs then the unearned premium liability is deemed to be deficient. The Branch applies a risk margin to achieve the same probability of sufficiency for future claims as is achieved by the estimate of the outstanding claims liability, see Note 1(p).

A write down to recoverable amount is recognised when the present value of expected future claims (including settlement costs) in relation to business written to the reporting date exceeds related unearned premium revenue. The entire deficiency, net of reinsurance, is recognised immediately in the Statement of Comprehensive Income. The deficiency is recognised first by writing down any related intangible assets and then related deferred acquisition costs, with any excess being recorded in the Balance Sheet as an unexpired risk liability.

(r) Equity

The Branch does not have any equity, however, the Total Head Office Account represents the value of any funding provided by Zurich Australian Insurance Limited (ZAIL) in support of the Branch operations.

2. Summary of significant accounting policies *(continued)*

(s) Financial assets

The investment assets of the Branch have been determined as being assets backing policy liabilities and are therefore valued at fair value through profit or loss.

It is considered that the use of fair value through profit or loss results in more relevant information because it eliminates or significantly reduces a measurement or recognition inconsistency.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Branch establishes fair value by using valuation techniques. These include reference to the fair values of recent arm's length transactions, involving the same instruments or other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

Purchases and sales of investments are recognised on trade-date – the date on which the Branch commits to purchase or sell the asset. Financial assets are initially recognised at cost. These assets are subsequently measured at fair value. Realised, unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the Statement of Comprehensive Income in the period in which they arise.

Financial assets are derecognised when the right to receive cash flows from the financial assets have expired or have been transferred and the Branch has transferred substantially all the risks and rewards of ownership.

(t) Impairment of assets

Financial assets measured at fair value, where changes in value are reflected in the Statement of Comprehensive Income, are not subject to impairment testing. Other assets such as receivables are subject to impairment testing.

Assets that have an indefinite useful life, such as identifiable intangible assets, are not subject to amortisation and are tested at least annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value (including realisation costs) and its value in use.

3. Critical accounting judgements and estimates

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

It has been determined that no critical accounting judgements have been made in the year.

(a) The ultimate liability arising from claims made under insurance contracts

Provision is made at the year end for the estimated cost of claims incurred but not settled at the balance sheet 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 gross of the expected value of salvage and other recoveries. 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 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 has happened. The long-tailed 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. For the short-tailed classes, claims are typically reported soon after the claim event, and hence tend to display lower levels of volatility. In calculating the estimated cost of unpaid claims the Branch uses a variety of estimation techniques, generally based upon statistical analysis of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. 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 the Branch's processes which might accelerate or slow down the development and/or recording of paid or incurred claims, compared with the statistics from previous periods
- changes in the legal environment
- the effects of inflation (both economic/wage and superimposed)
- changes in the mix of business
- the impact of large losses
- movements in industry benchmarks
- medical and technological developments
- changes in policyholder behaviour

A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims. In estimating the cost of these the Branch has regard to the claim circumstance as reported, any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods.

Large claims impacting each relevant business class are generally assessed separately, being measured on a case by case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims.

Where possible the Branch adopts multiple techniques to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The projections given by the various methodologies also assist in setting the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsures based upon the gross provisions.

3. Critical accounting judgements and estimates *(continued)*

(a) The ultimate liability arising from claims made under insurance contracts *(continued)*

Details of specific assumptions used in deriving the outstanding claims liability at year end are detailed in Note 4.

(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.

4. Actuarial assumptions and methods

The Branch writes both short-tailed and long-tailed business. The process for determining the value of outstanding claims liabilities is described below.

Case estimates are established by individual claims officers. The provision for large losses is reviewed by senior claims managers. The ultimate undiscounted cost of claims by year of accident and line of business is then established by actuaries using a variety of actuarial models at a line of business level. IBNR is then derived by subtracting from the ultimate cost, the amount of paid claims and case reserves. The estimation of IBNR is subject to a greater degree of uncertainty than the estimate of the cost of settling claims already notified and the estimate of the ultimate cost of long-tail lines is generally more uncertain than the estimate for short-tail lines where claims are often reported and settled within 1 year of occurrence.

The methods used to establish the ultimate cost of claims include the following:

- Projecting ultimate numbers of claims and multiplying by projected ultimate average cost
- Projecting ultimate claim payments
- Projecting ultimate incurred claim amounts
- Applying plan or expected loss ratios to earned premiums

Claims inflation is incorporated into the resulting projected payments, to allow for both general economic/wage inflation as well as any superimposed inflation detected in the modelling of payments experience. Superimposed inflation arises from non-economic factors such as legal developments. Future wage inflation is based on current levels and economic indicators. Future superimposed inflation is assessed based on current trends and industry information.

Projected reinsurance assets are derived using similar methods or applying net to gross ratios.

Projected payments are discounted to allow for the time value of money, based on current Government interest rates.

These methods assume that historical development is a reasonable basis on which to set assumptions about the future, and are thus subject to uncertainty surrounding changes to these patterns from whatever cause. In addition, there is uncertainty arising from the underlying assumptions for future wage inflation and superimposed inflation and of discount rates. Significant events, such as catastrophes, close to the balance sheet date also increase the level of uncertainty. The presence of asbestos claims in the portfolio and the potential emergence of new types of latent claim also increase the potential variability of the outcome.

For these reasons a risk margin is added to the central estimate established above. The establishment of the risk margin takes into account the variability of the outcome of each line of business and the diversification benefit of writing a number of lines of business. The Board and Management have decided that the level of risk margin shall be established to provide a probability of adequacy of 85% (2008: 85%).

(a) Selected key variables

The following indicators reflect the key variables that have been used in determining the outstanding claims liabilities.

	2009	2009	2008	2008
	Long-tail	Short-tail	Long-tail	Short-tail
Average weighted term to settlement	2.8 years	0.4 years	3.0 years	0.5 years
Discount rate	4.59%	N/A	3.29%	N/A
Wage inflation	4.00%	N/A	4.50%	N/A
Superimposed inflation	0 to 4.5%	N/A	0 to 4%	N/A

4. Actuarial assumptions and methods *(continued)*

(b) Sensitivity analysis – insurance contracts

The Branch conducts sensitivity analysis 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 Branch. The tables below give an analysis of the sensitivity of the profit/(loss) and equity, to changes in these assumptions both gross and net of reinsurance.

Impact of changes in key variables

December 2009		**Profit/(loss)**		
		Gross of reinsurance	**Net of reinsurance**	**Net Liabilities**
		$	**$**	**$**
Recognised amounts per the financial statements		(10,381,576)	(18,091,017)	(2,071,618)
Variable	**Movement in variable**		**Adjusted amounts**	
Long-tail				
Average weighted term to settlement - years	0.5	(10,299,431)	(18,024,834)	(2,005,434)
	-0.5	(10,465,019)	(18,159,207)	(2,139,807)
Discount rate	1%	(10,305,232)	(18,014,975)	(1,995,575)
	-1%	(10,468,933)	(18,172,663)	(2,153,263)
Wage inflation and superimposed inflation rates	1%	(10,468,325)	(18,174,844)	(2,155,444)
	-1%	(10,296,851)	(18,009,374)	(1,989,974)
Financial assets				
Shift in Yield Curve	1%	(10,544,730)	(18,254,171)	(2,234,771)
	-1%	(10,218,422)	(17,927,863)	(1,908,463)
Equity Prices	+20%	(10,296,324)	(18,005,765)	(1,986,365)
	-20%	(10,466,828)	(18,176,269)	(2,156,869)

December 2008		**Profit/(loss)**		
		Gross of reinsurance	**Net of reinsurance**	**Net Liabilities**
		$	**$**	**$**
Recognised amounts per the financial statements		(3,427,190)	(7,916,573)	(9,469,556)
Variable	**Movement in variable**		**Adjusted amounts**	
Long-tail				
Average weighted term to settlement - years	0.5	(3,427,186)	(7,916,569)	(9,469,552)
	-0.5	(3,427,194)	(7,916,577)	(9,469,560)
Discount rate	1%	(3,427,183)	(7,916,566)	(9,469,549)
	-1%	(3,427,198)	(7,916,581)	(9,469,564)
Wage inflation and superimposed inflation rates	1%	(3,427,199)	(7,916,582)	(9,469,565)
	-1%	(3,427,181)	(7,916,564)	(9,469,547)
Financial assets				
Shift in Yield Curve	1%	(3,427,322)	(7,916,705)	(9,469,688)
	-1%	(3,427,058)	(7,916,441)	(9,469,424)
Equity Prices	+20%	(3,427,085)	(7,916,468)	(9,469,451)
	-20%	(3,427,295)	(7,916,678)	(9,469,661)

5. Financial risk management policies and procedures

The Branch's activities expose it to a variety of financial risks; market risk (including currency risk), credit risk and liquidity risk. The Branch's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Branch.

Risk management controls are outlined in the Risk Management Strategy (RMS). The objective of the RMS is to provide a summary of the policies and controls in place to address enterprise risks including certain operational and financial risks and the procedures for assessing compliance with these policies and controls. In addition, the Ultimate Controlling Entity, Zurich Financial Services's Zurich Risk Policy (ZRP) provides constraints on the mix of investment assets. The Branch has delegated its investment management responsibilities to Zurich Investment Management Limited (ZIM), which has in turn negotiated Investment Management Agreements (IMA) with external investment managers, with all funds managed in accordance with these IMAs. The overall investment strategy (and in particular the use of derivatives) is governed by the Zurich Investment Series Consolidated Constitution, the relevant IMAs, and the relevant funds offer documents and Product Disclosure Statement. The use of derivatives is consistent and subordinate to the investment strategy of each of the funds.

The RMS is subject to at least an annual review by the internal audit department. The internal audit department is independent of the day to day operational management of the Branch. The internal audit department prepares a report on compliance with the procedures outlined in the RMS.

The following list of factors are considered and addressed as part of the financial risk management policies and procedures.

a) Market risk

Market risk is the risk of diminution in value of the Branch's investment portfolio arising from adverse movements in the levels and volatility of interest rates, foreign exchange rates and equity prices. The Branch is not exposed to significant market risk. The exposure to changes in interest rate on cash holding is disclosed in Note 9.

b) Net fair value of financial assets and liabilities

On-Balance Sheet

The aggregate carrying values of financial assets and financial liabilities approximate their net fair values. The methods used to determine the carrying values of financial assets and liabilities are included in the Summary of significant accounting policies at Note 2.

Off-Balance Sheet

The Branch does not have potential financial liabilities which may arise from certain contingencies.

c) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Apart from reinsurance the Branch has no significant concentrations of credit risk. Where entities have a right of set-off and intend to settle on a net basis, this set-off has been reflected in the financial statements in accordance with accounting standards.

Reinsurance security is monitored continuously taking advantage of the, the Ultimate Controlling Entity, Zurich Financial Services's Security Committee analysis and there are strict controls around the use of individual reinsurers. Reinsurance accumulations are also monitored closely and used in deciding the appropriate placement programme at renewal.

The Branch does not hold listed equity, debt securities or deposits at call directly and has limited exposure to government bonds.

Standard and Poors (S&P) rating for Cash at bank disclosed in Note 9 is AA (2008: A+).

5. Financial risk management policies and procedures *(continued)*

c) Credit risk *(continued)*

The premiums receivable disclosed in Note 10 include amounts past due and not impaired which are analysed below.

	2009 $	2008 $
< 30 days	6,356,353	2,130,547
31 – 90 days	442,636	490,990
> 91 days	54,602	497,860
Total premiums receivable past due but not impaired	6,853,591	3,119,397

Refer to Note 6(f) for information on credit quality of reinsurance assets.

All other receivables do not include material amounts that are either past due or impaired.

d) Liquidity risk

Liquidity risk is the risk that the Branch will encounter difficulty in meeting obligations associated with financial liabilities.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close-out market positions.

The risk is controlled by carefully monitoring cash flow, and maintaining suitable floats of readily realisable assets.

The table shows expected undiscounted cash flows from outstanding claims (notified claims, IBNR and claims handing costs) and premium liability (expected future claims). Both are net of reinsurance and non-insurance recoveries and before risk margin.

	Carrying amount (Undiscounted)	**Expected cash flows (undiscounted)**				
2009		0-1 yrs	1-5 yrs	5-10 yrs	10-15 yrs	>15yrs
	$	$	$	$	$	$
Insurance contracts						
Outstanding Claims (Note 11,19)	17,928,430	13,740,970	4,028,201	141,796	17,463	-
Premium Liability	29,786,873	20,377,508	9,059,020	343,409	6,936	-
Total	47,715,303	34,118,478	13,087,221	485,205	24,400	-

	Carrying amount (Undiscounted)	**Expected cash flows (undiscounted)**				
2008		0-1 yrs	1-5 yrs	5-10 yrs	10-15 yrs	>15yrs
	$	$	$	$	$	$
Insurance contracts						
Outstanding Claims (Note 11,19)	14,233,335	12,139,623	2,019,551	71,114	3,047	-
Premium Liability	21,952,484	10,235,799	11,627,430	81,750	7,505	-
Total	36,185,819	22,375,422	13,646,981	152,864	10,552	-

A contractual maturity analysis is not provided in respect of other financial liabilities as typically the credit terms for other financial liabilities are up to 31 days.

5. Financial risk management policies and procedures *(continued)*

e) Derivative holdings

A derivative transaction is a contract whose value is derived from the value of an underlying asset or index. The Branch does not hold any investments including derivative contracts.

f) Fair value measurements

As of 1 January 2009, the Branch has adopted the amendment to NZ IFRS 7 *Financial Instruments: Disclosures* which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

a. quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
b. inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and
c. inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following table presents the Branch's assets measured and recognised at fair value at 31 December 2009. Comparative information has not been provided as permitted by the transitional provisions of the new rules.

As at 31 December 2009	Level 1 $	Level 2 $	Level 3 $	Total
Financial assets at fair value through profit and loss	-	533,598	-	533,598
Total	**-**	**533,598**	**-**	**533,598**

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Branch is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (such as New Zealand government bond) is determined using valuation techniques. The Branch uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Estimated discounted cash flows, are used to determine fair value for the New Zealand government bond.

