ZURICH AUSTRALIAN INSURANCE LIMITED
NEW ZEALAND BRANCH

ANNUAL REPORT

For the year ended 31 December 2013

Contents	Page Number

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:

21 Queen Street
Auckland 1010

This financial report has been approved for issue by the directors on 23 April 2014. The Directors have the power to amend and reissue the report.

ZURICH AUSTRALIAN INSURANCE LIMITED
NEW ZEALAND BRANCH

Directors' Report

The directors of Zurich Australian Insurance Limited present their report on the Zurich Australian Insurance Limited New Zealand Branch ("the Branch") for the year ended 31 December 2013. The Branch results represent the general insurance activities in New Zealand that are underwritten by Zurich Australian Insurance Limited ("the Company").

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 (Chairman)
Robert Olivier Dolk
Daniel Fogarty

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

Ian Clifton Carroll was a director of the Company from the beginning of the financial year until his resignation on 1 April 2013.

Michael Ronald Vos was a director of the Company from the beginning of the financial year until his resignation on 1 April 2013.

Elaine Collins was appointed as a director of the Company on 1 April 2013 and continues in this office at the date of this report.

Johnny Chen was a director of the Company from the beginning of the financial year until his resignation on the 19 February 2014.

Stuart Anthony Spencer was appointed as a director of the Company on the 19 February 2014 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 Branch during the year was underwriting various classes of General Insurance. There was no significant change in the nature of the Branch's principal activities during the year.

Directors' Report *(continued)*

Review of Results and Operations

A summary of revenues and results is set out below:

	2013 $'000	2012 $'000
Revenues and other income		
Direct premium and inwards reinsurance revenue	70,295	78,967
Investment income	7,677	4,376
Other income	163	133
	78,135	83,476
Results		
Profit for the year	27,504	26,736

Matters Subsequent to the End of the Financial Year
The Company approved to pay a dividend of $130,000,000 cash to Zurich Financial Services Australia on 18 February 2014. The dividend was paid on 26 March 2014.

The directors are not aware of any matter or circumstance which has arisen since 31 December 2013, other than dealt with in the financial statements, that has significantly affected or may significantly affect:

a) the operations in future financial years; or
b) the results of those operations in future financial years; or
c) the 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 Branch 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 Branch under the New Zealand Companies Act 1993. 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.

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 Branch 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 New Zealand Companies Act 1993, 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.

Directors' Report ***(continued)***
Agreements to indemnify (continued)

Proceedings on Behalf of the Branch
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 Branch 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 or on behalf of the Branch with leave of the Court under section 237 of the Corporations Act 2001.

Rounding of Amounts to the Nearest Thousand Dollars
The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars ($'000) unless otherwise indicated.

Auditor
PricewaterhouseCoopers continues in office in accordance with section 15 of the Financial Reporting Act 1993.

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

T J Paradine
Director

R O Dolk
Director

Sydney
23 April 2014

ZURICH AUSTRALIAN INSURANCE LIMITED
NEW ZEALAND BRANCH

Statement of Comprehensive Income
For the year ended 31 December 2013

	Notes	2013 $'000	2012 $'000
Premium revenue			
Direct premium revenue	4(iii)	70,295	78,967
Outwards reinsurance expense		(13,628)	(14,842)
Net premium revenue		56,667	64,125
Claims expense	8	12,813	8,009
Reinsurance and other recoveries expense	8	(28,009)	(23,382)
Net claims incurred	8	(15,196)	(15,373)
Gross movement in unexpired risk liability		3,754	2,245
Reinsurance recoveries on unexpired risk liability		(3,754)	(2,245)
Net movement in unexpired risk liability		-	-
Acquisition costs		(5,253)	(8,457)
Other underwriting expenses		(16,553)	(18,053)
Underwriting expenses		(21,806)	(26,510)
Underwriting result		19,665	22,242
Investment income	6	7,677	4,376
Other income	7	163	133
Net foreign exchange gain/(loss)		(1)	(15)
Profit before income tax		27,504	26,736
Income tax expense	9 (a)	-	-
Profit for the year		27,504	26,736
Other comprehensive income		-	-
Total comprehensive income/(expense) for the year		27,504	26,736

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

ZURICH AUSTRALIAN INSURANCE LIMITED
NEW ZEALAND BRANCH

Balance Sheet
As at 31 December 2013

	Notes	2013	2012
		$'000	$'000
Assets			
Cash and cash equivalents	10	146,520	267,406
Receivables	11	24,924	32,091
Financial assets as fair value through profit or loss	12	-	504
Reinsurance and other recoveries	13	342,063	541,214
Deferred acquisition costs	14	4,836	3,184
Other assets	15	7,400	4,114
Total Assets		525,743	848,513
Liabilities			
Payables	17	56,646	213,830
Provisions	18	457	478
Unearned premium liability	19	36,476	32,801
Unexpired risk liability	20(a)	652	4,406
Outstanding claims	21(a)	377,710	592,459
Total Liabilities		471,941	843,974
Net Assets		53,802	4,539
Home Office Account			
Head Office Current Account	23(a)	135,812	114,053
Accumulated Loss	23(b)	(82,010)	(109,514)
		53,802	4,539

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 2013

	Head Office Current Account $'000	Accumulated Losses $'000	Total $'000
Balance at 1 January 2012	135,740	(136,250)	(510)
Total comprehensive income for the year	-	26,736	26,736
Transactions with head office:			
Contributions to head office, net of transaction costs	(21,687)	-	(21,687)
Balance as at 31 December 2012	114,053	(109,514)	4,539
Total comprehensive income for the year	-	27,504	27,504
Transactions with head office:			
Contributions from head office, net of transaction costs	21,759	-	21,759
Balance as at 31 December 2013	135,812	(82,010)	53,802

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

ZURICH AUSTRALIAN INSURANCE LIMITED
NEW ZEALAND BRANCH

Cash Flow Statement
For the year ended 31 December 2013

	Notes	2013 $'000	2012 $'000
Cash Flows from Operating Activities			
Premiums and deposits received		70,793	70,371
Claims and related payments		(205,210)	153,576
Payment to suppliers		(16,879)	(35,568)
Interest received		7,981	3,814
Fees and commissions received/(paid)		166	133
Net cash inflow/(outflow) from operating activities	24	(143,149)	192,326
Cash Flows from Investing Activities			
Proceeds from sale of investment assets		504	-
Net Cash Inflows from investing activities		504	-
Cash Flows from Financing Activities			
Funds received from group entities		21,759	(21,687)
Net cash inflow/(outflow) from financing activities		21,759	(21,687)
Net Increase/(Decrease) in Cash Held		(120,886)	170,639
Cash and cash equivalents at the beginning of the financial year		267,406	96,767
Cash and cash equivalents at the end of the financial year	10	146,520	267,406

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

1. Summary of significant accounting policies

This financial report includes the financial statements of Zurich Australian Insurance Limited New Zealand Branch ("the Branch"), as at 31 December 2013. The Branch results represent the general insurance activities in New Zealand that are underwritten by Zurich Australian Insurance Limited ("the Company").

