ZURICH AUSTRALIAN INSURANCE LIMITED
NEW ZEALAND BRANCH

ANNUAL REPORT

For the year ended 31 December 2016

Contents

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 was approved for issue by the directors on 24 March 2017. 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 2016. 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:

Name	Role	Appointment date	Resignation date
Paul John Bedbrook	Director, Chairman	19 November 2014	
Timothy James Bailey	Director	24 September 2015	26 February 2016
Elaine Collins	Director	1 April 2013	
Robert Olivier Dolk	Director	11 December 2008	
John Inniss Howell	Director	31 October 2016	
Rajbir Singh Nanra	Director	26 February 2016	
Stuart Anthony Spencer	Director	19 February 2014	31 October 2016

The following persons were officers of the Company who held office during financial year 2016:

Name	Role	Appointment date	Resignation date
David George Hallahan	Secretary	11 April 2008	
Cathy Anne Manolios	Secretary	16 September 2002	
Rajbir Singh Nanra	Public officer		11 July 2016
Stuart Keith Farquharson	Public officer	11 July 2016	

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:

	2016 $'000	2015 *Restated*[1)] $'000
Revenues and other income		
Direct premium and inwards reinsurance revenue	71,776	74,407
Investment income	2,959	4,036
Other income	122	340
	74,857	78,783
Results		
Profit/(loss) for the year	10,182	(10,594)

[1)] *See Note 28 for details regarding prior year's restatements*

Matters subsequent to the end of the financial year

The directors are not aware of any matter or circumstance which has arisen since 31 December 2016, 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.

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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.

P J Bedbrook
Director

R O Dolk
Director

Sydney
24 March 2017

ZURICH AUSTRALIAN INSURANCE LIMITED
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Statement of comprehensive income
For the year ended 31 December 2016

	Notes	2016 $'000	2015 *Restated[1)]* $'000
Premium revenue			
Direct premium revenue	4(b)(iii)	69,534	70,065
Inwards reinsurance revenue		2,242	4,342
Outwards reinsurance expense		(15,671)	(18,288)
Net premium revenue		56,105	56,119
Claims expense	7	(2,624)	(89,591)
Reinsurance and other recoveries revenue/(expense)	7	(24,994)	42,554
Net claims incurred	7	(27,618)	(47,037)
Gross movement in unexpired risk liability		(3,316)	(2,939)
Reinsurance recoveries on unexpired risk liability		3,222	2,939
Net movement in unexpired risk liability		(94)	-
Acquisition costs		(6,441)	(8,823)
Other underwriting expenses		(14,361)	(15,447)
Underwriting expenses		(20,802)	(24,270)
Underwriting result		7,591	(15,188)
Investment income	6	2,959	4,036
Other income		122	340
Net foreign exchange gain/(loss)		(490)	218
Profit/(loss) before income tax		10,182	(10,594)
Income tax expense	8 (a)	-	-
Profit/(loss) for the year		10,182	(10,594)
Other comprehensive income		-	-
Total comprehensive income/(expense) for the year		10,182	(10,594)

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

[1)] See Note 28 for details regarding prior year's restatements

ZURICH AUSTRALIAN INSURANCE LIMITED
NEW ZEALAND BRANCH

Balance sheet
As at 31 December 2016

	Notes	2016 $'000	2015 *Restated*[1)] $'000
Assets			
Cash and cash equivalents	9	74,988	104,880
Receivables	10	40,124	29,962
Reinsurance and other recoveries	11	181,666	225,144
Deferred acquisition costs	12	395	1,628
Other assets	13	4,829	8,099
Deferred tax asset	14	-	-
Total assets		302,002	369,713
Liabilities			
Payables	15	19,685	11,950
Provisions	16	36	47
Unearned premium liability	17	35,193	39,172
Unexpired risk liability	18(a)	6,255	2,939
Outstanding claims	19(a)	208,197	263,150
Deferred tax liability	20	-	-
Total liabilities		269,366	317,258
Net assets		32,636	52,455
Home office account			
Head office current account	21(a)	105,811	135,812
Accumulated loss	21(b)	(73,175)	(83,357)
		32,636	52,455

The above balance sheet should be read in conjunction with the accompanying notes.

[1)] *See Note 28 for details regarding prior year's restatements*

ZURICH AUSTRALIAN INSURANCE LIMITED
NEW ZEALAND BRANCH

Statement of changes in head office account
For the year ended 31 December 2016

	Head office current account $'000	Accumulated losses $'000	Total $'000
Balance at 1 January 2015	135,812	(72,763)	63,049
Total comprehensive income for the year	-	(10,594)	(10,594)
Balance as at 31 December 2015	135,812	(83,357)	52,455
Total comprehensive income for the year	-	10,182	10,182
Transactions with head office:			
Contributions to head office, net of transaction costs	(30,001)	-	(30,001)
Balance as at 31 December 2016	105,811	(73,175)	32,636

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

ZURICH AUSTRALIAN INSURANCE LIMITED
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Cash flow statement
For the year ended 31 December 2016