6. 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, investment market risk (including interest rate risk and currency risk), credit risk, liquidity risk, financial risk, compliance risk and operational risk. Notes on the policies and procedures in respect of managing these risks are set out in this Note.

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

The Branch has an objective to manage 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.

The Risk Management Strategy (RMS) and Reinsurance Management Strategy (REMS) identify the policies and procedures, processes and controls that comprise the risk management and control systems. These systems address all material risks, financial and non-financial, likely to be faced.

Key aspects of the processes established in the RMS to mitigate risks arising from insurance contracts include:

- A formal annual high-level hazard assessment that focuses on key risks that impact the achievement of strategic and business objectives, including the development of action plans for the treatment and continuous monitoring of identified risks. This is bolstered by formal quarterly reviews of risk issues and progress against action plans.
- The maintenance and use of appropriate 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 in calculating premiums and monitoring claims patterns. Past experience and statistical methods are used as part of the process.
- Formally delegated authorities and documented guidelines are followed for underwriting and accepting insurance risks.
- Natural disasters are more challenging to manage. Exposure to such risks is monitored through use of models involving the collation of our own exposure and wider environmental data, which support decisions on limiting exposure.
- Reinsurance is used to limit the exposure to large single claims and catastrophes. When selecting a reinsurer we only consider those companies on a list approved by Zurich Group head office, who assess reinsurer security using rating information from the public domain or gathered through internal investigations.
- In order to limit concentrations of credit risk, in purchasing reinsurance consideration is given to existing reinsurance assets including consideration of the level of exposure to any single reinsurer or group of related reinsures. Placing reinsurance with other companies in the Zurich Group is used as an initial step on much of the reinsurance program to enable group-wide reinsurance purchasing efficiencies.
- The mix of investment assets is driven by the nature and term of the insurance liabilities. The management of assets and liabilities is closely monitored to broadly align the sensitivity of asset values to changes in interest rates with the equivalent sensitivity of the expected pattern of claim payments.
- The diversification of business over various classes of insurance and large numbers of uncorrelated individual risks reduces 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. Any non standard terms and conditions are signed off by appropriately experienced underwriters within a framework, which includes delegated authorities, in line with the RMS.

6. Insurance contracts - risk management policies and procedures *(continued)*

(c) Concentration of insurance risk

The Branch's exposure to concentration of insurance risk is mitigated by a portfolio of diversified individual risks. Specific processes for monitoring identified key concentrations are set out below.

Risk	Source of concentration	Risk management measures
Natural catastrophes	Properties and motor vehicles concentrated in regions that are subject to: • Earthquakes • Cyclones • Hail storms • Other significant natural events	The Branch's underwriting strategy requires individual risk premiums to be differentiated in order to reflect the higher loss frequency in particular geographical segments. The Branch has modelled aggregated risk using commercially available catastrophe models. Based on the probable maximum loss per the models, the Branch purchases catastrophe reinsurance cover to limit exposure to any single event.

(d) Development of claims

There is a possibility that changes may occur in the estimate of the Branch's obligations at the end of a contract period. The tables in Note 19 show the Branch's estimates of total claims outstanding for each accident year at successive year ends for classes of businesses that are typically resolved in more than one year.

(e) Interest rate risk

None of the financial assets or liabilities arising from insurance or reinsurance contracts entered into by the Branch is directly exposed to interest rate risk.

Insurance and reinsurance contracts are generally entered into annually. At the time of entering into the contract all terms and conditions are negotiable or, in the case of renewals, renegotiable.

(f) Credit risk

Financial assets and liabilities arising from insurance and reinsurance contracts are stated in the balance sheet at the amount that best represents the maximum credit risk exposure at balance date.

Given the low level of reinsurance recoveries outstanding, there are no significant concentrations of credit risk.

ZURICH AUSTRALIAN INSURANCE LIMITED
NEW ZEALAND BRANCH

Notes to the Financial Statements *(continued)*
31 December 2009

7. Income tax

	2009 $	2008 $
(a) Income tax benefit		
Current tax	-	918,653
Deferred tax (Note 13)	(4,831,509)	(4,285,793)
Total income tax benefit	(4,831,509)	(3,367,140)
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Loss before income tax	(22,922,526)	(11,283,713)
Tax at the New Zealand tax rate of 30% (2008 – 30%)	(6,876,758)	(3,385,114)
Value of deferred tax assets not recognised	2,045,249	-
Under provision in prior year	-	17,974
Income tax benefit	(4,831,509)	(3,367,140)

8. Net claims incurred

	2009 $	2008 $
Gross claims incurred and related expenses:		
- Direct	64,312,355	31,529,989
- Discount	(474,709)	(42,121)
	63,837,646	31,487,868
Reinsurance and other recoveries:		
- Direct	14,870,351	1,873,718
- Discount	(92,100)	(459)
	14,778,251	1,873,259
Net incurred claims	49,059,395	29,614,609

Claims Development

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

	2009			2008		
	Current Year $	Prior Years $	Total $	Current Year $	Prior Years $	Total $
Gross claims expense						
Undiscounted	68,791,077	(4,478,722)	64,312,355	33,800,529	(2,270,540)	31,529,989
Discount	(469,593)	(5,116)	(474,709)	(26,675)	(15,446)	(42,121)
	68,321,484	(4,483,838)	63,837,646	33,773,854	(2,285,986)	31,487,868
Reinsurance and other recoveries:						
Undiscounted	14,580,440	289,911	14,870,351	2,690,786	(817,068)	1,873,718
Discount	(88,241)	(3,859)	(92,100)	(458)	(1)	(459)
	14,492,199	286,051	14,778,251	2,690,328	(817,069)	1,873,259
Net claims incurred – discounted	53,829,285	(4,769,890)	49,059,395	31,083,526	(1,468,917)	29,614,609

9. Cash and cash equivalents

	2009 $	2008 $
Cash at bank and on hand	25,421,280	17,487,360

10. Receivables

	2009 $	2008 $
Current		
Premiums receivable	18,688,533	16,685,585
Unclosed premiums	5,515,737	3,394,413
	24,204,270	20,079,998
Due from related entities (Note 21)	4,595,364	1,331,413
Other trade debtors	655,637	175,009
Interest receivable	6,749	2,625
Total current receivables	29,462,020	21,589,045

11. Reinsurance and other recoveries

	2009 $	2008 $
Analysis of Reinsurance and other recoveries		
Expected future reinsurance recoveries undiscounted		
- on outstanding claims	5,395,044	783,957
Discount to present value	(78,284)	(417)
Reinsurance receivable on incurred claims	5,316,760	783,540
Other recoveries undiscounted	3,280,645	121,831
Discount to present value	(240)	-
	3,280,405	121,831
Risk margin	960,363	129,660
Discount to present value	(14,037)	(43)
	946,326	129,617
Reinsurance and other recoveries receivables on incurred claims	9,543,491	1,034,988
Expected future reinsurance recoveries on unexpired risk liability	6,143,023	-
Reinsurance and other recoveries receivable	15,686,514	1,034,988
Current	15,345,336	952,190
Non-current	341,178	82,798
	15,686,514	1,034,988

12. Deferred acquisition costs

	2009 $	2008 $
Deferred acquisitions costs as at 1 January	4,383,976	1,426,732
Acquisition costs deferred	11,700,935	7,453,565
Amortisation charged to income	(9,204,805)	(4,496,321)
Write back/(down) for premium deficiency	(6,359,058)	-
Deferred acquisitions costs as at 31 December	521,048	4,383,976
Current	521,016	4,338,057
Non-current	32	45,919
	521,048	4,383,976

13. Deferred tax asset

	2009 $	2008 $
The balance comprises temporary differences attributable to:		
Amounts recognised in profit or loss		
Provision for DAC write off and Unexpired Risk Liability	2,701,400	-
Indirect claim adjustment	471,941	302,295
Unused tax losses	6,141,676	4,181,213
Net deferred tax asset	9,315,017	4,483,508
Deferred tax asset movements:		
Opening balance at 1 January	4,483,508	197,715
Charged to Statement of Comprehensive Income (Note 7)	4,831,509	4,285,793
Closing balance at 31 December	9,315,017	4,483,508

The Branch has recognised deferred tax assets in respect of unused tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised. The Branch has relied on the business case establishing the business and future year business plans in determining that sufficient future taxable profits will be available to realise the deferred tax asset. Unused tax losses for which no deferred tax assets have been recognised at 31 December 2009 is $2,045,249 (2008: Nil)

14. Other assets

	2009 $	2008 $
Current		
Reinsurance unearned premium	8,225,926	8,814,513
	8,255,926	8,814,513

Notes to the Financial Statements *(continued)*
31 December 2009

15. Payables

	2009 $	2008 $
Current		
Reinsurance creditors	2,675,439	2,437,559
Due to related entities (Note 21)	4,433,297	11,301,018
Tax related payable	-	636,274
Commission payable	1,452,013	970,266
Other payables	820,510	233,217
	9,381,259	15,578,333

16. Provisions

	2009 $	2008 $
Current		
Fire service levy	834,476	1,285,451
Earthquake levy	37,863	26,709
Others	-	91
	872,339	1,312,251

Movements in provisions	Fire Service Levy	Earthquake Levy	Others	Total
2009				
Carrying amount at 1 January	1,285,451	26,709	91	1,312,251
Additional provision recognised	5,634,061	401,487	-	6,035,548
Payments/other sacrifices of economic benefits	(6,085,036)	(390,333)	(91)	(6,475,460)
Carrying amount at 31 December	834,476	37,863	-	872,339
2008				
Carrying amount at 1 January	82,041	22,289	-	104,330
Additional provision recognised	3,328,448	103,204	91	3,431,743
Payments/other sacrifices of economic benefits	(2,125,038)	(98,784)	-	(2,223,822)
Carrying amount 31 December	1,285,451	26,709	91	1,312,251

17. Unearned premium liability

	2009 $	2008 $
Unearned premium liability at 1 January	33,654,947	10,516,183
Premiums deferred during the period	83,621,751	64,375,924
Premiums earned during the period	(76,206,559)	(41,237,159)
Unearned premium liability at 31 December	41,070,139	33,654,947
Current	40,935,672	32,610,634
Non-current	134,467	1,044,313
	41,070,139	33,654,947

18. Unexpired risk liability

		2009 $	2008 $
(a) Unexpired risk liability			
Unexpired risk liability as at 1 January		-	-
Recognition of additional unexpired risk liability in the period		10,157,080	-
Unexpired risk liability at 31 December		10,157,080	-
Unexpired risk liability - Current		10,157,080	-
(b) Deficiency recognised in the Statement of Comprehensive Income			
Gross movement in unexpired risk liability		10,157,080	-
Reinsurance recoveries on unexpired risk liability		(6,143,024)	-
Net movement in unexpired risk liability		4,014,056	-
Write down of deferred acquisition cost (Note 12)		6,359,057	-
Total deficiency recognised in the Statement of Comprehensive Income		10,373,114	-
(c) Calculation of deficiency			
Unearned premium liability		41,070,139	-
Related reinsurance asset		(8,225,929)	-
Related deferred acquisition costs		(6,215,310)	-
Total net unearned premium liability		26,628,900	-
Total net for business that have deficiency only	(A)	26,628,900	-
Central estimate of present value of expected future cashflows arising from future claims on inwards insurance contracts issued		41,998,038	-
Risk margin of 20.38% (2008: Nil)		6,033,771	-
Present Value of expected future cash inflows arising from reinsurance recoveries		(7,977,357)	-
Present Value of expected future cash inflows arising from non-reinsurance recoveries		(4,420,885)	-
Total net premium liability		35,633,567	-
Total net for business that have deficiency only	(B)	35,633,567	-
Net Deficiency	(A) – (B)	(9,004,667)	-
Add back recoveries element of present value of expected future cash flows for future		(7,511,470)	-
Gross deficiency		(16,516,137)	-

19. Outstanding claims

(a) Outstanding claims liability

	2009 $	2008 $
Central Estimate	24,980,808	14,124,817
Discount to present value	(411,671)	(33,252)
	24,569,137	14,091,565
Claims Handling Costs	1,623,311	1,014,306
Discount to present value	(30,412)	(6,659)
	1,592,899	1,007,647
Risk Margin	3,668,915	2,128,224
Discount to present value	(74,747)	(2,211)
	3,594,168	2,126,013
Gross outstanding claims liability	29,756,204	17,225,225

	2009 $	2008 $
Undiscounted expected future claims payments	30,273,034	17,267,347
Discount to present value	(516,830)	(42,122)
Liability for outstanding claims	29,756,204	17,225,225
Current	27,881,361	15,617,652
Non-current	1,874,843	1,607,573
	29,756,204	17,225,225

(b) Risk margin

Process for determining risk margin
The overall risk margin was determined allowing for diversification between the different portfolios and the relative uncertainty of the outstanding claims estimate for each portfolio. Uncertainty was analysed for each portfolio taking into account potential uncertainties relating to the actuarial models and assumptions, the quality of the underlying data used in the models, the general insurance environment, and the impact of legislative reform.

The estimate of uncertainty is greater for long tailed classes when compared to short tail classes due to the longer time until settlement of outstanding claims.

The assumptions regarding uncertainty for each class were applied to the net central estimates, and the results were aggregated, allowing for diversification. These margins are consistent with those applied to Zurich Australian Insurance Limited as a whole in order to arrive at an overall provision which is intended to have an 85% (2008: 85%) probability of sufficiency.

