ZURICH AUSTRALIAN INSURANCE LIMITED
NEW ZEALAND BRANCH

ANNUAL REPORT

For the year ended 31 December 2018

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

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

21 Queen Street
Auckland 1010

This financial report was approved for issue by the directors on 22 March 2019. 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 2018. 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 at any time during the financial year and up to the date of this report:

Name	Role	Appointment date	Resignation date
Paul John Bedbrook	Chairman	19 November 2014	
Elaine Collins	Director	1 April 2013	
Rajbir Singh Nanra	Director	26 February 2016	20 April 2018
Kevin John Wright	Director	1 July 2017	
John Francis Mulcahy	Director	24 August 2017	
Matthew Reilly	Director	22 November 2017	
Timothy Paul Plant	Director	1 September 2018	

The following persons were officers of the Company who held office during financial year 2018:

Name	Role	Appointment date	Resignation date
David George Hallahan	Secretary	11 April 2008	
Cathy Anne Manolios	Secretary	16 September 2002	
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:

	2018 $'000	2017 $'000
Revenues and other income		
Direct premium and inwards reinsurance revenue	104,854	82,746
Investment income	2,013	2,271
Other income	303	326
	107,170	85,343
Results		
Profit for the year	1,285	12,124

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 2018, other than dealt with in the financial statements, that has significantly affected or may significantly affect:

a) the operations in future financial years; or
b) the results of those operations in future financial years; or
c) the state of affairs in future financial years.

Likely developments and expected results of operations

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

Environmental regulations

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

Insurance of officers

During the financial year, a related company has paid a premium to insure all present and past directors, secretaries and executive officers of the Company or a related body corporate. The insurance grants indemnity against liabilities permitted to be indemnified by the Branch under the New Zealand Companies Act 1993. In accordance with normal commercial practice, the insurance policy prohibits disclosure of the terms of the policy including the nature of the liability insured against and the amount of the premium.

Agreements to indemnify

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

The Company has also entered into various agreements with persons who are current and former officers of the Company and of certain of the Company's related companies. These agreements variously require the Australian parent entity, Zurich Financial Services Australia Limited to indemnify those persons, to the extent permitted by the New Zealand Companies Act 1993, against liabilities, some claims and legal costs which they may incur or which are made against them in connection with their position or conduct as officers of the Company and its related companies. The indemnities provided under those agreements are not limited in amount.

Directors' report *(continued)*

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 461D of the Financial Markets Conduct Act 2013.

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

P J Bedbrook	E Collins
Chairman	Director

Sydney
22 March 2019

ZURICH AUSTRALIAN INSURANCE LIMITED
NEW ZEALAND BRANCH

Statement of comprehensive income
For the year ended 31 December 2018

	Notes	2018 $'000	2017 $'000
Direct premium revenue	4(b)(iii)	104,854	82,746
Outwards reinsurance expense		(13,120)	(18,390)
Net premium revenue		91,734	64,356
Claims expense	7	(45,864)	81,669
Reinsurance and other recoveries revenue/(expense)	7	(2,731)	(112,214)
Net claims incurred	7	(48,595)	(30,545)
Movement in unexpired risk liability		-	94
Acquisition costs		(32,417)	(10,805)
Other underwriting expenses		(11,626)	(13,697)
Underwriting expenses		(44,043)	(24,502)
Underwriting result		(904)	9,403
Investment income	6	2,013	2,271
Other income		303	326
Net foreign exchange (loss)/gain		(127)	124
Profit before income tax		1,285	12,124
Income tax expense	8 (a)	-	-
Profit for the year		1,285	12,124
Other comprehensive income		-	-
Total comprehensive income for the year		1,285	12,124

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

ZURICH AUSTRALIAN INSURANCE LIMITED
NEW ZEALAND BRANCH

Balance sheet

As at 31 December 2018

	Notes	2018 $'000	2017 $'000
Assets			
Cash and cash equivalents	9	63,916	77,333
Receivables	10	33,471	44,487
Reinsurance and other recoveries	11	31,359	44,780
Deferred acquisition costs	12	8,246	5,105
Other assets	13	4,913	9,557
Deferred tax asset	14	-	-
Total assets		141,905	181,262
Liabilities			
Payables	15	12,038	23,470
Provisions	16	28	19
Unearned premium liability	17	41,540	44,332
Unexpired risk liability	18(a)	-	-
Outstanding claims	19(a)	62,254	68,681
Deferred tax liability	20	-	-
Total liabilities		115,860	136,502
Net assets		26,045	44,760
Head office account			
Head office current account	21(a)	85,811	105,811
Accumulated loss	21(b)	(59,766)	(61,051)
		26,045	44,760

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

ZURICH AUSTRALIAN INSURANCE LIMITED
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Statement of changes in head office account
For the year ended 31 December 2018

