ZURICH AUSTRALIAN INSURANCE LIMITED

A.B.N. 13 000 296 640

ANNUAL REPORT

For the year ended 31 December 2019

Contents	**Page Number**

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

5 Blue Street
North Sydney
NSW 2060

A description of the nature of the entity’s operations and its principal activities is included in the directors’ report on pages 1 – 3.

The annual report was authorised for issue by the directors on 18 March 2020. The directors have the power to amend and reissue the report.

ZURICH AUSTRALIAN INSURANCE LIMITED

Directors' report

The directors present their report on Zurich Australian Insurance Limited ("the Company") for the year ended 31 December 2019.

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	Director, Chairman	19 November 2014	
Elaine Collins	Director	1 April 2013	
Kevin John Wright	Director	1 July 2017	31 May 2019
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 2019:

Name	Role	Appointment date	Resignation date
Cathy Anne Manolios	Secretary	16 September 2002	
David George Hallahan	Secretary	11 April 2008	
Stuart Keith Farquharson	Public officer	11 July 2016	1 June 2019
Edmund Ralph Yang	Public officer	1 June 2019	

Principal activities
The principal activity of the Company during the year was underwriting various classes of General Insurance. Following a strategic review, the company has decided to discontinue underwriting Blue Zebra managing general agency risks effective 16 March 2020.

Apart from the above there was no significant change in the nature of the company's principal activities during the year.

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

	2019 $'000	2018 $'000
Ordinary dividend paid	$60,000	$132,000

ZURICH AUSTRALIAN INSURANCE LIMITED

Directors' report *(continued)*

Review of results and operations

A summary of revenues and results is set out below:

	2019 $'000	2018 $'000
Revenues and other income		
Direct premium and inwards reinsurance revenue	1,495,970	1,253,217
Reinsurance and other recoveries	198,011	510,071
Investment income	85,076	37,425
Other income	4,381	4,552
Foreign exchange gain	1,434	1,974
	1,784,872	1,807,239
Results		
Profit for the year	61,038	37,796

Matters subsequent to the end of the financial year
The World Health Organization declared a pandemic in relation to COVID-19 (a type of coronavirus) on 11 March 2020. The outbreak is causing unprecedented social disruption, and global economic and financial markets volatility. As the emergence of the situation is in its early stages, the full extent of exposures to and impacts on the Company are at this stage uncertain. The Company is assessing and closely monitoring emerging risks.

Apart from the matter above the directors are not aware of any matter or circumstance which has arisen since 31 December 2019, 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 Company has assessed whether there are any particular or significant environmental regulations which apply to it and has determined that there are none.

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

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

Directors' report *(continued)*

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

Proceedings on behalf of the company

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

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

Rounding of amounts to the nearest thousand dollars

The Company is of a kind referred to in ASIC Legislative Instrument 2016/191, relating to the "rounding off" of amounts in the Directors' Report. Amounts in the Directors' Report have been rounded off to the nearest thousand dollars in accordance with that Class Order.

Auditor

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

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

	E. Collins
P J Bedbrook	E Collins
Chairman	Director

Sydney
18 March 2020

Auditor's Independence Declaration

As lead auditor for the audit of Zurich Australian Insurance Limited for the year ended 31 December 2019, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

R Cooper
Partner
PricewaterhouseCoopers

Sydney
18 March 2020

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ZURICH AUSTRALIAN INSURANCE LIMITED

Statement of comprehensive income
For the year ended 31 December 2019

	Notes	2019 $'000	2018 $'000
Premium revenue			
Direct premium revenue	4 b (iii)	1,492,210	1,243,028
Inwards reinsurance revenue		3,760	10,189
Outwards reinsurance expense		(306,236)	(263,754)
Net premium revenue		1,189,734	989,463
Claims expense	8	(906,009)	(1,059,536)
Reinsurance and other recoveries revenue	8	198,011	510,071
Net claims incurred	8	(707,998)	(549,465)
Gross movement in unexpired risk liability	20 a	-	34
Net movement in unexpired risk liability		-	34
Acquisition costs		(326,972)	(277,220)
Other underwriting expenses		(159,172)	(156,963)
Underwriting expenses		(486,144)	(434,183)
Underwriting result		(4,408)	5,849
Investment Income	6	85,076	37,425
Other income	7	4,381	4,552
Net foreign exchange gains		1,434	1,974
Profit before income tax		86,483	49,800
Income tax expense	9 a	(25,445)	(12,004)
Profit for the year	24 c	61,038	37,796
Other comprehensive income			
Exchange difference on translating foreign operation	24 b	280	1,338
Other comprehensive income for the year, net of tax		280	1,338
Total comprehensive income for the year		61,318	39,134

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

ZURICH AUSTRALIAN INSURANCE LIMITED

Balance sheet

As at 31 December 2019

	Notes	2019	2018
		$'000	$'000
Assets			
Cash and cash equivalents	10	165,980	136,049
Receivables	11	414,155	385,642
Financial assets at fair value through profit or loss	12	1,471,504	1,433,161
Reinsurance and other recoveries	13	976,969	1,100,896
Deferred acquisition costs	14	122,166	112,852
Other assets	15	171,446	147,780
Deferred tax asset	16	15,745	12,776
Total Assets		3,337,965	3,329,156
Liabilities			
Payables	17	209,777	204,423
Provisions	18	13,222	5,469
Unearned premium	19	815,810	732,461
Outstanding claims	21(a)	1,760,726	1,849,691
Total Liabilities		2,799,535	2,792,044
Net Assets		538,430	537,112
Equity			
Contributed equity	23(a)	97,065	97,065
Reserves	24(a)	7,808	7,528
Retained profits	24(c)	433,557	432,519
Total Equity		538,430	537,112

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

ZURICH AUSTRALIAN INSURANCE LIMITED

Statement of changes in equity
For the year ended 31 December 2019

	Contributed Equity $'000	Reserves $'000	Retained profits $'000	Total $'000
Balance at 1 January 2018	97,065	6,190	526,723	629,978
Total comprehensive income/(expense) for the year	-	1,338	37,796	39,134
Transactions with owners in their capacity as owners:				
Dividends paid to Australian parent entity	-	-	(132,000)	(132,000)
Balance at 31 December 2018	97,065	7,528	432,519	537,112
Total comprehensive income/(expense) for the year	-	280	61,038	61,318
Transactions with owners in their capacity as owners:				
Dividends paid to Australian parent entity	-	-	(60,000)	(60,000)
Balance as at 31 December 2019	97,065	7,808	433,557	538,430