ZURICH AUSTRALIAN INSURANCE LIMITED
NEW ZEALAND BRANCH

Notes to the Financial Statements ***(continued)***
31 December 2009

19. Outstanding claims ***(continued)***

(b) Risk margin ***(continued)***

Risk Margins Applied

Class	2009 Outstanding Claims Margin	2008 Outstanding Claims Margin
Short Tail		
Commercial Motor Vehicle	15.7%	14.3%
Fire and Industrial Specialised Risk	33.3%	14.3%
Marine & Aviation	11.8%	10.3%
Other	N/A	14.3%
Average Short Tail	15.6%	13.3%
Long Tail		
Public & Product Liability	12.9%	14.3%
Average Long Tail	13.2%	14.3%
Overall	15.1%	13.3%

(c) Reconciliation of movement in discounted outstanding claims liability

	2009 Gross $	2009 Reinsurance $	2009 Net $	2008 Gross $	2008 Reinsurance $	2008 Net $
Brought Forward	17,225,225	(974,839)	16,250,386	6,690,440	(1,087,250)	5,603,190
Effect of changes in assumptions	(4,423,689)	(406,350)	(4,830,039)	(2,285,986)	817,070	(1,468,916)
Increase in claims incurred/recoveries anticipated over the year	68,321,599	(14,432,050)	53,889,549	32,301,174	(1,217,649)	31,083,525
Incurred claims recognised in the Statement of Comprehensive Income	63,897,910	(14,838,399)	49,059,510	30,015,188	(400,579)	29,614,609
Claim payments / recoveries during the year	(51,366,931)	6,269,747	(45,097,184)	(19,480,403)	512,990	(18,967,413)
Carried Forward	29,756,204	(9,543,491)	20,212,712	17,225,225	(974,839)	16,250,386

19. Outstanding claims *(continued)*

(d) Claims development tables

The following tables show the development of gross and net undiscounted outstanding claims relative to the ultimate expected claims for the five most recent accident years for classes of business that are typically resolved in more than one year.

(i) Gross Incurred

Accident Year	2005 $	2006 $	2007 $	2008 $	2009 $	Total $
End of Accident Year	-	390,342	211,667	273,549	5,034,300	
One Year Later	-	73,191	189,312	635,149		
Two years later	20,657	4,971	148,136			
Three years later	12,938	24,096				
Four years later	13,247					
Current Estimate of Incurred	13,247	24,096	148,136	635,149	5,034,300	5,854,928
Cumulative Payments	13,247	1,191	49,731	144,380	405,048	613,597
Outstanding claims - Undiscounted	-	22,905	98,405	490,770	4,629,251	5,241,331
Discount						(486,418)
Claim Handling Expense						300,181
2004 and prior years						-
Outstanding claims - Discounted						5,055,094
Short Tail Outstanding Claims						24,701,110
Total Gross						29,756,204

(ii) Net Incurred

Accident Year	2005 $	2006 $	2007 $	2008 $	2009 $	Total $
End of Accident Year	-	105,715	200,667	269,027	3,647,090	
One Year Later	-	74,191	189,312	468,170		
Two years later	20,657	4,956	115,956			
Three years later	12,938	16,700				
Four years later	13,247					
Current Estimate of Incurred	13,247	16,700	115,956	468,170	3,647,090	4,261,163
Cumulative Payments	13,247	1,191	49,731	124,317	348,600	537,086
Outstanding claims - Undiscounted	-	15,510	66,225	343,852	3,298,490	3,724,077
Discount						(393,858)
Claim Handling Expense						280,416
2004 and prior years						-
Outstanding claims - Discounted						3,610,635
Short Tail Outstanding Claims						16,602,077
Total Net						20,212,712

Notes to the Financial Statements *(continued)*
31 December 2009

20. Remuneration of auditors

	2009 $	2008 $
Remuneration for audit or review of the financial statements of the Branch:		
Statutory audit fees	21,542	34,760
	21,542	34,760
Remuneration for other services		
Taxation Compliance and assurance	-	3,802
	-	3,802

21. Related parties

(a) Aggregate amounts receivable from related entities at balance date

	2009 $	2008 $
Current		
Immediate controlling entity	1,472,775	1,232,995
Other related entities	3,122,589	98,418
	4,595,364	1,331,413

(b) Aggregate amounts payable to related entities at balance date

	2009 $	2008 $
Current		
Controlling entity	786,937	-
Other related entities	3,646,360	11,301,018
	4,433,297	11,301,018

(c) Aggregate amounts recognised in respect of the following types of transactions and each class of related party involved were:

	2009 $	2008 $
Payment of reinsurance premium expenses		
Other related entities	13,348,942	6,569,764
Payment of reinsurance commission expense		
Other related entities	990,183	428,259
Reinsurance claims recoveries		
Other related entities	4,941,451	1,008,327

The above transactions were made on commercial terms and conditions at market rates.

(d) Aggregate amount of contributions received from/distribution payable to head office

	2009 $	2008 $
Head office account	2,061,611	-

The transaction with the head office is disclosed in the Statement of Changes in Head Office Account.

21. Related parties *(continued)*

(e) Related parties of Zurich Australian Insurance Limited New Zealand Branch fall into the following categories:

(i) **Head Office**

This branch is the New Zealand branch of an Australian operation, Zurich Australian Insurance Limited, which is an Australian registered insurance company.

(ii) **Holding company**

The immediate holding entity is Zurich Financial Services Australia Limited and is incorporated in Australia.

The ultimate holding company is Zurich Financial Services Limited, an entity incorporated in Switzerland.

(iii) **Other related entities**

Included in the reinsurance and other recoveries amounts in Note 11 is $13,501,684 (2008: $1,034,988) owing by related corporations.

22. Credit rating of insurer

During 2009, Standard & Poors has rated the parent company, Zurich Australian Insurance Limited with an A+ credit rating. This rating was assigned on 17 December 2009.

23. Reinsurance programme

The reinsurance strategy chosen to protect Zurich Australian Insurance Limited's liabilities in New Zealand matches the Australian reinsurance strategy in 2009. It has the following characteristics:

- A maximum per risk net retention of NZD equivalent to AUD8 million, except for Associated Marine, which is NZD equivalent to AUD5 million, Motor TPPD which is NZD equivalent to AUD6 million, Motor Own Damage is various and Engineering is NZD equivalent to AUD6 million.
- A maximum per event retention of NZD equivalent to AUD20 million.

Reinsurance is purchased through a series of treaty and facultative contracts with external reinsures and with members of the Zurich Financial Services Limited group.

24. Capital management

While the Branch does not have any Capital of its own it does manage funds from the Head Office. When managing capital, managements objective is to ensure the Branch continues as a going concern as well as maintaining optimal returns to the holding company and benefits for other stakeholders. The investment strategy is conservative whereby investments are held in cash and fixed interest securities.

25. Going concern

The Branch has net liabilities of $2,071,617 at 31 December 2009. The current liabilities position includes unearned premium liability balance of $41,070,139 which does not require cash settlement. The Head Office has committed to provide funding to the branch to maintain its operations and will not request the repayment of the aggregate amounts due to the Head Office in the coming 12 months. As a result, the directors consider it is appropriate for the financial statements to be prepared on a going concern basis.

26. Events occurring after reporting date

Since the end of the financial year the directors have not become aware of any matter or circumstance not otherwise dealt with in the financial statements 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 subsequent financial years.

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Independent auditors' report to the directors of Zurich Australian Insurance Limited

We have audited the accompanying financial statements on pages 1 to 29. The financial statements provide information about the past financial performance of the New Zealand operations of Zurich Australian Insurance Limited (New Zealand Branch) for the year ended 31 December 2009 and its financial position as at that date. This information is stated in accordance with the accounting policies set out on page 4 to 9.

Directors' responsibilities

The Directors of Zurich Australian Insurance Limited are responsible for the preparation and presentation of financial statements which present fairly the financial position of the New Zealand Branch as at 31 December 2009 and its financial performance for the year ended on the date.

Auditors' responsibilities

We are responsible for expressing an independent opinion on the financial statements presented by the Directors and reporting our opinion to you.

Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

(a) the significant estimates and judgements made by the Directors in the preparation of the financial statements; and

(b) whether the accounting policies used and described on pages 4 to 9 are appropriate to the circumstances of the New Zealand Branch, consistently applied and adequately disclosed.

We have conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from all material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in financial statements.

We have no relationship with or interests in the New Zealand Branch other than in our capacity as auditors.

PRICEWATERHOUSECOOPERS

Independent auditors' report to the directors of Zurich Australian Insurance Limited (continued)

Unqualified Opinion

We have obtained all the information and explanations we have required.

In our opinion the financial statements on pages 1 to 29 present fairly a true and fair view of the financial position of the New Zealand branch as at 31 December 2009 and its financial performance for the year ended on that date.

Our audit was completed on 24 March 2010 and our unqualified opinion is expressed as at that date.

PricewaterhouseCoopers

Chartered Accountants

Sydney

I, Voula Papageorgiou, am currently a member of the Institute of Chartered Accountants in Australia and my membership number is 96318.

PricewaterhouseCoopers was the audit firm appointed to undertake the audit of Zurich Australian Insurance Limited – New Zealand Branch for the year ended 31 December 2009. I was responsible for the execution of the audit and delivery of our firm's auditors' report. The audit work was completed on 24 March 2010 and an unqualified opinion was issued.

V Papageorgiou

Voula Papageorgiou

ZURICH AUSTRALIAN INSURANCE LIMITED

A.B.N. 13 000 296 640

ANNUAL REPORT

For the year ended 31 December 2009

Contents	**Page Number**

Zurich Australian Insurance Limited is a company limited by shares, incorporated in and domiciled in Australia. Its registered office and principal place of business is:

5 Blue Street
North Sydney
NSW 2060

A description of the nature of the Company's operations and its principal activities is included in the directors' report on pages 1 – 4.

The annual report was authorised for issue by the directors on 24 March 2010. The Directors have the power to amend and reissue the report.

ZURICH AUSTRALIAN INSURANCE LIMITED

Directors' Report

Your directors present their report on Zurich Australian Insurance Limited ("the Company") for the year ended 31 December 2009.

Directors

The following persons were directors of the Company during the whole of the financial year and up to the date of this report:

Terence John Paradine
David James Parker Smith
Ian Clifton Carroll
Robert Olivier Dolk
Philip Wallace Smith

The following persons were directors of the Company for part of the financial year or at the date of this report:

Ian Kenneth Payne was a director of the Company from the beginning of the financial year until his resignation on 30 June 2009.

Hugh Edward Graham was a director of the Company from the beginning of the financial year until his resignation on 8 September 2009.

Christopher Llewellyn Powell was an alternate director of the Company from the beginning of the financial year until his resignation on 30 November 2009.

Robert Joseph Lehane was appointed as an alternate director of the Company on 30 November 2009 and continues in this office at the date of this report.

Officers

Cathy Anne Manolios and David George Hallahan were company secretaries of the Company during the whole of the financial year and up to the date of this report.

Principal Activities

The principal activity of the Company during the year was underwriting various classes of General Insurance.

Dividends

Dividends paid by the Company to the Australian parent company, Zurich Financial Services Australia Limited, during the financial year were as follows:

	2009 $'000	2008 $'000
Interim ordinary dividend paid on 30 May 2008	-	50,000
Final ordinary dividend paid on 23 December 2009	16,000	-

The Company declared a dividend of $67,500,000 to the Australian parent company on 24 March 2010.

Directors' Report *(continued)*

Review of Results and Operations
A summary of revenues and results is set out below:

	2009	2008
Revenues and other income	$'000	$'000
Direct premium and inwards reinsurance revenue	1,021,664	923,821
Reinsurance and other recoveries	309,567	321,349
Investment income	95,222	71,889
Other income	7,734	2,445
	1,434,187	1,319,504
Results		
Profit/(loss) for the year	105,275	(28,969)

All the administrative activities of the Company have been performed by the Australian parent entity. The Company has been charged management service fees of $152,057,243 (2008: $149,352,345) in respect of these activities.

The solvency position at 31 December 2009 reflects a retrospective adjustment to allow for the discovery during January 2010 that the catastrophe reinsurance programme was not adequate to provide cover for a 1 in 250 year event. Immediately this was realised, additional cover was bought to return to the intended position. On a pro-forma basis the capital adequacy multiple would be 1.878.

Significant Changes in the State of Affairs
Significant changes in the state of affairs of the Company during the financial year were as follows:

a) On 22 September 2009, Zurich Investments Reserve International Share Pool was closed
b) On 18 November 2009, Zurich Workers Compensation Victoria Pty Limited (a subsidiary of the Company) was deregistered
c) On 23 December 2009, Zurich Australian Workers Compensation Pty Limited (a subsidiary of the Company) was deregistered

Matters Subsequent to the End of the Financial Year
Zurich Investments Reserve Australian Share Pool was closed on 31 January 2010. Apart from this, there is no matter or circumstance which has arisen since 31 December 2009, other than that dealt with in the financial statements, that has significantly affected or may significantly affect:
a) the Company's operations in future financial years; or
b) the results of those operations in future financial years; or
c) the Company's state of affairs in future financial years.

Likely Developments and Expected Results of Operations
The directors do not make any reference to likely developments and expected results at this time, apart from comments made elsewhere in this report, as such references could be prejudicial to the interests of policyholders and shareholders. Accordingly, this information has not been included in this report.

Environmental Regulations
The Company has assessed whether there are any particular or significant environmental regulations which apply to it and has determined that there are none.

Insurance of Officers
During the financial year, a related company has paid a premium to insure all present and past directors, secretaries and executive officers of the Company or a related body corporate. The insurance grants indemnity against liabilities permitted to be indemnified by the Company under the Corporations Act 2001. In accordance with normal commercial practice, the insurance policy prohibits disclosure of the terms of the policy including the nature of the liability insured against and the amount of the premium.

ZURICH AUSTRALIAN INSURANCE LIMITED

Directors' Report ***(continued)***

Agreements to indemnify
The Company's constitution provides that the Company may indemnify, to the extent permitted by law, past and present directors and secretaries against any liability incurred as an officer of the Company or any subsidiary of the Company together with legal costs incurred in defending an action for such a liability.

The Company has also entered into various agreements with persons who are current and former officers of the Company and of certain of the Company's related companies. These agreements variously require the Australian parent entity, Zurich Financial Services Australia Limited to indemnify those persons, to the extent permitted by the Corporations Act 2001, against liabilities, some claims and legal costs which they may incur or which are made against them in connection with their position or conduct as officers of the Company and its related companies. The indemnities provided under those agreements are not limited in amount.