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.

Basis of preparation
The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP), section 10 requirements of the New Zealand Companies Act 1993 and the New Zealand Financial Reporting Act 1993.

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 NZ IAS 39 *Financial Instruments: Recognition and Measurement*, and provisions for long-tail outstanding claims which have been inflated and discounted as required by NZ IAS 23 *General Insurance Contracts*.

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

Early adoption of standards
As at the date of this financial report, there are a number of new and revised accounting standards published by the New Zealand Accounting Standards Board for which the mandatory application dates fall after the end of this current reporting period.

None of these standards have been early adopted and applied in the current reporting period. These standards will be adopted in the year commencing 1 January after the operative date. For example, NZ IFRS 9 will be operative in the financial year commencing 1 January 2015.

NZ IFRS 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2015 but is available for early adoption. There will be no impact on the Branch upon adoption.

New Accounting Standards and Interpretations
Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2013 reporting periods.

Title	
NZ IFRS 10	Consolidated Financial Statements
NZ IFRS 12	Disclosure of Interests in Other Entities

These standards have introduced new disclosures for the Branch but did not affect the Branch's accounting policies or materially affect the amounts recognised in the financial statements.

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

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.

(a) 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.

(b) Insurance premium and related revenue
Direct and inwards reinsurance 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.

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

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

(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 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. Accordingly, a portion of outwards reinsurance expense is treated as a prepayment and presented as deferred outward reinsurance expense on the Balance Sheet as at reporting date.

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

(g) Income tax

The income tax expense or benefit for the period is the tax payable/receivable 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.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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 Branch 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 reserves are also recognised directly in equity.

(h) Goods and Services Tax (GST)

Revenues, expenses and assets, liabilities are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the New Zealand Inland Revenue (IRD). 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 IRD is included as an asset or 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 IRD 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.

1. Summary of Significant Accounting Policies *(continued)*

(j) Foreign currency translation

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

(k) 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 on the balance sheet.

(l) Financial assets

The Branch 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 Branch 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 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 trade date is 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 and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the Statement of Comprehensive Income in the period in which they arise.

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.

(ii) Receivables

Receivables are carried at cost which is the best estimate of fair value, as they are usually settled within twelve months and subsequently subject to impairment testing. Impairment testing is based on recoverability 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.

1. Summary of Significant Accounting Policies *(continued)*

(m) 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.

(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 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.

(q) 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.

(r) Outstanding claims

The liability for outstanding claims is measured as the central estimate of the present value of expected future claim payments 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 outstanding claims; claims incurred but not reported (IBNR), claims incurred but not enough reported (IBNER) and their associated allocated costs as well as anticipated claims handling costs.

Claims handling costs include those costs that can not be directly associated with individual claims, such as claims administration costs.

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

1. Summary of Significant Accounting Policies *(continued)*

(s) 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 21.

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, gross and 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.

(t) Equity

The Branch does not have any share capital; however, the Total Head Office Account represents the value of any funding provided by the Company in support of the Branch operations and accumulated profits / (losses).

(u) Rounding of amounts

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars ($000) unless otherwise indicated.

(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 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 31 December 2013 for the estimated cost of claims incurred but not settled, 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 notified claims to the Branch, where information about the claim event is generally available. IBNR claims may not be apparent to the insured until many years after the event giving rise to the claim. In addition, the estimation of claims incurred but not enough reported ('IBNER') is also the subject of uncertainty. 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/IBNER 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 outstanding claims the Branch uses a variety of estimation techniques, generally based upon statistical analyses 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 outstanding claims to increase or reduce when compared with the cost of previously paid 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 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 costs of outstanding 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 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 and non-reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable based upon the gross provisions.

2. 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 3.

(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.

3. Actuarial assumptions and methods

The Branch 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.

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 forecast loss ratios to earned premiums

Claims inflation is incorporated into the resulting projected payments, to allow for both general economic inflation (generally 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 Commonwealth Government interest rates.

All these methods rely on future development being consistent with historical development 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% (2012: 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.

	2013 Long-tail	2013 Short-tail	2012 Long-tail	2012 Short-tail
Average weighted term to settlement	1.5 years	0.4 years	1.7 years	0.5 years
Discount rate	3.23%	3.17%	2.66%	2.71%
Wage inflation	3.75%	N/A	3.50%	N/A
Superimposed inflation	0 to 4.5%	N/A	0 to 4.5%	N/A

(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 profit after tax of the Branch. The table below gives an analysis of the sensitivity of the profit/(loss) for 2013 and 2012.

Impact of changes in key variables

December 2013	Movement in Variable	Movement in Profit/(Loss) 2013 $'000	2012 $'000
Long-tail			
Average weighted term to settlement – years*	0.5	60	14
	-0.5	(107)	(16)
Discount rate	1%	70	48
	-1%	(71)	(50)
Wage inflation and superimposed inflation rates	1%	(73)	(51)
	-1%	72	50
Financial assets			
Shift in Yield Curve	1%	-	(2)
	-1%	-	2

* The disclosure of sensitivity analysis relating to long tail average weighted to settlement balances has been updated to incorporate the impact of inflation. Prior year balances have been updated to ensure consistency.

4. Management of Risk

The Branch conducts general insurance business in New Zealand which is underwritten by the Company. Consequently, the Branch Risk Management Framework is governed by the Company which expose it to a variety of risks that could potentially impact the financial standing of the Company. This note and Note 5 Financial Risk Management, provide an overview of the processes and considerations undertaken in managing these risks.

Section (a) below reviews the risk management framework employed to ensure that the management of risk is complete, effective and aligned to the strategic intent of the company.

The various categories of risk that may impact the financial standing of the Company are outlined as follows: Section (b) reviews the Insurance Risk; Section (c) reviews the Operational Risks, including the specific controls in place to manage the risk of financial mis-statement; and Note 5 separately details the Financial Risk Management policies and procedures in place.