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

ZURICH AUSTRALIAN INSURANCE LIMITED

Statement of cash flows
For the year ended 31 December 2019

	Notes	2019 $'000	2018 $'000
Cash flows from operating activities			
Net premiums and deposits received		1,212,309	1,143,830
Net claims and related payments		(673,035)	(882,463)
Payments to suppliers and employees		(528,799)	(496,554)
Interest received		2,765	8,369
Fees and commissions received		4,381	4,552
Payment to head tax entity		28,242	(4,160)
Other payments		(500)	-
Dividends received - non life insurance business		9,476	6,086
Net cash inflow/(outflow) from operating activities	25	54,839	(220,340)
Cash flows from financing activities			
Dividend paid to parent entity		(60,000)	(132,000)
Net cash outflow from financing activities		(60,000)	(132,000)
Cash flows from investing activities			
Net cash flows from (purchase)/sale of investment assets		(12,789)	248,220
Net interest received on investing activities		47,794	51,529
Net cash inflow from investing activities		35,005	299,749
Net increase/(decrease)increase in cash held		29,844	(52,591)
Cash and cash equivalents at the beginning of the financial year		136,049	188,551
Effects of exchange rate changes on cash and cash equivalents		87	89
Cash and cash equivalents at the end of the financial year	10	165,980	136,049

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

1. Summary of significant accounting policies

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

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

Compliance with IFRSs
The financial statements of Zurich Australian Insurance Limited ("the Company") 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 2019 reporting periods. The Company's assessment of the impact of these new standards and interpretations is set out below:

- AASB 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 became effective from 1 January 2018, however in October 2016, the AASB published an amendment to AASB 4 which provides an option of temporary exemption from AASB 9 for entities that meet certain requirements (applied at the reporting entity level).

  The Company has assessed the applicability of the exemption and concluded that it meets the necessary requirements. AASB 4 (including the amendments) has been superseded by the new insurance contracts standard AASB 17. Accordingly the temporary exemption is expected to cease to be applicable when the new insurance standard becomes effective. The effective date 1 January 2021 is proposed to be deferred to 1 January 2022.

- AASB *17 Insurance Contracts* was adopted by the Australian Accounting Standards Board in July 2017.

  AASB 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 simplified model if the liability for remaining coverage under the simplified model would not materially differ from the general model.

  The implementation date for Zurich Insurance Group for Group Reporting purposes 1 January 2021 is proposed to be deferred to 1 January 2022. 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.

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

Controlled entities

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

The Company has elected not to prepare a set of consolidated accounts as it is a wholly owned subsidiary of Zurich Financial Services Australia Limited (ZFSA) which prepares consolidated annual accounts.

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 Company'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 Notes 2 and 3.

Significant accounting policies

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

(b) Insurance premium and related revenue
Direct and inwards reinsurance premium comprises amounts charged to the policyholders, including Emergency Services Levies (ESL) in Australia, but excluding Stamp Duty (SD), Goods and Services Tax (GST), Fire Service Levy (FSL) in New Zealand and other amounts collected on behalf of third parties. Inwards reinsurance is insurance contracts entered into by the Company under which the contract holder is another insurer. The earned portion of premiums received and receivable, including bound but not incepted and unclosed business, is recognised as revenue. Premium revenue is treated as earned from the date of attachment of risk.

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

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

(d) Dividend and interest income
Interest income is recognised in the statement of comprehensive income using the effective interest rate method.

Dividends are recognised when the Company obtains control of the right to receive the revenue. This applies even if they are paid out of pre-acquisition profits.

(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 *(continued)*

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

Accordingly, a portion of outwards reinsurance expense is treated as a prepayment and presented as deferred outward reinsurance expense in other assets on the balance sheet as at the reporting date.

(g) Income tax

The income tax expense or benefit for the year is the tax payable/receivable on the current year's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and unused tax losses.

The current income tax expense or benefit is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associates operate and generate taxable income. 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 only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

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

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

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

Tax consolidation legislation

The head entity, ZFSA and the controlled entities in the tax consolidated group (including the Company) continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group is a separate taxpayer within that group.

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

Significant accounting policies *(continued)*

(g) Income tax *(continued)*

Tax consolidation legislation *(continued)*

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

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

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

For further details see Income Tax Note 9.

(h) Goods and services tax (GST)

Revenues, expenses, assets and liabilities are disclosed net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO) and 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 ATO and IRD is included as a current asset or current liability in the balance sheet.

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

(i) Emergency services and other statutory charges

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

(j) Foreign currency translation

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

The results and financial position of foreign operations are translated into the presentation currency as follows:

- Assets and liabilities at closing rate at balance date;
- Income and expenses at year to date average exchange rate; and
- All resulting exchange differences are recognised as a separate component of equity.

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

Significant accounting policies *(continued)*

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

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

(i) Financial assets at fair value through profit or loss

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

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

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

Purchases and sales of investments are recognised on trade-date. The trade-date is the date on which the Company commits to purchase or sell the asset. Financial assets are initially recognised at cost. These assets are subsequently measured at fair value. Realised and unrealised gains and losses arising from changes in the fair value of the ‘financial assets at fair value through profit or loss’ category are included in the statement of comprehensive income in the period in which they arise.

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

(ii) Receivables

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

(m) Reinsurance and other recoveries

Reinsurance and other recoveries on paid claims, outstanding claims, claims incurred but not reported (IBNR), claims incurred but not enough reported (IBNER) and unexpired risk liabilities are recognised as revenue. Recoveries are assessed in a manner similar to the assessment of outstanding claims. Recoveries 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 outstanding claims to which they relate.

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

Significant accounting policies *(continued)*

(n) Deferred acquisition costs

The fixed and variable costs of acquiring new business, acquisition costs, include commission, advertising, policy issue and underwriting costs, agency expenses and premium collection 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 future periods. Deferred acquisition costs are measured at the lower of cost and recoverable amount and are amortised in accordance with the earning pattern of the corresponding premium revenue.

(o) Impairment of assets

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

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

(p) Payables

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

(q) Provisions

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

(r) Dividends

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

(s) Outstanding claims

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

The future payments include those in relation to outstanding claims, IBNR, 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 future payments are discounted to present value using a risk free interest rate.

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

Significant accounting policies *(continued)*

(t) Unexpired risk liability

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

If the present value of the expected future cash flows relating to future claims plus the additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned premium liability less related intangible assets and related deferred acquisition costs, net of reinsurance, then the unearned premium liability is deemed to be deficient. The Company applies a risk margin to achieve the same probability of sufficiency for future claims as is achieved by the estimate of the outstanding claims liability, see Note 21.

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.

(u) Rounding of amounts

The Company is of a kind referred to in ASIC Legislative Instrument 2016/191, relating to the “rounding off” of amounts in the financial report. Amounts in the financial report have been rounded off to the nearest thousand dollars in accordance with that class order.

(v) Comparative information

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

2. Critical accounting judgements and estimates

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

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

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

A liability is held at 31 December 2019 for the estimated cost of claims incurred but not settled, including the cost of claims incurred but not yet reported to the Company.