	Head office current account	Accumulated losses	Total
	$'000	$'000	$'000
Balance at 1 January 2017	105,811	(73,175)	32,636
Total comprehensive income for the year	-	12,124	12,124
Balance as at 31 December 2017	105,811	(61,051)	44,760
Total comprehensive income for the year	-	1,285	1,285
Transactions with head office:			
Capital repatriated to the head office	(20,000)	-	(20,000)
Balance as at 31 December 2018	85,811	(59,766)	26,045

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 2018

	Notes	2018 $'000	2017 $'000
Cash flows from operating activities			
Net premiums and deposits received		96,510	72,079
Net claims and related payments		(45,431)	(40,722)
Payment to suppliers		(46,853)	(31,539)
Interest received		2,054	2,201
Fees and commissions received		303	326
Net cash inflow from operating activities	22	6,583	2,345
Cash flows from financing activities			
Capital repatriated to head office		(20,000)	-
Net cash outflow from financing activities		(20,000)	-
Net (decrease)/increase in cash held		(13,417)	2,345
Cash and cash equivalents at the beginning of the financial year		77,333	74,988
Cash and cash equivalents at the end of the financial year	9	63,916	77,333

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

Notes to the financial statements
For the year ended 31 December 2018

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 2018. For the purposes of complying with New Zealand Generally Accepted Accounting Principles (NZ GAAP), the Branch is a Tier 1 for-profit entity. 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 NZ GAAP, New Zealand equivalents to International Financial Reporting Standards (NZ IFRSs), section 10 requirements of the New Zealand Companies Act 1993 and the requirements of the Financial Market Conduct Act 2013 (FMC Act). The Branch is an FMC Reporting Entity under the FMC Act.

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 IFRS 4 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 2018 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. This standard becomes mandatory for the Branch's 31 December 2018 financial statements.

  The Branch has assessed the impact of the new requirements on the financial statements and considers there to be a non-material impact as follows:

  - Rights and obligations arising under an insurance contract as defined in NZ IFRS 4 are excluded from the scope of NZ IFRS 9.
  - the Branch does not hold any financial assets or liabilities at fair value through profit and loss and as such there is no impact of the new standard on financial assets or liabilities.
  - the Branch does not do any hedge accounting.

- NZ IFRS 17 Insurance Contracts was released on 10 August 2017. It is currently effective for reporting periods beginning on or after 1 January 2021, however this is expected to be deferred to 1 January 2022 given the IASB has agreed to start the process of amending the mandatory effective date to delay the mandatory implementation date by one year.

  NZ IFRS 17 will apply to all insurance business and introduces a 'general model' for recognition and measurement of insurance contracts. The standard allows the application of a simplified model if the liability for remaining coverage under the simplified model would not materially differ from the general model.

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

New accounting standards and interpretations *(continued)*

The implementation date for Zurich Insurance Group for Group Reporting purposes will be for the year ending 31 December 2021, with the comparative period the year ended 31 December 2020. The Company is currently undertaking a detailed assessment and implementation project to consider the new requirements as well as emerging industry guidance.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions

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.

Significant accounting policies

(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 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.

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

Significant accounting policies *(continued)*

(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.

(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 expense 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 Department (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.

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

Significant accounting policies *(continued)*

(h) Goods and services tax (GST) ***(continued)***
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.

(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 entity classifies its financial assets into the following categories: Financial assets at fair value through profit or loss; financial assets at fair value through equity; and loans and receivables which are financial asses carried at amortised cost. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

The entity applies the principles of NZ IFRS 9 to assess and record impairment of its financial assets. NZ IFRS 9 requires recognition of expected credit losses and provides the option for entities to use practical expedients for trade receivables. The entity recognises expected credit losses through a provision and these are based on historical credit loss experience. The consolidated entity does not have any history of credit losses life-to-date, and does not expect that to change in the future as receivables are from related group entities. The balances of loans to related parties are fully guaranteed by the Ultimate parent and carry no material credit risk.

Financial assets at fair value through profit or loss
Purchases and sales of investments are recognised on trade date – the date on which the entity 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.

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

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

Significant accounting policies *(continued)*

(l) Financial assets *(continued)*

Fair value is determined as follows

• Cash assets and bank overdrafts are carried at face value of the amounts deposited or drawn. The carrying amounts of cash assets and bank overdrafts approximate their fair value.

• Loans are recorded at outstanding principal balance less any provision for impairment.

• Receivables are carried at cost which is the best estimate of fair value, as they are usually settled within twelve months less provision for impairment.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the entity provides money, goods or services directly to a debtor with no intention of selling the receivable. Loans and receivables are included in receivables in the balance sheets (Note 10).

Receivables are carried at amortised cost in line with the business model assessment in NZ IFRS 9, which is approximate fair value, as they are usually settled within twelve months and subsequently subject to impairment testing.

(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.

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

Significant accounting policies *(continued)*

(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 payments are discounted to present value using a risk free rate.

(s) Unexpired risk liability
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, net of reinsurance, 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, 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

A liability is held at 31 December 2018 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 the outstanding claims liability, 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, claims incurred but not enough reported ('IBNER') is also 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 uncertainty. 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 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 liabilities. 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)*

Liabilities 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 liabilities.