(a) Risk Management Framework

The Company's overall risk management framework seeks to manage risks within the Board's risk appetite. This includes a focus on potential adverse effects on the financial performance of the Company, in particular capital and solvency.

The risk management frameworks, and the roles within, are outlined in the Company's Risk Management Strategy (RMS). The objective of the RMS is to describe and formalise the Company's approach to the management of risk by setting out:

- a Statement of the Risk Appetite of each Board;
- a summary of the clear roles and responsibilities for the management of risk;
- the mechanisms by which the company determines its risk appetite and considers and manages new risks;
- the methodology used to identify, assess and manage risks; and
- reporting requirements for risk monitoring and the process for escalation where required.

The Company has an Internal Capital Adequacy Assessment Process (ICAAP) that addresses the potential impact of all risk types to capital and solvency. Under the ICAAP, the authority to hold this risk is clearly delegated through the Board's risk appetite statement. For all categories of risk, subject matter experts are responsible for the management of each category of risk, including the impact of that risk on capital adequacy. Each category of risk has its own governance streams to leverage that expertise.

The broadest categorisation of risks defines risks as:

- Insurance Risks;
- Operational Risk;
- Financial Risk, subcategorised as;
    - Market Risk;
    - Credit Risk; and
    - Liquidity Risk
- Strategic Risk.

With the exception of strategic risk, these categories are discussed in the following sections, with financial risks separately discussed within Note 5. Strategic Risk describes the risk to market share over a longer time horizon, and is not directly applicable to annual financial statements.

The risks within the business are subject to at least an annual review by the Internal Audit Department, resulting in an annual audit plan which is approved by the Risk, Compliance and Audit Committee. The Internal Audit Department is independent of the day to day operational management of the Company. The Internal Audit Department executes a review of components of the internal control systems in accordance with the annual audit plan to assess the effectiveness of the internal controls, risk management within the Company and compliance with the RMS.

4. Management of Risk ***(continued)***

(b) Insurance Risks

(i) 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. Various procedures are put in place to control and mitigate the risks faced by the Branch depending on the nature of each risk. The Branch's exposure to risks is monitored by the Appointed Actuary and this exposure is reported to the Board in the Company 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 maintained a 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 exposure is monitored through use of models involving the collation of the Company's own 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 Branch only considers those companies on a list approved by Zurich Group head office, which assesses reinsurer security using rating information from the public domain or gathered through internal investigations. If the Branch selects a reinsurer not on the approved list, a separate approval by Zurich Group is required before placing the risk;

- In order to limit concentrations of credit risk in purchasing reinsurance, the Branch has regard to existing reinsurance assets including 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; and

- The diversification of business over various classes of insurance and large numbers of uncorrelated individual risks reduces variability in loss experience.

4. Management of Risk *(continued)*

(b) Insurance Risks *(continued)*

(ii) 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.

(iii) Concentration of insurance risk
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; and • 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. 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.

The Branch's exposure to concentration of insurance risk is mitigated by a portfolio of diversified individual risks.

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

	2013 $'000	2012 $'000
Commercial Motor	45,057	47,361
Marine	4,326	7,359
Professional Indemnity	4,698	4,236
Fire and ISR	13,606	17,122
Public & Product Liability	2,119	2,211
Other	489	679
Total direct premium revenue	70,295	78,967

(iv) 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 21(d) show the Branch'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.

(v) Impact of asset returns on pricing
The value of an insurance contract to the Branch is in part driven by the investment returns achievable on premium paid. Typically this is estimated by the risk-free interest rate currently available in the market. Once business is written, appropriate assets can be bought to guarantee the achievement of these returns. Prior to business being written, the risk is managed by regularly repricing product as interest rates materially change. 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.

4. Management of Risk *(continued)*

(c) Operational Risks

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems or from external events such as outsourcing, catastrophes, legislation, or external fraud. The Branch has a comprehensive framework with a common approach to identify, assess, control, monitor and report operational risk.

A key task is maintaining and developing capability of the Branch's business continuity with an emphasis on recovery from events such as natural catastrophe and the possibility of a pandemic.

Generally, all business activities contain some aspect of operational risk. Therefore, ongoing initiatives and operational transformation help manage operational risks through standardisation of processes. Projects with an expected budget over a defined threshold undergo a risk assessment.

The Branch considers controls to be key instruments for monitoring and managing operational risk. Although primarily focused on important controls over financial reporting, internal control efforts also include related operational and compliance controls. Therefore, the Branch continues to strengthen the robustness, consistency, documentation and assessment of internal controls for business processes. Operational effectiveness of key controls is assessed by self assessment and independent testing on relevant controls supporting the financial statements.

An operational risk of particular relevance to this report is the risk of mis-statement of financial statements. Group Risk Management facilitate the formal review of the risk register on an annual basis, output of this is provided to support audits of the function.

5. Financial Risk Management

Financial risks are a broad category of risks, typically found in financial instruments, but impacting other items on the balance sheet. They are typically divided into Market Risk, Credit Risk and Liquidity Risk.

Financial risks are generally monitored and controlled by selecting appropriate assets to back policy liabilities. The assets are regularly monitored by the Capital and Investment Management Committee to ensure that there is no material asset and liability mismatching issues and other risks such as liquidity risk and credit risk are maintained within acceptable limits.

(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 risk is controlled by ensuring that all activities are transacted in accordance with approved mandates, strategies and limits. 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, including the effect of market movements on the valuation of insurance liabilities, and other balance sheet items, as well as the explicit impact on investments.

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

Asset and liability management techniques

Assets are allocated to different classes of business using a risk based approach. Duration analysis is primarily used for interest-sensitive products and policies with long-term fixed payout patterns. Sensitivity analysis is primarily used for participating products and simulates the impact of certain market fluctuation scenarios on future cash flows, fair values or forecasted earnings.

Management of market risk is generally less critical for short-term insurance products as the amount of assets backing the liability and capital is generally small. The timing of claims are reasonably predictable and do not vary significantly with interest rates or other market changes.

The most active management of market risk is done in the investment portfolios, where risk is taken with consideration of the market risk held in insurance liabilities, and the intent of reducing volatility. The Ultimate Controlling Entity, Zurich Insurance Group Ltd's Zurich Risk Policy (ZRP) provides constraints on the mix of investment assets. The Company has negotiated Investment Management Agreements (IMA) with external investment managers.