The estimated cost of claims includes direct expenses to be incurred in settling claims gross of the expected value of salvage and other recoveries. The Company takes all reasonable steps to 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.

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

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

The estimation of claims IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of notified claims to the Company, 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, 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. 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 Company 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 Company'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 Company has regard to the claim circumstance as reported, any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods.

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

Where possible the Company 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.

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 Company may not receive amounts due to it and these amounts can be reliably measured.

3. Actuarial assumptions and methods

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

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 interest rates. Significant events, such as catastrophes, close to the balance sheet date also increase the level of uncertainty. The presence of asbestos claims in the portfolio and the potential emergence of new types of latent claim also increase the potential variability of the outcome.

For these reasons a risk margin is added to the central estimate established above. The establishment of the risk margin takes into account the variability of the outcome of each line of business and the diversification benefit of writing a number of lines of business. The Board and Management have decided that the level of risk margin shall be established to provide a probability of adequacy of 85%. (2018: 85%).

3. Actuarial assumptions and methods *(continued)*

(a) Selected key variables

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

	2019 Long-tail	2019 Short-tail	2018 Long-tail	2018 Short-tail
Average weighted term to settlement	3.2 years	0.5 years	3.2 years	0.5 years
Discount rate	0.99%	0.89%	1.97%	1.92%
Wage inflation	3.75% for asbestos related reserves otherwise 3.0%	N/A	3.75% for asbestos related reserves otherwise 3.25%	N/A
Superimposed inflation	0 to 6.0%	N/A	0 to 9.0%	N/A

(b) Sensitivity analysis – insurance contracts

The Company conducts sensitivity analysis to quantify the exposure to risk of changes in the key underlying variables. The valuations included in the reported results are calculated using certain assumptions about these variables as disclosed above. The movement in any key variable will impact the profit after tax of the Company. The table below gives an analysis of the sensitivity of the profit/(loss) for 2019 and 2018.

Impact of changes in key variables

As at 31 December		**Movement in Profit/(Loss)**	
	Movement in Variable	2019 $'000	2018 $'000
Short-tail and long-tail			
Average weighted term to settlement	0.5 years	957	3,444
	-0.5 years	(787)	(2,867)
Discount rate	1%	12,175	11,487
	-1%	(13,155)	(12,396)
Wage inflation and superimposed inflation rates	1%	(5,285)	(5,228)
	-1%	4,766	4,716
Financial assets			
Shift in yield curve	1%	(23,837)	(20,248)
	-1%	24,073	20,284
Equity prices	20%	21,621	18,426
	-20%	(21,621)	(18,426)

4. Management of risk

The Company's activities expose it to a variety of risks that could potentially impact the financial standing of the Company. This note and Note 5 financial risk management, provide an overview of the processes and considerations undertaken in managing these risks.

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

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

(a) Risk management framework

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

The Risk Management Framework comprises the totality of systems, structures, policies, processes and people within the Company 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 Company. Capital adequacy implications are taken into account in the business planning process.
- The Risk Management Strategy (RMS) – which describes the Company'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 the Company'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 the Company and its approach to managing those risks;
- the methodology by the Company identifies, assesses and manages its risks in accordance with its risk appetite;
- the mechanisms by the Company identifies and manages new and emerging risks; and
- reporting requirements for monitoring risks and the process for escalation where required.

The Company has an ICAAP that addresses the potential impact of all risk types to capital and solvency. 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:

- 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 is 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 Internal 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 a strong risk culture through appropriate behavioural attributes.

Behavioural metrics are monitored and reported to the Executive Teams and the RCAC every six 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 Company has an objective to manage insurance risk thus reducing the volatility of operating profits. In addition to the inherent uncertainty of insurance risk, which can lead to significant variability in the loss experience, profits from insurance business are affected by market factors, particularly competition and movements in asset values. Short-term variability is, to some extent, a feature of insurance business. Various procedures are put in place to control and mitigate the risks faced by the Company depending on the nature of each risk. The Company’s general insurance risk is monitored by the Chief Risk Officer and communicated regularly to the Board via the quarterly risk reports. Exposure to insurance risk is also monitored by the Appointed Actuary and is reported to the Board in the Appointed Actuary’s Financial Condition Report.

In accordance with 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 the 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 consideration is normally given to 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 Company 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 Company 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 Company. 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.

(iii) Concentration of insurance risk

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

Risk	Source of concentration	Risk management measures
Natural catastrophes	Properties and motor vehicles concentrated in regions that are subject to: • Earthquakes; • Cyclones; • Hail storms; and • Other significant natural events.	The Company's underwriting strategy requires individual risk premiums to be differentiated in order to reflect the higher loss frequency in particular geographical areas. The Company has modelled aggregated risk using catastrophe models. Based on the probable maximum loss of a 1 in 250 years event per the models, the Company purchases catastrophe reinsurance cover to limit exposure to any single event.

Exposure to concentration of insurance risk is mitigated though diverse product lines. Direct premium revenue by product line as disclosed in the statement of comprehensive income is in the table below.

	2019 $'000	2018 $'000
Property	309,427	223,130
Motor	350,381	298,828
Marine & aviation	40,462	34,890
Public & product liability	112,367	98,177
Compulsory third party	-	(66)
Employers' liability	62,228	62,255
Professional indemnity	80,037	65,029
Travel	452,947	372,274
Other	84,361	88,511
Total direct premium revenue	1,492,210	1,243,028

(iv) Development of claims

There is a possibility that changes may occur in the estimate of the Company's obligations up until the time they are settled. The tables in Note 21 show the Company's estimates of total claims outstanding for each accident year at successive year ends for classes of business that are typically resolved in more than one year.

(v) Impact of investment returns on pricing

The value of an insurance contract to the Company 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. Prior to business being written, the risk is managed by regularly repricing product as interest rates materially change. Insurance and reinsurance contracts are generally entered into annually. At the time of entering into the contract all terms and conditions are negotiable or, in the case of renewals, renegotiable.

4. Management of risk *(continued)*

(c) Operational risks *(continued)*

Operational risk is the risk of loss or the risk of not achieving business objectives resulting from inadequate or failed internal processes, people, systems or from external events such as catastrophes, legislation, external fraud, or losses related to outsourcing. The Company has a comprehensive framework with a common approach to identify, assess, quantify, mitigate, 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. The 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 risk registers on a risk-based approach with a full review of each register at least once every three years. 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 Company 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. The Company 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 misstatement of financial statements.

5. Financial risk management

Financial risks are a broad category of risks, typically found in financial instruments, but impacting other items on the balance sheet. They are typically divided into market risk, credit risk and liquidity risk.

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

(a) Market risk

Market risk is the risk of diminution in value of the Company's investment portfolio arising from adverse movements in the levels and volatility of interest rates, foreign exchange rates and equity prices. The risk is controlled 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.

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.

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).