	Notes	2016 $'000	2015 $'000
Cash flows from operating activities			
Net premiums and deposits received		46,845	54,938
Net claims and related payments		(30,474)	(33,589)
Payment to suppliers		(19,444)	(26,728)
Interest received		3,060	4,153
Fees and commissions received		122	340
Net cash inflow /(outflow) from operating activities	23	109	(886)
Cash flows from financing activities			
Capital repatriated to head office		(30,001)	-
Net cash outflow from financing activities		(30,001)	-
Net /(decrease) in cash held		(29,892)	(886)
Cash and cash equivalents at the beginning of the financial year		104,880	105,766
Cash and cash equivalents at the end of the financial year	10	**74,988**	**104,880**

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 2016. 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 liabilities for long-tail outstanding claims which have been inflated and discounted as required by NZ: IAS 23 General Insurance Contracts.

Compliance with IFRS

The financial statements of the Branch also comply with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2016 reporting periods. The Company's assessment of the impact of these new standards and interpretations is set out below:

- NZ IFRS 9 *Financial Instruments* addresses the classification, measurement and de-recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The standard becomes effective from 1 January 2018, however as a result of AASB 2016-6 *Amendments to Australia Accounting Standards – Applying NZ IFRS 9 Financial instruments with IFRS 4 Insurance contracts*, the Branch has the option to be temporary exempt from NZ IFRS 9 until such time as a new NZ IFRS *4 Insurance Contracts* (IFRS *17 Insurance contracts*) is implemented. IFRS 17 is due to be released in 2017, with an anticipated effective date of 1 January 2021.

- NZ IFRS 15 *Revenue From Contracts With Customers*. The AASB has issued a new standard for the recognition of revenue. This will replace NZ IFRS 118 which covers contractors for goods and services and NZ IFRS 111 which covers construction contracts.

  The new standards is based on the principles that revenue is recognised when control of a good or service transfers to a customer, which the notion of control replacing the exiting notion of risks and rewards. This standard becomes mandatory for the Branch's 31 December 2018 financial statements. The Company is currently assessing the impact of the new requirements on the financial statements.

- NZ IFRS 16 *Leases* was issued and introduces changes to lessee accounting. It requires recognition of lease liabilities and assets other than short-term leases or leases of low-value assets on the statement of financial position. This will replace the operating/finance lease distinction and accounting requirements prescribed in AASB 117 *Leases*. This standard will become mandatory for the Company's 31 December 2019 financial statements.

There are no other standards that are effective and that would be expected to have a material impact on the Branch in the current or future reporting periods and on foreseeable future transactions.

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 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.

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, evaluated 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 cannot 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 19.

A write down to recoverable amount is recognised when the present value of expected future claims (including settlement costs and risk margins) 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 incurred under insurance contracts

Provision is made at 31 December 2016 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 obtain 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 actuarial 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 data 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 data 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; and
- 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.

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

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

Provisions are evaluated 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.

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 so 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; and
- 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% (2015: 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.

	2016 Long-tail	2016 Short-tail	2015 Long-tail	2015 Short-tail
Average weighted term to settlement	1.3 years	0.4 years	0.9 years	0.7 years
Discount rate	2.20%	2.07%	2.86%	2.88%
Wage inflation	3.75%	N/A	3.75%	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 2016 and 2015.

Impact of changes in key variables

December 2016	Movement in variable	**Movement in Profit/(Loss)** 2016 $'000	2015 $'000
Short-tail and Long-tail			
Average weighted term to settlement – years	0.5	(169)	(6)
	-0.5	24	(103)
Discount rate	1%	275	278
	-1%	(284)	(284)
Wage inflation and superimposed inflation rates	1%	(236)	(113)
	-1%	233	112

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 so 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 framework comprises the totality of systems, structures, policies, processes and people within Zurich Australia that identify, measure, evaluate, monitor, report and control or mitigate all internal and external sources of material risk. The key components of the risk management framework are:

- The business plan – which is developed within the Board's risk appetite and having regard for the risk management strategy of the Zurich Australia Group. Capital adequacy implications are taken into account in the business planning process.
- The Risk Management Strategy (RMS) – which describes the Zurich Australia Group's strategy for managing risk and the key elements of the risk management framework that give effect to the strategy.
- The board's Risk Appetite Statements – which sets out the Board's appetite for risk taking in the pursuit of its strategic objectives, giving consideration to the interests of policyholders.
- The Internal Capital Adequacy Assessment Process (ICAAP) – which comprises the processes and procedures for assessing the risks arising from the Company's activities such that capital held is commensurate with the level of risk; and it also sets out the strategy for maintaining adequate capital over time, including the setting of capital targets consistent with the risk profile of the Company, the board's risk appetite and regulatory capital requirements.