(b) Assets arising from reinsurance contracts

Reinsurance recoveries 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 risk free 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 have decided that the level of risk margin shall be established to provide a probability of adequacy of 85% (2017: 85%).

Notes to the financial statements
For the year ended 31 December 2018

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.

	2018 Long-tail	2018 Short-tail	2017 Long-tail	2017 Short-tail
Average weighted term to settlement	1.1 years	0.3 years	1.2 years	0.3 years
Discount Rate	1.87%	1.93%	1.93%	1.89%

(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 2018 and 2017.

Impact of changes in key variables

December 2018	**Movement in Variable**	**Movement in Profit/(Loss)** 2018 $'000	2017 $'000
Short-tail and Long-tail			
Average weighted term to settlement - years	0.5	286	15
	-0.5	(197)	(12)
Discount rate	1%	243	180
	-1%	(250)	(186)

4. Management of risk

The Branch conducts general insurance business in New Zealand which is underwritten by the Company. Consequently, the Branch is exposed to a variety of risks that could potentially impact the financial standing of the Company. The Risk Management Framework for the Branch is governed by the same Risk Management Framework 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 Group 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 to capital and solvency. Under the ICAAP, the authority to hold risk is clearly delegated through the board's risk appetite statement. 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 stream to leverage that expertise.

4. Management of risk *(continued)*

(a) Risk management framework *(continued)*

The broadest categorisation of risks defines risks as follows:

- 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 risk

(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's 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 Risk Management Strategy (RMS) and a Reinsurance Management Strategy (REMS).

4. Management of risk *(continued)*

(b) Insurance risk *(continued)*

(i) Objectives in managing risks arising from insurance contracts and policies for mitigating those 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; and the diversification of business over various classes of insurance and large numbers of uncorrelated individual risks reduces variability in loss experience.

4. Management of risk *(continued)*

(b) Insurance risk *(continued)*

(ii) Terms and conditions of insurance business

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

(b) Insurance 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 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 income is split by product in the table below.

	2018	2017
	$'000	$'000
Commercial motor	35,456	44,101
Domestic motor	-	(120)
Fire and ISR	11,803	11,004
Marine	1,598	1,343
Other accident	2,388	1,920
Professional indemnity	8,204	7,135
Public and product liability	2,727	2,754
Travel	42,678	14,609
Total Direct Premium revenue	104,854	82,746

(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 19(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 investment 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

4. Management of risk *(continued)*

(b) Insurance risk *(continued)*

(v) Impact of investment returns on pricing *(continued)*

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.

Generally, all business activities contain some aspect of operational risk. Therefore, ongoing initiatives and controls to manage operational risks are in place. 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. Some functions are also subject to operational key controls which sets a minimum framework of operational controls. 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.

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 transacting all activities 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.

5. Financial risk management *(continued)*

(a) Market risk *(continued)*

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

(b) Market risk

The Company's management of investments 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 Credit exposures by rating, industry and seniority and portfolio concentration (all credit-sensitive assets are investment grade, above BBB-).

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 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.

(c) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. 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.

5. Financial risk management *(continued)*

(b) Credit risk *(continued)*

i) *Financial Assets (continued)*

Cash and financial assets
Standard and Poor's (S&P) rating for Cash at bank disclosed in Note 9 is:
Westpac Bank NZ A1+ (2017: A1+)
Australia and New Zealand Banking Group NZ (ANZ) A1+ (2017: A1+)
Kiwibank Ltd A1 (2017: A1)

	2018 $'000	2017 $'000
Counterparty		
Westpac Bank NZ	2,363	1,574
Australia and New Zealand Banking Group NZ (ANZ)	51,553	55,759
Kiwibank Ltd	10,000	20,000
Total	63,916	77,333

ii) Reinsurance

The company monitors its credit risk associated with reinsurance assets with Zurich Group companies and other reinsurers. Placing reinsurance with 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 11 are analysed in the table below using Standard and Poor's (S&P) ratings:

	2018 $'000	2017 $'000
AAA or AA	16,013	25,438
A	922	510
BBB or unrated	390	517
Total RI receivable on incurred claims	17,325	26,465

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

- 8% (2017: 7%) of the reinsurance receivable on incurred claims had a third party reinsurer as a counter party; and
- 92% (2017: 93%) of the reinsurance receivable on incurred claims had companies in the Zurich Group as a counterparty.

Irrevocable standby letters of credit for a total of up to AUD $256m (2017: $161m) 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 $256m is valid until amended or cancelled. As at 31 December 2018, AUD $256m (2017: $161m) 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 Perpetual. 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 2018 was AUD $315m (2017: $310m). The letters of credit and collateral trust total of $571m (2017: $471m) covers aged reinsurance recoverables over two balance dates of $516m (2017: $361m).

5. Financial risk management *(continued)*

(b) Credit risk *(continued)*

iii) Business receivables

Premium receivable
General Insurance premiums receivable for the Branch are disclosed in Note 10, which include amounts past due but not impaired which are analysed below.