The management of market risk, including asset and liability management is overseen by the CIMC. The ultimate controlling entity, Zurich Insurance Group Ltd's, risk policy provides guidance 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 in Note 27. No material losses are anticipated in respect of any of those contingencies, and the net fair value is assessed as an immaterial amount.

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to repay its debt or meet contractual obligations. Credit risk is assumed through three main mechanisms:

5. Financial risk management *(continued)*

(b) Credit risk *(continued)*

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 Company's maximum exposure to credit risk in relation to these assets. Where entities have a right of set-off and intend to settle on a net basis, this set-off has been reflected in the financial statements in accordance with accounting standards.

Cash and financial assets
Standard and Poors (S&P) rating for cash at bank disclosed in Note 10 is:

Australia and New Zealand Banking Group Limited A1+ (2018: A1+)
Westpac Banking Corporation A1+ (2018: A1+)
HSBC Bank Australia Ltd A1 (2018: A1)

The Company invests substantially in securities traded in an active market and are priced daily. The debt securities disclosed in Note 12 are analysed in the table below using S&P and Moody's ratings.

	2019 $'000	2018 $'000
Debt securities (held directly)		
AAA	320,389	420,557
AA	513,020	579,281
A	218,142	144,773
BBB	222,483	113,793
Total debt securities	1,274,034	1,258,404
Current debt securities	378,986	168,920
Non-current debt securities	895,048	1,089,484
Total debt securities	1,274,034	1,258,404

The table below shows the Company's major concentrations of credit risk (> $50 million) in cash and cash equivalents disclosed in Note 10 and debt securities disclosed in Note 12:

	2019 $'000	2018 $'000
Counterparty		
Queensland Treasury Corporation	95,795	111,110
Australia and New Zealand Banking Group	89,201	75,169
Western Australia Treasury Corporation	79,988	144,223
Commonwealth Government of Australia	53,459	123,912
	318,443	454,414

5. Financial risk management *(continued)*

(b) Credit risk *(continued)*

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 13 are analysed in the table below using S&P rating.

	2019 $'000	2018 $'000
AAA or AA	730,117	775,044
A	24,885	52,254
BBB or unrated	13,854	19,788
Total reinsurance receivable on incurred claims (excluding risk margin and other recoveries)	768,856	847,086

Of the total Reinsurance receivable on incurred claims:

- 7% (2018: 8%) of the reinsurance receivable on incurred claims had a third party reinsurer as a counter party; and
- 93% (2018: 92%) 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 $192 million (2018: $256 million) 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. $192 million is valid until amended or cancelled. As at 31 December 2019, $192 million (2018: $256 million) 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 Corporate Trust Ltd. The funds of the trust were 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 2019 was $423 million (2018: $315 million). The letters of credit and collateral trust total of $615m (2018: $571m) covers aged reinsurance recoverables from the second balance dates of $529m (2018: $516m).

5. Financial risk management *(continued)*

(b) Credit risk *(continued)*

iii) Business receivables

Premium receivable
General insurance premiums receivable for the Company are disclosed in Note 11, the ageing of which is disclosed below:

	2019 $'000	2018 $'000
Neither past due nor impaired (90 day credit terms)	273,267	267,575
Amounts past due but not impaired to 30 days	22,089	9,359
Amounts past due but not impaired 31 to 90 days	11,841	1,981
Amounts past due but not impaired over 90 days	30,344	27,931
Provisions for impairment	(2,757)	(3,221)
Total premiums receivable	334,784	303,625

(c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities as they come due without incurring unacceptable losses.

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.

2019	**Carrying amount (undiscounted)**	**Expected cash flows (undiscounted)**				
		0-1 yrs	1-5 yrs	5-10 yrs	10-15 yrs	>15yrs
	$'000	$'000	$'000	$'000	$'000	$'000
Insurance contracts						
Outstanding claims (Note 13, 21)	733,821	355,822	283,076	65,540	16,176	13,207
Premium liability	384,016	200,248	162,821	19,592	1,307	48
Total	1,117,837	556,070	445,897	85,132	17,483	13,255

2018	**Carrying amount (undiscounted)**	**Expected cash flows (undiscounted)**				
		0-1 yrs	1-5 yrs	5-10yrs	10-15 yrs	>15yrs
	$'000	$'000	$'000	$'000	$'000	$'000
Insurance contracts						
Outstanding claims (Note 13, 21)	708,581	323,088	286,737	65,996	16,937	15,823
Premium liability	345,911	168,421	158,279	18,021	1,153	37
Total	1,054,492	491,509	445,016	84,017	18,090	15,860

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

5. Financial risk management *(continued)*

(d) Derivative holdings

A derivative transaction is a contract where value is derived from the value of an underlying asset or index. The Company does not hold any direct derivative contracts.

(e) Fair value measurements

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

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

- Financial assets at fair value through profit or loss

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

At 31 December 2019	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Recurring fair value measurement				
Financial assets				
Equity securities	122,402	-	-	122,402
Debt securities	-	1,274,034	-	1,274,034
Unit trusts	5,142	26,855	-	31,997
Shares in controlled entities	-	-	43,071	43,071
Total investments	127,544	1,300,889	43,071	1,471,504

At 31 December 2018				
Recurring fair value measurement				
Financial assets				
Equity securities	106,342[1]	-	-	106,342
Debt securities	-	1,258,404	-	1,258,404
Unit trusts	21,057[1]	4,190[1]	-	25,247
Shares in controlled entities	-	-	43,168	43,168
Total investments	127,399	1,262,594	43,168	1,433,161

Fair value measurements

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

The fair value of financial instruments that are not traded in an active market (for example, over-the counter securities) is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates.

[1] The balances for 2018 have been further divided to show unit trust investments separately.

5. Financial risk management *(continued)*

(e) Fair value measurements *(continued)*

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

Specific valuation techniques used to value financial instruments include:

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

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

The Company's shares in controlled entities represent its 60% investment in a property company. This investment is valued at 60% of the net asset value of the property company. ZFSA engages external, independent and qualified valuers to determine the fair value of the Group's property asset at the end of every financial year. As at 31 December 2019, the fair values of the property asset has been determined by CBRE, which management adopts as the valuation.

The following table presents the changes in level 3 instruments.

	2019 Shares in controlled entities $'000	2018 Shares in controlled entities $'000
Opening balance 1 January	43,168	41,432
Gains recognised in statement of comprehensive income	(97)	1,736
Closing balance 31 December	43,071	43,168

	2019 $'000	2018 $'000
6. Investment income		
Dividends	9,484	6,061
Interest	50,040	54,258
Gains/(Losses) on financial assets at fair value through profit or loss	25,552	(22,894)
Total investment income	85,076	37,425
7. Other income		
Management fees	4,076	2,533
Other income	305	2,019
Total other income	4,381	4,552
8. Net claims incurred		
Gross claims incurred and related expenses:		
- Direct	(889,238)	(1,025,349)
- Inwards reinsurance	19,884	(26,057)
- Discount to present value	(36,655)	(8,130)
	(906,009)	(1,059,536)
Reinsurance and other recoveries:		
- Direct	198,905	486,097
- Inwards reinsurance	(19,381)	20,293
- Discount to present value	18,487	3,681
	198,011	510,071
Net incurred claims	(707,998)	(549,465)

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.