The objective of the RMS is to describe and formalise Zurich Australia's approach to the management of risk by setting out:

- clear roles and responsibilities for the management of risk;
- an overview of integrated systems, policies and processes that support effective risk management;
- the risk types that impact Zurich Australia and its approach to managing those risks;
- the methodology by which each entity within the Zurich Australia group identifies, assesses and manages its risks in accordance with its risk appetite;
- the mechanisms by which each entity within the Zurich Australia group identifies and manages new and emerging risks; and
- reporting requirements for monitoring risks and the process for escalation where required.

The Company has an 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.

4. Management of risk *(continued)*

The broadest categorisations of risks are:

- Insurance risk
- Strategic risk
- Operational risk
- Financial risk, subcategorised as:
    - Market risk
    - Credit risk
    - Liquidity 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 profitable 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 (RCAC). 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.

The Board requires that an active risk and governance culture development program is in place. This includes communication, promotion and engagement activities as well as training for new starters, training for managers, development of additional tools and Executive sponsorship (including modelling of behaviours by Executives and setting the appropriate 'tone from the top').

The Board requires that the remuneration structures in place across the organisation are appropriate, promote a strong risk culture and do not incentivise unethical or inappropriate behaviours. To align staff conduct with a strong risk culture, all staff are required to include in their personal performance objectives a requirement to demonstrate the Zurich commitment through appropriate behavioural attributes (discussed further below).

Behavioural metrics are monitored and reported to the Executive Teams and the RCAC every 6 months to track progress and identify areas for improvement. Risk management behaviours are explicitly included in all employees' performance objectives. The Boards expect that the risk culture initiatives are evaluated and improved over time

(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 consolidated prudential standards CPS 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).

(a) Insurance risks *(continued)*

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 enable 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 implemented to manage risks arising from insurance contracts include:

- A formal annual total risk profiling 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 actuarial 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; andThe diversification of business over various classes of insurance and large numbers of uncorrelated individual risks reduces variability in loss experience.

(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. Standard form contracts are formally approved through a full due diligence process. Any non-standard terms and conditions are signed off by appropriately experienced underwriters within a framework, which includes delegated authorities, from the Chief Underwriting Officer.

4. Management of risk *(continued)*

(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 geographies. The Branch has modelled aggregated risk using commercially available catastrophe models. Based on the probable maximum loss of a 1 in 250 year event 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 ncome is split by product in the table below.

	2016 $'000	2015 *Restated*[1)] $'000
Commercial motor	47,732	47,750
Marine	1,600	2,135
Domestic motor	120	-
Professional indemnity	6,300	5,836
Fire and ISR	9,580	10,789
Public & product liability	2,457	2,023
Other	1,745	1,532
Total direct premium revenue	**69,534**	**70,065**

[1)] *See Note 28 for details regarding prior year's restatements*

(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 20(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 achieve 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.

c) Operational Risks

Operational risk is the risk of loss or the risk of not achieving business objectives resulting from inadequate or failed internal processes, people, and 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.

4. Management of risk *(continued)*

Generally, all business activities contain some aspect of operational risk. Therefore, ongoing initiatives and operational transformation help manage operational risks through standardisation of processes. All functional business areas within the Company undertake a risk assessment to identify, assess, manage and monitor operational risk. Risk registers are developed and recorded in a central database for each functional business area including identifying control owners and action plans for improvement of controls. These risk registers are regularly reviewed, updated and improved. Risk management facilitates the formal review of the risk register on a bi-annual basis. Projects with an expected budget over a defined threshold undergo a risk assessment.

A key control for operational risk is maintaining and developing capability of the Company's business continuity and disaster recovery to plan for the event of a major business disruption.

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.

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 (CIMC) to provide comfort 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 mitigated 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 provide comfort 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

A key aspect of market risk is asset and liability risk. Asset and liability risk is the potential for unfavourable changes in the values of assets or liabilities that could adversely affect available financial resources due to movements in market factors such as interest rates, equity prices or foreign exchange rates.

The Company's management of asset and liability risk consists of analysis of market value and changes with respect of previous month and quarter; analysis of exposure and asset allocation; analysis of tail risk (to an Expected Shortfall of 99%); analysis of sensitivities (duration, convexity and volatility); stress testing (monetary impact on assets and liabilities of various interest rate, credit spread and equity index shocks); and analysis of

5. Financial risk management *(continued)*

credit exposures by rating, industry and seniority and portfolio concentration (all credit-sensitive assets are investment grade, above BB+).

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 management of market risk, including asset and liability management, is overseen by the CIMC. The ultimate controlling Entity, Zurich Insurance Group Ltd.'s Zurich Risk Policy (ZRP) provides constraints on the mix of investment assets.

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.

The management of credit risk is overseen by the CIMC.