On-Balance Sheet

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

Off-Balance Sheet

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

(b) 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. Credit risk is assumed through three main mechanisms.

i) The assumption of Credit risk through investment strategies relating to financial assets;
ii) Credit risk created through reinsurance, where a reinsurance asset represents an obligation of the reinsurer to the entity; and
iii) Receivables within the business, where the entity is owed payment or services by a third party. Most typically this is the receipt of invoiced funds.

(b) Credit risk *(continued)*

i) Financial Assets

The carrying amounts of financial assets included in the Balance Sheet represent the Branch's maximum exposure to credit risk in relation to these assets. 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.

Cash and financial assets

Standard and Poor's (S&P) rating for Cash at bank disclosed in Note 10 is AA- (2012: AA-).

	2013 $'000	2012 $'000
Counterparty		
Auckland Saving Bank NZ (ASB)	67,308	99,569
Westpac Bank NZ	11,741	37,837
Australia and New Zealand Banking Group NZ (ANZ)	47,471	130,000
Bank of New Zealand	20,000	-
Total	146,520	267,406

ii) Reinsurance

In order to limit concentrations of credit risk in purchasing reinsurance, the Branch has regard to existing reinsurance assets including 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 programme to enable group-wide reinsurance purchasing efficiencies. Reinsurance security is monitored continuously taking advantage of the Group's Security Committee analyses 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.

Reinsurance receivable on incurred claims disclosed in Note 13 are analysed in the table below using Standard and Poor's (S&P) rating:

	2013 $'000	2012 $'000
AAA or AA	231,068	345,621
A	7,989	25,033
BBB or unrated	4,443	10,572
Total reinsurance receivable on incurred claims (excluding Risk Margin and other recoveries)	243,500	381,226

Of the total Reinsurance receivable on incurred claims, the following are the percentages with counterparties:

- 0.11% (2012: 0.20%) of the reinsurance receivable on incurred claims had a single third party reinsurer as a counter party; and
- 99% (2012: 98%) of the reinsurance receivable on incurred claims had other companies in the Zurich Group as a counterparty

Irrevocable standby letters of credit for a total of up to $340m (2012: $410m) were issued by Australian banks on behalf of other entities in the Zurich Group in favour of the Company. These letters of credit relate to all reinsurance contracts entered into between the Company and other entities in the Zurich Group on or after 31 December 2008. $90m is due to expire on 31 December 2014 and $250m is due to expire on 31 December 2015. As at 31 December 2013, $340m (2012: $410m) of reinsurance recoverable due from other entities in the Zurich group were secured under these letters of credit.

(b) Credit risk *(continued)*

A Collateral Trust was established during 2013, by means of a Trust Deed entered into between the Company, Zurich Insurance Company (ZIC) and Prudential Capital. The funds of the Trust are to be contributed by ZIC, to constitute recognised collateral in respect of aged reinsurance recoverable owed by ZIC to the Company. The total collateral in the Trust at 31 December 2013 was $202m.

iii) Business receivables

Premium receivable
General Insurance premiums receivable for the Branch are disclosed in Note 11, which include amounts past due but not impaired which are analysed below.

	2013 $'000	2012 $'000
Neither past due nor impaired (90 day credit terms)	18,752	20,483
Amounts past due not impaired to 30 days	2,151	1,652
Amounts past due but not impaired 31 – 90 days	108	529
Amounts past due but not impaired over 90 days	57	131
Provision for impairment	(61)	(200)
Total premium receivable	21,007	22,595

(c) 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, marketable securities and the availability of funding through an adequate amount of committed credit facilities and the ability to close-out market positions.

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

2013	**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, 21)	31,892	29,790	2,093	9	-	-
Premium Liability	20,703	13,941	6,742	20	-	-
Total	52,595	43,731	8,835	29	-	-

2012	**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, 21)	48,587	40,353	8,223	11	-	-
Premium Liability	21,574	15,319	6,241	14	-	-
Total	70,161	55,672	14,464	25	-	-

Notes to the Financial Statements *(continued)*
For the year ended 31 December 2013

5. Financial Risk Management *(continued)*

(d) Derivative holdings
A derivative transaction is a contract where value is derived from the value of an underlying asset or index. The Branch does not hold any direct derivative contracts.

(e) Fair value measurements
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 in Note 1.

The Company measures and recognises the following assets and liabilities at fair value on a recurring basis:

- Financial assets at fair value through profit or loss (FVTPL)

The following tables present the Branch's assets and liabilities measured and recognised at fair value.

As at 31 December 2013	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Financial assets at fair value through profit and loss	-	-	-	-
Total	-	-	-	-
As at 31 December 2012				
Financial assets at fair value through profit and loss	-	504	-	504
Total	-	**504**	-	**504**

Fair value measurements
The fair value of financial instruments traded in active markets (such as trading 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 (for example, over-the counter securities) is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates.

If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Specific valuation techniques used to value financial instruments include:

- The use of quoted market prices or dealer quotes for similar instruments; and
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

	2013 $'000	2012 $'000
6. Investment income		
Interest	7,695	4,397
Net realised/unrealised fair value losses on financial assets at fair value through profit or loss	(18)	(21)
Total investment income	7,677	4,376
7. Other income		
Other Income	163	133
Total other income	163	133
8. Net claims incurred		
Gross claims incurred and related expenses:		
- Direct	(17,253)	(4,347)
- Inwards Reinsurance	148	3,537
- Discount to present value	4,292	(7,199)
	(12,813)	(8,009)
Reinsurance and other recoveries:		
- Direct	(31,808)	(30,793)
- Inwards Reinsurance	157	13,679
- Discount to present value	3,642	(6,268)
	(28,009)	(23,382)
Net incurred claims	15,196	15,373

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.

	2013			2012		
	Current Year $'000	Prior Years $'000	Total $'000	Current Year $'000	Prior Years $'000	Total $'000
Gross claims expense						
- Undiscounted	61,922	(79,027)	(17,105)	73,238	(74,048)	(810)
- Discount	(507)	4,799	4,292	(608)	(6,591)	(7,199)
	61,415	(74,228)	(12,813)	72,630	(80,639)	(8,009)
Reinsurance and other recoveries:						
- Undiscounted	15,872	(47,523)	(31,651)	24,524	(41,638)	(17,114)
- Discount	(235)	3,877	3,642	(248)	(6,020)	(6,268)
	15,637	(43,646)	(28,009)	24,276	(47,658)	(23,382)
Net claims incurred – discounted	45,778	(30,582)	15,196	48,354	(32,981)	15,373

	2013 $'000	2012 $'000
9. Income tax		
(a) Income tax expense		
Current tax	-	-
Deferred tax	-	-
Total income tax expense	-	-
Deferred income tax expense included in income tax expense comprises:		
Decrease in deferred tax asset (Note 16)	(491)	(6)
Increase in deferred tax liabilities (Note 22)	491	6
	-	-
(b) Numerical reconciliation of income tax to prima facie tax payable		
Profit before tax	27,504	26,736
Tax at the New Zealand tax rate of 28% (2012 – 28%)	7,701	7,486
Value of deferred tax assets not recognised	(7,701)	(7,486)
Income tax expense	-	-

10. Cash and cash equivalents

	2013 $'000	2012 $'000
Current		
Cash at bank and on hand	24,520	7,706
Term deposit and cash equivalents	122,000	259,700
	146,520	267,406

Cash and cash equivalent was invested at floating interest rates between 2.00% and 4.10% p.a. (2012: 2.50% and 3.84% p.a.).