Proceedings on Behalf of the Company
No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the Corporations Act 2001.

Rounding of Amounts to the Nearest Thousand Dollars
The Company is a kind referred to in Class Order 98/0100 issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' Report and Financial Report. Amounts in the Directors' Report and Financial Report have been rounded off to the nearest thousand dollars in accordance with that Class Order.

Auditor
PricewaterhouseCoopers continues in office in accordance with section 327 of the Corporations Act 2001. A copy of the Auditors' Independence Declaration as required under section 307C of the Corporation Act 2001, is set out on page 4.

This report is made in accordance with a resolution of the directors.

T J Paradine Director	R O Dolk Director

Sydney
24 March 2010

PRICEWATERHOUSECOOPERS

Directors' Report *(continued)*

PricewaterhouseCoopers
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Auditor's Independence Declaration

As lead auditor for the audit of Zurich Australian Insurance Limited for the year ended 31 December 2009, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Zurich Australian Insurance Limited during the period.

V. Papageorgiou

Voula Papageorgiou

Partner
PricewaterhouseCoopers

Sydney

24 March 2010

ZURICH AUSTRALIAN INSURANCE LIMITED

Statement of Comprehensive Income
For the year ended 31 December 2009

	Notes	2009 $'000	2008 Restated [1] $'000
Premium revenue			
Direct premium revenue	5 (c)	998,802	903,768
Inwards reinsurance revenue		22,862	20,052
Outwards reinsurance expense		(241,170)	(182,860)
Net premium revenue		780,494	740,960
Claims expense	8	(787,479)	(889,539)
Reinsurance and other recoveries revenue	8	309,567	321,349
Net claims incurred	8	(477,912)	(568,190)
Gross movement in unexpired risk liability		29,752	(21,989)
Reinsurance recoveries on unexpired risk liability		(15,075)	19,183
Net movement in unexpired risk liability		14,677	(2,806)
Acquisition costs		(69,318)	(96,040)
Other underwriting expenses		(191,702)	(186,367)
Underwriting expenses		(261,020)	(282,407)
Underwriting result		56,239	(112,443)
Investment income	6	95,222	71,889
Other income	7	7,734	2,447
Net foreign exchange loss		(2,163)	(217)
Profit/(loss) from continuing operations		157,032	(38,324)
Finance costs		-	(105)
Profit before income tax		157,032	(38,429)
Income tax (expense)/ benefit	9 (a)	(51,757)	13,014
Profit/(loss) for the year	24	105,275	(25,415)
Other comprehensive income			
Exchange difference on translating foreign operation	24(b)	484	66
Other comprehensive income for the year, net of tax		484	66
Total comprehensive income/(expense) for the year		105,759	(25,349)

(1) see Note 9 & 14 for details regarding the prior years restatement.

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

ZURICH AUSTRALIAN INSURANCE LIMITED

Balance sheet
As at 31 December 2009

	Notes	2009	2008 Restated [1]	1 January 2008 Restated [1, 2]
		$'000	$'000	$'000
Assets				
Cash and cash equivalents	10	131,530	108,140	226,542
Receivables	11	351,388	387,726	280,935
Financial assets at fair value through profit or loss	12	1,642,500	1,604,392	1,530,102
Reinsurance and other recoveries	13	675,158	567,459	418,819
Deferred acquisition costs	15	32,149	38,989	27,170
Other assets	16	141,739	121,321	97,589
Deferred tax asset	14	49,447	58,905	47,050
Total Assets		3,023,911	2,886,932	2,628,207
Liabilities				
Payables	17	112,015	159,171	113,014
Provisions	18	9,296	8,710	6,836
Unearned premium	19	568,255	519,216	472,991
Unexpired risk liability	20(a)	28,260	58,011	36,022
Outstanding claims	22(a)	1,663,284	1,588,782	1,370,953
Total Liabilities		2,381,110	2,333,890	1,999,816
Net Assets		642,801	553,042	628,391
Equity				
Contributed equity	23(a)	97,065	97,065	97,065
Reserves	24(a)	536	52	(14)
Retained profits	24(c)	545,200	455,925	531,340
Total Equity		642,801	553,042	628,391

(1) see Note 9 & 14 for details regarding the prior years restatement.
(2) see Note 1 Financial statement presentation for details regarding the change in accounting policy.

The above Balance Sheet should be read in conjunction with the accompanying notes.

ZURICH AUSTRALIAN INSURANCE LIMITED

Statement of Changes in Equity
As at 31 December 2009

	Contributed Equity $'000	Reserves $'000	Retained profits Restated[1] $'000	Total Restated[1] $'000
Balance at 1 January 2008	97,065	(14)	524,400	621,451
Adjustment on deferred tax asset[1]	-	-	6,940	6,940
Balance at 1 January 2008, restated[1]	97,065	(14)	531,340	628,391
Total comprehensive income/(expense) for the year as reported in the 2008 financial statements	-	66	(28,969)	(28,903)
Adjustment on deferred tax asset[1]	-	-	3,554	3,554
Total comprehensive income/(expense) for the year, restated	-	66	(25,415)	(25,349)
Transactions with owners in their capacity as owners:				
Dividends paid to Australian parent entity	-	-	(50,000)	(50,000)
Balance as at 31 December 2008, restated[1]	97,065	52	455,925	553,042
Total comprehensive income for the year	-	484	105,275	105,759
Transactions with owners in their capacity as owners:				
Dividends paid to Australian parent entity	-	-	(16,000)	(16,000)
Balance as at 31 December 2009	97,065	536	545,200	642,801

(1) see Note 9 & 14 for details regarding the prior years restatement.

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

ZURICH AUSTRALIAN INSURANCE LIMITED

Cash flow statement
For the year ended 31 December 2009

	Notes	2009 $'000	2008 $'000
Cash Flows from Operating Activities			
Premiums and deposits received		762,208	772,903
Claims and related payments		(526,185)	(479,818)
Payment to suppliers and employees		(238,744)	(295,852)
Proceeds from sale of investment assets		186,116	165,577
Payments for investments		(241,444)	(266,399)
Interest received		1,567	1,589
Borrowing cost paid		-	(105)
Fees and commissions received		5,858	3,850
Payment to head tax entity		(1,806)	(52,893)
Other income received		81	449
Dividends received		91,737	82,293
Net cash inflows/(outflows) from operating activities	25	39,388	(68,406)
Cash Flows from Financing Activities			
Dividends paid		(16,000)	(50,000)
Net cash outflows from financing activities		(16,000)	(50,000)
Net Increase/(Decrease) in Cash Held		23,388	(118,406)
Cash and cash equivalents at the beginning of the financial year		108,140	226,546
Cash and cash equivalents at the end of the financial year	10	131,528	108,140

The above Cash Flow Statement should be read in conjunction with the accompanying notes.

1. Summary of significant accounting policies

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board (AASB), Urgent Issues Group Interpretations and the Corporations Act 2001.

It is prepared in accordance with the historical cost convention, except in the case of certain financial assets, as noted in the accounting policies below, which are measured on the basis of fair value as required by AASB 139: *Financial Instruments: Recognition and Measurement*, and provisions for long-tail outstanding claims which have been inflated and discounted as required by AASB 1023: *General Insurance Contracts*.

Compliance with IFRSs
The financial statements of Zurich Australian Insurance Limited also comply with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

The Company has elected to apply AASB 127 *Consolidated and Separate Financial Statements* to reporting periods beginning on or after 1 January 2007. These financial statements are separate financial statements and the Company is exempted from preparing consolidated financial statements. The ultimate Australian parent company, Zurich Financial Services Australia Limited (incorporated in Australia) produces consolidated financial statements in accordance with IFRSs produced for public use, which can be obtained at 5 Blue Street, North Sydney, NSW, 2060.

The Company has elected to apply AASB 8 *Operating Segments*, issued February 2007. The Company does not issue any publicly traded debt or equity instruments and is exempted from the disclosure of reportable segments.

Controlled entities
Controlled entities are all those entities over which the Company has the power to govern the financial and operating policies, generally accompanying a shareholder of more than one-half of the voting rights. A list of controlled entities is summarised in Note 29.

Critical accounting estimates
The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 2 and 3.

Financial statement presentation
The Company has applied the revised AASB 101 *Presentation of Financial Statements* which became effective on 1 January 2009. The revised standard requires the separate presentation of a Statement of Comprehensive Income and a Statement of Changes in Equity. All non-owner changes in equity must now be presented in the Statement of Comprehensive Income. As a consequence, the Company had to change the presentation of its financial statements. Comparative information has been re-presented so that it is also in conformity with the revised standard. If the Company has made a prior period adjustment or has reclassified items in the financial statements, it will need to disclose a third balance sheet, this one being as at the beginning of the comparative period.

The Company has changed its accounting policy to present assets and liabilities in increasing order of liquidity as this presentation provides information that is reliable and more relevant than a current/non-current presentation. Previously, the Company presented current and non-current assets, and current and non-current liabilities, as separate classifications in its balance sheet. The new liquidity presentation of assets and liabilities has been applied retrospectively and therefore, reclassifications have been made to amounts previously recognised in the financial statements.

1. Summary of significant accounting policies *(continued)*

(a) Principles of insurance contracts

The general insurance operations of the Company comprise the underwriting of various classes of direct and reinsurance contracts. These contracts transfer significant insurance risk by agreeing to compensate the insured or reinsured on the occurrence of a specified insured event, such as damage to property or the crystallisation of a third party liability (or the reinsurance thereof), within a given timeframe.

These contracts are defined as general insurance contracts.

(b) Insurance premium and related revenue

Direct and inwards reinsurance premium comprises amounts charged to the policyholders or other insurers, including fire service levies in Australia, but excluding stamp duties, Goods and Services Tax (GST), fire service levies in New Zealand and other amounts collected on behalf of third parties. Inwards reinsurance is insurance contracts entered into by the Company under which the contract holder is another insurer. The earned portion of premiums received and receivable, including bound but not incepted and unclosed business, is recognised as revenue. Premium revenue is treated as earned from the date of attachment of risk. Premiums on unclosed business are brought to account by reference to the previous year's premium processing delays, with due allowance for any changes in the pattern of new business and renewals.

The pattern of recognition of income over the policy or indemnity periods is based on time, which closely approximates the pattern of risks underwritten. The proportion of premiums received and receivable not earned in the Statement of Comprehensive Income at the reporting date is recognised in the Balance Sheet as an unearned premium liability. The unearned portion of commissions and other acquisition costs are also deferred and shown as deferred acquisition costs in the Balance Sheet.

(c) Fee and other revenue

Fee and other revenue are recognised at the time services are provided.

(d) Dividend and interest income

Interest income is recognised in the Statement of Comprehensive Income using the effective interest rate method.

Dividends are recognised when the Company obtains control of the right to receive the revenue.

Change in accounting policy

The Company has changed its accounting policy for dividends paid out of pre-acquisition profits on 1 January 2009 when the revised AASB 127 Consolidated and Separate Financial Statements became operative. Previously, dividends paid out of pre-acquisition profits would have been deducted from the cost of the investment. In accordance with the transitional provisions, the new accounting policy is applied prospectively. It was therefore not necessary to make any adjustments to any of the amounts previously recognised in the financial statements.

(e) Insurance claims and related expenses

Claims expense represents payment for claims (and claims related expenses) and the movement in outstanding claims liabilities.

(f) Outwards reinsurance expense

Amounts paid to reinsurers under insurance contracts held by the Company are recorded as outwards reinsurance expense and are recognised in the Statement of Comprehensive Income from the attachment date over the period of indemnity of the reinsurance contract in accordance with the expected pattern of the incidence of the risk ceded.

1. Summary of significant accounting policies *(continued)*

(g) Income tax

The income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction 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, and unused tax losses.

Deferred tax assets and liabilities are recognised using the liability method for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Tax consolidation legislation

The Company is part of a tax consolidated group, of which ZCM Asia Holdings Pty Limited is the head entity, and which has implemented the tax consolidation legislation as of 1 October 2003.

The head entity, ZCM Asia Holdings Pty Limited and the entities in the tax consolidated group (including the Company) continue to account for their own current and deferred tax amounts. These tax amounts are measured on a basis approximating the basis as if each entity in the tax consolidated group was a separate taxpayer within that group.

In addition to its own current and deferred tax amounts, ZCM Asia Holdings Pty Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from entities in the tax consolidated group.

Assets or liabilities arising under the tax funding agreement with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) tax consolidated entities. For further details see income tax Note 9.

1. Summary of significant accounting policies ***(continued)***

(h) Goods and Services Tax (GST)
Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or current liability in the Balance Sheet.

Cash flows are included in the Cash Flow Statement on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(i) Fire brigade and other statutory charges
A liability for fire brigade and other statutory charges is recognised on business written to the balance date. Levies and charges payable are expensed on the same basis as the recognition of premium revenue, with the portion relating to unearned premium being recorded as a prepayment.

(j) Foreign currency translation
The financial statements of the Company are presented in Australian dollars, which is the functional and presentation currency. Foreign currency transactions are initially translated into Australian dollars at the rate of exchange at the date of the transaction. At balance date, amounts payable and receivable in foreign currencies are translated into Australian dollars at rates of exchange current at that date. Resulting exchange differences are brought to account in determining the profit or loss for the year.

The results and financial position of foreign operations are translated into the presentation currency as follows:
- Assets and liabilities at closing rate at balance date.
- Income and expenses at average exchange rate.
- All resulting exchange differences are recognized as a separate component of equity.

(k) Cash and cash equivalents
For the purpose of the Cash Flow Statement, cash includes cash at bank and cash held in unit trusts which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value, net of outstanding bank overdrafts.

(l) Financial assets
The Company classifies its financial assets into the following categories: Financial assets at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

The Company assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired.

(i) Financial assets at fair value through profit or loss
The investment assets of the Company have been determined as being assets backing policy liabilities and are therefore valued at fair value through profit or loss.