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:
Auckland Saving Bank NZ (ASB) A1+ (2015: A1+)
Westpac Bank NZ A1+ (2015: A1+)
Australia and New Zealand Banking Group NZ (ANZ) A1+ (2015: A1+)
Bank of New Zealand A1+ (2015: A1+)
Kiwibank Ltd A1 (2015: A1)

5. Financial risk management *(continued)*

	2016 $'000	2015 $'000
Counterparty		
Auckland Saving Bank NZ (ASB)	20,000	5,000
Westpac Bank NZ	5,853	531
Australia and New Zealand Banking Group NZ (ANZ)	22,135	66,349
Bank of New Zealand	5,000	10,000
KiwiBank Ltd	22,000	23,000
Total	74,988	104,880

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 12 are analysed in the table below using Standard and Poor's (S&P) ratings:

	2016 $'000	2015 $'000
AAA or AA	97,281	113,520
A	466	9,721
BBB or unrated	1,036	2,482
Total reinsurance receivable on incurred claims (excluding Risk Margin and other recoveries)	**98,783**	**125,723**

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

- 4% (2015: 2%) of the reinsurance receivable on incurred claims had a single third party reinsurer as a counter party; and
- 96% (2015: 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 AUD $220m (2015: $329m) 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. AUD $220 million is valid until amended or cancelled. As at 31 December 2016, AUD $220 million (2015: $329m) of reinsurance recoverable due from other entities in the Zurich group were secured under these letters of credit.

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 2016 was AUD $310m (2015: $312m).

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.

	2016 $'000	2015 $'000
Neither past due nor impaired (90 day credit terms)	20,118	18,164
Amounts past due not impaired to 30 days	835	764
Amounts past due but not impaired 31 – 90 days	187	311
Amounts past due but not impaired over 90 days	746	164
Provision for impairment	(31)	(10)
Total premium receivable	**21,855**	**19,393**

(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.

2016	**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 11,19)	24,509	17,220	7,030	259	-	-
Premium liability	24,451	19,453	4,998	-	-	-
Total	48,960	36,673	12,028	259	-	-

2015	**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 11,19)	30,200	22,096	8,093	11	-	-
Premium liability	24,310	17,280	7,020	10	-	-
Total	54,510	39,376	15,113	21	-	-

	2016 $'000	2015 $'000
6. Investment income		
Interest	2,959	4,036
Total investment income	2,959	4,036

7. Net claims incurred

	2016 $'000	2015 $'000
Gross claims incurred and related expenses:		
- Direct	4,084	95,070
- Inwards reinsurance	(870)	(7,029)
- Discount to present value	(590)	1,550
	2,624	89,591
Reinsurance and other recoveries:		
- Direct	(24,112)	48,417
- Inwards reinsurance	(841)	(7,143)
- Discount to present value	(41)	1,280
	(24,994)	42,554
Net incurred claims	27,618	47,037

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.

	2016			2015		
	Current Year $'000	Prior Years $'000	Total $'000	Current Year $'000	Prior Years $'000	Total $'000
Gross claims expense						
- Undiscounted	56,830	(53,616)	3,214	60,876	27,165	88,041
- Discount	(374)	(216)	(590)	(336)	1,886	1,550
	56,456	(53,832)	2,624	60,540	29,051	89,591
Reinsurance and other recoveries:						
- Undiscounted	13,720	(38,673)	(24,953)	17,810	23,464	41,274
- Discount	(115)	74	(41)	(133)	1,413	1,280
	13,605	(38,599)	(24,994)	17,677	24,877	42,554
Net claims incurred – discounted	42,851	(15,233)	27,618	42,863	4,174	47,037

2016 2015

8. Income tax

(a) Income tax expense

	$'000	$'000
Current tax	-	-
Deferred tax	-	-
Total income tax expense	-	-
Deferred income tax expense included in income tax expense comprises:		
Decrease in deferred tax asset (Note 14)	723	541
Increase in deferred tax liabilities (Note 20)	(723)	(541)
	-	-

(b) Numerical reconciliation of income tax to prima facie tax payable

Profit/(loss) before tax	10,182	(10,594)
Tax at the New Zealand tax rate of 28% (2015: 28%)	2,851	(2,966)
Value of deferred tax assets not recognised brought to account	(2,851)	2,966
Foreign tax credits not recognised	-	-
Income tax expense	-	-

9. Cash and cash equivalents

Current		
Cash at bank and on hand	7,988	21,880
Term deposits	67,000	83,000
	74,988	104,880

Cash and cash equivalent was invested at floating interest rates between 1.85% and 3.61% p.a. (2015: 2.35% and 4.62% p.a.).