	2013 $'000	2012 $'000
11. Receivables		
Current		
Premiums receivable	18,463	21,420
Unclosed premiums	2,605	1,375
	21,068	22,795
Provisions for impairment	(61)	(200)
	21,007	22,595
Due from related entities (Note 26(c))	1,291	141
Other trade debtors	2,169	8,612
Interest receivable	457	743
Total current receivables	24,924	32,091

12. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss		
Current		
Government and semi – government bonds	-	504
Total financial assets at fair value through profit or loss	-	504

	2013 $'000	2012 $'000
13. Reinsurance and other recoveries		
Analysis of reinsurance and other recoveries		
Expected future reinsurance recoveries undiscounted		
- on claims paid	469	118
- on outstanding claims	245,075	386,202
	245,544	386,320
Discount to present value	(2,044)	(5,094)
Reinsurance receivable on incurred claims	243,500	381,226
Other recoveries undiscounted	45,957	73,985
Discount to present value	(430)	(971)
	45,527	73,014
Risk Margin	52,819	83,056
Discount to present value	(435)	(488)
	52,384	82,568
Reinsurance and other recoveries receivables on incurred claims	341,411	536,808
Expected future reinsurance recoveries on unexpired risk liability (note 20(a))	652	4,406
Reinsurance and other recoveries receivable	342,063	541,214
Current	339,589	442,793
Non-current	2,474	98,421
	342,063	541,214

14. Deferred acquisition costs

	2013 $'000	2012 $'000
Deferred acquisitions costs as at 1 January	3,184	3,113
Acquisition costs deferred	6,905	8,528
Amortisation charged to Statement of Comprehensive Income	(4,422)	(6,933)
Write down for premium deficiency (Note 20)	(831)	(1,524)
Deferred acquisitions costs as at 31 December	4,836	3,184
Current	4,836	3,184
Non-Current	-	-
	4,836	3,184

Ceded deferred acquisition costs at 31 December 2012 were classified under Reinsurance creditors in Note 17 Payables. For 31 December 2013 deferred acquisition costs disclosed above are, on a net basis incorporating ceded deferred acquisition costs of $4.0m (2012: $2.6m) . The reclassification has also been made in 2012 in order to facilitate comparison.

	2013 $'000	2012 $'000
15. Other assets		
Current		
Deferred outwards reinsurance expense	6,728	3,738
Other assets	672	376
	7,400	4,114

16. Deferred tax asset

The balance comprises temporary differences attributable to:
Amounts recognised in profit or loss

	2013 $'000	2012 $'000
Provision for doubtful debt	17	56
Tax Loss	1,390	860
Set-off of deferred tax liabilities pursuant to set-off provisions (Note 22)	(1,407)	(916)
Net deferred tax asset	-	-
Deferred tax asset movements:		
Opening balance at 1 January	-	-
Charged to Statement of Comprehensive Income (Note 9)	491	6
Set-off of deferred tax asset pursuant to set-off provision (Note 22)	(491)	(6)
Closing balance at 31 December	-	-

The Branch only recognises 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 Branch has undertaken a prima-facie analysis of future taxable profits to determine the likelihood of being able to recover the unused tax losses over the short term. The Branch has concluded that, based on profit history and the uncertainty of future profits, no deferred tax asset should be recognised for the unused tax losses. The deferred tax asset that has not been recognised in respect of unused tax losses at 31 December 2013 is $24,087,793 (2012: $31,825,290)

	2013 $'000	2012 $'000
17. Payables		
Current		
Reinsurance creditors	2,312	4,464
Due to related entities (Note 26(d))	53,318	208,667
Commission payable	516	597
Other payables	500	102
	56,646	213,830

Ceded deferred acquisition costs at 31 December 2012 were classified under reinsurance creditors. For 31 December 2013, deferred acquisition costs disclosed in Note 14 Deferred acquisition costs are on a net basis, incorporating ceded deferred acquisition costs of $4.0m (2012: $2.6m). The reclassification has also been made in 2012 in order to facilitate comparison.

18. Provisions

	2013 $'000	2012 $'000
Current		
Fire service levy	263	260
Earthquake levy	194	218
	457	478

2013 Movements in provisions	Fire Service Levy $'000	Earthquake Levy $'000	Others $'000	Total $'000
Current				
Carrying amount at start of year	260	218	-	478
Additional provision recognised	3,563	524	-	4,087
Payments/other sacrifices of economic benefits	(3,560)	(548)	-	(4,108)
Carrying amount at end of year	263	194	-	457

2012 Movements in provisions	Fire Service Levy $'000	Earthquake Levy $'000	Others $'000	Total $'000
Current				
Carrying amount at start of year	877	16	1	894
Additional provision recognised	3903	615	-	4,518
Payments/other sacrifices of economic benefits	(4,520)	(413)	(1)	(4,934)
Carrying amount at end of year	260	218	-	478

	2013 $'000	2012 $'000
19. Unearned premium liability		
Unearned premium liability as at 1 January	32,801	46,755
Premiums deferred during the period	73,970	65,013
Premiums earned during the period	(70,295)	(78,967)
Unearned premium liability as at 31 December	36,476	32,801
Current	36,047	32,798
Non-current	429	3
	36,476	32,801

20. Unexpired risk liability

(a) Unexpired risk liability

	2013 $'000	2012 $'000
Unexpired risk liability as at 1 January	4,406	6,651
Release of unexpired risk liability recorded in previous periods	(3,754)	(2,245)
Unexpired risk liability as at 31 December	652	4,406
Unexpired risk liability - Current	652	4,406

(b) Deficiency recognised in the Statement of Comprehensive Income

	2013 $'000	2012 $'000
Gross movement in unexpired risk liability	(3,754)	(2,245)
Reinsurance recoveries on unexpired risk liability	3,754	2,245
Net movement in unexpired risk liability	-	-
Write down of deferred acquisition costs (Note 14)	831	1,524
Total amount recognised in the Statement of Comprehensive Income	831	1,524

(c) Liability Adequacy Test

The liability adequacy test (LAT) has been conducted using the central estimate of the premium liabilities calculated for reporting to the Australian Prudential Regulation Authority ("APRA"). This is adjusted as appropriate, together with an appropriate margin for uncertainty for each portfolio of contracts. This test is conducted based on prospective information and so is heavily dependent on assumptions and judgements.