	2019			2018		
	Current year $'000	Prior years $'000	Total $'000	Current year $'000	Prior years $'000	Total $'000
Gross claims expense						
- Undiscounted	(998,522)	129,168	(869,354)	(1,016,656)	(34,749)	(1,051,405)
- Discount	8,955	(45,610)	(36,655)	21,098	(29,229)	(8,131)
	(989,567)	83,558	(906,009)	(995,558)	(63,978)	(1,059,536)
Reinsurance and other recoveries:						
- Undiscounted	248,080	(68,556)	179,524	411,003	95,386	506,389
- Discount	(4,244)	22,731	18,487	(11,633)	15,315	3,682
	243,836	(45,825)	198,011	399,370	110,701	510,071
Net claims incurred – Discounted	(745,731)	37,733	(707,998)	(596,188)	46,723	(549,465)

9. Income tax

(a) Income tax expense

	2019 $'000	2018 $'000
Current tax	28,414	5,592
Deferred tax	(2,969)	6,412
Total income tax expense	25,445	12,004

	2019 $'000	2018 $'000
Deferred income tax (revenue)/ expense included in income tax expense		
Decrease in deferred tax assets (Note 16)	(3,004)	6,581
Decrease in deferred tax liabilities (Note 22)	35	(169)
	(2,969)	6,412

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

	2019 $'000	2018 $'000
Profit before tax	86,483	49,800
Tax at the Australian tax rate of 30% (2018 - 30%)	25,945	14,940
Tax effect of amounts which are not deductible/taxable in calculating taxable income:		
Tax offset for franked dividends	(1,758)	(1,409)
Non taxable dividends	(540)	(1,170)
Value of deferred tax assets relating to unused tax losses not recognised	(2,910)	(333)
Other	4,708	(24)
Income tax expense	25,445	12,004

(c) Temporary differences relating to investment in controlled entities

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

9. Income tax *(continued)*

(d) Tax consolidation legislation

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

The entities in the tax consolidated group have entered into a tax sharing agreement which, in the opinion of the directors, limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, ZFSA.

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

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

10. Cash and cash equivalents

	2019 $'000	2018 $'000
Current		
Cash at bank and on hand	95,980	82,648
Term deposit and cash equivalents	70,000	53,401
	165,980	136,049

11. Receivables

	2019 $'000	2018 $'000
Current		
Premiums receivable	197,546	144,364
Unclosed premiums	139,995	162,482
	337,541	306,846
Provision for impairment	(2,757)	(3,221)
	334,784	303,625
Investment income accrued and receivable	8,593	8,657
Due from related entities (Note 28 (c))	33,341	70,483
Other trade debtors	37,437	2,877
Total current receivables	414,155	385,642

12. Financial assets at fair value through profit or loss

	2019 $'000	2018 $'000
Financial assets at fair value through profit or loss		
Current		
Equity securities[1]	122,402	106,342
Government and semi-government bonds	208,346	166,816
Unit trusts[1]	31,997	25,247
Bonds - Other corporate	170,640	84,024
	533,385	382,429
Non-current		
Government and semi-government bonds	347,727	475,868
Bonds - Other corporate	547,321	531,696
Shares in controlled entities	43,071	43,168
	938,119	1,050,732
Total financial assets at fair value through profit or loss	1,471,504	1,433,161

[1] The balances for 2018 have been further divided to show unit trust investments separately.

13. Reinsurance and other recoveries

Analysis of reinsurance and other recoveries

	2019 $'000	2018 $'000
Expected future reinsurance recoveries undiscounted		
- on claims paid	45,794	47,199
- on outstanding claims	735,985	826,085
	781,779	873,284
Discount to present value	(12,923)	(26,198)
Reinsurance receivable on incurred claims	768,856	847,086
Expected future other recoveries undiscounted		
- on outstanding claims	81,377	92,086
Discount to present value	(763)	(2,201)
	80,614	89,885
Risk Margin	129,676	169,880
Discount to present value	(2,177)	(5,955)
	127,499	163,925
Reinsurance and other recoveries receivables on incurred claims	976,969	1,100,896
Current	481,975	567,332
Non-current	494,994	533,564
	976,969	1,100,896

14. Deferred acquisition costs

	2019 $'000	2018 $'000
Deferred acquisitions costs as at 1 January	112,852	61,394
Acquisition costs deferred	326,972	324,335
Amortisation charged to income	(307,401)	(282,156)
Write back/(down) for premium deficiency	(10,257)	9,279
Deferred acquisitions costs as at 31 December	122,166	112,852
Current	107,088	110,727
Non-current	15,078	2,125
	122,166	112,852

15. Other assets

	2019 $'000	2018 $'000
Deferred outwards reinsurance expense	152,192	136,147
Related party prepayments	6,000	
Other prepaid expenses	1,125	-
Emergency services levy	12,129	11,633
	171,446	147,780
Current	136,083	121,434
Non-current	35,363	26,346
	171,446	147,780

16. Deferred tax asset

The balance comprises temporary differences attributable to:

Amounts recognised in profit or loss

	2019	2018
Provision for impairment	302	741
Accrued expenses	78	74
Provision for deferred acquisition cost write-off and unexpired risk liability	3,875	798
Indirect Claim adjustment expense	11,801	12,099
Tax losses	(350)	(814)
Other	-	(195)
Set-off against deferred tax liabilities pursuant to set-off provisions (Note 22)	39	73
Net deferred tax asset	15,745	12,776

Deferred Tax Assets Movements:

	2019	2018
Opening balance at 1 January	12,776	19,188
Charged to Income Statement (Note 9)	3,004	(6,581)
Set-off against deferred tax liabilities pursuant to set-off provisions (Note 22)	(35)	169
Closing balance at 31 December	15,745	12,776

The Company 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 Company 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 Company 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 2019 is $12.9m (2018: $15.7m).