It is considered that the use of fair value through profit or loss results in more relevant information because it eliminates or significantly reduces a measurement or recognition inconsistency.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Company establishes fair value by using valuation techniques. These include reference to the fair values of recent arm's length transactions, involving the same instruments or other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

1. Summary of significant accounting policies *(continued)*

(l) Financial assets *(continued)*

Purchases and sales of investments are recognised on trade-date – the date on which the Company commits to purchase or sell the asset. Financial assets are initially recognised at cost. These assets are subsequently measured at fair value. Realised, unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the Statement of Comprehensive Income in the period in which they arise.

Financial assets are derecognised when the right to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

(ii) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of selling the receivable. Loans and receivables are included in receivables in the Balance Sheet (Note 11).

Loans and receivables are carried at cost which is the best estimate of fair value, as they are settled within twelve months and subsequently subject to impairment testing. Impairment testing is based on collectibility of receivables and is reviewed on an ongoing basis. An impairment charge is recognised when there is objective evidence that the entity will not be able to collect all amounts due according to the original terms of the contracts. The impairment charge is recognised in the Statement of Comprehensive Income.

(m) Reinsurance and other recoveries receivable
The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance receivable. Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid, claims incurred but not reported (IBNR), claims incurred but not enough reported and unexpired risk liabilities are recognised as reinsurance and other recoveries revenue. Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims. Recoveries receivable in relation to long-tail classes are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims to which they relate.

(n) Deferred acquisition costs
The fixed and variable costs of acquiring new business, "the acquisition costs", include commission, advertising, policy issue and underwriting costs, agency expenses and other sales costs.

A portion of acquisition costs relating to unearned premium revenue is deferred and recognised as an asset, where it can be reliably measured and where it is probable that it will give rise to premium revenue that will be recognised in the Statement of Comprehensive Income in future periods. Deferred acquisition costs are measured at the lower of cost and recoverable amount and are amortised in accordance with the earning pattern of the corresponding premium revenue.

(o) Impairment of assets
Financial assets measured at fair value, where changes in value are reflected in the Statement of Comprehensive Income, are not subject to impairment testing. Other assets such as receivables are subject to impairment testing.

Assets that have an indefinite useful life, such as identifiable intangible assets, are not subject to amortisation and are tested at least annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value (including realisation costs) and its value in use.

(p) Payables
These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

1. Summary of significant accounting policies *(continued)*

(q) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

(r) Dividends

Provision is made for the amount of any dividend declared on or before the end of the financial year but not distributed at balance date.

(s) Outstanding claims

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 a risk free rate.

Claims handling costs include costs that can be associated directly with individual claims, such as legal and other professional fees, and costs that can only be indirectly associated with individual claims, such as claims administration costs.

(t) Unexpired risk liabilities

At each reporting date the Company assesses whether the unearned premium liability is sufficient to cover all expected future cash flows relating to future claims against current insurance contracts. This assessment is referred to as the liability adequacy test and is performed separately for each group of contracts subject to broadly similar risks and managed together as a single portfolio.

If the present value of the expected future cash flows relating to future claims plus the additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned premium liability less related intangible assets and related deferred acquisition costs then the unearned premium liability is deemed to be deficient. The Company applies a risk margin to achieve the same probability of sufficiency for future claims as is achieved by the estimate of the outstanding claims liability, see Note 1(s).

A write down to recoverable amount is recognised when the present value of expected future claims (including settlement costs) in relation to business written to the reporting date exceeds related unearned premium revenue. The entire deficiency, net of reinsurance, is recognised immediately in the Statement of Comprehensive Income. The deficiency is recognised first by writing down any related intangible assets and then related deferred acquisition costs, with any excess being recorded in the Balance Sheet as an unexpired risk liability.

(u) Rounding of amounts

The Company is a kind referred to in Class Order 98/0100 issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off to the nearest thousand dollars in accordance with that Class Order.

(v) Comparative information

Where necessary, the amounts shown for the previous year have been reclassified to facilitate comparison.

2. Critical accounting judgements and estimates

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

It has been determined that no critical accounting judgements have been made in the year.

a) The ultimate liability arising from claims made under insurance contracts

Provision is made at the year end for the estimated cost of claims incurred but not settled at the balance sheet 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 gross of the expected value of salvage and other recoveries. 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 information about the claim event is generally available. IBNR claims may often not be apparent to the insurer until many years after the events giving rise to the claims has happened. The long-tailed 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. For the short-tailed classes, claims are typically reported soon after the claim event, and hence tend to display lower levels of volatility. In calculating the estimated cost of unpaid claims the Company uses a variety of estimation techniques, generally based upon statistical analysis of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. 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 company processes which might accelerate or slow down the development and/or recording of paid or incurred claims, compared with the statistics from previous periods
- changes in the legal environment
- the effects of inflation (both economic/wage and superimposed)
- changes in the mix of business
- the impact of large losses
- medical and technological developments
- changes in policyholder behaviour

A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims. In estimating the cost of these, the Company has regard to the claim circumstance as reported, any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods.

Large claims impacting each relevant business class are generally assessed separately, being measured on a case by case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims.

Where possible the Company adopts multiple techniques to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The projections given by the various methodologies also assist in setting the range of possible outcomes. The most appropriate estimation technique is selected, taking into account the characteristics of the business class and the extent of the development of each accident year.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable both from third-parties and from reinsurers based upon the gross provisions.

Details of specific assumptions used in deriving the outstanding claims liability at year end are detailed in Note 3.

2. Critical accounting judgements and estimates *(continued)*

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.

3. Actuarial assumptions and methods

The Company writes both short-tailed and long-tailed business. The process for determining the value of outstanding claims liabilities including the cost of claims handling is described below.

Case estimates are established by individual claims officers. The provision for large losses is reviewed by senior claims managers. The ultimate undiscounted cost of claims by year of accident and line of business is then established by actuaries using a variety of actuarial models at a line of business level. IBNR is then derived by subtracting from the ultimate cost, the amount of paid claims and case reserves. The estimation of IBNR is subject to a greater degree of uncertainty than the estimate of the cost of settling claims already notified and the estimate of the ultimate cost of long-tail lines is generally more uncertain than the estimate for short-tail lines where claims are often reported and settled within 1 year of occurrence.

The methods used to establish the ultimate cost of claims include the following:

- Projecting ultimate numbers of claims and multiplying by projected ultimate average cost
- Projecting ultimate claim payments
- Projecting ultimate incurred claim amounts
- Applying plan or expected loss ratios to earned premiums

Claims inflation is incorporated into the resulting projected payments, to allow for both general economic/wage inflation as well as any superimposed inflation detected in the modelling of payments experience. Superimposed inflation arises from non-economic factors such as legal developments. Future wage inflation is based on current levels and economic indicators. Future superimposed inflation is assessed based on current trends and industry information.

Projected non-reinsurance and reinsurance assets are derived using similar methods or applying net to gross ratios.

Projected payments are discounted to allow for the time value of money, based on current Commonwealth Government bond rates.

These methods assume that historical development is a reasonable basis on which to set assumptions about the future, and are thus subject to uncertainty surrounding changes to these patterns from whatever cause. In addition, there is uncertainty arising from the underlying assumptions for future wage inflation and superimposed inflation and of discount rates. Significant events, such as catastrophes, close to the balance sheet date also increase the level of uncertainty. The presence of asbestos claims in the portfolio and the potential emergence of new types of latent claim also increase the potential variability of the outcome.

For these reasons a risk margin is added to the central estimate established above. The establishment of the risk margin takes into account the variability of the outcome of each line of business and the diversification benefit of writing a number of lines of business. The Board and Management have decided that the level of risk margin shall be established to provide a probability of adequacy of 85% (2008: 85%).

3. Actuarial assumptions and methods *(continued)*

(a) Selected key variables

The following indicators reflect the key variables that have been used in determining the outstanding claims liabilities.

	2009	2009	2008	2008
	Long-tail	Short-tail	Long-tail	Short-tail
Average weighted term to settlement	3.9 years	0.5 years	4.4 years	0.5 years
Discount rate	4.48%	N/A	3.34%	N/A
Wage inflation	4.00%	N/A	4.50%	N/A
Superimposed inflation	0 to 5.5%	N/A	0 to 4%	N/A

(b) Sensitivity analysis – insurance contracts

The Company conducts sensitivity analysis 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 give an analysis of the sensitivity of the profit/(loss) and equity, to changes in these assumptions both gross and net of reinsurance.

Impact of changes in key variables

December 2008		**Profit/(loss)**		
		Gross of reinsurance $'000	**Net of reinsurance $'000**	**Equity $'000**
Recognised amounts per the financial statements		(134,712)	(25,415)	553,042
Variable	**Movement in variable**	**Adjusted amounts**		
Long-tail				
Average weighted term to settlement - years	0.5	(125,970)	(17,331)	561,126
	-0.5	(147,874)	(35,387)	543,070
Discount rate	1%	(115,835)	(8,633)	569,824
	-1%	(160,408)	(46,205)	532,252
Wage inflation and superimposed inflation rates	1%	(162,513)	(47,923)	530,534
	-1%	(116,158)	(8,850)	569,607
Financial assets				
Shift in Yield Curve	1%	(160,271)	(50,974)	527,483
	-1%	(109,153)	144	578,601
Equity Prices	+20%	(114,408)	(5,111)	573,346
	-20%	(155,016)	(45,719)	532,738

3. Actuarial assumptions and methods *(continued)*

(c) Sensitivity analysis –insurance contracts *(continued)*

December 2009		Profit/(loss) Gross of reinsurance $'000	Profit/(loss) Net of reinsurance $'000	Equity $'000
Recognised amounts per the financial statements		67,949	105,275	642,801
Variable	**Movement in variable**	**Adjusted amounts**		
Long-tail				
Average weighted term to settlement - years	0.5	85,893	117,382	654,908
	-0.5	52,413	94,990	632,516
Discount rate	1%	90,233	119,869	657,395
	-1%	46,111	91,021	628,547
Wage inflation and superimposed inflation rates	1%	43,730	89,363	626,889
	-1%	90,848	120,233	657,759
Financial assets				
Shift in Yield Curve	1%	42,345	79,671	617,197
	-1%	93,553	130,879	668,405
Equity Prices	20%	81,328	118,654	656,180
	-20%	54,570	91,896	629,422

4. Financial risk management policies and procedures

The Company's activities expose it to a variety of financial risks: market risk (including currency risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Company.

Risk management controls are outlined in the Company's Risk Management Strategy (RMS). The objective of the RMS is to provide a summary of the policies and controls in place to address enterprise risks including certain operational and financial risks and the procedures for assessing compliance with these policies and controls. In addition, the Ultimate Controlling Entity, Zurich Financial Service's Zurich Risk Policy (ZRP) provides constraints on the mix of investment assets. The Company has delegated its investment management responsibilities to Zurich Investment Management Limited (ZIM), which has in turn negotiated Investment Management Agreements (IMA) with external investment managers, with all funds managed in accordance with these IMAs. The overall investment strategy (and in particular the use of derivatives) is governed by the Zurich Investment Series Consolidated Constitution, the relevant IMAs, and the relevant funds offer documents and Product Disclosure Statement. The use of derivatives is consistent and subordinate to the investment strategy of each of the funds.

From time to time, the RMS is subject to review by the internal audit department. The internal audit department is independent of the day to day operational management of the Company. The internal audit department prepares a report on compliance with the procedures outlined in the RMS.

The following list of factors are considered and addressed as part of the Company's financial risk management policies and procedures.

a) Market risk

Market risk is the risk of diminution in value of the Company's investment portfolio arising from adverse movements in the levels and volatility of interest rates, foreign exchange rates and equity prices. The risk is minimised by restricting the proportion of assets allowed to be invested in 'real' assets such as equities and property, by restricting the amount of foreign currency exposure and by ensuring that asset and liability term mismatch is controlled. These constraints are all specified in the ZRP. The risk is then managed by ensuring that all activities are transacted in accordance with approved mandates and by robust and regular monitoring. Market risk analysis is conducted on a regular basis and risk management controls ensure that positions are monitored against the portfolio risk limits. Market risk analysis is conducted on a total portfolio basis, incorporating both physical investments and the effective exposure of all derivative positions. Separate analysis is also performed on derivative positions in isolation.

Refer Note 3(b) for an analysis of impact of changes in key assumptions on reported profit and equity of the Company. The analysis includes impact of changes on financial assets.

b) Net fair value of financial assets and liabilities

On-Balance Sheet

The aggregate carrying values of financial assets and financial liabilities approximate their net fair values. The methods used to determine the carrying values of financial assets and liabilities are included in the Summary of significant accounting policies at Note 1.

Off-Balance Sheet

The Company has potential financial liabilities which may arise from certain contingencies disclosed in Note 27. No material losses are anticipated in respect of any of those contingencies, and the net fair value of those contingencies is assessed as an immaterial amount.

c) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Apart from reinsurance the Company has no significant concentrations of credit risk. Where entities have a right of set-off and intend to settle on a net basis, this set-off has been reflected in the financial statements in accordance with accounting standards.

Reinsurance security is monitored continuously taking advantage of the Zurich Group's Security Committee analysis and there are strict controls around the use of individual reinsurers. Reinsurance accumulations are also monitored closely and used in deciding the appropriate placement programme at renewal.

4. Financial risk management policies and procedures *(continued)*

c) Credit risk *(continued)*

With the exception of investments in associates and controlled entities, the Company does not hold listed equity, debt securities or deposits at call directly. Instead it gains exposure to these assets by investing in Unit Trusts. The Trusts invest substantially in securities traded in an active market and are priced daily. These investments are disclosed in Notes 12 and are not rated by any credit rating agency.

Standard and Poors (S&P) rating for Cash at bank disclosed in Note 10 is AA (2008:AA).

The premiums receivable disclosed in Note 11 include amounts past due and not impaired which are analysed below.