The LAT is conducted at a level of portfolio of contracts that are subject to broadly similar risks and that are managed together as a single portfolio. The Company identifies "broadly similar risks" at a short and long tail level as all policies written are affected by one or more common risk factors, including natural peril events, general weather conditions, economic conditions, inflationary movements, legal and regulatory changes as well as legislative reforms, reinsurance cost changes and variations in other inputs. The Company defines "managed together" at a segment level as the CEO manages the entire portfolio of risks within each division. As a result the LAT test is performed at the two segment levels; being New Zealand, short tail and long tail classes.

The process for determining the overall risk margin, including the way in which diversification of risks has been allowed for is discussed in Note 21. As with outstanding claims, the overall risk margin is intended to achieve an 85% probability of adequacy in 2013 (2012: 85%).

20. Unexpired risk liability ***(continued)***

(c) Liability Adequacy Test ***(continued)***

The LAT performed at reporting date resulted in a deficiency of $0.8m (2012: $1.5m) in the short tail segment. The below tables show the LAT deficiency of the New Zealand short tail segment.

	2013 $'000	2012 $'000
Unearned Premium Liability	26,415	26,089
Less		
Deferred Acquisition Costs Before LAT write-down	(5,009)	(4,220)
Net Premiums Liabilities	21,406	21,869
Undiscounted central estimate	19,216	20,160
Risk Margin	3,564	3,703
Discount to Present Value	(543)	(470)
Expected present value of future cash flows for future claims including risk margin	**22,237**	**23,393**
Liability Adequacy (Deficiency)	**(831)**	**(1,524)**

21. Outstanding claims

(a) Outstanding claims liability

	2013 $'000	2012 $'000
Central estimate	319,842	504,331
Discount to present value	(2,872)	(6,760)
	316,970	497,571
Claims handling costs	3,084	4,443
Discount to present value	(35)	(62)
	3,049	4,381
Risk margin	58,211	91,404
Discount to present value	(520)	(897)
	57,691	90,507
Gross outstanding claims liability	377,710	592,459
Undiscounted expected future claims payments	381,137	600,178
Discount to present value	(3,427)	(7,719)
Liability for outstanding claims	377,710	592,459
Current	373,592	481,394
Non-current	4,118	111,065
	377,710	592,459

(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 the Branch as a whole in order to arrive at an overall provision which is intended to have an 85% (2012: 85%) probability of sufficiency.

21. Outstanding claims *(continued)*

(b) Risk margin *(continued)*

Risk Margins Applied

Class	2013 Net Outstanding Claims Margin	2012 Net Outstanding Claims Margin
Short-tail		
Commercial Motor Vehicle	15.1%	15.4%
Fire and ISR (incl Inwards Treaty)	17.9%	17.1%
Marine & Aviation	14.5%	15.3%
Other Accident	17.4%	14.1%
Average short-tail	16.8%	16.6%
Long-tail		
Public & Product Liability (incl Inwards Treaty)	15.6%	14.1%
Professional Indemnity	18.3%	18.4%
Average long-tail	17.8%	17.7%
Overall	16.9%	16.7%

(c) Reconciliation of movement in discounted outstanding claims liability

	2013 Gross $'000	2013 Reinsurance $'000	2013 Net $'000	2012 Gross $'000	2012 Reinsurance $'000	2012 Net $'000
Brought forward	592,459	536,691	55,768	928,911	843,117	85,794
Effect of changes in assumptions	(72,797)	(47,451)	(25,346)	(80,639)	(47,658)	(32,981)
Increase in claims incurred/recoveries anticipated over the year	59,984	19,442	40,542	72,630	24,276	48,354
Incurred claims recognised in the Statement of Comprehensive Income	(12,813)	(28,009)	15,196	(8,009)	(23,382)	15,373
Claim payments/recoveries during the year	(201,936)	(167,738)	(34,198)	(328,443)	(283,044)	(45,399)
Carried forward	377,710	340,944	36,766	592,459	536,691	55,768

21. Outstanding claims *(continued)*

(d) Claims development tables

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

(i) Gross incurred

Accident Year	2009 $'000	2010 $'000	2011 $'000	2012 $'000	2013 $'000	Total $'000
End of Accident Year	5,034	5,810	6,090	4,092	5,360	
One Year Later	5,295	6,462	3,772	2,740		
Two years later	3,650	3,742	2,450			
Three years later	1,602	3,334				
Four years later	1,333					
Current Estimate of Incurred	1,333	3,334	2,450	2,740	5,360	15,217
Cumulative Payments	1,326	3,104	1,194	664	106	6,394
Outstanding claims - Undiscounted	7	230	1,256	2,076	5,254	8,823
Discount						(194)
Claim Handling Expense						189
2008 and prior years						-
Outstanding claims - Discounted						8,818
Short Tail Outstanding Claims						368,892
Total Gross						377,710

(ii) Net incurred

Accident Year	2009 $'000	2010 $'000	2011 $'000	2012 $'000	2013 $'000	Total $'000
End of Accident Year	5,034	5,810	6,090	3,107	3,223	
One Year Later	5,294	6,462	1,497	2,256		
Two years later	3,650	1,698	812			
Three years later	833	1,495				
Four years later	650					
Current Estimate of Incurred	650	1,495	812	2,256	3,223	8,436
Cumulative Payments	650	1,446	504	716	105	3,421
Outstanding claims - Undiscounted	-	49	308	1,540	3,118	5,015
Discount						(116)
Claim Handling Expense						190
2008 and prior years						0
Outstanding claims - Discounted						5,089
Short Tail Outstanding Claims						31,678
Total Net						36,767