	2018 $'000	2017 $'000
Neither past due nor impaired (90 day credit terms)	18,520	19,642
Amounts past due not impaired to 30 days	756	2,628
Amounts past due but not impaired 31 - 90 days	516	1,199
Amounts past due but not impaired over 90 days	(1,017)	1,671
Provision for impairment	(264)	(421)
Total premium receivable	18,511	24,719

(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.

2018	**Carrying amount (Undiscounted)**	**Expected cash flows (undiscounted)**				
		0-1 yrs	1-5 yrs	5-10 yrs	10-15 yrs	> 15 yrs
	$'000	$'000	$'000	$'000	$'000	$'000
Insurance contracts						
Outstanding Claims (Note 11,19)	26,627	19,540	6,824	263	-	-
Premium Liability	19,401	12,687	6,627	87	-	-
Total	46,028	32,227	13,451	350	-	-

2017	**Carrying amount (Undiscounted)**	**Expected cash flows (undiscounted)**				
		0-1 yrs	1-5 yrs	5-10 yrs	10-15 yrs	> 15 yrs
	$'000	$'000	$'000	$'000	$'000	$'000
Insurance contracts						
Outstanding Claims (Note 11,19)	20,775	15,569	4,968	238	-	-
Premium Liability	27,921	21,046	6,875	-	-	-
Total	48,696	36,615	11,843	238	-	-

Notes to the financial statements
For the year ended 31 December 2018

	2018 $'000	2017 $'000
6. Investment income		
Interest	2,013	2,271
Total investment income	2,013	2,271

	2018 $'000	2017 $'000
7. Net claims incurred		
Gross claims incurred and related expenses:		
Direct	(46,436)	83,111
Inwards Reinsurance	376	175
Discount to present value	196	(1,617)
	(45,864)	81,669
Reinsurance and other recoveries:		
Direct	(2,257)	(113,419)
Inwards Reinsurance	(357)	(143)
Discount to present value	(117)	1,348
	(2,731)	(112,214)
Net claims incurred	(48,595)	(30,545)

Claims development

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

	2018			2017		
	Current Year $'000	Prior Year $'000	Total $'000	Current Year $'000	Prior Year $'000	Total $'000
Gross claims expense						
Undiscounted	(58,323)	12,263	(46,060)	(56,573)	139,859	83,286
Discount	379	(183)	196	290	(1,907)	(1,617)
	(57,944)	12,080	(45,864)	(56,283)	137,952	81,669
RI and other recoveries						
Undiscounted	11,088	(13,702)	(2,614)	10,322	(123,884)	(113,562)
Discount	(138)	21	(117)	(74)	1,422	1,348
	10,950	(13,681)	(2,731)	10,248	(122,462)	(112,214)
Net claims incurred - discounted	(46,994)	(1,601)	(48,595)	(46,035)	15,490	(30,545)

Notes to the financial statements
For the year ended 31 December 2018

	2018 $'000	2017 $'000
8. Income tax		
(a) Income tax expenses		
Current tax	-	-
Deferred tax	-	-
Total income tax expense	-	-
Deferred income tax expense included income tax expense comprises:		
Decrease in deferred tax asset (note 14)	177	46
Increase in deferred tax liabilities (Note 20)	(177)	(46)
	-	-
(b) Numerical reconciliation of income tax to prima facie tax payable		
Profit before tax	1,285	12,124
Tax at the New Zealand tax rate of 28% (2017:28%)	360	3,395
Value of Deferred tax not recognised	(375)	(3,365)
Other Non deductible expense	-	(30)
Under/(Over) provision in prior year	15	-
Income tax expenses	-	-

9. Cash and cash equivalents

	2018 $'000	2017 $'000
Current		
Cash at bank and on hand	9,916	17,333
Term deposit and cash equivalents	54,000	60,000
Total	63,916	77,333

Cash and cash equivalent was invested at floating and fixed interest rates between 0.00% and 3.18% p.a. (2017: 0.00% and 3.35% p.a.)

10. Receivables

	2018 $'000	2017 $'000
Current		
Premium Receivable	13,643	16,049
Unclosed premiums	5,132	9,091
	18,775	25,140
Provision for Impairment	(264)	(421)
	18,511	24,719
Due from related entities (Note 24 (c))	14,708	19,422
Other trade debtors	-	53
Interest receivables	252	293
Total current receivables	33,471	44,487

Notes to the financial statements
For the year ended 31 December 2018

	2018 $'000	2017 $'000
11. Reinsurance and other recoveries		
Analysis of reinsurance and other recoveries		
Expected future reinsurance recoveries undiscounted		
- on claims paid	(266)	22
- on outstanding claims	17,714	26,488
	17,448	26,510
Discount to present value	(123)	(45)
Reinsurance receivable on incurred claims	17,325	26,465
Other recoveries undiscounted	9,131	9,998
Discount to present value	(89)	(69)
	9,042	9,929
Risk Margin	5,033	8,408
Discount to present value	(41)	(22)
	4,992	8,386
Reinsurance and other recoveries receivables on incurred claims	31,359	44,780
Current	27,688	44,040
Non- current	3,671	740
	31,359	44,780