10. Receivables

Current		
Premiums receivable	18,495	16,289
Unclosed premiums	3,391	3,114
	21,886	19,403
Provisions for impairment	(31)	(10)
	21,855	19,393
Due from related entities (Note 24(c))	17,914	10,133
Other trade debtors	132	112
Interest receivable	223	324
Total current receivables	40,124	29,962

2016 2015

11. Reinsurance and other recoveries

	$'000	$'000
Analysis of reinsurance and other recoveries		
Expected future reinsurance recoveries undiscounted		
- on claims paid	5	-
- on outstanding claims	99,582	126,519
	99,587	126,519
Discount to present value	(804)	(797)
Reinsurance receivable on incurred claims	98,783	125,722
Other recoveries undiscounted	22,132	27,044
Discount to present value	(213)	(170)
	21,919	26,874
Risk Margin	55,270	70,084
Discount to present value	(467)	(475)
	54,803	69,609
Reinsurance and other recoveries receivables on incurred claims	175,505	222,205
Expected future reinsurance recoveries on unexpired risk liability (Note 18(a))	6,161	2,939
Reinsurance and other recoveries receivable	181,666	225,144
Current	179,285	220,364
Non-current	2,381	4,780
	181,666	225,144

12. Deferred acquisition costs

Deferred acquisitions costs as at 1 January	1,628	4,841
Acquisition costs deferred	4,245	6,573
Amortisation charged to statement of comprehensive income	(4,780)	(7,810)
Write down for premium deficiency (Note 18)	(698)	(1,976)
Deferred acquisitions costs as at 31 December	395	1,628
Current	395	1,628
Non-Current	-	-
	395	1,628

2016 2015

13. Other assets

	$'000	$'000
Current		
Deferred outwards reinsurance expense	4,794	7,608
Other assets	35	491
	4,829	8,099

14. Deferred tax asset

The balance comprises temporary differences attributable to:		
Amounts recognised in profit or loss		
Provision for doubtful debt	132	126
Tax Loss	14	743
Set-off of deferred tax liabilities pursuant to set-off provisions (Note 21)	(146)	(869)
Net deferred tax asset	-	-
Deferred tax asset movements:		
Opening balance at 1 January	-	-
Charged to statement of comprehensive income (Note 9)	(723)	(541)
Set-off of deferred tax asset pursuant to set-off provision (Note 21)	723	541
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 as at 31 December 2016 is $20,286,574 (2015: $24,352,432)

15. Payables

Current		
Reinsurance creditors	4,176	2,416
Due to related entities (Note 25(d))	13,634	8,286
Commission payable	492	677
Other payables	1,383	571
	19,685	11,950

16. Provisions

	2016 $'000	2015 $'000
Current		
Fire service levy	36	-
Earthquake levy	-	47
	36	47

2016 Movements in provisions	Fire Service Levy $'000	Earthquake Levy $'000	Total $'000
Current			
Carrying amount at start of year	-	47	47
Additional provision recognised	3,134	170	3,304
Payments/other sacrifices of economic benefits	(3,104)	(226)	(3,330)
Reclassification from asset to liability	6	9	15
Carrying amount at end of year	36	-	36

2015 Movements in provisions			
Current			
Carrying amount at start of year	368	244	612
Additional provision recognised	2,961	187	3,148
Payments/other sacrifices of economic benefits	(3,365)	(384)	(3,749)
Reclassification from liability to asset	36	-	36
Carrying amount at end of year	-	47	47

17. Unearned premium liability

	2016 $'000	2015 $'000
Unearned premium liability as at 1 January	39,172	38,365
Premiums deferred during the period	66,836	76,177
Premiums earned during the period	(70,815)	(75,370)
Unearned premium liability as at 31 December	35,193	39,172
Current	33,709	37,520
Non-current	1,484	1,652
	35,193	39,172

18. Unexpired risk liability

(a) Unexpired risk liability

	2016 $'000	2015 $'000
Gross Unexpired risk liability as at 1 January	2,939	-
Recognition/(release) of unexpired risk liability	3,316	2,939
Gross unexpired risk liability as at 31 December	6,255	2,939
Expected future reinsurance recoveries on unexpired risk liability	(6,161)	(2,939)
Net movement in unexpired risk liability	94	-
Gross unexpired risk liability – current	6,255	2,939

(b) Deficiency recognised in the statement of comprehensive income

	2016 $'000	2015 $'000
Gross movement in unexpired risk liability	(3,316)	(2,939)
Movement on recoveries on unexpired risk liability	3,222	2,939
Net movement in unexpired risk liability	(94)	-
Write down of deferred acquisition costs (Note 12)	(698)	(1,976)
Total amount recognised in the statement of comprehensive income	(792)	(1,976)

Gross movement in unexpired risk liability

(c) Liability adequacy test

The liability adequacy test (LAT) has been conducted using the central estimate of the premium liabilities for reporting to the Australian Prudential Regulation Authority ("APRA"). This test 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. As a result the LAT test for the Branch is performed at the two segment levels; being 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 2016 (2015: 85%).

18. Unexpired risk liability *(continued)*

The LAT performed at reporting date resulted in a deficiency of $3.6m (2015: $2.8m) in the short tail segment. The below tables show the LAT deficiency of the New Zealand short tail segment.