	2013 $'000	2012 $'000
22. Deferred Tax Liability		
The balance comprises temporary differences attributable to:		
Amounts recognised in profit or loss		
Provision for DAC write off and Unexpired Risk Liability	1,407	916
Set-off of deferred tax assets pursuant to set–off provisions (Note 16)	(1,407)	(916)
Net deferred tax liability	-	-
Deferred Tax Liabilities Movements		
Opening balance at 1 January	-	-
Charged to Statement of Comprehensive Income (Note 9)	491	6
Set–off of deferred tax asset pursuant to set–off provisions (Note 16)	(491)	(6)
Closing balance at 31 December	-	-

23. Head Office Account

a) Head Office Current Account

	2013 $'000	2012 $'000
Current Account at the beginning of the year	114,053	135,740
Contribution from/(to) Head Office	21,759	(21,687)
Current Account at the end of the year	135,812	114,053

b) Accumulated Loss

	2013 $'000	2012 $'000
Accumulated losses at the beginning of the year	(109,514)	(136,250)
Profit attributable to the Company	27,504	26,736
Accumulated losses at the end of the year	(82,010)	(109,514)
Total Head Office Account	53,802	4,539

24. Cash flow statement reconciliation

Reconciliation of profit after income tax to net cash inflows/(outflows) from operating activities

	2013 $'000	2012 $'000
Profit for the year	27,504	26,736
Bad and doubtful debt provisions	(139)	74
(Increase)/decrease in operating assets:		
Premiums outstanding	577	7,605
Outstanding interest, dividends & rents	286	(583)
Deferred acquisition costs	(1,654)	(1,427)
Reinsurance and other recoveries	199,151	308,588
Other receivables	6,444	(6,967)
Other assets	(3,285)	6,057
Increase/(decrease) in operating liabilities:		
Unearned premiums	3,675	(13,954)
Unexpired risk liability	(3,754)	(2,245)
Outstanding claims	(214,749)	(336,452)
Other provisions & payables	(157,205)	204,894
Net cash inflows from operating activities	(143,149)	192,326

25. Remuneration of auditors

	2013 $	2012 $
Remuneration for PricewaterhouseCoopers audit or review of the financial reports of the Branch		
Statutory audit fees	63,446	73,549
	63,446	73,549

26. Related parties

(a) Directors

The names of persons who were directors of the Branch at any time during the financial year are as follows:

Terence John Paradine
Robert Olivier Dolk
Daniel Luke Fogarty
Johnny Chen
Elaine Collins (Appointed 01/04/2013)
Ian Clifton Carroll (Resigned 01/04/2013)
Michael Ronald Vos (Resigned 01/04/2013)

(b) Key management personnel compensation

Key management personnel compensation for the years ended 31 December 2013 and 31 December 2012 is set out below expressed in Australian dollars.

The key management personnel are all the directors of the Company and their compensation is paid by Zurich Financial Services Australia ("ZFSA"). The amounts 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	2013 AUD $	2012 AUD $
Short term employee benefits		1,277,160	1,508,780
Termination benefits		-	39,133
Share-based payments/benefits	(i)	135,126	177,613
		1,412,286	1,725,526

(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.

26. Related parties ***(continued)***

	2013 $	2012 $
(c) Aggregate amounts receivable from related entities at balance date		
Current		
Immediate controlling entity	934,985	-
Other related entities	356,128	141,097
	1,291,113	141,097
(d) Aggregate amounts payable to related entities at balance date		
Current		
Immediate controlling entity	-	116,491
Other related entities	53,318,137	208,551,001
	53,318,137	208,667,492

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

	2013 $	2012 $
Reinsurance Claims Received		
Other related entities	152,755,581	261,438,379
Reinsurance Commission Received		
Other related entities	1,674,468	617,075
Reinsurance Premium Expense		
Other related entities	13,478,597	8,790,216
Reinsurance Premium Receipts		
Other related entities	345,789	-
Reinsurance recoverable on incurred claims		
Other related entities	240,504,062	375,173,979
Payment of other expenses		
Immediate controlling entity	16,437,448	17,663,541

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

26. Related parties *(continued)*

(f) 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) Controlling Entities

The ultimate controlling entity is Zurich Insurance Group Ltd, incorporated in Switzerland. The ultimate Australian controlling entity is Zurich Financial Services Australia Limited and is incorporated in Australia.

27. Credit rating of insurer

During 2013, Standard & Poors has affirmed the credit rating of the head office company, the Company with an A+ credit rating. This rating was assigned on 17 December 2013.

28. Reinsurance programme

The reinsurance strategy chosen to protect the Company's liabilities in New Zealand matches the Australian reinsurance strategy in 2013. It has the following characteristics:

- A maximum per risk net retention of NZD 5 million for property, NZD equivalent to AUD 5 million for Financial Lines, NZD equivalent to AUD 8 million for Liability and Motor TPPD (Third Party Property Damage), and NZD equivalent to AUD 1 million for Engineering.
- A maximum per catastrophe event retention of NZD equivalent to AUD 10 million.

Reinsurance is purchased through a series of treaty and facultative contracts with external reinsures and with members of the Zurich Insurance Group Ltd.

29. Capital management

(a) Regulatory Capital

The Company is an insurance business registered and regulated by APRA and is subject to its prudential standards. The Company uses the standardised framework to calculate the regulatory capital requirements to meet policyholder obligations. It is the Company's policy to ensure that it maintains an adequate capital position.

From 1 January 2013, APRA revised the regulatory capital adequacy requirements applicable to all APRA authorised insurers and insurance groups. These requirements apply to both measurement of capital for regulatory purposes and calculation of the required minimum level of capital. Under the new capital regime, the Company has maintained a consistent risk appetite and set the long term target capital ranges from 1 January 2013 to a total capital position equivalent to 1.25-1.45 times the PCA, compared to a proposed regulatory requirement of 1.0 times.

The capital adequacy multiple for the Company for 2013 is 1.86 (2012: 1.34 MCR).

30. Events occurring after reporting date

The Company approved to pay a dividend of $130,000,000 cash to Zurich Financial Services Australia on 18 February 2014. The dividend was paid on 26 March 2014.

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 result of those operations or the state of affairs of the Branch in subsequent financial years.