12. Deferred acquisition costs

	2018 $'000	2017 $'000
Deferred acquisition costs as at 1 January	5,105	395
Acquisition costs deferred	35,558	15,515
Amortisation charged to Statement of Comprehensive Income	(34,144)	(12,610)
Write back/(down) for premium deficiency (Note 18)	1,727	1,805
Deferred acquisitions costs as at 31 December	8,246	5,105
Current	8,246	5,105
Non- current	-	-
	8,246	5,105

Notes to the financial statements
For the year ended 31 December 2018

	2018 $'000	2017 $'000

13. Other assets

	2018 $'000	2017 $'000
Current		
Deferred outwards reinsurance expense	4,670	9,329
Other assets	243	228
	4,913	9,557

14. Deferred tax assets

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

	2018 $'000	2017 $'000
Provision for doubtful debt	778	1,504
Tax Loss	(855)	(1,404)
Set-off of deferred tax liabilities pursuant to set-off provisions (Note 20)	77	(100)
Net deferred tax asset	-	-

	2018 $'000	2017 $'000
Deferred tax asset movement		
Opening balance at 1 January	-	-
Charged to Statement of Comprehensive Income (Note 8)	(177)	(46)
Set-off of deferred tax asset pursuant to set-off provision(Note 20)	177	46
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. The deferred tax asset that has not been recognised as at 31 December 2018 is $16,545,879 (2017:$16,921,306)

15. Payables

	2018 $'000	2017 $'000
Current		
Reinsurance creditors	1,568	5,076
Due to related entities (Note 24 (d))	8,501	16,975
Commission payable	1,047	715
Other payables	922	704
Total	12,038	23,470

Notes to the financial statements
For the year ended 31 December 2018

	2018 $'000	2017 $'000
16. Provisions		
Current		
Fire service levy	-	-
Earthquake levy	28	19
Total	28	19

2018 Movements in Provision	Fire Service Levy $'000	Earthquake Levy $'000	Total $'000
Carrying amount at start of year	-	19	19
Additional provision recognised	3,997	277	4,274
Payments/other sacrifices of economic benefits	(4,012)	(268)	(4,280)
Reclassification from liability to asset	15	-	15
Carrying amount at end of the year	-	28	28
2017 Movements in provision			
Carrying amount at start of year	36	-	36
Additional provision recognised	3,328	147	3,475
Payments/other sacrifices of economic benefits	(3,592)	(128)	(3,720)
Reclassification from liability to asset	228	-	228
Carrying amount at end of the year	-	19	19

17. Unearned premium liability

Unearned Premium liability as at 1 January	44,332	35,193
Premiums deferred during the period	102,062	91,885
Premiums earned during the period	(104,854)	(82,746)
Unearned premium liability as at 31 December	41,540	44,332

Current	40,552	42,461
Non-current	988	1,870
	41,540	44,332

18. Unexpired risk liability

(a) Unexpired risk liability

	2018 $'000	2017 $'000
Unexpired risk liability as at 1 January	-	94
Recognition/ (Release) of unexpired risk liability	-	(94)
Unexpired risk liability as at 31 December	-	-

(b) Deficiency recognised in the Statement of comprehensive income

	2018 $'000	2017 $'000
Movement in unexpired risk liability	-	94
Write back/(down) of deferred acquisition costs (Note 12)	1,727	1,805
Total amount recognised in the Statement of comprehensive income	1,727	1,899

(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 LAT performed at reporting date resulted in no deficiency in the long tail and short tail segment. The below tables show the LAT deficiency of the New Zealand short tail segment.

The process for determining the overall risk margin, including the way in which diversification of risks has been allowed for is discussed in Note 19. As with outstanding claims, the overall risk margin is intended to achieve an 85% probability of adequacy in 2018 (2017: 85%).

Notes to the financial statements
For the year ended 31 December 2018

18. Unexpired risk liability *(continued)*

(c) Liability Adequacy test *(continued)*

	2018 $'000	2017 $'000
Gross Unearned Premium Reserve	-	36,851
Reinsurance Unearned Premium Reserve	-	(3,786)
Net unearned Premium Reserve	-	33,065
Gross deferred acquisition costs	-	(8,901)
Reinsurance deferred acquisition costs	-	879
Deferred acquisition costs before LAT write down	-	(8,022)
Unearned premium liability net of deferred acquisition costs	-	25,043
Discounted central estimate	-	24,046
Discounted risk margin	-	2,724
Expected present value of future cash flows arising from future claims on insurance contracts including risk margin	-	26,770
Total deficiency	**-**	**(1,727)**

19. Outstanding claims

(a) Outstanding claims liability

	2018 $'000	2017 $'000
Central Estimate	52,164	55,428
Discount to present value	(596)	(403)
	51,568	55,025
Claims Handling Costs	1,308	1,834
Discount to present value	(17)	(32)
	1,291	1,802
Risk Margin	9,505	11,945
Discount to present value	(110)	(91)
	9,395	11,854
Gross outstanding claims liability	62,254	68,682
Undiscounted Expected Future Claims Payments	62,977	69,208
Discount to present value	(723)	(527)
Liability for outstanding claims	62,254	68,681
Current	49,936	60,993
Non-current	12,318	7,688
	62,254	68,681

Notes to the financial statements
For the year ended 31 December 2018

19. Outstanding claims *(continued)*

(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 outstanding claims liability which is intended to have an 85% (2017: 85%) probability of sufficiency.