(c) Liability adequacy test

	2016 $'000	2015 $'000
Unearned premium liability	25,488	27,530
Deferred acquisition costs before LAT write down	(3,532)	(4,802)
Unearned premium liability net of deferred acquisition costs	21,956	22,728
Discounted central estimate	21,419	21,848
Discounted risk margin	4,163	3,714
Expected present value of future cash flows arising from future claims on insurance contracts including risk margin	25,582	25,562
Total deficiency	**(3,626)**	**(2,834)**

19. Outstanding claims

(a) Outstanding claims liability

	2016 $'000	2015 $'000
Central estimate	142,953	179,472
Discount to present value	(1,445)	(1,058)
	141,508	178,414
Claims handling costs	3,270	4,291
Discount to present value	(36)	(31)
	3,234	4,260
Risk margin	64,118	80,941
Discount to present value	(663)	(465)
	63,455	80,476
Gross outstanding claims liability	208,197	263,150
Undiscounted expected future claims payments	210,341	264,704
Discount to present value	(2,144)	(1,554)
Liability for outstanding claims	208,197	263,150
Current	197,277	251,812
Non-current	10,920	11,338
	208,197	263,150

(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% (2015: 85%) probability of sufficiency.

19. Outstanding claims *(continued)*

(b) Risk margin *(continued)*

Risk Margins Applied

Class	2016 Net Outstanding Claims Margin	2015 Net Outstanding Claims Margin
Short-tail		
Commercial motor vehicle	17.1%	17.6%
Fire and ISR (incl inwards treaty)	45.4%	45.5%
Marine & aviation	27.8%	28.0%
Other accident	45.4%	38.3%
Average short-tail	26.1%	32.1%
Long-tail		
Public & product liability (incl inwards treaty)	45.4%	45.4%
Professional indemnity	45.4%	45.7%
Average long-tail	45.4%	45.7%
Overall	36.0%	36.1%

(c) Reconciliation of movement in discounted outstanding claims liability

	2016 Gross $'000	2016 Reinsurance & other recoveries $'000	2016 Net $'000	2015 Gross $'000	2015 Reinsurance & other recoveries $'000	2015 Net $'000
Brought forward	263,150	222,205	40,945	274,841	245,937	28,904
Effect of changes in assumptions	(53,832)	(38,599)	(15,233)	29,051	24,877	4,174
Increase in claims incurred/recoveries anticipated over the year	56,456	13,605	42,851	60,540	17,677	42,863
Incurred claims recognised in the statement of comprehensive income	2,624	(24,994)	27,618	89,591	42,554	47,037
Claim payments/recoveries during the year	(57,577)	(21,706)	(35,871)	(101,282)	(66,286)	(34,997)
Carried forward	208,197	175,505	32,692	263,150	222,205	40,945

19. Outstanding claims *(continued)*

(d) Claims development tables

The following tables show the development of gross and net ultimate undiscounted incurred claims for the eight 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 claims development

Accident Year	2009 $'000	2010 $'000	2011 $'000	2012 $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000	Total $'000
End of accident year	5,034	5,810	6,090	4,092	5,359	5,082	5,946	8,313	
One year later	5,295	6,462	3,772	2,740	2,597	8,743	5,131		
Two years later	3,650	3,742	2,450	2,230	1,841	7,881			
Three years later	1,602	3,334	2,701	1,864	1,674				
Four years later	1,333	3,384	2,983	1,762					
Five years later	1,332	6,766	2,970						
Six years later	1,329	6,853							
Seven years later	1,326								
Current estimate of incurred	1,326	6,853	2,970	1,762	1,674	7,881	5,131	8,313	35,910
Cumulative payments	1,326	3,351	1,431	953	890	514	658	612	9,735
Outstanding claims - undiscounted	-	3,502	1,539	809	784	7,367	4,473	7,701	26,175
Discount	-	(65)	(31)	(22)	(23)	(225)	(115)	(253)	(734)
Claim handling expense									496
2008 & Prior									9
Outstanding claims - discounted									25,946
Short tail outstanding claims									182,251
Total gross									208,197

19. Outstanding claims *(continued)*

(d) Net claims development

Accident year	2009 $'000	2010 $'000	2011 $'000	2012 $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000	Total $'000
End of accident year	5,034	5,810	6,090	3,107	3,223	3,432	3,988	6,293	
One year later	5,295	6,462	1,497	2,255	1,832	7,354	4,497		
Two years later	3,650	1,698	812	1,885	1,288	6,836			
Three years later	833	1,495	868	1,755	1,157				
Four years later	647	1,514	848	1,673					
Five years later	650	2,095	899						
Six years later	653	2,232							
Seven years later	650								
Current estimate of incurred	650	2,232	899	1,673	1,157	6,836	4,497	6,293	24,237
Cumulative payments	650	1,495	561	982	524	501	657	611	5,981
Outstanding claims - undiscounted	-	737	338	691	633	6,335	3,840	5,682	18,256
Discount	-	(14)	(7)	(19)	(18)	(194)	(99)	(200)	(551)
Claim handling expense									497
2008 & prior									8
Outstanding claims - discounted									18,210
Short tail outstanding claims									14,482
Total net									32,692