	2009 $'000	2008 $'000
< 30 days	26,049	18,918
31 – 90 days	1,120	2,629
> 91 days	5,708	2,568
Total premiums receivable past due but not impaired	32,876	24,115

Refer Note 5(f) for information on credit quality of reinsurance assets.

All other receivables do not include material amounts that are either past due or impaired.

d) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close-out market positions.

The risk is controlled by carefully monitoring cash flow, and maintaining suitable floats of readily realisable assets.

The Company's financial assets are shown in Note 12. The current and non-current classification of these assets is based on the maturity terms of the underlying securities held by the unit rusts. As most of the securities held by the unit trusts have maturity dates more than 12 months, they have been classified as non-current assets. However, these securities are liquid assets and can be sold quickly if short term funding is required to meet its financial liabilities.

The table shows expected undiscounted cash flows from outstanding claims (notified claims, IBNR and claims handing costs) and premium liability (expected future claims). Both are net of reinsurance and non-insurance recoveries and before risk margin.

4. Financial risk management policies and procedures *(continued)*

e) Liquidity risk *(continued)*

2009	**Carrying amount (Undiscounted)**	**Expected cash flows (undiscounted)**				
		0-1 yrs	1-5 yrs	5-10 yrs	10-15 yrs	>15yrs
	$'000	$'000	$'000	$'000	$'000	$'000
Insurance contracts						
Outstanding Claims (Note 13, 22)	1,028,106	397,626	481,548	83,903	19,187	45,842
Premium Liability	347,281	157,516	158,187	30,528	1,004	46
Total	1,375,387	555,142	639,735	114,432	20,191	45,888

2008	**Carrying amount (Undiscounted)**	**Expected cash flows (undiscounted)**				
		0-1 yrs	1-5 yrs	5-10 yrs	10-15 yrs	>15yrs
	$'000	$'000	$'000	$'000	$'000	$'000
Insurance contracts						
Outstanding Claims (Note 13, 22)	1,022,236	367,671	481,550	103,164	26,408	43,443
Premium Liability	354,214	150,156	161,377	38,127	4,251	303
Total	1,376,450	517,827	642,927	141,291	30,659	43,746

A contractual maturity analysis is not provided in respect of other financial liabilities as typically the credit terms for other financial liabilities are up to 31 days.

The Company has no financial guarantee contracts

f) Derivative holdings

A derivative transaction is a contract whose value is derived from the value of an underlying asset or index.

The Company does not generally hold any investments including derivative contracts itself since it invests in unit trusts but these could in turn have exposure to derivative instruments. However, deliberate gearing up or leverage exposure to an asset is not permitted.

The trusts may use derivatives for portfolio management purposes including managing duration for the purpose of matching liability duration. They are used as effective alternative to physical assets in order to achieve a desired level of total exposure and as a means to hedge against market movements. Total exposure is the sum of the market value of the physical assets plus the equivalent physical asset value attributed to the derivatives.

The most common derivatives used by the trusts are exchange traded futures contracts and options. Exchange traded futures and options are used to hedge against adverse market fluctuations in the underlying security. Overseas currency options are entered into to hedge exposures to adverse movements in the Australian dollar. Forward foreign exchange contracts are entered into to hedge certain investment exposures denominated in foreign currencies.

Derivatives in the trusts are valued on a fair value basis such that the trusts valuations reflect all unrealised gains and losses on derivatives.

As at 31 December 2009, the trusts had no significant counterparty exposure to one single entity, other than normal clearing house exposure associated with dealings through recognised exchanges (2008: Nil).

4. Financial risk management policies and procedures ***(continued)***

g) Fair value measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

As of 1 January 2009, the Company has adopted the amendment to AASB 7 *Financial Instruments: Disclosures* which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
(b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and
(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following table presents the Company's assets and liabilities measured and recognised at fair value at 31 December 2009. Comparative information has not been provided as permitted by the transitional provisions of the new rules.

As at 31 December 2009	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total
Unit trust - Equity securities	-	52,243	-	52,243
Unit trust - Debt securities	-	1,546,957	-	1,546,957
Shares in controlled entities	-	-	43,300	43,300
Total	-	1,599,200	43,300	1,642,500

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in level 1.

Although the investments held by unit trusts are quoted, the units are not. Therefore, the investments in unit trusts do not meet the definition of level 1. The fair values of the units are determined to be a proportion of the net asset value of the unit trust. These instruments are included in level 2.

The fair value of financial instruments that are not traded in an active market (for example, government bond) is determined using valuation techniques. The Company uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Estimated discounted cash flows, are used to determine fair value for the government bonds. These investments are included in level 2.

The fair value of shares in controlled entities is predominantly represented by the fair values of the investment properties held. As the valuation technique for investment properties is based on significant unobservable inputs, they are classified as level 3.

The carrying amount of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities approximates the carrying amount, as the impact of discounting is not significant.

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, investment market risk (including interest rate risk and currency risk), credit risk, liquidity risk, financial risk, compliance risk and operational risk. Notes on the Company's policies and procedures in respect of managing insurance risks are set out in this note.

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

The Company has an objective to manage 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. Various procedures are put in place to control and mitigate the risks faced by the Company depending on the nature of each risk. The Company's exposure to risks is monitored by the Appointed Actuary and this exposure is reported to the Board in the annual Financial Condition Report.

In accordance with General Insurance Prudential Standards GPS 220 Risk Management and GPS 230 Reinsurance Arrangements issued by the Australian Prudential Regulation Authority (APRA), the Board and senior management of the Company have developed, implemented and maintain 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 compliance with the RMS and REMS.

The RMS and REMS have been approved by the Board. Key aspects of the processes established in the RMS to mitigate risks arising from insurance contracts include:

- A formal annual high-level hazard assessment that focuses on key risks that impact the achievement of strategic and business objectives, including the development of action plans for the treatment and continuous monitoring of identified risks. This is bolstered by formal quarterly reviews of risk issues and progress against action plans.
- The maintenance and use of appropriate 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 in calculating premiums and monitoring claims patterns. Past experience and statistical methods are used as part of the process.
- Formally delegated authorities and documented guidelines are followed for underwriting and accepting insurance risks.
- Natural disasters are more challenging to manage. Exposure to such risks is monitored through use of models involving the collation of the Company's exposure and wider environmental data, which support decisions on limiting exposure.
- Reinsurance is used to limit the Company's exposure to large single claims and catastrophes. When selecting a reinsurer the Company only considers those companies on a list approved by Zurich Group head office, who assess reinsurer security using rating information from the public domain or gathered through internal investigations.
- In order to limit concentrations of credit risk, in purchasing reinsurance the Company has regard to existing reinsurance assets including consideration of the level of exposure to any single reinsurer or group of related reinsurers. Placing reinsurance with other companies in the Zurich Group is used as an initial step on a significant portion of the reinsurance program to enable group-wide reinsurance purchasing efficiencies.
- The mix of assets in which the Company invests is driven by the nature and term of the insurance liabilities. The management of assets and liabilities is closely monitored to broadly align the sensitivity of asset values to changes in interest rates with the equivalent sensitivity of the expected pattern of claim payments.
- The diversification of business over various classes of insurance and large numbers of uncorrelated individual risks reduces variability in loss experience.

5. Insurance contracts - risk management policies and procedures ***(continued)***

(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. Any non- standard terms and conditions are signed off by appropriately experienced underwriters within a framework, which includes delegated authorities, in line with the RMS.

(c) Concentration of insurance risk

The Company's exposure to concentration of insurance risk is mitigated by a portfolio of diversified individual risks. Specific processes for monitoring identified key concentrations are set out below.

Risk	Source of concentration	Risk management measures
Natural catastrophes	Properties and motor vehicles concentrated in regions that are subject to: • Earthquakes • Cyclones • Hail storms • Other significant natural event	The Company's underwriting strategy requires individual risk premiums to be differentiated in order to reflect the higher loss frequency in particular geographical segments. The Company has modelled aggregated risk using commercially available catastrophe models. Based on the probable maximum loss per the models, the Company purchases catastrophe reinsurance cover to limit exposure to any single event.

Direct premium revenue disclosed in the Statement of Comprehensive Income is split by product in the table below.

	2009 $'000	2008 $'000
Property	268,785	240,752
Motor	237,563	198,918
Marine & Aviation	113,409	114,662
Public & Product Liability	121,082	112,839
Compulsory Third Party (CTP)	88,419	79,618
Employers Liability	68,685	71,500
Professional Indemnity	33,420	19,791
Other	67,439	65,688
Total direct premium revenue	998,802	903,768

(d) Development of claims

There is a possibility that changes may occur in the estimate of the Company's obligations at the end of a contract period. The tables in Note 22 show the Company's estimates of total claims outstanding for each accident year at successive year ends for classes of business that are typically resolved in more than one year.

(e) Interest rate risk

None of the financial assets or liabilities arising from insurance or reinsurance contracts entered into by the Company is directly exposed to interest rate risk.

Insurance and reinsurance contracts are generally entered into annually. At the time of entering into the contract all terms and conditions are negotiable or, in the case of renewals, renegotiable.

5. Insurance contracts - risk management policies and procedures ***(continued)***

(f) Credit risk

Financial assets and liabilities arising from insurance and reinsurance contracts are stated in the Balance Sheet at the amount that best represents the maximum credit risk exposure at balance date.

At balance date:

- 4.58% (2008: 7.45 %) of reinsurance assets had a single third party reinsurer as a counter party; and
- 81.72% (2008: 74.02 %) of reinsurance assets had other companies in the Zurich Group as a counter party.

There are no other significant concentrations of credit risk.

Reinsurance receivable on incurred claims disclosed in Note 13 are analysed in the table below using Standard and Poors (S&P) rating.

	2009 $'000	2008 $'000
AAA or AA	452,474	360,736
A	18,652	21,730
BBB or unrated	17,287	11,455
Below BBB	6	10
Total reinsurance receivable on incurred claims (excluding Risk Margin and other recoveries)	488,419	393,931

6. Investment income

	2009 $'000	2008 $'000
Dividends	121,735	119,768
Interest	1,568	1,589
Net realised/unrealised fair value losses on financial assets at fair value through profit or loss	(28,081)	(49,468)
Total investment income	95,222	71,889

7. Other income

	2009 $'000	2008 $'000
Management fees	4,673	2,129
Other income	3,060	318
Total other income	7,734	2,447

8. Net claims incurred

	2009 $'000	2008 $'000
Gross claims incurred and related expenses:		
- Direct	853,580	751,763
- Inwards Reinsurance	12,367	(6,919)
- Discount	(78,468)	144,695
	787,479	889,539
Reinsurance and other recoveries:		
- Direct	352,126	303,818
- Inwards Reinsurance	11,379	(6,321)
- Discount	(53,938)	23,852
	309,567	321,349
Net incurred claims	477,912	568,190

Claims development

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

	2009			2008		
	Current Year $'000	Prior Years $'000	Total $'000	Current Year $'000	Prior Years $'000	Total $'000
Gross claims expense						
Undiscounted	1,086,734	(220,787)	865,947	905,041	(160,197)	744,844
Discount	(88,246)	9,779	(78,468)	(33,535)	178,230	144,695
	998,487	(211,009)	787,479	871,506	18,033	889,539
Reinsurance and other recoveries:						
Undiscounted	412,906	(49,401)	363,505	272,531	24,966	297,497
Discount	(53,837)	(101)	(53,938)	(7,714)	31,566	23,852
	359,067	(49,502)	309,567	264,817	56,532	321,349
Net claims incurred – discounted	639,420	(161,507)	477,912	606,689	(38,499)	568,190

9. Income tax

	2009	2008 Restated
	$'000	$'000
(a) Income tax expense		
Current tax	42,167	(969)
Deferred tax	9,349	(11,855)
Under/(over) provision in prior years	241	(190)
Total income tax expense/ (benefit)	51,757	(13,014)
Deferred income tax (benefit)/ expense included in income tax expense comprises:		
Increase in deferred tax assets (Note 14)	9,349	(11,855)
	9,349	(11,855)
(b) Numerical reconciliation of income tax to prima facie tax payable		
Profit/(loss) before tax	157,031	(38,429)
Tax at the Australian tax rate of 30% (2008: 30%)	47,109	(11,529)
Tax effect of amounts which are not deductible/taxable in calculating taxable income:		
Tax offset for franked dividends	(374)	(1,295)
Withholding tax gross up	(72)	(206)
Non-taxable dividends	(7,042)	-
Non-deductible expense - realised loss on de-registration of controlled entities	1,372	-
Unrealised foreign exchange transaction	1,200	(354)
Unrealised book (gain)/loss on investment in controlled entities	5,920	553
Unused tax losses not recognised	1,652	-
Other	1,750	7
	51,515	(12,824)
Under/(over) provision in prior year	242	(190)
Income tax expense/ (benefit)	51,757	(13,014)

(c) Temporary differences relating to investment in controlled entities

As there is no intention of the Company to sell the investments in controlled entities, and it is expected that the controlled entities will remain in the tax consolidated group for the foreseeable future, the reversal of the temporary differences will have no income tax consequences for the Company. The transactions between a tax consolidated subsidiary and its parent, including the distribution of dividends from the subsidiary to the parent, are not taken into account for income tax purposes. Accordingly, the tax balance sheet value of the investment in the controlled entities is equal to its accounting carrying value and no temporary difference exists.

Similarly, with the investment in 100% owned unit trusts, the Company does not recognise any temporary differences with respect to its holdings in those trusts. As the 100% owned unit trusts are tax transparent entities, deferred taxes are recognised by the Company on temporary differences on the investments held in the unit trusts as if the investments are directly held by the Company.

9. Income tax *(continued)*

(d) Tax consolidation legislation

ZCM Asia Holdings Pty Limited (ZCM) and the members of the tax consolidated group implemented the tax consolidation legislation on 1 October 2003. The accounting policy in relation to this legislation is set out in Note 1(g).

The entities in the tax consolidated group have entered into a tax sharing agreement which, in the opinion of the directors, limits the joint and several liabilities of the entities within the group in the case of a default by the head entity, ZCM.