19. Outstanding claims *(continued)*

(b) Risk margin *(continued)*

Risk Margins Applied

Class	2018 Net Outstanding Claims Margin	2017 Net Outstanding Claims Margin
Short-tail		
Commercial motor vehicle	9.9%	7.5%
Fire and ISR (incl inwards treaty)	17.9%	25.1%
Marine & aviation	19.9%	20.6%
Other accident	19.9%	25.3%
Travel	8.0%	10.1%
Average short-tail	13.4%	10.1%
Long-tail		
Public & product liability (incl inwards treaty)	19.9%	25.1%
Professional indemnity	19.9%	25.1%
Average long-tail	19.9%	25.1%
Overall	**16.8%**	**17.0%**

(c) Reconciliation of movement in discounted outstanding claim liability

	2018 Net $'000	2017 Net $'000
Brought Forward	23,923	32,692
Impact of change in assumptions	3,085	(6,584)
Margin release on prior periods	(1,215)	(7,247)
Other	(269)	(1,659)
Change in prior year estimates	1,601	(15,490)
Claims incurred on events in 2018	46,994	46,035
Incurred claims recognised in the income statement	48,595	30,545
Claim payments / recoveries during the year	(41,888)	(39,314)
Carried Forward	30,630	23,923

ZURICH AUSTRALIAN INSURANCE LIMITED
NEW ZEALAND BRANCH

Notes to the financial statements
For the year ended 31 December 2018

19. Outstanding claims *(continued)*

(d) Claims development tables

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

(i) Gross claims development

Accident Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
End of accident year	5,034	5,810	6,090	4,092	5,359	5,082	5,946	8,313	7,359	12,671	
One year later	5,295	6,462	3,772	2,740	2,597	8,743	5,131	6,401	7,907		
Two years later	3,650	3,742	2,450	2,230	1,841	7,881	3,129	5,643			
Three years later	1,602	3,334	2,701	1,864	1,674	1,633	3,052				
Four years later	1,333	3,384	2,983	1,762	1,208	1,294					
Five years later	1,332	6,766	2,970	1,576	1,133						
Six years later	1,329	6,852	2,095	4,999							
Seven years later	1,326	3,478	2,068								
Eight years later	1,326	3,298									
Nine years later	1,326										
Current estimate of incurred	1,326	3,298	2,068	4,999	1,133	1,294	3,052	5,643	7,907	12,671	43,391
Cumulative payments	1,326	3,298	2,058	981	1,025	570	2,046	2,135	1,074	2,040	16,553
Outstanding claims - undiscounted	-	-	10	4,018	108	724	1,006	3,508	6,833	10,631	26,838
Discount	-	-	-	(58)	(1)	(15)	(29)	(54)	(142)	(266)	(565)
Claim handling expense											716
2008 & Prior											10
Outstanding claims - discounted											26,999
Short tail outstanding claims											35,255
Total gross											62,254

19. Outstanding claims *(continued)*

(d) Claims development tables *(continued)*

(ii) Net claims development

Accident year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
End of accident year	5,034	5,810	6,090	3,107	3,223	3,432	3,988	6,293	5,709	8,224	
One year later	5,295	6,462	1,497	2,255	1,832	7,354	4,497	4,958	5,375		
Two years later	3,650	1,698	812	1,885	1,288	6,836	2,490	4,509			
Three years later	833	1,495	868	1,755	1,157	1,307	2,459				
Four years later	647	1,514	848	1,673	769	1,065					
Five years later	650	2,095	899	1,518	715						
Six years later	653	2,233	721	4,497							
Seven years later	650	1,502	697								
Eight years later	650	1,470									
Nine years later	650										
Current estimate of incurred	650	1,470	697	4,497	715	1,065	2,459	4,509	5,375	8,224	29,661
Cumulative payments	650	1,470	688	1,000	621	444	1,641	1,509	895	2,037	10,955
Outstanding claims - undiscounted	-	-	9	3,497	94	621	818	3,000	4,480	6,187	18,706
Discount	-	-	-	(50)	(1)	(13)	(23)	(46)	(83)	(158)	(374)
Claim handling expense											716
2008 & prior											9
Outstanding claims - discounted											19,057
Short tail outstanding claims											11,573
Total net											30,630