ZURICH AUSTRALIAN INSURANCE LIMITED
NEW ZEALAND BRANCH

Director's Declaration

In the directors' opinion:

(a) the financial statements and notes set out on pages 3 to 42 are in accordance with the *New Zealand Companies Act 1993*, 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 Branch's financial position as at 31 December 2013 and of its performance, as represented by the results of its operations, changes in Head Office Account and its cash flows, for the financial year ended on that date; and

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

Note 1 confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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

T J Paradine
Director

R O Dolk
Director

Sydney
23 April 2014

Independent Auditors' Report to the Directors of Zurich Australian Insurance Limited

Report on the Financial Statements

We have audited the financial statements of Zurich Australian Insurance Limited New Zealand Branch ("the Branch") on pages 4 to 43, which comprise the balance sheet as at 31 December 2013, the statement of comprehensive income, statement of changes in head office account and cash flow statement for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation of these financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal controls relevant to the Branch's preparation of financial statements that give a true and fair view of the matters to which they relate, 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 Branch's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

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

Other than in our capacity as auditors we have no relationship with, or interests in, the New Zealand Branch.

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pwc

Opinion

In our opinion, the financial statements on pages 4 to 43:

(i) comply with generally accepted accounting practice in New Zealand;

(ii) comply with International Financial Reporting Standards; and

(iii) give a true and fair view of the financial position of the Branch as at 31 December 2013, and its financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 31 December 2013:

(i) we have obtained all the information and explanations that we have required; and

(ii) in our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records.

Restriction on Use of our Report

This report is made solely to the Directors of the Branch, as a body. Our audit work has been undertaken so that we might state to the Directors of the Branch those matters which we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Directors of the Branch, as a body, for our audit work, for this report or for the opinions we have formed.

PricewaterhouseCoopers

Chartered Accountants
Sydney

23 April 2014

I, Scott Fergusson, am currently a member of Institute of Chartered Accountants In Australia and my membership number is 88036.

PricewaterhouseCoopers was the audit firm appointed to undertake the audit of Zurich Financial Services Australia Limited for the year ended 31 December 2013. I was responsible for the execution of the audit and delivery of our firm's auditors' report. The audit work was completed on 23 April 2014 and an unqualified opinion was issued.

SK Fergusson

Zurich Australian Insurance Limited (New Zealand Branch)

Section 78 Report for the year ending 31 December 2013

Zurich Australian
Insurance Limited
ABN 13 000 296 640
Finance

Author Melisa Yan, FIAA, FNZSA
Version Final
Version Date 13 May 2014

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Background

The Insurance (Prudential Supervision) Act 2010 ("the Act") has the purpose of further promoting the maintenance of a sound and efficient insurance sector and the promotion of public confidence in the insurance sector in New Zealand. Sections of the Act which are directly relevant to this report and the continued operation of the insurer include:

- Section 15 - All persons carrying on insurance in New Zealand must be licensed. The transitional arrangements set out by the Reserve Bank of New Zealand ("RBNZ") allow insurers to operate under a provisional licence till a full licence is granted.
- Section 76 - A licensed insurer must have an actuary appointed by the insurer, the Appointed Actuary (which we refer to in this report as the "NZ AA").
- Section 77 - A review of the actuarial information (relating to the NZ business) presented in the annual financial statements required to be registered under the Financial Reporting Act 1993. The results of the review must be documented in a report that meets the requirements set out in Section 78 of the Act.
- Sections 55 to 59 – The Act allows RBNZ to issue prudential standards, regulating the activities of and imposing requirements on insurers. RBNZ has subsequently issued the "Solvency Standard for Non-life Insurance Business" ("Solvency Standard") dated October 2011.

Section 78 Appointed Actuary Report

A full licence for Zurich Australian Insurance Limited ("ZAIL") was granted by RBNZ on 15 July 2013 with a Section 59 exemption. For the purpose of this exemption, actuarial information specified in the Section 77 of the Act relates to the following items within the financial statement.

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

Scope

ZAIL has appointed Melissa Yan to be its Appointed Actuary for the NZ Branch. The Board of ZAIL has commissioned Melissa Yan, FIAA, FNZSA, to prepare this Section 78 report in her capacity as Appointed Actuary of ZAIL (NZ Branch). Melissa Yan is an employee of ZAIL's holding company, Zurich Financial Services Australia Limited ("ZFSA") and became the Appointed Actuary for ZAIL (NZ Branch) on 21 August 2012. I have no other relationships and interests in ZAIL, ZFSA and any other of its subsidiaries.

This is the second Section 78 Appointed Actuary Report ("S78 Report") for ZAIL (NZ Branch). It is in respect of the year ending 31 December 2013 and has been prepared taking into account the S59 exemption provided by RBNZ as set out in its letter to ZAIL dated 15 July 2013.

The audited 2013 ZAIL (NZ Branch) annual financial statements are separately provided with this report.

Compliance

This S78 report is prepared in accordance with requirements set out in

- S59 exemption
- Section 78 of the Act
- the IAAust Code of Professional Conduct.

Reliance and Limitations

This report is based on the audited accounts for ZAIL (NZ Branch) for the year ending 31 December 2013 and reliance has also been placed upon information supplied by the management and staff of ZAIL.

Under the Act, ZAIL is required to present this S78 report with the auditor's report on the financial statements when the auditor's report is registered with the Companies Office or included within the a company's annual report. As such, this report may be distributed in its entirety to Companies Office. If this report is to be made available to any other parties, it must be distributed in its entirety.

I confirm that I am not aware of any limitations and reliances having been placed on me in the preparation of this S78 Report. In my opinion, information provided to me was adequate for the purposes of the S78 Report and all information requested was made to me on a sufficiently timely basis.

Conclusion

I confirm I have reviewed the unearned premium, liability adequacy test, net outstanding claims liability, reinsurance and other recovery asset(s) disclosed in the 2013 ZAIL (NZ Branch) annual financial statements. For the deferred acquisition costs and deferred fee revenue, I have discussed with ZAIL's Financial Accounting Reporting team on the source of information and subsequent reconciliations and control processes between the Ledger and source systems to ensure the veracity of the information at 31 December 2013.

In my opinion and from an actuarial perspective,

- the actuarial information (as specified in Section 77 of the Act) contained in the 2013 ZAIL (NZ Branch) annual financial statements and corresponding group financial statements has been appropriately included in those statements; and
- the actuarial information (as specified in Section 77 of the Act) used in the preparation of the 2013 ZAIL (NZ Branch) annual financial statements and corresponding group financial statements has been appropriately included in those statements.

Under the S59 exemption, ZAIL is exempted from compliance with the "Solvency Standard for Non-life Insurance Business" and is to report its solvency position under the APRA prudential standards. At 31 December 2013, the APRA framework measures the capital adequacy of a company by the Prescribed Capital Requirement ("PCR"). I confirm I have reviewed the calculations of the PCR reported in the ZAIL APRA annual returns as at 31 December 2013, and considered them appropriate under the APRA requirements.