17. Payables

	2019	2018
	$'000	$'000
Current		
Reinsurance creditors	29,691	47,157
Due to related entities (Note 28 (d))	86,126	68,078
Commission payable	43,251	34,360
Other payables	21,169	52,404
Tax related payable	29,540	2,424
	209,777	204,423

18. Provisions

	2019	2018
Current		
Emergency services levy	5,300	4,033
Stamp duty	7,397	1,006
Other	525	430
	13,222	5,469

2019 Movements in provisions	Emergency Service Levy	Stamp duty	Other	Total
	$'000	$'000	$'000	$'000
Current				
Carrying amount at start of year	4,033	1,006	430	5,469
Additional provision recognised	25,623	90,922	324	116,869
Payments/other sacrifices of economic benefits	(24,354)	(84,533)	(229)	(109,116)
Exchange rate adjustment	(2)	2	-	-
Carrying amount at end of year	5,300	7,397	525	13,222

2018 Movements in provisions	Emergency Service Levy	Stamp duty	Other	Total
	$'000	$'000	$'000	$'000
Current				
Carrying amount at start of year	1,385	5,762	317	7,464
Additional provision recognised	24,024	67,167	365	91,556
Payments/other sacrifices of economic benefits	(21,366)	(71,923)	(255)	(93,544)
Exchange rate adjustment	(10)	-	3	(7)
Carrying amount at end of year	4,033	1,006	430	5,469

19. Unearned premium liability

	2019 $'000	2018 $'000
Unearned premium liability as at 1 January	732,461	623,207
Premiums deferred during the year	1,579,040	1,362,471
Premiums earned during the year	(1,495,691)	(1,253,217)
Unearned premium liability as at 31 December	815,810	732,461
Current	748,931	691,541
Non-current	66,879	40,920
	815,810	732,461

20. Unexpired risk liability

(a) Unexpired risk liability

	2019 $'000	2018 $'000
Unexpired risk liability as at 1 January	-	34
Release of unexpired risk liability in the period	-	(34)
Unexpired risk liability as at 31 December	-	-

(b) Deficiency recognised in the statement of comprehensive income

	2019 $'000	2018 $'000
Movement in unexpired risk liability	-	34
Write (down)/back of deferred acquisition costs (Note 14)	(10,257)	9,279
Total amount recognised in the Statement of Comprehensive Income	(10,257)	9,313

(c) Liability adequacy test

The liability adequacy test (LAT) has been conducted using the central estimate of the premium liabilities for reporting to APRA.

The LAT is conducted at a level of portfolio of contracts that are subject to broadly similar risks. The LAT test is performed at four segment levels being Australia short-tail and long-tail classes, and New Zealand short-tail and long-tail classes.

The process for determining the overall risk margin, including the way in which diversification of risks has been allowed for is discussed in Note 21. As with outstanding claims, the overall risk margin is intended to achieve an 85% probability of adequacy in 2019 (2018: 85%).

The LAT performed at reporting date resulted in a deficiency of $12.9 million (2018: $2.7 million). The following tables show the LAT deficiency of the Australia long-tail and short-tail segments.

20. Unexpired risk liability *(continued)*

(c) Liability adequacy test

2019	Australia Long-Tail	Australia Short-Tail	Total
	$'000	$'000	$'000
Gross unearned premium reserve	176,822	584,328	761,150
Reinsurance unearned premium reserve	(55,579)	(90,497)	(146,076)
Unearned premium liability	121,243	493,831	615,074
Gross deferred acquisition costs	(18,473)	(137,098)	(155,571)
Reinsurance deferred acquisition costs	8,802	15,136	23,938
Deferred acquisition costs before LAT write down	(9,671)	(121,962)	(131,633)
Net premiums liabilities	111,572	371,869	483,441
Discounted central estimate	95,482	339,507	434,989
Discounted risk margin	21,574	39,795	61,369
Expected present value of future cash flows arising from future claims on insurance contracts including risk margin	117,056	379,302	496,358
Total deficiency	**(5,484)**	**(7,433)**	**(12,917)**

2018	Australia Long-Tail	Australia Short-Tail	Total
	$'000	$'000	$'000
Gross unearned premium reserve	171,216	-	171,216
Reinsurance unearned premium reserve	(48,949)	-	(48,949)
Unearned premium liability	122,267	-	122,267
Gross deferred acquisition costs	(13,278)	-	(13,278)
Reinsurance deferred acquisition costs	2,525	-	2,525
Deferred acquisition costs before LAT write down	(10,753)	-	(10,753)
Net premiums liabilities	111,514	-	111,514
Discounted central estimate	93,207	-	93,207
Discounted risk margin	20,967	-	20,967
Expected present value of future cash flows arising from future claims on insurance contracts including risk margin	114,174	-	114,174
Total deficiency	**(2,660)**	**-**	**(2,660)**

21. Outstanding claims

(a) Outstanding claims liability

	2019	2018
	$'000	$'000
Central estimate	1,512,033	1,585,797
Discount to present value	(30,487)	(58,642)
	1,481,546	1,527,155
Claims handling costs	39,150	40,955
Discount to present value	(857)	(1,725)
	38,293	39,230
Risk margin	247,170	297,224
Discount to present value	(6,283)	(13,918)
	240,887	283,306
Gross outstanding claims liability	1,760,726	1,849,691
Undiscounted expected future claims payments	1,798,353	1,923,976
Discount to present value	(37,627)	(74,285)
Liability for outstanding claims	1,760,726	1,849,691
Current	871,172	927,278
Non-current	889,554	922,413
	1,760,726	1,849,691

21. 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 assumptions regarding uncertainty for each class were applied to the net central estimates, and the results were aggregated, allowing for diversification in order to arrive at an overall outstanding claims liability which is intended to have an 85% probability of adequacy in 2019 (2018: 85%).

Risk margins applied

APRA class	2019	2018
	Net Outstanding Claims Margin	Net Outstanding Claims Margin
Short tail		
Domestic motor vehicle	4.6%	4.9%
Commercial motor vehicle	5.4%	5.6%
Houseowners/householders	10.2%	10.1%
Travel	8.1%	9.1%
Fire and ISR (incl inwards treaty)	18.5%	17.7%
Other	12.7%	12.4%
Marine & aviation	13.0%	14.7%
Other accident	9.9%	9.5%
Average short tail	**10.4%**	**11.3%**
Long tail		
Employers' liability	18.8%	18.9%
Public & product liability (incl inwards treaty)	16.9%	15.9%
Professional indemnity	21.0%	27.3%
Average long tail	**18.6%**	**20.5%**
Overall	**15.8%**	**17.6%**

21. Outstanding claims *(continued)*

(c) Reconciliation of movement in discounted outstanding claim liability

	2019 Net $'000	2018 Net $'000
Brought forward	795,993	1,104,138
Impact of change in assumptions	765	(6,722)
Margin release on prior periods	(44,646)	(41,081)
Other	6,149	1,080
Change in prior year estimates	(37,732)	(46,723)
Claims incurred on events in current year	745,730	596,188
Incurred claims recognised in the income statement	707,998	549,465
CTP retroactive reinsurance[1]	-	(369,352)
Exchange rate adjustment	41	1,250
Claim payments during the year	(674,481)	(489,508)
Carried forward	829,551	795,993

[1] On 23 February 2018, Zurich Australian Insurance Limited executed a Framework Deed to agree the sale of its run-off CTP portfolio to Enstar Group. From 1 January 2018, all CTP reserves were transferred through retroactive reinsurance via an unlimited Loss Portfolio Transfer Agreement to Cavello Bay Reinsurance Ltd.