The tax sharing agreement is also a tax funding agreement. Under the tax funding agreement, the Company fully compensates ZCM for any current tax payable assumed and is compensated by ZCM for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to ZCM under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised (notional tax) in the Company's financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, ZCM, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments. The funding amounts are recognised as current intercompany receivables (see Note 11) or payables (see Note 17).

10. Cash and cash equivalents

	2009 $'000	2008 $'000
Current		
Cash at bank and on hand	66,657	34,341
Cash equivalents	64,873	73,799
	131,530	108,140

Cash at bank was invested at floating interest rates between 2.89% and 4.2% (2008: 4.22% and 7.51%).

11. Receivables

	2009 $'000	2008 $'000
Current		
Premiums receivable	185,988	166,460
Unclosed premiums	95,277	79,323
	281,265	245,783
Provisions for impairment	(185)	(185)
	281,080	245,598
Investment income accrued and receivable	16,380	23,297
Due from related entities (Note 28)	45,531	69,363
Tax related receivables (Note 28)	8,318	49,098
Other trade debtors	79	370
Total current receivables	351,388	387,726

12. Financial assets at fair value through profit or loss

	2009 $'000	2008 $'000
Financial assets at fair value through profit or loss		
Current		
Unit trust - Equity securities	52,243	127,702
Unit trust - Debt securities	222,438	72,455
	274,681	200,157
Non-current		
Government and semi-government bonds	432	422
Unit trust - Debt securities	1,324,087	1,333,705
Shares in controlled entities (Note 29)	43,300	70,108
	1,367,819	1,404,235
Total financial assets at fair value through profit or loss	1,642,500	1,604,392

The classification of investment in unit trusts between current and non-current is based on a "look through" analysis of the liquidity of the underlying assets of the trusts.

13. Reinsurance and other recoveries

	2009 $'000	2008 $'000
Analysis of reinsurance and other recoveries		
Expected future reinsurance recoveries undiscounted		
- on claims paid	3,574	8,535
- on outstanding claims	544,669	402,327
	548,243	410,862
Discount to present value	(59,824)	(16,931)
Reinsurance receivable on incurred claims	488,419	393,931
Other recoveries undiscounted	106,878	80,646
Discount to present value	(9,892)	(6,174)
	96,986	74,472
Risk Margin	82,108	69,011
Discount to present value	(10,341)	(3,016)
	71,767	65,995
Reinsurance and other recoveries receivables on incurred claims	657,172	534,398
Expected future reinsurance recoveries on unexpired risk liability	17,986	33,061
Reinsurance and other recoveries receivable	675,158	567,459
Current	310,512	256,755
Non-current	364,646	310,704
	675,158	567,459

14. Deferred tax asset

	2009 $'000	2008 Restated $'000	1 January 2008 Restated $'000
The balance comprises temporary differences attributable to:			
Amounts recognised in profit or loss			
Provisions for impairment	56	56	152
Accrued expenses	665	688	576
Provision for DAC write off and Unexpired Risk Liability	13,186	23,847	21,045
Indirect claim adjustment expense	15,878	15,440	20,385
Unused tax losses	4,962	3,478	-
Set-off of deferred tax assets pursuant to set-off provision (Note 21)	-	-	(2,048)
Unrealised loss on investment assets	14,700	15,396	6,940
Net deferred tax asset	49,447	58,905	47,050
Deferred tax asset movements:			
Opening balance at 1 January as reported	48,411	40,110	23,230
Adjustment on deferred tax asset	10,494	6,940	397
Opening balance at 1 January	58,905	47,050	23,627
Currency translation difference	(109)	-	-
Charged to Statement of Comprehensive Income (Note 9)	(9,349)	11,855	17,283
Set-off of deferred tax assets pursuant to set-off provision (Note 21)	-	-	6,140
Closing balance at 31 December	49,447	58,905	47,050

The Company has recognised deferred tax assets in respect of unused tax losses incurred by the New Zealand branch to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised. The Company has relied the future business plans in determining that sufficient future taxable profits will be available to realise the deferred tax assets. Unused tax losses for which no deferred tax assets has been recognised at 31 December 2009 is $1,652,289 (2008: nil).

Prior years adjustment

The Company has made a prior years adjustment to recognise deferred tax balances on temporary differences relating to the value of the underlying assets held by wholly owned unit trust investments of the Company, which should have been recognised under the accounting policy. Previously, deferred tax liabilities and assets were not recognised for temporary differences between the carrying amount and tax bases of assets in wholly owned unit trusts, where those trusts were part of the tax consolidated group of which the Company is a member. Adjustments have been made to correct these amounts in the prior year's deferred tax balance and deferred tax expense. The amount showing as being charged to the Statement of Comprehensive Income for 2008 restated has been increased by $3,554,000 (2007: $6,543,000 and prior to 2007: $397,000).

15. Deferred acquisition costs

	2009 $'000	2008 $'000
Deferred acquisitions costs as at 1 January	38,989	27,170
Acquisition costs deferred	104,325	107,918
Amortisation charged to income	(63,697)	(57,310)
Write down for premium deficiency (Note 20)	(47,468)	(38,789)
Deferred acquisitions costs as at 31 December	32,149	38,989
Current	32,025	38,821
Non-current	124	168
	32,149	38,989

16. Other assets

	2009 $'000	2008 $'000
Current		
Reinsurance premiums and fire service levy	141,739	121,312
Other	-	9
	141,739	121,321

17. Payables

	2009 $'000	2008 $'000
Current		
Reinsurance creditors	26,164	51,623
Due to related entities (Note 28)	48,551	73,194
Commission payable	18,248	20,470
Other payables	19,052	13,884
	112,015	159,171

18. Provisions

	2009 $'000	2008 $'000
Current		
Fire service levy	2,334	3,427
Stamp duty	5,813	4,413
Other	31	(248)
	8,178	7,592
Non-current		
Other	1,118	1,118
	1,118	1,118
Total	9,296	8,710

18. Provisions *(continued)*

2009

Movements in provisions	Fire Service Levy $'000	Stamp Duty $'000	Other $'000	Total $'000
Current				
Carrying amount at start of year	3,427	4,413	(248)	7,592
Additional provision recognised	44,530	57,166	694	102,389
Payments/other sacrifices of economic benefits	(45,623)	(55,766)	(414)	(101,803)
Carrying amount at end of year	2,334	5,813	31	8,178
Non-current				
Carrying amount at start of year	-	-	1,118	1,118
Carrying amount at end of year	-	-	1,118	1,118
Total	2,334	5,813	1,149	9,296

2008

Movements in provisions	Fire Service Levy $'000	Stamp Duty $'000	Other $'000	Total $'000
Current				
Carrying amount at start of year	1,575	4,153	-	5,728
Additional provision recognised	41,593	52,593	-	94,186
Payments/other sacrifices of economic benefits	(39,741)	(52,581)	-	(92,322)
Carrying amount at end of year	3,427	4,165	-	7,592
Non-current				
Carrying amount at start of year	-	-	1,108	1,108
Payments/other sacrifices of economic benefits	-	-	10	10
Carrying amount at end of year	-	-	1,118	1,118
Total	3,427	4,165	1,118	8,710

19. Unearned premium liability

	2009 $'000	2008 $'000
Unearned premium liability as at 1 January	519,216	472,991
Currency translation difference	(807)	(444)
Premiums deferred during the period	1,073,596	978,093
Premiums earned during the period	(1,023,750)	(923,821)
Reclassification to Prepaid Insurance Premium	-	(7,603)
Unearned premium liability as at 31 December	568,255	519,216
Current	529,709	503,105
Non-current	38,546	16,111
	568,255	519,216

20. Unexpired risk liability

		2009 $'000	2008 $'000
(a) Unexpired risk liability			
Unexpired risk liability as at 1 January		58,012	36,022
Recognition of additional unexpired risk liability in the period		2,418	21,989
Release of unexpired risk liability recorded in previous periods		(32,170)	-
Unexpired risk liability as at 31 December		28,260	58,011
Unexpired risk liability - Current		28,260	58,011
(b) Deficiency recognised in the Statement of Comprehensive Income			
Gross movement in unexpired risk liability		(29,752)	21,989
Reinsurance recoveries on unexpired risk liability		15,075	(19,183)
Net movement in unexpired risk liability		(14,677)	2,806
Write down of deferred acquisition costs (Note15)		47,468	38,789
Total deficiency recognised in the Statement of Comprehensive Income		32,791	41,595
(c) Calculation of deficiency			
Unearned premium liability		547,225	497,738
Related reinsurance asset		(120,709)	(99,834)
Related deferred acquisition costs		(71,677)	(71,405)
Total net unearned premium liability		354,839	326,499
Total net for business that has deficiency only	(A)	346,266	321,119
Central estimate of present value of expected future cash flows arising from future claims insurance contracts issued		458,716	427,547
Risk margin of 15.04% (2008: 19.96%)		52,227	67,754
Present value of expected future cash inflows arising from reinsurance recoveries		(74,596)	(47,851)
Present value of expected future cash inflows arising from non-reinsurance recoveries		(36,776)	(40,199)
Total net premium liability		399,571	407,251
Total net for business that has deficiency only	(B)	391,650	402,036
Net deficiency	(A) – (B)	(45,384)	(80,917)
Add back recoveries element of present value of expected future cash flows for future		(30,344)	(15,883)
Gross deficiency		(75,728)	(96,800)

20. Unexpired risk liability *(continued)*

The liability adequacy test is applied at a level of portfolios of contracts that are subject to broadly similar risks and that are managed together as a single portfolio. The test has been applied at a more detailed level than a split between long tail and short tail business.

The test has identified a deficiency for most portfolios of contracts to which it was applied both at 31 December 2009 and 31 December 2008. This is primarily a consequence of inclusion of a risk margin in excess of the central estimate in performing the test.

The process for determining the overall risk margin, including the way in which diversification of risks has been allowed for is discussed in Note 22. As with outstanding claims, the overall risk margin is intended to achieve an 85% probability of adequacy in 2009. In 2008, this was also set to achieve an 85% probability of adequacy.

21. Deferred tax liability

Deferred tax liability attributable to:

	2009 $'000	2008 $'000	2007 $'000
The balance comprises temporary differences attributable to:			
Amounts recognised in profit or loss			
Unrealised gain on investment assets	-	-	2,048
Set-off of deferred tax liabilities pursuant to set-off provision (Note 14)	-	-	(2,048)
Net deferred tax liabilities	-	-	-
Movements:			
Opening balance at 1 January	-	-	-
(Credited)/charged to Statement of Comprehensive Income (Note 9)	-	-	(6,140)
Set-off of deferred tax liabilities pursuant to set-off provision (Note 14)	-	-	6,140
Closing balance at 31 December	-	-	-

22. Outstanding claims

(a) Outstanding claims liability

	2009 $'000	2008 $'000
Central estimate	1,615,185	1,449,419
Discount to present value	(188,352)	(118,143)
	1,426,833	1,331,276
Claims handling costs	64,468	55,788
Discount to present value	(7,031)	(4,328)
	57,437	51,460
Risk margin	210,312	231,787
Discount to present value	(31,298)	(25,741)
	179,014	206,046
Gross outstanding claims liability	1,663,284	1,588,782

	2009 $'000	2008 $'000
Undiscounted expected future claims payments	1,889,964	1,736,995
Discount to present value	(226,680)	(148,213)
Liability for outstanding claims	1,663,284	1,588,782
Current	667,313	598,074
Non-current	995,971	990,708
	1,663,284	1,588,782

(b) Risk margin

Process for determining risk margin

The overall risk margin was determined allowing for diversification between the different portfolios and the relative uncertainty of the outstanding claims estimate for each portfolio. Uncertainty was analysed for each portfolio taking into account potential uncertainties relating to the actuarial models and assumptions, the quality of the underlying data used in the models, the general insurance environment, and the impact of legislative reform.

The estimate of uncertainty is greater for long tailed classes when compared to short tail classes due to the longer time until settlement of outstanding claims.

The assumptions regarding uncertainty for each class were applied to the net central estimates, and the results were aggregated, allowing for diversification in order to arrive at an overall provision which is intended to have an 85% probability of adequacy in 2009. In 2008, this was also set to achieve an 85% probability of adequacy.

Notes to the Financial Statements *(continued)*
31 December 2009

22. Outstanding claims *(continued)*

(b) Risk margin *(continued)*

Risk Margins Applied

APRA Class	2009 Outstanding Claims Margin	2008 Outstanding Claims Margin
Short-tail		
Domestic Motor Vehicle	8.2%	14.3%
Commercial Motor Vehicle	8.9%	9.6%
Houseowners/Householders	8.3%	14.3%
Travel	8.4%	14.3%
Fire and ISR	8.6%	15.9%
Other	11.6%	30.7%
Marine & Aviation	11.7%	10.3%
Other Accident	11.1%	20.0%
Inward Treaty	11.6%	-
Average short-tail	9.6%	15.5%
Long-tail		
Employers' Liability	11.9%	18.2%
Public & Product Liability	13.5%	16.1%
Professional Indemnity	22.1%	16.3%
CTP Motor Vehicle	11.6%	14.3%
Inward Treaty	38.9%	30.7%
Average long-tail	12.4%	15.9%
Overall	11.8%	15.7%

(c) Reconciliation of movement in discounted outstanding claims liability

	2009 Gross $'000	2009 Reinsurance $'000	2009 Net $'000	2008 Gross $'000	2008 Reinsurance $'000	2008 Net $'000
Brought forward	1,588,782	(525,812)	1,062,970	1,370,953	(362,968)	1,007,985
Effect of changes in assumptions	(211,008)	49,451	(161,557)	18,033	(56,532)	(38,499)
Increase in claims incurred/recoveries anticipated over the year	998,487	(359,019)	639,469	871,506	(264,868)	606,638
Incurred claims recognised in the Statement of Comprehensive Income	787,479	(309,568)	477,912	889,539	(321,400)	568,139
Exchange rate adjustment	(413)	23	(390)	(283)	46	(237)
Claim payments/recoveries during the year	(712,564)	181,759	(530,806)	(671,427)	158,458	(512,968)
Carried forward	1,663,284	(653,598)	1,009,686	1,588,782	(525,863)	1,062,919

22. Outstanding claims *(continued)*

(d) Claims development tables

The following tables show the development of gross and net undiscounted outstanding claims relative to the ultimate expected claims for the five most recent accident years for classes of business that are typically resolved in more than one year. Gross outstanding claims include claims from inwards reinsurance.