	2016 $'000	2015 $'000
20. 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	146	869
Set-off of deferred tax assets pursuant to set–off provisions (Note 15)	(146)	(869)
Net deferred tax liability	-	-
Deferred tax liabilities movements		
Opening balance at 1 January	-	-
Charged to statement of comprehensive income (Note 9)	(723)	(541)
Set–off of deferred tax asset pursuant to set–off provisions (Note 15)	723	541
Closing balance at 31 December	-	-

21. Head office account

a) Head office current account

	2016 $'000	2015 $'000
Current account at the beginning of the year	135,812	135,812
Contribution from/(to) head office	(30,001)	-
Current account at the end of the year	105,811	135,812

b) Accumulated loss

	2016 $'000	2015 $'000
Accumulated losses at the beginning of the year	(83,357)	(72,763)
Profit/(loss) attributable to the Company	10,182	(10,594)
Accumulated losses at the end of the year	(73,175)	(83,357)
Total head office account	32,636	52,455

22. Cash flow statement reconciliation

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

	2016 $'000	2015 $'000
Profit from ordinary activities after income tax	10,182	(10,594)
Bad and doubtful debts provisions	21	(27)
(Increase)/decrease in operating assets:		
Premium outstanding	(10,264)	(3,849)
Accrued interest, dividends & rents	101	117
Acquisition costs	1,233	3,213
Reinsurance and other recoveries	43,477	20,759
Other receivables	(20)	(3,813)
Other assets	3,270	1,080
Increase/(decrease) in operating liabilities:		
Unearned premiums	(3,979)	807
Unexpired risk liability	3,316	2,939
Claims outstanding	(54,953)	(11,691)
Other provisions & creditors	7,725	173
Net cash inflows/(outflows) from operating activities	109	(886)

23. Remuneration of auditors

	2016 $	2015 $
Remuneration for PricewaterhouseCoopers audit or review of the financial reports of the Branch		
Statutory audit fees	68,226	71,381
	68,226	71,381

24. Related parties

(a) Directors

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

Paul John Bedbrook
Robert Olivier Dolk
Stuart Anthony Spencer
Timothy James Bailey
Elaine Collins
Rajbir Singh Nanra
John Inniss Howell

(b) Key management personnel compensation

Key management personnel compensation for the years ended 31 December 2016 and 31 December 2015 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 ZFSA. The amount disclosed below reflects the total compensation paid/attributable to the key management personnel in their duties as employees of ZFSA and or directors of various entities. The executive directors' compensation is not able to be allocated to the individual entities whose affairs they manage or control.

	Notes	2016 AUD $	2015 AUD $
Short term employee benefits		856,743	1,253,225
Termination benefits		-	383,870
Share-based payments/benefits	(i)	99,245	513,581
		955,988	2,150,676

(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 shareholding 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.

24. Related parties *(continued)*

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

	2016 $	2015 $
Current		
Ultimate Australian controlling entity	5,830,170	5,772,347
Other related entities	12,084,019	4,360,937
	17,914,189	10,133,284

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

	2016 $	2015 $
Current		
Ultimate Australian controlling entity	2,309,338	-
Other related entities	11,325,056	8,286,423
	13,634,394	8,286,423

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

	2016 $	2015 $
Reinsurance claims received		
Other related entities	14,742,529	56,918,744
Reinsurance commission received		
Other related entities	2,590,351	1,552,651
Reinsurance premium expense		
Other related entities	13,480,223	9,750,418
Reinsurance premium receipts		
Other related entities	59,982	3,849,199
Reinsurance recoverable on incurred claims		
Other related entities	94,957,642	123,058,914
Payment of other expenses		
Ultimate Australian controlling entity	14,390,907	15,406,011

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

24. 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.

25. Credit rating of insurer

During 2016, Standard & Poors has affirmed the credit rating of the Company with an A+ credit rating. This rating was assigned on 27 July 2016.

26. Reinsurance programme

The reinsurance strategy chosen to protect the Company's liabilities in New Zealand matches the Australian reinsurance strategy in 2016. 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 and Marine, NZD 8 million for Liability and Motor TPPD (Third Party Property Damage), and NZD equivalent to AUD 1 million for Engineering; and
- 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.

27. Capital management

(a) Regulatory Capital

The Company is an insurance business registered and regulated by the 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 maintain an adequate capital position.

The Company has set its long term target capital ranges to a total capital position equivalent to 1.45-1.65 times the PCA, compared a proposed regulatory requirement of 1.0 times.

The Branch is also regulated by the Reserve Bank of New Zealand.

27. Capital management *(continued)*

	2016 AUD $'000	2015 AUD $'000
Eligible Tier 1 capital		
Paid-up ordinary shares	97,065	97,065
General reserves	8,174	7,077
Retained earnings brought forward	437,081	487,656
Current year's earnings	8,214	(50,574)
Excess technical provision - net of tax	61,950	61,241
Total	612,484	602,465
Less: deductions from Tier 1 capital		
Deferred tax assets (net of provisions for deferred income tax)	(38,443)	(38,574)
Reinsurance recoveries related to reinsurance contracts that do not meet the reinsurance documentation test	27	(731)
Total capital base	574,068	563,160
Prescribed capital amount (PCA)	365,849	399,083
PCA coverage	1.57	1.41

The Company does not have any Tier 2 capital.