Notes to the financial statements
For the year ended 31 December 2019

21. 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 incurred

Accident year	2010 $'000	2011 $'000	2012 $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000	2018 $'000	2019 $'000	Total $'000
End of accident year	339,970	380,324	393,147	426,563	443,477	398,537	341,070	228,280	311,482	234,342	
One year later	308,138	398,668	394,685	438,049	469,570	391,080	398,089	294,421	296,458		
Two years later	291,728	401,996	374,111	411,003	440,308	340,821	354,391	257,533			
Three years later	279,123	393,707	351,830	364,943	407,921	237,272	356,127				
Four years later	276,598	390,285	328,221	371,132	350,220	220,725					
Five years later	262,911	383,633	308,569	302,424	336,522						
Six years later	258,545	372,605	283,404	300,048							
Seven years later	254,749	349,247	286,237								
Eight years later	251,402	342,209									
Nine years later	248,736										
Current estimate of incurred	248,736	342,209	286,237	300,048	336,522	220,725	356,127	257,533	296,458	234,342	2,878,937
Cumulative payments	246,591	303,258	264,309	267,426	276,633	172,006	195,908	64,417	53,377	16,797	1,860,722
Outstanding claims - undiscounted	2,145	38,951	21,928	32,622	59,889	48,719	160,219	193,116	243,081	217,545	1,018,215
Discount	(45)	(568)	(306)	(567)	(1,158)	(1,003)	(3,152)	(4,459)	(6,212)	(7,327)	(24,797)
Claim handling expense	6	217	751	884	1,096	1,209	4,985	2,381	6,234	6,588	24,351
2009 & prior											139,415
Outstanding claims - discounted											1,157,184
Short tail outstanding claims											603,542
Total gross											1,760,726

Notes to the financial statements
For the year ended 31 December 2019

21. Outstanding claims *(continued)*

(d) Claims development tables *(continued)*

(ii) Net incurred

Accident year	2010 $'000	2011 $'000	2012 $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000	2018 $'000	2019 $'000	Total $'000
End of accident year	234,012	269,628	319,912	330,730	341,669	295,759	252,753	106,483	162,046	149,987	
One year later	214,031	253,124	308,711	343,052	343,332	308,130	265,247	108,522	158,814		
Two years later	221,275	245,708	303,197	330,480	318,741	270,866	198,067	103,056			
Three years later	216,494	259,499	296,662	300,923	290,386	163,271	183,329				
Four years later	218,031	253,983	286,685	299,079	209,693	149,075					
Five years later	213,355	243,492	274,753	235,297	196,105						
Six years later	214,177	244,472	243,743	233,925							
Seven years later	212,215	225,526	247,117								
Eight years later	200,389	221,008									
Nine years later	199,111										
Current estimate of incurred	199,111	221,008	247,117	233,925	196,105	149,075	183,329	103,056	158,814	149,987	1,841,527
Cumulative payments	198,833	217,099	232,001	218,253	173,291	124,461	122,632	51,081	45,747	15,851	1,399,249
Outstanding claims - undiscounted	278	3,909	15,116	15,672	22,814	24,614	60,697	51,975	113,067	134,136	442,278
Discount	(16)	(53)	(204)	(246)	(399)	(460)	(1,200)	(1,325)	(2,855)	(3,891)	(10,649)
Claim handling expense	6	217	751	884	1,096	1,209	4,985	2,381	6,234	6,588	24,351
2009 & prior											110,581
Outstanding claims - discounted											566,561
Short tail outstanding claims											262,990
Total net											829,551

22. Deferred tax liability

	2019	2018
	$'000	$'000
The balance comprises temporary differences attributable to:		
Amounts recognised in profit or loss		
Provision for deferred acquisition cost write-off and unexpired risk liability	(39)	(73)
Set-off of deferred tax assets pursuant to set-off provisions	39	73
Net deferred tax liability	-	-

Deferred tax liabilities movements:

	2019	2018
Opening balance at 1 January	-	-
Charged to statement of comprehensive income (Note 9)	35	(169)
Set-off of deferred tax assets pursuant to set off provisions	(35)	169
Closing balance at 31 December	-	-

23. Contributed equity

	2019 $'000	2018 $'000
(a) Share capital		
Ordinary shares - fully paid	97,065	97,065

(b) Movements in ordinary share capital

	No. of shares '000
Closing Balance 31 December 2018	13,236
Closing Balance 31 December 2019	13,236

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

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

The capital structure of the Company consists of issued capital, reserves and retained profits (Note 24). The Board's risk appetite statement sets out the level of capital to be targeted by the Company.

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

24. Reserves and retained profits

	2019 $'000	2018 $'000
a) Composition		
Foreign currency translation reserve	7,808	7,528
b) Movements:		
Foreign currency translation reserve		
Balance at beginning of the year	7,528	6,190
Currency translation differences arising during the year	280	1,338
Balance at the end of the year	7,808	7,528
c) Retained profits		
Retained profits at the beginning of the year	432,519	526,723
Profit attributable to the member of Zurich Australian Insurance Limited	61,038	37,796
Dividend paid	(60,000)	(132,000)
Retained profits at the end of the year	433,557	432,519

25. Cash flow statement reconciliation

	2019 $’000	2018 $’000
Profit from ordinary activities after income tax	61,038	37,796
Bad and doubtful debts provisions	(464)	(655)
Net (payment)/proceeds from sale of investments	(25,552)	22,894
Interest relating to investment activities	(47,794)	(51,529)
Net foreign exchange difference	192	1,251
(Increase)/decrease in operating assets:		
Premiums outstanding	(30,695)	(17,024)
Outstanding interest, dividends & rents	64	5,042
Deferred acquisition costs	(9,314)	(51,458)
Reinsurance and other recoveries	123,927	(173,777)
Other receivables	2,582	13,855
Deferred tax asset	(2,969)	6,412
Other assets	(23,666)	71,525
Increase/(decrease) in operating liabilities:		
Provisions for tax	27,116	2,424
Unearned premiums	83,349	109,254
Unexpired risk liability	-	(34)
Claims outstanding	(88,965)	(159,256)
Other provisions & payables	(14,010)	(37,060)
Net cash inflows/(outflows) from operating activities	54,839	(220,340)

26. Remuneration of auditors

	2019 $	2018 $
Remuneration for PricewaterhouseCoopers audit or review of the financial reports of the company		
Statutory audit fees	396,099	403,007
	396,099	403,007
Remuneration for PricewaterhouseCoopers other services:		
Advisory services	17,238	-
Other regulatory and assurance services	125,044	138,492
Total other services	142,282	138,492

27. Contingent liabilities

(a) Contingent liabilities

	2019 $'000	2018 $'000
The company had the following unsecured contingent liabilities for which no provision had been made in the financial statements:		
Allstate Insurance Company	97	97
Letter of Credit - ZIC Canada	2,251	2,375
	2,348	2,472

Details of significant contingent liabilities are as follows:

(a) The Allstate Insurance Company is a bank guarantee from Westpac in favour of the Allstate Insurance Company for the services of the Company acting as reinsurer for Allstate Insurance Company.