(i) Gross incurred

Accident Year	2005 $'000	2006 $'000	2007 $'000	2008 $'000	2009 $'000	Total $'000
End of Accident Year	302,070	282,061	290,045	296,354	522,445	
One Year Later	249,193	235,698	284,770	292,621		
Two years later	210,775	207,765	271,400			
Three years later	200,171	190,977				
Four years later	187,832					
Current Estimate of Incurred	187,832	190,977	271,400	292,621	522,445	1,465,275
Cumulative Payments	115,959	94,392	84,581	50,018	20,257	365,207
Outstanding claims - Undiscounted	71,872	96,585	186,819	242,604	502,188	1,100,068
Discount						(149,103)
Claim Handling Expense						32,967
2004 and prior years						228,686
Outstanding claims - Discounted						1,212,618
Short Tail Outstanding Claims						450,666
Total Gross						1,663,284

(ii) Net Incurred

Accident Year	2005 $'000	2006 $'000	2007 $'000	2008 $'000	2009 $'000	Total $'000
End of Accident Year	252,004	231,687	226,595	236,536	242,204	
One Year Later	210,082	198,366	212,220	218,984		
Two years later	181,170	178,660	194,163			
Three years later	177,188	162,688				
Four years later	170,307					
Current Estimate of Incurred	170,307	162,688	194,163	218,984	242,204	988,346
Cumulative Payments	108,376	88,918	60,658	42,421	16,992	317,365
Outstanding claims - Undiscounted	61,931	73,770	133,506	176,562	225,212	670,981
Discount						(75,189)
Claim Handling Expense						29,233
2004 and prior years						162,989
Outstanding claims - Discounted						788,013
Short Tail Outstanding Claims						221,673
Total Net						1,009,686

23. Contributed equity

	2009 $'000	2008 $'000
(a) Share capital		
Ordinary shares - fully paid	97,065	97,065

(b) Movements in ordinary share capital

Date	Details	No. of Shares '000	$'000
1/01/2008	Opening balance	13,236	97,065
31/12/2008	Balance	13,236	97,065
31/12/2009	Closing balance	13,236	97,065

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

The Company manages its capital to ensure that it will be able to continue as a going concern including compliance with capital requirements imposed by relevant legislation and the industry regulators, Australian Prudential Regulation Authority (APRA) and Australian Securities and Investment Commission (ASIC). The Company aims to maintain capital beyond minimum requirements as described below.

The capital structure of the Company consists of issued capital, reserves and retained profits (Note 24). The Company's Capital and Investment Management Committee reviews the capital structure and makes recommendations to the Board on the appropriate level of capital.

The Company is required by APRA to maintain capital in excess of its minimum capital requirement (MCR). The MCR is intended to be broadly commensurate with the full range of risks to which an insurer is exposed (including risks relating to insurance claims, investments, counterparty default, asset-liability mismatches, catastrophic events and operational errors and problems). Certain assets (such as deferred tax assets, goodwill and other intangibles) cannot be used to meet the MCR. Refer Note 30 for calculation of capital base and MCR.

24. Reserves and Retained profits

	2009 $'000	2008 $'000
(a) Composition		
Foreign currency translation reserve	536	52
(b) Movements:		
Foreign currency translation reserve		
Balance at beginning of the year	52	(14)
Currency translation differences arising during the year	484	66
Balance at the end of the year	536	52
(c) Retained profits		
Retained profits at the beginning of the year, restated	455,925	531,340
Profit/(loss) attributable to the member of Zurich Australian Insurance Limited	105,275	(25,415)
Dividends provided or paid	(16,000)	(50,000)
Retained profits at the end of the year	545,200	455,925

ZURICH AUSTRALIAN INSURANCE LIMITED

Notes to the Financial Statements ***(continued)***
31 December 2009

25. Cash flow statement reconciliation

	2009 $'000	2008 Restated $'000
Reconciliation of profit after income tax to net cash inflows/(outflows) from operating activities		
Profit/(loss) from operating activities after tax	105,275	(25,415)
Provisions for impairment	-	(305)
Profit on sale of investments	(6,502)	(10,219)
Net purchase of investments	(25,319)	(41,134)
Net exchange difference	484	66
Disposal of controlled entities	7,073	-
Non-cash investments	(13,361)	(22,936)
(Increase)/decrease in operating assets:		
Premiums outstanding	(35,482)	(10,386)
Outstanding interest, dividends & rents	6,917	(14,090)
Deferred acquisition costs	6,840	(11,819)
Reinsurance and other recoveries	(107,700)	(148,639)
Other receivables	64,904	(82,011)
Deferred tax asset	9,458	(11,855)
Other assets	(20,418)	(23,732)
Increase/(decrease) in operating liabilities:		
Unexpired risk liability	49,038	46,225
Unearned premiums	(29,752)	21,989
Claims outstanding & other payables	74,501	217,826
Other provisions & creditors	(46,568)	48,029
Net cash inflows/(outflows) from operating activities	39,388	(68,406)

26. Remuneration of auditors

	2009 $	2008 $
Remuneration for audit or review of the financial reports of the Company		
Statutory audit fees	256,341	246,581
	256,341	246,581
Remuneration for other services:		
Taxation compliance and assurance	-	3,163
Advisory service	20,845	-
Other regulatory and assurance services	253,989	125,200
Total other services	274,834	128,363

27. Contingent liabilities

	2009 $'000	2008 $'000
The Company had the following unsecured contingent liabilities for which no provision has been made in the financial statements:		
- State Transit Authority of NSW	50	50
	50	50

Details of significant contingent liabilities are as follows:

(a) The State Transit Authority NSW performance guarantee relates to an undertaking by the Company in respect of any failure by the Company in relation to its agreement with this entity.

28. Related parties

a) Directors

The names of persons who were directors of Zurich Australian Insurance Limited at any time during the financial year are as follows:

Terence John Paradine
Ian Kenneth Payne
Hugh Edward Graham
David James Parker Smith (Alternate Directors: Christopher Llewellyn Powell, Robert Joseph Lehane)
Ian Clifton Carroll
Robert Olivier Dolk
Philip Wallace Smith

b) Key management personnel compensation

Key management personnel compensation for the years ended 31 December 2009 and 2008 is set out below.

The key management personnel are all the directors of the Company and the following three executives (2008: two) with the authority and responsibility for planning, directing and controlling the activities of the entity:

- Andrew Paul Barrowman
- Cathy Anne Manolios
- Greg Joseph Della

All key management personnel compensation is paid by Zurich Financial Services Australia Limited. The amount disclosed below reflects the total compensation paid/attributable to the key management personnel in their duties as employees of ZFSA (and or directors of various entities) and is not able to be allocated to the individual entities whose affairs they manage or control.

	Notes	2009 $	2008 $
Short term employee benefits		4,137,749	3,158,370
Termination benefits		601,694	-
Share-based payments/benefits	(i)	1,228,444	862,839
		5,967,887	4,021,209

(i) Share based payments/benefits

The Global Long Term Performance Share Plan and Global Share Option Plan are executive incentive plans administered globally by a central share holding vehicle. ZFSA purchases the right to shares from this holding vehicle for Australian resident executives who participate in the plans. When shares vest with the participants, the central share vehicle transfers those shares directly to the participants. ZFSA does not bear any exchange or price risk in relation to payments for these rights to shares.

28. Related parties *(continued)*

(i) Aggregate amounts receivable from related entities at balance date

	2009 $	2008 $
Current		
Controlling entity	41,541,282	25,149,711
Controlled entities	-	6,209,357
Other related entities	3,989,859	37,993,861
Associate	-	11,398
Head tax entity	8,317,829	49,097,720
	53,848,970	118,462,047

(ii) Aggregate amounts payable to related entities at balance date

	2009 $	2008 $
Current		
Controlling entity	-	6,701,369
Controlled entity	-	134,890
Other related entities	48,550,935	66,357,415
	48,550,935	73,193,674

28. Related parties *(continued)*

***(iii)* Aggregate amounts recognised in respect of the following types of transactions and each class of related party involved were:**

	2009 $	2008 $
Reinsurance claims received		
Other related entities	97,561,330	79,555,562
Reinsurance Claims Paid		
Other related entities	5,971,299	26,830,503
Reinsurance commission received		
Other related entities	11,307,530	10,242,380
Reinsurance premium expense		
Other related entities	173,930,536	147,328,405
Reinsurance premium receipts		
Other related entities	17,833,185	19,179,418
Investment expense		
Controlled entities	1,302,507	1,394,659
Payment of other expenses		
Ultimate Australian controlling entity	152,057,243	149,352,345
Receipt of other income		
Other related entities	862,066	387,344
Dividend income		
Controlled entities	23,472,628	-
Dividend payment		
Ultimate Australian controlling entity	16,000,000	50,000,000

The above transactions were made on commercial terms and conditions at market rates.

Interest held in controlled entities and associates are set out in Notes 29.

Investment income received from controlled entities and associates are set out in Note 6.

28. Related parties *(continued)*

(iv) **Related parties of Zurich Australian Insurance Limited fall into the following categories:**

(i) Controlling entities

The ultimate controlling entity is Zurich Financial Services (incorporated in Switzerland). The ultimate Australian controlling entity is Zurich Financial Services Australia Limited and is incorporated in Australia.

Information in relation to controlled entities is set out in Note 29.

(ii) Other related entities

Included in the reinsurance and other recoveries amounts in Note 13 is $329,406,214 (2008: $225,679,767) owing by related corporations.

Included in the prepayments in Note 16 is $73,854,269 (2008: $62,697,997) in respect of outwards reinsurance prepaid by related corporations.

The arrangements under which outward treaty reinsurance are ceded to related overseas reinsurers are approved by APRA.

29. Investment in controlled entities

	Class of Shares	Equity Holding	
		2009	2008
Controlled Entities		%	%
Zurich Australian Insurance Properties Pty Limited	Ordinary	60.00	60.00
Zurich Properties Pty Limited	Ordinary	60.00	60.00
Zurich Australian Workers Compensation Pty Limited	Ordinary	-	100.00
Zurich Workers Compensation Victoria Pty Limited	Ordinary	-	100.00
Zurich Investments Reserve Corporate Bond Pool		100.00	100.00
Zurich Investments Reserve International Share Pool		-	100.00
Zurich Investments Reserve Australian Share Pool		100.00	100.00
Zurich Investments Australian Indexed Bond Pool		62.47	64.04
Zurich Investments Enhanced Cash Scheme		75.78	50.53

Note: All entities are incorporated in Australia

The directors are satisfied that the carrying value of investments in controlled entities is not in excess of recoverable amount.

(a) Disposal of controlled entities

(i) On 22 September 2009, Zurich Investments Reserve International Share Pool was closed
(ii) On 18 November, Zurich Workers Compensation Victoria Pty Limited was deregistered
(iii) On 23 December 2009, Zurich Australian Workers Compensation Pty Limited was deregistered

30. Capital adequacy for Zurich Australian Insurance Limited

	2009	2008
	$'000	$'000
Eligible Tier 1 Capital		
Paid-up ordinary shares	97,065	97,065
General reserves	(937)	(533)
Retained earnings brought forward	547,641	578,234
Current years earnings	68,693	(30,593)
Total	**712,462**	**644,173**
Less: Deductions from Tier 1 Capital		
Deferred tax assets (net of provisions for deferred income tax)	(49,447)	(58,905)
Reinsurance recoveries related to reinsurance contracts that do not meet the reinsurance documentation test	(3,655)	-
Reinsurance assets receivable under reinsurance contracts that do not meet governing law requirements	(11,145)	-
Total Capital Base	**648,215**	**585,268**
Minimum Capital Requirement	**570,291**	**346,439**
Capital Adequacy Multiple	**1.137**	**1.687**

The Company does not have any Tier 2 capital.

The liability required by GPS 210 for prudential reporting purposes differs from accounting purposes primarily because GPS 210 requires a prudential margin with a sufficiency of 75% for the outstanding claims and premium liabilities. The directors have adopted a provision that exceeds this requirement by $ 81.5 million (2008: $108.5 million).

The solvency position at 31 December 2009 reflects a retrospective adjustment to allow for the discovery during January 2010 that the catastrophe reinsurance programme was not adequate to provide cover for a 1 in 250 year event. Immediately this was realised, additional cover was bought to return to the intended position. On a pro-forma basis the capital adequacy multiple would be 1.878.

31. Events occurring after reporting date

Subsequent to the end of the period:

- Zurich Investments Reserve Australian Share Pool was closed on 31 January 2010; and
- the Company declared a dividend of $67,500,000 to the Australian parent entity on 24 March 2010

Apart from the above, the directors have not become aware of any matter or circumstance not otherwise dealt with in the financial statements 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 subsequent financial years.

ZURICH AUSTRALIAN INSURANCE LIMITED

Director's Declaration

In the directors' opinion:

(a) the financial statements and notes set out on pages 9 to 47 are in accordance with the *Corporations Act 2001*, including:

  (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

  (ii) giving a true and fair view of the Company's financial position as at 31 December 2009 and of its performance, as represented by the results of its operations, changes in equity and its cash flows, for the financial year ended on that date; and

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

This declaration is made in accordance with a resolution of the directors.

T J Paradine
Director

R O Dolk
Director

Sydney
24 March 2010

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Independent auditor's report to the members of Zurich Australian Insurance Limited

Report on the financial report

We have audited the accompanying financial report of Zurich Australian Insurance Limited (the company), which comprises the balance sheet as at 31 December 2009, and the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, 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. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance 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 judgement, 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 control relevant to the entity's preparation and fair presentation of the financial report 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 control. 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.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.