28. Correction of errors

(a) Direct premium revenue

The Branch identified that 2015 direct premium revenue and acquisition costs were overstated by $962,000 on policies where commission is paid directly by policyholders to brokers. This adjustment below corrects this overstatement.

(b) Acquisition costs

These errors have been corrected by restating each of the financial statement line items as noted below.

	Correction reference	2015 $'000	Increase/ decrease $'000	2015 Restated $'000
Balance sheet extract				
Deferred acquisition costs	(a)	2,590	(962)	1,628
Total assets		370,675	(962)	369,713
Unearned premium liability	(b)	(40,134)	962	(39,172)
Total liabilities		(318,220)	962	(317,258)
Net Assets		52,455	-	52,455
Statement of comprehensive income extract				
Direct premium revenue	(a)	71,027	(962)	70,065
Acquisition costs	(b)	(9,785)	962	(8,823)
Profit/(loss) before income tax		(10,594)	-	(10,594)
Income tax expense		-	-	-
Profit for the year		(10,594)	-	(10,594)

29. Events occurring after reporting date

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

Directors Declaration
For the year ended 31 December 2016

In the directors' opinion:

(a) the financial statements and notes set out on pages 4 to 42 are in accordance with the *New Zealand Companies Act 1993*, including:

    (i) complying with Accounting Standards, the *New Zealand Companies Act 1993* and other mandatory professional reporting requirements; and

    (ii) giving a true and fair view of the Branch's financial position as at 31 December 2016 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.

P J Bedbrook	R O Dolk
Director	Director

Sydney
24 March 2017

pwc

Independent auditor's report

To the directors of Zurich Australian Insurance Limited New Zealand Branch ("the Branch").

The Branch financial statements comprise:

- the statement of financial position as at 31 December 2016;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion the financial statements of the Branch, present fairly, in all material respects, the financial position of the Branch as at 31 December 2016, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

We are independent of the Branch in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)*, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Information other than the financial statements and auditor's report

The Directors are responsible for the annual report. Our opinion on the financial statements does not cover the other information included in the annual report and we do not express any form of assurance conclusion on the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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Responsibilities of the Directors for the financial statements

The Directors are responsible, on behalf of the Branch, for the preparation and fair presentation of the financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS), and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Branch's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Branch or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

https://xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page5.aspx

Who we report to

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

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

PricewaterhouseCoopers
Chartered Accountants
24 March 2017

Sydney

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

PricewaterhouseCoopers was the audit firm appointed to undertake the audit of Zurich Australian Insurance Limited New Zealand Branch for the year ended 31 December 2016. I was responsible for the execution of the audit and delivery of our firm's auditor's report. The audit work was completed on 24 March 2017 and an unqualified opinion was issued.

Scott Fergusson
Partner

Zurich Australian Insurance Limited (New Zealand Branch)

Section 78 Report for the year ending 31 December 2016

Zurich Australian Insurance Limited
ABN 13 000 296 640
Finance

Author	Hua Wen (Clare), FIAA, FNZSA
Version	Final
Version Date	22 March 2017

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Section 59 Exemption

A full licence for Zurich Australian Insurance Limited ("ZAIL") was granted by RBNZ on 15 July 2013. The modifications to the conditions of licence were issued by RBNZ on the 11 December 2015 with a Section 59 exemption effective as at and from 31 December 2015. For the purposes of S59 exemption, actuarial information 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

I, Hua Wen (Clare), FIAA, FNZSA, have been appointed by ZAIL to be its Appointed Actuary for the NZ Branch. The Board of ZAIL has resolved that I prepare this Section 78 report in my capacity as Appointed Actuary of ZAIL (NZ Branch). I am an employee of ZAIL's holding company, Zurich Financial Services Australia Limited ("ZFSA") and became the Appointed Actuary for ZAIL (NZ Branch) on 20 November 2015. I have no other relationships and interests in ZAIL, ZFSA and any other of its subsidiaries. This report is in respect of the year ending 31 December 2016. The audited 2016 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 Actuaries Institute 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 2016 and reliance has also been placed upon information supplied by the management and staff of ZAIL.

In completing the review I have relied on the work performed by the Appointed Actuary of ZAIL, especially around the topic on ZAIL's solvency, matters other than the insurance business carried on in New Zealand, and ZAIL's financial statements.

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.

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 2016 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, methodology, and control processes between the Ledger and source systems to ensure the veracity of the information at 31 December 2016.

In my opinion and from an actuarial perspective,

- the actuarial information (as specified in Section 77 of the Act) contained in the 2016 ZAIL (NZ Branch) annual 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 2016 ZAIL (NZ Branch) annual financial statements has been used appropriately.

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. In my opinion and from an actuarial perspective, ZAIL has an adequate solvency margin (as measured by APRA's capital prudential requirement) as of 31 December 2016.