Notes to the financial statements
For the year ended 31 December 2018

	2018 $'000	2017 $'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	(77)	100
Set-off of deferred tax assets pursuant to set-off provisions (Note 14)	77	(100)
Net deferred tax liability	-	-
Deferred tax liabilities movements		
Opening balance at 1 January	-	-
Charged to statement of comprehensive income (Note 8)	(177)	(46)
Set-off of deferred tax asset pursuant to set-off provisions (Note 14)	177	46
Closing balance at 31 December	-	-

21. Head office account

a) Head office current account

	2018 $'000	2017 $'000
Current account at the beginning of the year	105,811	105,811
Repatriation of capital	(20,000)	-
Current account at the end of the year	85,811	105,811

b) Accumulated loss

	2018 $'000	2017 $'000
Accumulated losses at the beginning of the year	(61,051)	(73,175)
Profit attributable to the Company	1,285	12,124
Accumulated losses at the end of the year	(59,766)	(61,051)
Total head office account	26,045	44,760

Notes to the financial statements
For the year ended 31 December 2018

22. Cash flow statement reconciliation

Reconciliation of profit after income tax to net cash inflows from operating activities

	2018 $'000	2017 $'000
Profit from ordinary activities after income tax	1,285	12,124
Increase/(decrease) in bad and doubtful debts provisions	(157)	390
(Increase)/decrease in operating assets:		
Premium outstanding	11,078	(2,316)
Accrued interest, dividends & rents	41	(70)
Deferred acquisition costs	(3,141)	(4,709)
Reinsurance and other recoveries	13,421	130,725
Other receivables	54	(2,367)
Other assets	4,644	(4,727)
Increase/(decrease) in operating liabilities:		
Unearned premiums	(2,792)	9,139
Unexpired risk liability	-	(94)
Claims outstanding	(6,427)	(139,516)
Other provisions & creditors	(11,423)	3,766
Net cash inflows from operating activities	6,583	2,345

23. Remuneration of auditors

	2018 $	2017 $
Remuneration for PricewaterhouseCoopers audit or review of the financial reports of the branch Statutory audit fees	66,024	69,047
	66,024	69,047

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
Elaine Collins
Rajbir Singh Nanra
Kevin John Wright
John Francis Mulcahy
Matthew Reilly
Timothy Paul Plant

(b) Key management personnel compensation

Key management personnel compensation for the years ended 31 December 2018 and 31 December 2017 is set out below expressed in Australian dollars.

The key management personnel are all the directors of the Company and their compensation is paid by Zurich Financial Services Australia Limited, the ultimate Australia Holding Company (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 director's compensation is not able to be allocated to the individual entities whose affairs they manage or control.

	Notes	2018 AUD $	2017 AUD $
Short term employee benefits		939,301	1,152,771
Termination benefits		556,468	-
Share-based payments/benefits	(i)	359,168	193,473
		1,854,937	1,346,244

(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

	2018 $	2017 $
Current		
Ultimate Australian controlling entity	7,778,267	5,302,236
Other related entities	6,930,163	14,119,349
	14,708,430	19,421,585

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

	2018 $	2017 $
Current		
Ultimate Australian controlling entity	-	-
Other related entities	8,501,375	16,975,262
	8,501,375	16,975,262

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

	2018 $	2017 $
Reinsurance claims received		
Other related entities	6,412,359	13,446,881
Reinsurance commission received		
Other related entities	1,182,343	5,118,126
Reinsurance premium expense		
Other related entities	9,191,170	19,537,831
Reinsurance premium receipts		
Other related entities	-	-
Reinsurance recoverable on incurred claims		
Other related entities	16,670,205	25,764,899
Payment of other expenses		
Ultimate Australian controlling entity	6,048,012	7,018,341

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 2018, Standard & Poors has affirmed the credit rating of the Company with an A+ credit rating. This rating was assigned on 29 July 2018.

26. Reinsurance programme

The reinsurance strategy chosen to protect the Company's liabilities in New Zealand matches the Australian reinsurance strategy in 2018. It has the following characteristics:

- A maximum per risk net retention NZD equivalent to AUD 5 million for Property, Financial Lines, Marine, 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 5 million.

Reinsurance is purchased through a series of treaty and facultative contracts with external reinsurers 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)*

	2018 AUD $'000	2017 AUD $'000
Eligible Tier 1 capital		
Paid-up ordinary shares	97,065	97,065
General reserves	7,528	6,188
Retained earnings brought forward	394,724	445,298
Current year's earnings	37,796	81,427
Excess technical provision - net of tax	62,680	74,545
Total	599,793	704,523
Less: deductions from Tier 1 capital	(12,881)	(12,129)
Total capital base	586,912	685,394
Prescribed capital amount (PCA)	305,571	324,990
Capital in excess of PCA (Solvency Margin)	281,341	360,404
PCA coverage	1.92	2.11

The Company does not have any Tier 2 capital.