(b) Standby letter of credit issued by RBC Royal Bank (Canada) at the Company's request, in favour of ZIC Canadian Branch to provide security for reinsurance recoverable under policies issued by ZIC Canada at the Company's request which are reinsured to the Company.

28. Related parties

(a) Directors

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

Paul John Bedbrook
Elaine Collins
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 2019 and 31 December 2018 is set out below.

The key management personnel are all the directors of the Company and their compensation is paid by ZFSA. The amount disclosed below reflects the total compensation paid/attributable to the key management personnel in their duties as employees of ZFSA and or directors of various entities. The executive director's compensation is not able to be allocated to the individual entities whose affairs they manage or control.

	Notes	2019	2018
		$	$
Short-term employee benefits		1,114,828	939,301
Termination benefits		0	556,468
Share-based payments / benefits	(i)	375,633	359,168
		1,490,461	1,854,937

(i) Share based payments / benefits

The Global long term incentive plan is an executive incentive plans administered globally by a central share holding vehicle. ZFSA purchases the right to shares from this holding vehicle for Australian resident executives who participate in the plans. When shares vest with the participants, the central share vehicle transfers those shares directly to the participants. ZFSA does not bear any exchange or price risk in relation to payments for these rights to shares.

28. Related parties *(continued)*

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

	2019 $	2018 $
Current		
Other related entities	33,340,679	68,058,373
Head tax entity	-	2,424,416
Total receivables from related entities	33,340,679	70,482,789

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

	2019 $	2018 $
Current		
Ultimate Australian controlling entity	20,264,860	8,550,645
Other related entities	65,860,652	59,527,242
Total due to related entities	86,125,512	68,077,887

28. Related parties *(continued)*

(e) Aggregate amounts recognised in respect of the following types of involved were:

	2019 $	2018 $
Reinsurance claims received		
Other related entities	220,182,440	201,510,609
Reinsurance claims Paid		
Other related entities	8,847,458	15,457,612
Reinsurance commission received		
Other related entities	41,009,961	30,089,161
Reinsurance premium expenses		
Other related entities	258,863,673	180,694,045
Reinsurance premium receipts		
Other related entities	-	3,113,040
Reinsurance receivable on incurred claims		
Other related entities	722,519,846	781,933,785
Deferred outwards reinsurance expenses		
Other related entities	67,008,039	59,504,145
Investment expenses		
Other related entities	471,238	447,583
Payment of other expenses		
Ultimate Australia controlling entity	141,925,720	157,770,653
Receipt of other income		
Dividend income		
Controlled entities	1,800,000	-
Dividend payment		
Ultimate Australia controlling entity	60,000,000	132,000,000

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

Interest held in controlled entities and associates are included in note 29.
Investment income received from controlled entities and associates are included in note 6.
Reinsurance and other recoveries are included in note 13.
Deferred outwards reinsurance expenses are included in note 15.

28. Related parties *(continued)*

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

(i) Controlling entities

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

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

(ii) Other related entities

The Reinsurance arrangements for outward treaties ceded to related overseas reinsurers are in accordance with APRA Prudential Standard GPS 230 - Reinsurance Management.

29. Investments in controlled entities

	Class of shares	Equity holding		Principle activities
		2019	2018	
Controlled entities		%	%	
Zurich Australian Insurance Properties Pty Limited	Ordinary	60	60	Property management

Note: All entities are incorporated in Australia.

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

The companies are incorporated in Australia. The country of incorporation or registration is also their principal place of business.

30. Capital adequacy for Zurich Australian Insurance Limited

(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 set its long-term target capital ranges to a total capital adequacy multiple position equivalent to 1.45-1.65 times the PCA, compared to a proposed regulatory requirement of 1.0 times. The capital adequacy multiple for the Company for 2019 is 1.80 (2018: 1.92).

	2019 $'000	2018 $'000
Eligible tier 1 capital		
Paid-up ordinary shares	97,065	97,065
General reserves	7,806	7,528
Retained earnings brought forward	372,520	394,724
Current years earnings	61,038	37,796
Excess technical provision - net of tax	59,196	62,680
Total	597,625	599,793
Less: deductions from tier 1 capital	(15,446)	(12,881)
Total capital base	582,179	586,912
Prescribed capital amount (PCA)	323,887	305,571
PCA coverage	1.80	1.92

The Company does not have any Tier 2 capital.

The liability required by GPS 115 for prudential reporting purposes differs from accounting purposes primarily because GPS 115 requires a prudential margin with a sufficiency of 75% for outstanding claims and premium liabilities. The directors have adopted an amount that exceeds this requirement by $59.2 million (2018: $62.7 million).

31. Events occurring after reporting date

The World Health Organization declared a pandemic in relation to COVID-19 (a type of coronavirus) on 11 March 2020. The outbreak is causing unprecedented social disruption, and global economic and financial markets volatility. As the emergence of the situation is in its early stages, the full extent of exposures to and impacts on the Company are at this stage uncertain. The Company is assessing and closely monitoring emerging risks.

Apart from the matter above, the directors have not become aware of any matter or circumstance not otherwise dealt with in the financial statements that has significantly affected or may significantly affect the operations of the Branch, the result of those operations or the state of affairs of the Branch in subsequent financial years.

ZURICH AUSTRALIAN INSURANCE LIMITED

Directors' declaration

In the directors' opinion:

(a) The financial statements and notes set out on pages 5 to 52 are in accordance with the *Corporations Act 2001*, including:

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

  (ii) giving a true and fair view of the Company's financial position as at 31 December 2019 and of its performance, as represented by the results of its operations, changes in equity and its cash flows, for the financial year ended on that date; and

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

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
18 March 2020

Independent auditor's report

To the members of Zurich Australian Insurance Limited

Our opinion

In our opinion:

The accompanying financial report of Zurich Australian Insurance Limited (the Company) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Company's financial position as at 31 December 2019 and of its financial performance for the year then ended

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The financial report comprises:

- the balance sheet as at 31 December 2019
- the statement of comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

Independence

We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 31 December 2019, but does not include the financial report and our auditor's report thereon.

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Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report 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 report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Company 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 Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is 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 the Australian Auditing Standards 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 the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This description forms part of our auditor's report.

PricewaterhouseCoopers

PricewaterhouseCoopers

R Cooper

R Cooper
Partner

Sydney
18 March 2020