28. 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 2018

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 2018 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
Chairman

E Collins
Director

Sydney
22 March 2019

Independent auditor's report

To the shareholders of Zurich Australian Insurance Limited New Zealand Branch

The financial statements comprise:

- the balance sheet as at 31 December 2018;
- the statement of comprehensive income for the year then ended;
- the statement of changes in head office account for the year then ended;
- the cash flow statement 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 Zurich Australian Insurance Limited New Zealand Branch (the Branch), present fairly, in all material respects, the financial position of the Branch as at 31 December 2018, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

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

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

We are independent of the 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.

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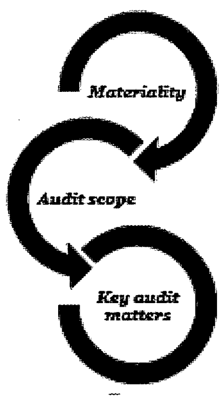
Our audit approach

Overview



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

Overall materiality: $1.0 million, which represents approximately 1% of the Branch's total premium revenue.

We chose Total premium revenue as the benchmark because, in our view, it is the benchmark against which the performance of the Branch is most commonly measured by users, and is a generally accepted benchmark.

We have determined that there is one key audit matter:

- Valuation of net outstanding claims

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

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

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

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

Key audit matters

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

pwc

Key audit matter

Valuation of net outstanding claims

(Refer to Note 19) $30.6m

We consider the valuation of net discounted outstanding claims to be a key audit matter because of the complexity involved in the estimation process and the significant judgements made in determining the balance. Note 1 (r) and (m) to the financial statements describes the elements that make up the balance.

<u>a) Net discounted central estimate</u>

The estimation of the central estimate as well as the associated reinsurance asset, involves significant judgement given the size of the balances on the Balance sheet and the inherent uncertainty in estimating the expected future payments for claims incurred. In addition, significant judgement may be required to ensure contractual terms are correctly accounted for.

The valuation of the net central estimate relies on the quality of the underlying data. It involves complex and subjective judgements about future events for which minor changes in assumptions can result in material impacts on the estimate.

Judgement also arises over the estimation of payments for claims that have been incurred at the reporting date but have not yet been reported to the Branch as there is generally less information available in relation to these claims.

The estimate of expected future payments is discounted to present value using a risk-free rate of return in order to reflect the time value of money. Judgement is involved in estimating the period over which claims are expected to settle.

How our audit addressed the key audit matter

Our procedures, in conjunction with actuarial experts, included:

<u>a) Net discounted central estimate</u>

- Assessed the design and testing the operating effectiveness of certain controls over the actuarial function.
- Tested claims by selecting a sample of case estimates and claim payments, and agreeing the key elements to underlying documentation.
- Evaluated whether the Branch's actuarial methodologies were consistent with those used in the industry and with prior periods.
- Assessed key actuarial assumptions, such as claims ratios, and expected frequency and severity of claims. We considered these assumptions by comparing them with our expectations based on the Branch's experience, current trends and benchmarks, and our own industry knowledge.
- Tested reinsurance assets by selecting a sample and agreeing the key elements to underlying documentation. We also performed procedures to assess the recoverability of those assets, including consideration of the ageing on amounts receivable.
- Tested the discount applied, by line of business, for classes of business where there is a greater length of time between the initial claim event and settlement. This included comparing the rates applied to external market data and the payment patterns to historical information.

<u>b) Risk margins and probability of adequacy (PoA)</u>

- *Assessed the approach to setting the risk margin in light of the requirements of New Zealand Accounting Standards.*

Key audit matter	How our audit addressed the key audit matter
b) Risk margins and probability of adequacy (PoA) In addition to the net discounted central estimate, the outstanding claims balance includes a risk margin which relates to the inherent uncertainty in that estimate. Management consider the Probability of Adequacy (PoA) in determining the appropriate risk margin. PoA is a measure of the estimated sufficiency of the outstanding claims including a risk margin in light of that variability.	

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.

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 NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the 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://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/

This description forms part of our auditor's report.

Who we report to

This report is made solely to the Branch's shareholders, 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 Branch's shareholders, 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 Renae Cooper.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
22 March 2019

Sydney

Zurich Australian Insurance Limited

(New Zealand Branch)

Section 78 Report for the year ending 31 December 2018

Zurich Australian
Insurance Limited
ABN 13 000 296 640
Finance

Author	Hua Wen (Clare), FIAA, FNZSA
Version	Final
Version Date	25 March 2019

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Section 59 Exemption

A full licence for Zurich Australian Insurance Limited ("ZAIL") to operate insurance business in New Zealand 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.

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.

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 2018. The audited 2018 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 2018 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 company's annual report. As such, this report may be distributed in its entirety to the 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 2018 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 2018.

In my opinion and from an actuarial perspective,

- the actuarial information (as specified in Section 77 of the Act) contained in the 2018 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 2018 ZAIL (NZ Branch) annual financial statements has been used appropriately; and
- in accordance with the S59 exemption, ZAIL has an adequate solvency margin (as measured by APRA's capital prudential requirement) as of 31 December 2018.